

WEEKLY OUTLOOK

“Yes” outcome in the referendum...

Last week, domestic markets focused on developments related to the referendum on April 16th. Borsa Istanbul followed a volatile course throughout the week after experiencing a rapid rise in the first day of the week. USD declined till 3.64 levels against TRY after starting the week around 3.74. Weak USD in global markets also contributed to this decline.

According to the unofficial results, constitutional amendment was approved by over 51% in the referendum held on Sunday. USD/TL, which exceeded 3.73 prior to the referendum, dropped to 3.63 in the first trading session this morning, but rose to 3.68 afterwards. BIST-100 index is increasing today as uncertainty regarding the result of the referendum is gone.

Current account deficit has widened in February.

According to the CBRT data, current account deficit has widened by 28.7% in February to 2.53 billion USD. 12-month rolling current account deficit also rose to 33.7 billion USD from 33.1 billion USD in January. While increasing foreign trade deficit due to high energy prices lifted the current account deficit, increase in net tourism revenues due to decline in tourism expenditures in February limited the widening of the deficit. Downside risks in tourism and the rise in energy prices are expected to continue to have a negative impact on current account deficit, even though provisional data suggests that foreign trade deficit narrowed in March. ([Our Balance of Payments Report](#))

Unemployment rate continues to rise.

Unemployment rate for the period covering December 2016, January and February 2017 continued to rise for 9 consecutive periods and reached its highest level with 13% since February 2010. Unemployed population increased by 695K annually and reached to 4 million persons in that period. Employed population that has been declining for the past 3 periods increased in this period compared to the previous period as a result of the employment campaign.

Central Government Budget...

According to the data released by the Ministry of Finance, the central government budget posted deficit of 19.5 billion TL in March. For the first 3 months of the year deficit was realized as 14.9 billion TL. Budget revenues decreased by 3% annually in March, while budget expenditures increased by 25%. SCT, which has the highest share in budget revenues, increased by 13.3% in March, although SCT for some white goods was reduced to 0%. Income tax and VAT on imports rose by 10% and 12.3%, respectively. Increase in budget expenditures is expected to continue as a result of the measures to support the economic activity, while budget balance will be shaped depending on the developments on domestic demand.

WEEKLY DATA

	7 Apr	14 Apr	Change		7 Apr	14 Apr	Change
BIST-100 Index	88,497	90,064	1.8 % ▲	EUR/USD	1.0588	1.0609	0.2 % ▲
TRY 2 Year Benchmark Rate	11.48%	11.46%	-2 bp ▼	USD/TRY	3.7284	3.7309	0.1 % ▲
US 10 Year Bond Rate	2.37%	2.23%	-14 bp ▼	EUR/TRY	3.9479	3.9134	-0.9 % ▼
EMBI+ (bps)	333	339	6 bp ▲	Gold (USD/ounce)	1,254	1,285	2.5 % ▲
EMBI+ Turkey (bps)	303	311	8 bp ▲	Brent Oil (USD/barrel)	54.3	55.1	1.4 % ▲

bp: basis point

President Trump's statements' were followed closely.

Last week, President Trump stated that the US dollar has become very strong recently, which may hurt US's competitive power in the coming period. Trump, who repeatedly voiced that he would not assign Yellen as Fed Chair for the second term if he was elected president during his campaign, said that it was early to talk about on this topic. Markets regarded this statement as a sign that Trump could reassign Yellen for the second term. Trump, who accused China of being the "currency manipulator" during his campaigns, told that China is not manipulating, implying he does not want the relations between the two countries to deteriorate, as tension with North Korea elevate.

Fed governors' speeches...

At her speech on the first trading day of the week, Fed Chair Janet Yellen said Fed is close to achieve its dual mandate, despite the gradual increases in interest rates. Besides, statements from Kashkari and Kaplan, who began to vote in the FOMC in 2017, were also monitored. Minneapolis Fed President Kashkari said that employment and inflation are still below the desired levels, while Dallas Fed President Kaplan told that balance sheet plans will not shift rate hike path.

