

WEEKLY OUTLOOK

Fed raised the policy rate by 25 basis points.

At its meeting held last week, Fed hiked interest rates by 25 basis points for the first time since last year's December meeting to a range of 0.75%-1.00% thanks to the moderate pace of economic activity, strengthening labor market and rising confidence about the inflation approaching the target level. Besides, Fed officials' kept the number of interest rate hike projections for the rest of this year. Fed officials foresee two more interest rate hikes in 2017 and three in 2018. These forecasts supported the risk appetite as the market perceived the pace of rate hikes as modest. Fed Chair Yellen spoke at the press meeting after the Federal Open Market Committee (FOMC) and expressed that they have confidence in the robustness of the US economy.

Despite the Fed decision which met market expectations, FOMC and Fed officials' statements sounded less "hawkish" than before. These statements indicated that the Committee will be more tolerant to inflation and Fed will be more flexible in its future rate hike decisions.

BoJ and BoE kept their monetary policy stance.

Bank of Japan (BoJ) kept its short-term interest rate target at -0.1% and made no changes to its asset purchase program of annual 80 trillion yen. BoJ Chair Kuroda, who spoke after the announcement of their interest rate decision, detailed that Fed's interest rate hike wouldn't have an immediate severe impact on the markets. Kuroda explained that downside risks exceeded upside risks and downside risks were not covered significantly although he added that they didn't intend to deepen the negative interest rates.

On the other hand, Bank of England (BoE) held the policy rate at 0.25% though one of the policymakers voted unexpectedly in favor of an interest rate hike for the first time since July 2016. The Bank also maintained its annual asset purchase program of 435 billion pounds.

PBoC increased interest rates by 10 basis points.

People's Bank of China (PBoC) raised the interest rates applied to open market operations and medium term borrowing transactions by 10 basis points thanks to the surge in producer prices. In China, the annual PPI inflation for February reached its highest level since 2008, with 7.8%.

Retail sales in China did not meet expectations. According to the figures for January and February, retail sales were up 9.5% from the same period of the previous year, lower than market expectation of 10.5%. On the other hand, other leading indicators related to the Chinese economy painted a relatively positive outlook. Following the strong manufacturing PMI data, the industrial production index for January-February period increased by 6.3% and exceeded expectations.

WEEKLY DATA

	10 Mar	17 Mar	Change		10 Mar	17 Mar	Change
BIST-100 Index	89,611	90,491	1.0 % ▲	EUR/USD	1.0669	1.0736	0.6 % ▲
TRY 2 Year Benchmark Rate	11.48%	11.57%	9 bp ▲	USD/TRY	3.7289	3.6324	-2.6 % ▼
US 10 Year Bond Rate	2.58%	2.50%	-8 bp ▼	EUR/TRY	3.9850	3.9011	-2.1 % ▼
EMBI+ (bps)	336	332	-4 bp ▼	Gold (USD/ounce)	1,204	1,228	2.0 % ▲
EMBI+ Turkey (bps)	325	318	-7 bp ▼	Brent Oil (USD/barrel)	50.2	50.6	0.9 % ▲

bp: basis point

CBRT increased late liquidity window lending interest rate.

At its second MPC meeting of the year, CBRT increased late liquidity window lending interest rate by 75 bps to 11.75%, in line with the expectations. CBRT stated that it was decided to strengthen the monetary tightening in order to contain the deterioration in the inflation outlook and signaled that further monetary tightening will be delivered, if needed. CBRT kept the overnight borrowing interest rate, which is the lower band of the interest rate corridor, at 7.25%, while holding the one week repo auction interest rate at 8% and the marginal funding rate at 9.25%. After the decision, TRY appreciated against USD. CBRT also raised the swap auction rate from 11% to 11.75% on Friday. The average funding cost of CBRT rose by 47 basis points to 11.29% on Friday.

Budget posted a deficit in February.

Central government budget, which was in surplus of 2.4 billion TRY in February 2016, posted a deficit of 6.8 billion TRY in the same month of this year. The budget, which gave primary surplus of 6.5 billion TRY in February last year, has recorded a deficit of 1.8 billion TRY this year. Total expenditures expanded by 27% yoy due to the rapid increase in current transfers, while total revenues increased only by 4.9% yoy as tax revenues displayed a limited increase in February. These developments caused budget outlook to deteriorate.

Taking the recent steps to support economic activity into consideration, the rising trend in budget expenditures is expected to continue. Whether the weak performance of tax revenues will continue or not will be a significant factor for the budget outlook in the coming period ([Our Budget Balance report](#)).

The rise in the unemployment rate continued in December period.

In the period of December, covering the months November-December-January, the unemployment rate continued to rise and was realized as 12.7%. The seasonally adjusted unemployment rate also reached its highest level since March 2010 with 12%. We anticipate that the unemployment rate will continue to rise for a while, however in parallel with the employment incentives announced in February, we expect some recovery in unemployment indicators in the following months.

