

WEEKLY OUTLOOK

Heavy agenda in the US...

In the US, developments regarding Trump's expected tax reform and the future of North American Free Trade Agreement (NAFTA) were high on the agenda last week. The tax reform which was already presented to the Congress by Trump administration contains proposed cuts in corporate taxes as well as taxes on corporates' both current and previous profits acquired from activities in the external markets. In this context, Trump administration is planning to give incentives such as cutting corporate tax ratio from 35% to 15% and ensuring taxing international companies for only once for their activities abroad providing that they bring their profits back to the US. On the household's side, incentives also include decreasing number of income tax brackets from 7 to 3 and removing the tax on healthcare (3.8%) which was imposed during Obamacare. Besides, despite his pre-election statements about leaving NAFTA, Trump's recent announcements after last week's talks with Canada and Mexico officials showed that he will reconsider the situation instead of simply cancelling the agreement. This has eased the political uncertainties regarding the US economy last week. Additionally, withdrawal of Trump's funding request for building a wall on US-Mexico border also decreased the pressure in the markets. The fact that many of the election commitments made by Trump, who completed his 100 days in presidency on the 29th of April, haven't been fulfilled yet, is perceived as a sign showing pre-election vows may not be implemented as fast as it was considered before.

Last week, markets in the US have focused on preliminary growth figures for the first quarter which was announced on Friday. Accordingly, US economy that posted the lowest GDP growth for the last 5 years by growing only 1.6% in 2016, grew by 0.7% annually in Q1 2017. The lower-than-expected growth mainly stemmed from relatively weak outlook of consumer spending. Furthermore, core personal consumption spending which has been watched by Fed closely as one of the leading indicators for inflation have lost pace in March, rising by 1.6% yoy. Besides, lower-than-expected ISM manufacturing figures supported the projections that Fed will probably keep policy rates unchanged during its FOMC meeting which has started today. This week markets will also focus on non-farm payrolls data on Friday.

European Central Bank kept its monetary policy unchanged.

European Central Bank (ECB) kept its policy rate unchanged as 0% at its meeting last week. ECB announced that the volume of the monthly asset purchase programme has been lowered to 60 billion euros from 80 billion euros starting from April to the end of this year, while stating that the interest rates are likely to stay at low levels for a longer period. In his speech after the policy meeting, ECB President Draghi gave positive messages regarding the Euro Area economies by saying economic recovery continues firmly and downside risks have been decreased relatively.

Draghi pointed out that in spite of the upward course in headline inflation, core inflation is still at low levels and uncertainties on wage rises still continue. Moreover, Draghi's statements revealing that there isn't any dispute about the direction of the loose monetary policy, were perceived as there is still time for shifting to tight monetary

WEEKLY DATA

	21 Apr	28 Apr	Change		21 Apr	28 Apr	Change
BIST-100 Index	92,424	94,655	2.4 % ▲	EUR/USD	1.0726	1.0895	1.6 % ▲
TRY 2 Year Benchmark Rate	11.15%	11.34%	19 bp ▲	USD/TRY	3.6391	3.5506	-2.4 % ▼
US 10 Year Bond Rate	2.24%	2.28%	4 bp ▲	EUR/TRY	3.9037	3.8677	-0.9 % ▼
EMBI+ (bps)	336	327	-9 bp ▼	Gold (USD/ounce)	1,284	1,268	-1.3 % ▼
EMBI+ Turkey (bps)	303	289	-14 bp ▼	Brent Oil (USD/barrel)	50.8	50.4	-0.7 % ▼

bp: basis point

policy in the Euro Area. On the other hand, consumer inflation was realized as 1.9% yoy in April, above the expectations, but harmonious with ECB's target, where core inflation rose by 1.2% reaching 4-year high.

Global stocks hit record highs...

Risk appetite in financial markets mounted last week thanks to strong balance sheets in the US and the assumption that Trump's tax reform will support US economic activity. Dominated by tech firms, Nasdaq stock exchange's reached its highest level. European stocks also has been relieved from political pressures after French elections supporting the global stocks last week. Risk appetite pressured the gold prices while US 10 year Treasury bond yield closed the last week at 2.28%.

CBRT raised the late liquidity window lending rate.