In the US, where consumer confidence and jobless claims met the expectations, producer price index (PPI) declined in March, for the first time in 7 months, due to falling energy prices. Retail sales, which is considered as an important sign of consumer expenditures and account for 70% of the US economy, decreased by 0.2% mom in March. Moreover, consumer price index (CPI) also declined by 0.3% mom in the same period, after rising 13 consecutive months.

Geopolitical risks are increasing on a global scale.

Last week, geopolitical developments were on the top of the agenda. Statements from US and Russia on Syria were followed by the markets, while geopolitical tension elevated further after the deployment of a US naval strike group to Korean peninsula ahead of North Korea's nuclear missile test. Last week, US stock markets declined and European markets followed a volatile course. Trump's statements put pressure on dollar, as the DXY index declined by 0.6% on a weekly basis, while gold prices rose by 2.5% on safe haven demand. US 10-year Treasury bond interest rates fell by 14 bps. Meanwhile, Volatility Index (VIX) has reached its highest level since US presidential election.

Rise in oil prices continued.

Brent oil prices, which started the week with an increase due to supply concerns stemming from geopolitical developments in the Middle East and recent news on a production cut in one of Libya's oil fields, closed the week 1.4% up. Furthermore, the expectation that the production cut decision would be renewed in the OPEC meeting to be held in May is considered another supporting factor for rising oil prices. On the other hand, the rise in US weekly oil production as well as crude oil drilling activity limited the price increase.

China's GDP grew by 6.9% yoy in Q1.

In the first quarter of 2017, China's GDP growth defeated the expectations with a rate of 6.9% yoy, which is the fastest growth since 2015 Q3. China targets to grow by 6.5% throughout 2017. On the other hand, in March, CPI increased by 0.9% yoy, slightly lower-than-expected. In the same month, PPI lost pace by rising 7.6% yoy, but was announced in line with the expectations. Producer price inflation (yoy) has been keeping its upward trend for seven months, indeed. Moreover, foreign trade surplus in March also gave positive signs regarding the country's economic activity. In USD terms, China's exports increased by 16.4% where imports rose by 20.3% mom; both posting higher-than-expected results.

INDUSTRY NEWS

Tax cuts in white goods and furniture have been extended.

Prime Minister Binali Yıldırım announced last week that tax cuts in white goods and furniture, which were effective since February 3rd, have been extended from April 30th to the end of September. Related tax cuts will be valid as a dismissal of special consumption tax from 6.7% for refrigerators, washing and dishing machines, air conditioners, geysers and some electrical household appliances at white goods sector and a reduction of value added taxes from 18% to 8% for wooden and plastic furniture, seats and office equipment at furniture sector. Officials at the furniture sector foresee that the domestic market will grow by around 30% and the sector employment will increase by 50,000 persons within the extension of the tax incentive. The extension of the tax incentive is estimated to put 800 million TL of pressure on budget balance.

Renewable energy resources...

Ministry of Energy and Natural Resources announced details of the Wind Renewable Energy Resource Areas project last week. The project is planned to be tendered on July 27th and will have an installed capacity of 1,000 MW. The electricity produced at the project will be subject to the public's electricity purchase guarantee for 15 years with the initial price cap (7 cent/kWh). Tenders for Renewable Energy Resource Areas are considered as a way to reduce the public expenses such that electricity purchase prices will be lessened and local production of power plant equipment will contribute to the Turkey's current account balance.

Additional legal arrangements for automotive sector...