USD weakened after Fed's decision.

After Fed's interest rate hike and CBRT's increase of late liquidity window rate, TRY appreciated against USD and Euro. The signs that the Fed's interest rate hikes will be in a moderate pace caused USD to depreciate in the global markets and the DXY fell by 0.9%. During the same period, gold prices rose by 2%.

Moody's cut the outlook of Turkey's credit rating to "negative".

Moody's cut Turkey's credit rating outlook from "stable" to "negative". The change in the rating outlook has been justified with the continuing erosion of institutional strength, weaker growth outlook, heightened pressures on public and external accounts and the increased risk of a credit shock. Besides, Moody's affirmed Turkey's credit rating as Ba1.

INDUSTRY NEWS

European automobile market grew in February.

In Europe, automobile sales increased by 2.1% in February. According to the data issued by the European Automobile Manufacturers' Association, automobile sales rose to 1,114,443 in February, with an increase of 6.2% in Italy and 15% in the Netherlands. In February, Spain automobile market grew by 0.2%, while automobile sales in Germany, France and England decreased by 2.6%, 2.9% and 0.3%, respectively. An upbeat automotive market in Europe has the utmost importance to Turkish automobile manufacturers, because the sector exports great portion of its production to Europe. Automotive production in Turkey has increased by 15% in February thanks to robust export figures.

Trade of agricultural products with Russia...

After the tension, Russia started to implement some sanctions and banned the import of many products such as tomatoes, apples, oranges, apricots, mandarins, grapes and poultry meat from Turkey. In the following period, while sanctions are abolished in parallel with the normalization of relations, the ban on tomatoes and grapes, which are the most exported products among the prohibited products, continued. While the total annual export value of the currently prohibited products reaches 500 million USD, the statements made by Russian officials in recent days indicate that these prohibitions may never be lifted. In parallel with this, Turkey is preparing to counteract and ban the imports of 6 products such as wheat and corn from Russia. Turkey is the most important market for Russia's wheat export. However, it is considered that such ban to Russia could distort the balances in the domestic market as well. We think that the flour sector in Turkey, which is dependent on wheat imports, and the feed industry in which corn is heavily used can be negatively affected.