Domestic markets focused on CBRT's Monetary Policy Committee (MPC) meeting last week. CBRT increased the late liquidity window lending rate by 50 bps to 12.25%. The note published after the MPC meeting includes "a partial recovery in domestic demand" instead of the previous meeting's "sluggish domestic demand". It was added that tight stance in monetary policy will be kept until inflation shows a significant improvement. Likewise, inflation's rise due to "lagged pass-through and the base effect in unprocessed food prices" statement at the prior meeting was revised to "the recent improvement in the risk appetite contains some of the upside pressures from cost factors" at last week's meeting. The note also referred to the high levels of inflation, which pose risks to the pricing behavior. Weighted average funding cost of the CBRT funding last week reached up to 11.80%, the highest since January 2012. Hence, total number of increase in late liquidity window lending rate was marked up to 225 bps since the beginning of 2017.

CBRT released the second Inflation Report of the year.

CBRT published the second Inflation Report of 2017 on the last trading day of the week. While presenting the report, CBRT Governor Çetinkaya said that they expect the inflation to fell to a single-digit level in the second half of the year after following a fluctuating course. In the Inflation Report, the mid-point of the year-end inflation forecast, which was 8% in January, has been raised to 8.5%, while the 2018 inflation expectation has also been revised to 6.4% from 6%. Stating that the CBRT will maintain its tight stance until there is a noticeable improvement in all the indicators, Çetinkaya emphasized that they focus on the main trend rather than temporary fluctuations and the rate increase decision in April has been taken accordingly. Çetinkaya commented earlier that the consumer price inflation, which was announced as 11.3% in March, is likely to decline after peaking in April.

Istanbul stock market reached record levels.

Last week, Borsa Istanbul index traded over 95,000 parallel to the global stock markets. During the week, USD/TL retreated to the level of 3.55 after depreciation of USD in the global markets and CBRT's interest rate decision. Besides, 2-year benchmark bond's yield increased by 19 points on a weekly basis.

Foreign trade deficit narrowed in March.

In March, exports increased by 13.6% yoy, while imports rose by 6.9%. The decline in foreign trade deficit was 10.3% in the same period. In exports, the share of EU countries, Turkey's largest export market, declined by 2.4 points yoy, while the share of Near and Middle Eastern countries increased by 3.5 points. Exports of motor vehicles with the highest share in exports increased by 35.6% yoy, while a 78.7% increase in iron and steel exports was noteworthy. On the import side, as well as the sharp increase in imports of gold from Middle Eastern countries, the rise in imports of energy due to the increase in commodity prices came to the forefront. According to the temporary foreign trade statistics released by the Ministry of Customs and Trade, Turkey's exports increased by 7.4% and imports increased by 9.6% in April. Foreign trade deficit expanded by 15.8% in the same period and reached 4.9 billion dollars ([Our Foreign Trade Balance Report](#)).

INDUSTRY NEWS

House sales soared in March.

In Turkey, house sales in March increased by 10% yoy. The mortgaged house sales, which constitute 39.1% of all house sales, rose by 29.9% yoy. Thus, total house sales in Q1 increased by 7.4% yoy and reached 325,780. Apart from the campaigns by real estate companies and tax incentives given to the housing sector, discounts at mortgage rates are considered to have been reviving the sector sales.

Turkey's natural gas consumption...

Rising shares of renewable energy sources and domestic coal in electricity generation have been effective on the fall in natural gas consumption. Thus, Turkey's natural gas consumption, which showed a significant growth till 2014, has been declining in the last 2 years. According to a study published by The Oxford Institute for Energy Studies (OIES) last week, Turkey's natural gas demand in 2030 is projected to be 25% lower than the amount that local public institutions previously estimated. Turkey's Petroleum Pipeline Company (BOTAS) had an earlier estimate that natural gas consumption would reach 81 billion cubic meters until 2030 while OIES foresees that it will be around 60-62 billion cubic meters.