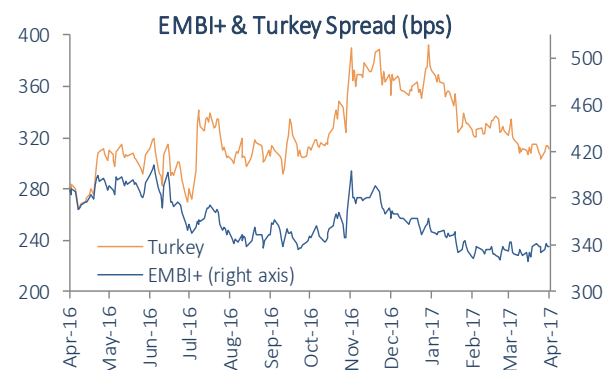
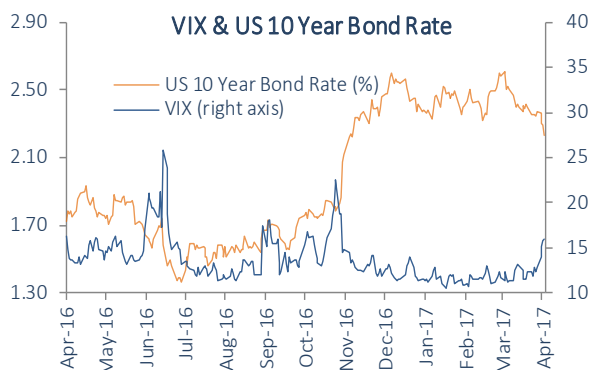
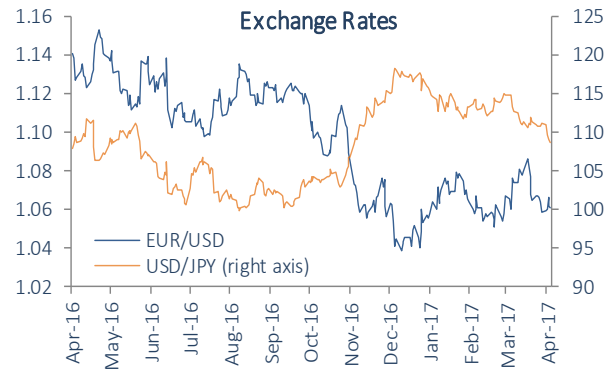
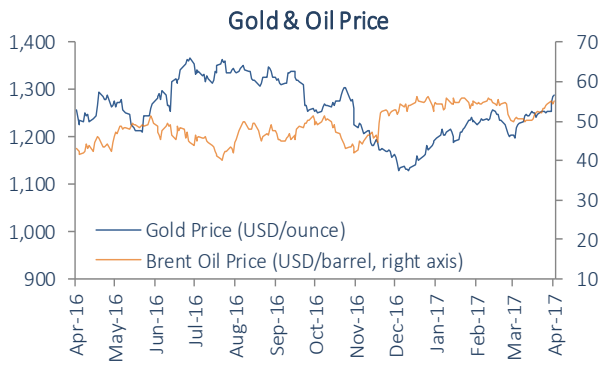
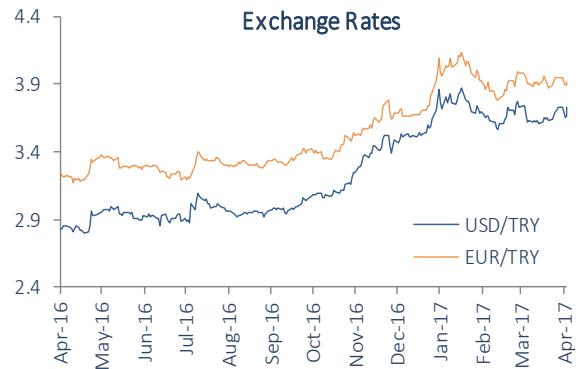
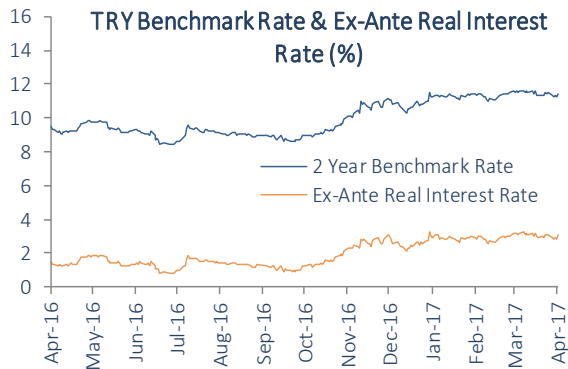
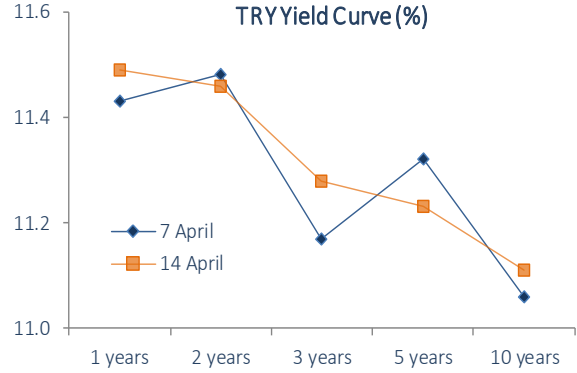
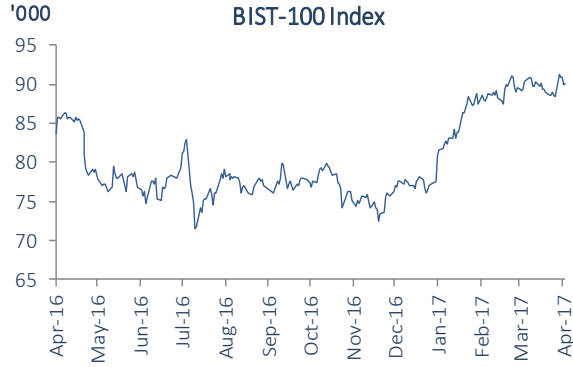
A draft document, which eases commercial vehicle rentals at automotive sector, was published last week. Within the draft regulation, companies, which currently purchase commercial vehicles by bank credits or shareholder's equity, will be able to rent 10 times as many as their own vehicles through financial leasing. It is currently not allowed to rent a commercial vehicle in the market and the arrangement has cleared the way for commercial vehicles to be used at transportation sector. It is estimated that the regulation will help commercial vehicles market to grow by 25-30% while the obligation of renewals of commercial vehicles every 3-4 years will support the overall vehicle sales. According to data published by Auto Leasing and Rental Companies Association (TOKKDER), vehicle rental market purchased 19.4% of all new vehicles sold in the market and increased its number of parking vehicles to 330,600 in 2016.

