

WEEKLY OUTLOOK

Heavy political agenda in the US...

Last week, political agenda in the US was quite heavy. The news regarding the former FBI Director James Comey were followed closely by financial markets. Besides, the economic data released last week drew a mixed picture. After the disappointing retail sales data, new home sales also fell short of expectations in April. However manufacturing production, which performed poorly in March, rose by 1% mom in April, thanks to the enlivening in motor vehicles sector. While the data released in the US was generally weak, the probability that the Fed would raise interest rates in June, which rose to 94% after the Fed meeting in May, fell around to 60% during the week. This week markets will monitor the Fed's May meeting minutes.

Strong economic signals in Europe...

In the first quarter, Euro Area grew by 0.5% in line with expectations, while annual growth rate was realized as 1.7%. Despite the recovery in economic activity, the price pressures are still weak in the region. In April, annual CPI was realized as 1.9% while the core inflation increased moderately by 1.2%. In this context, it is thought that ECB would keep its expansionary monetary policy for some more time.

Annual consumer price inflation in the UK came in at 2.7% in April, highest since September 2013. The depreciation in pound since the Brexit voting and the surge in oil prices were the main drivers of recent inflation figures, though the relatively weak course of wage increases allowed Bank of England to keep its monetary stance. On the other hand, retail sales, which displayed a sluggish performance in the first quarter, surpassed the expectations in April. Thus, the recent data signaled that economic activity made a fresh start to the second quarter.

Japan's economy grew faster than expected.

In the first quarter of 2017, Japan's economy grew faster than expected by 2.2% yoy hence keeping its robust performance for 5-consecutive quarters. This was mainly as a result of strong exports and robust private consumption expenditures. On the other hand, weak inflation and wage increase figures indicated that Bank of Japan (BoJ) is not likely to change its monetary policy in the short term. In fact, in his letter to President Abe, BoJ Chair Kuroda stated that inflation is still below BoJ's target and the Bank will continue its loose monetary policy stance.

Global markets...

At the beginning of last week, global stock markets rose in line with rising oil prices and weakening expectations of a Fed rate hike in June. In the second half, however, stock markets were under pressure because of the political uncertainties in the US as well as bribery allegations against Brazil's president. While DXY index, which measures the value of the US dollar relative to major developed currencies, declined to its lowest level since US presidential elections, US 10-year treasury rates were down by 17 basis points compared to last week's closing due to the fall in global risk appetite. Gold prices, on the other hand, increased by 2.2% to 1.255 dollar/ons as a result of rising demand for safe investment instruments.

WEEKLY DATA

	12 May	19 May	Change		12 May	19 May	Change
BIST-100 Index*	94,996	95,147	0.2 % ▲	EUR/USD	1.0928	1.1204	2.5 % ▲
TRY 2 Year Benchmark Rate*	11.47%	11.52%	5 bp ▲	USD/TRY*	3.5721	3.5875	0.4 % ▲
US 10 Year Bond Rate	2.40%	2.23%	-17 bp ▼	EUR/TRY*	3.9026	4.0162	2.9 % ▲
EMBI+ (bps)	320	338	18 bp ▲	Gold (USD/ounce)	1,228	1,255	2.2 % ▲
EMBI+ Turkey (bps)	289	308	19 bp ▲	Brent Oil (USD/barrel)	49.0	52.9	7.9 % ▲

*: May 18th, 2017

bp: basis point

Oil prices are rising.

Last week, oil prices rose by 7.9% due to the news stating that Russia and Saudi Arabia have reached a consensus on extending the deadline of production cut until March, 2018. Both OPEC members and non-member countries had agreed on cutting production of crude oil by 1.8 million barrel per day until the end of June, starting from January, 2017. Nevertheless, expected price increase couldn't be reached yet. Thus, the decision of extension for another 9 months is said to be supported by Kuwait, Oman and Venezuela as well. Iran, on the other hand, is estimated to support the decision, in case of all OPEC members consensus. This week, OPEC's Vienna meeting on May 25th will be watched closely to get detailed information on the production cut decision and its future.

Budget posted deficit in April.