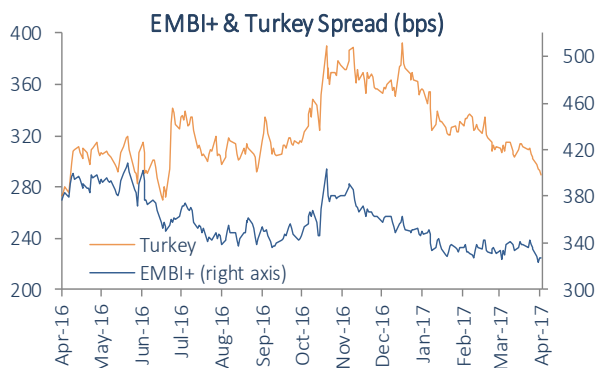
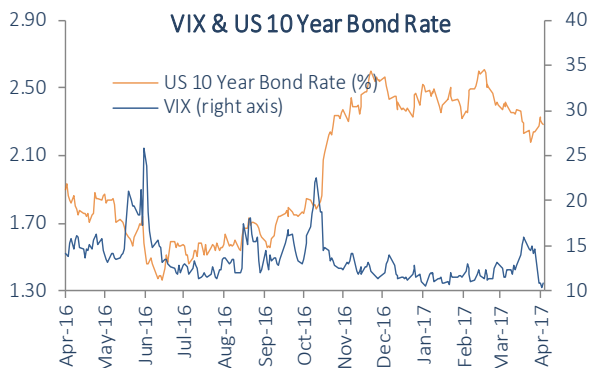
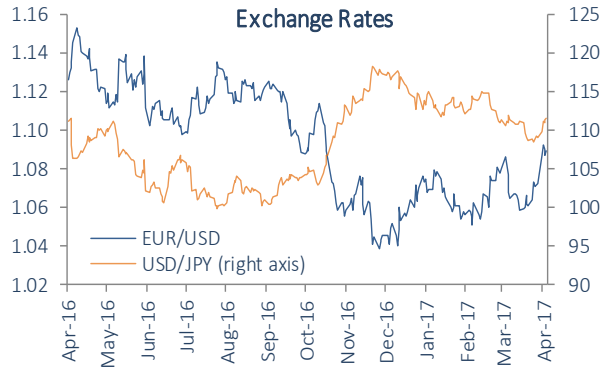
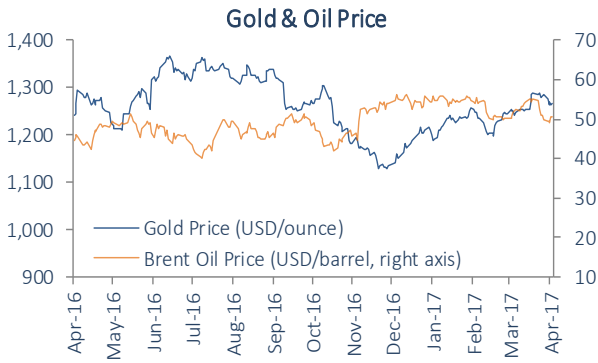
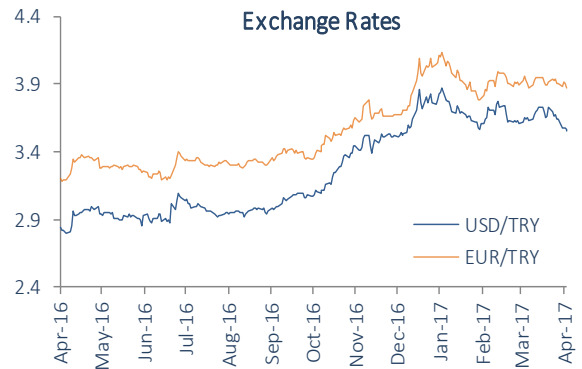
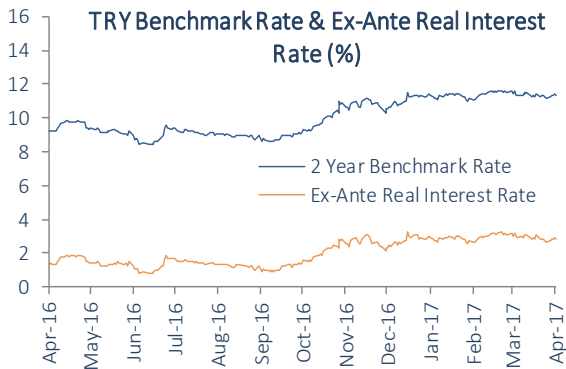
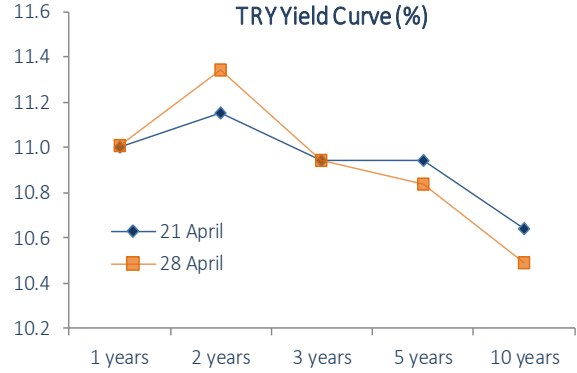
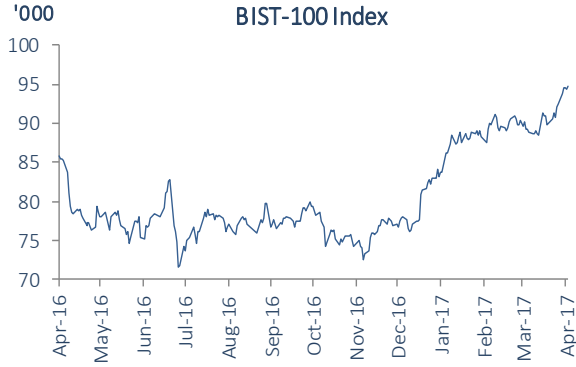
Turkey has been pursuing to diversify its natural gas supply routes for the purpose of supply security at energy sector. Hence, it was recently on the news that Turkey will soon be signing a deal with Israel for the transport of Israeli gas to Turkey. Similarly, talks have been continuing for the import of natural gas from Northern Iraq. Construction of Turkish Stream project, which Russia will eventually be exporting 31.5 billion cubic meters of gas to Turkey, is expected to start as of summer this year and be completed till 2019 year-end.