On the other hand, tariffs on compulsory traffic insurances, which have recently risen rapidly, were restricted with a ceiling price last week. Before the announcement of the ceiling prices, some vehicle owners were observed to avoid having mandatory traffic insurances as fines for the related acts didn't seem deterrent. The ceiling prices were determined as 807 TL for automobiles, 2,089 TL for taxis and 1,418 TL for passenger vans. Discount rates, which were set by specified intervals based on the ceiling prices and vehicle risk situation, are 45% for damage free/low damaged vehicles and 150% for the riskiest vehicles. The implementation of the ceiling price started as of April 12nd and is expected to last till 2017 year-end.

Recent developments in tourism sector...

Minister of Culture and Tourism Nabi Avcı announced last week that they submitted the additional incentive package on cruise tourism to the Cabinet. According to the package, there will be 30 USD/person incentives to enterprises, which bring tourists into the country through cruises. Additionally, Russia's Federal Aviation Agency sent a note to Turkey last week regarding a possible suspension of charter flights arriving in Turkey. Political developments in Syria will be followed closely in terms of the relationship between two countries and its impact on Turkey's tourism sector.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
17 April	China Industrial Production Data	March	7.6% yoy (A)
	China GDP growth	2017 Q1	6.9% (A)
	TURKSTAT Employment Statistics	January	13% (A)
	Ministry of Finance Central Government Budget Realization	March	19.5 billion TL deficit (A)
	CBRT Survey of Expectations	April	
18 April	USA Industrial Production Data	March	0.5% mom
	USA Capacity Utilization Rate	March	76.2%
	USA Housing Starts	March	-2.2% mom
20 April	TURKSTAT Consumer Confidence Index	April	
21 April	USA Existing Home Sales	March	
	USA Manufacturing PMI (Flash)	April	

(A) Actual

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