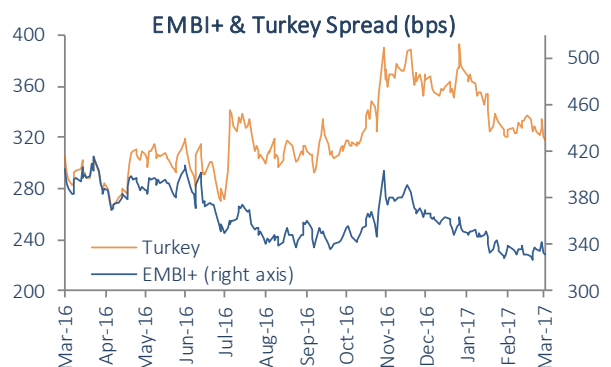
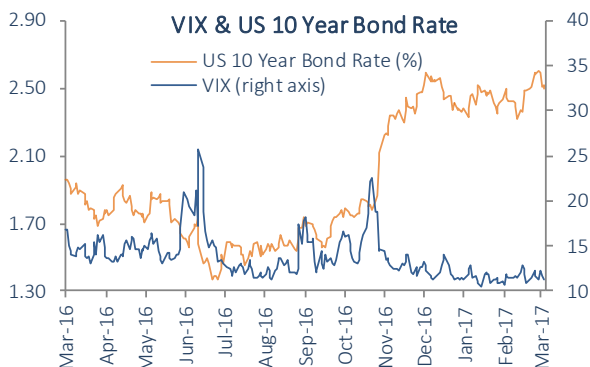
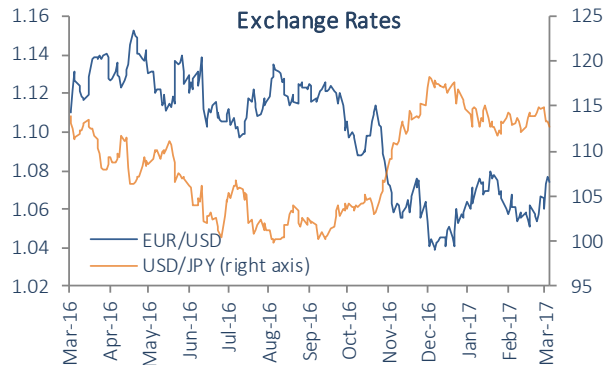
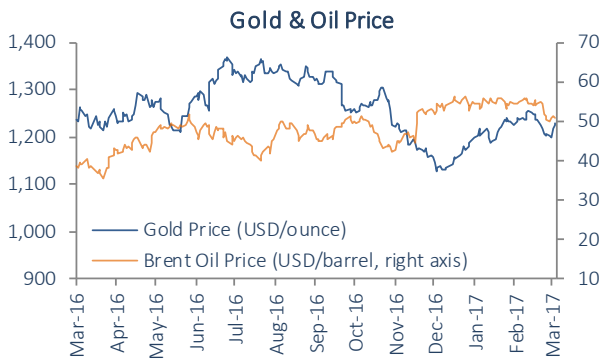
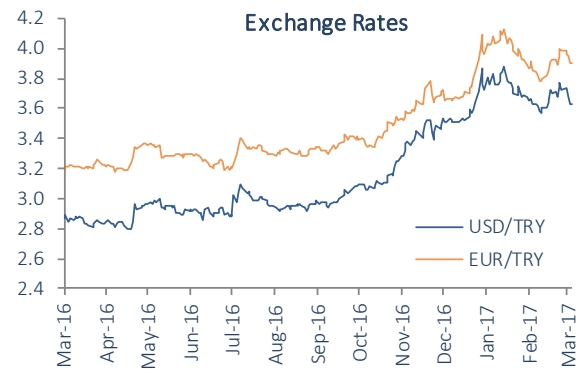
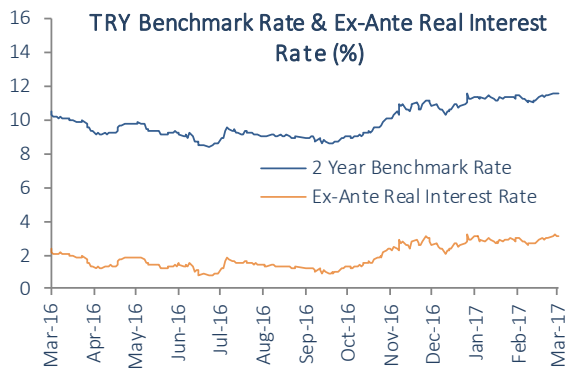
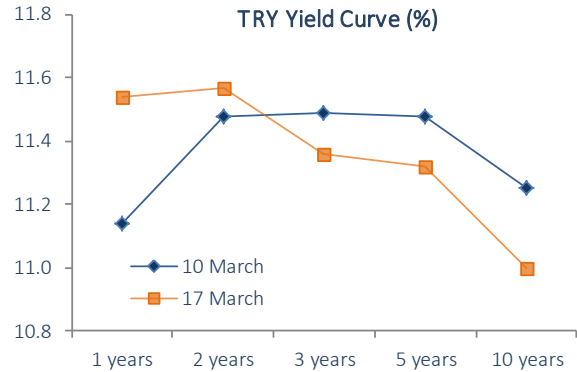
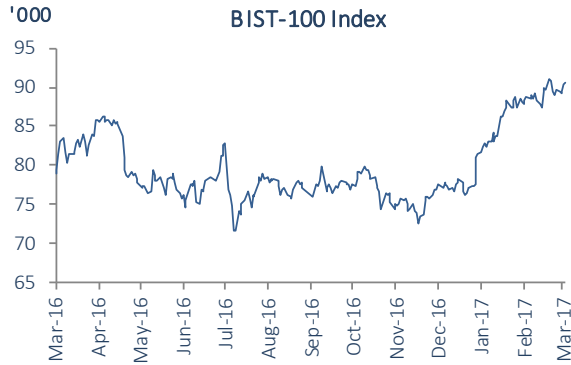
Technology retailers continue to shrink.

Technology retailers continue to shrink by reducing the number of stores, as they are experiencing a profitability problem due to the decline in consumer confidence, the slowdown in market growth rate, volatility in exchange rates and intense price competition. Profitability problem is expected to persist in 2017, as there is no evidence of improvement in the sector in the first months of 2017, according to sector officials. Organized technology retailers constitute 20% of the total market that has approximately 46 billion TL sales each year.

Incentive for phone manufacturers...

According to the decree published in the Official Gazette on March 11th; telephone manufacturers will not pay customs tax on import of telephone accessories and parts provided that they have R&D center certificate. According to the decree, producers could also recover the taxes they had paid in 2017.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
21 March	Reissuance of Treasury Bill with 18.04.2018 Maturity Date		
22 March	Treasury Debt Redemption (1.05 billion TRY)		
	USA Existing Home Sales	February	5.6 million unit
23 March	USA New Home Sales	February	565K unit
24 March	USA Durable Goods Orders	February	1.5%
	USA Manufacturing PMI (Preliminary)	March	
	Eurozone Manufacturing PMI (Preliminary)	March	55.3
	Germany Manufacturing PMI (Preliminary)	March	56.5

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