Mixed signals from the tourism sector...

Tourism statistics published by Ministry of Culture and Tourism show that number of arriving foreign visitors in Turkey declined by 4% to 1.59 million in March. Most of the foreign visitors in March came from Iran and Georgia by 17% and 11%, respectively. The highest annual increase in the number of arriving foreign visitors was observed from Iraq and Russia thanks to base effect. On the other hand, Hotel Association of Turkey published hotel occupancy rates and per room average daily rates of March last week. The occupancy rate in March climbed by 5.3 points yoy to 55.8%. Rise in number of seminars and events organized by local firms and Iranian tourist attraction driven by the Newrouz Festival are regarded as an important factor at accelerating occupancy rates in March. However, prices in the sector remained weak. Average daily rate per room was down to 58.9 EUR compared to 73.4 EUR at the same month of the last year.

Well-known Galataport project by Salıpaazarı Port Management and Investments Inc's which includes the renewal of Turkish Maritime Facilities Inc's harbor in Karaköy was sealed off last week by Istanbul Metropolitan Municipality according to recent news on the media. The project, considered significant for the development of cruise tourism in Istanbul, was suspended for damaging some assets under the protection of cultural properties in the area.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
2 May	China Caixin Manufacturing PMI	April	50.3 (A)
	Germany Manufacturing PMI	April	58.2 (A)
	Eurozone Manufacturing PMI	April	56.7 (A)
	Eurozone Unemployment Rate	March	9.5% (A)
	Turkey Manufacturing PMI	April	51.7 (A)
3 May	Fed FOMC Meeting and Interest Rate Decision	May	
	USA ADP Employment Report	April	170K
	Eurozone Producer Price Index	March	4.2%
	Eurozone GDP Growth (Preliminary)	Q1	1.7%
	TURKSTAT Domestic Producer Price Index	April	
	TURKSTAT Consumer Price Index	April	
	Treasury Domestic Debt Redemption (152 million TL)	May	
4 May	USA International Trade Statistics	March	-44.5 billion USD
	USA Factory Orders	March	+0.4% mom
	Eurozone Retail Sales	March	+1.8% yoy
5 May	USA Nonfarm Payrolls	April	185K
	USA Unemployment Rate	April	4.6%

(A) Actual

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