The central government budget, which gave a surplus of 5.4 billion TRY in April 2016, gave a deficit of 3 billion TRY in the same period of this year. Budget expenditures surged by 26.3% yoy, while budget revenues expanded by 6.7% in April. Budget, that gave 5.4 billion TRY surplus in January-April period of 2016, recorded a deficit of 17.9 billion TRY in the same period of 2017. Parallel to the measures taken to boost economic activity, tax revenues rose by 14.3% in April, indicating a recovery in economic activity. However, despite the modest recovery in tax revenues in April, tax revenues collected in the first four months of the year remained below the budget target. Moreover, expansionary trend in both current transfers and interest expenditures indicated that the budget expenditures will exceed the target level at the end of the year ([Our Budget Balance Report](#)).

Consumer Confidence Index is on the rise.

In May, Consumer Confidence Index reached its highest level since October 2016. The index is on the rise for the last three months indicating moderate signals for the domestic markets. The improvement in the expectation of the general economic conditions in the next 12 months and the monthly increase in spending tendency on semi-durable goods drew attention. But this leads to the concerns that the possibility of savings in the coming period will decrease and consumer prices will increase.

Domestic markets...

Last week BIST-100 Index saw its historical high levels parallel to the global markets, triggered by the decreasing political worries in EU and the declining possibility of Fed's interest rate hike in June. However, BIST-100 declined in the second half of the week with the sales pressure arising from the political concerns in the US. The USD/TRY, which fell back to the level of 3.53 during the week, tested the highest level for last one month with the level of 3.64 on the last trading day. The EUR/TRY closed the week higher than the level of 4, with the effect of the rise in EUR/USD parity.

Recent arrangements for food sector...

The government is seeking to take new measures against the volatile food prices, in order to fight against the rise in Turkish CPI, which in April peaked to 11.87%. Last weekend, in the meeting of Agricultural Products Markets Monitoring and Evaluation Committee (the Food Committee), the set-up of an automatic system for required measures, considering the balance of import-export-production and a central organization in each province for bread prices were on the agenda. Moreover, news that Competition Board had initiated investigations on firms, which might have an impact on the recent rise on food prices, were followed.

Car rental business is gaining momentum.

According to "Operational Leasing Sector Report" published by Auto Leasing and Rental Companies Association (TOKKDER) last week, the leasing sector's number of purchased vehicles became 26,950 and the sector's share at total automotive sector reached 23.2%. Number of vehicles in the sector's fleet rose to 327,300, while Renault was the leader with the share of 32.9% and Volkswagen followed with the share of 15.1%. Sector's vehicles are dominated by diesel cars by 95.3% and manual cars by 55.6%. Latest increase in vehicle prices due to the depreciation of TRY and lift in special consumption taxes on vehicles have been moving the demand to second-hand sector and reviving the fleet leasing.

Anti-dumping margins on rebar exports to US...

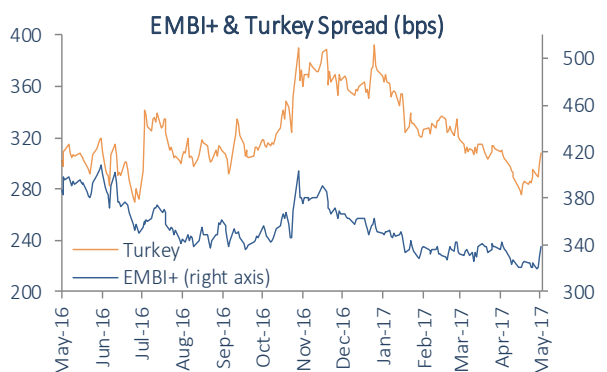
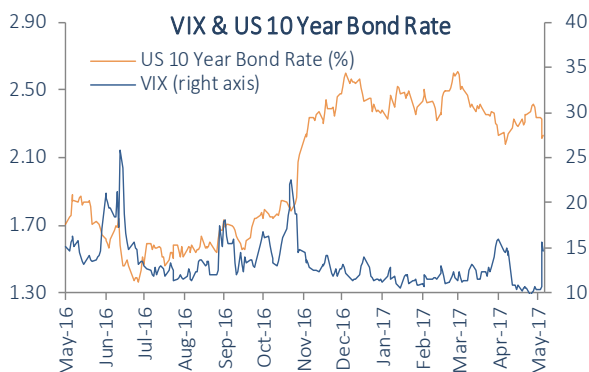
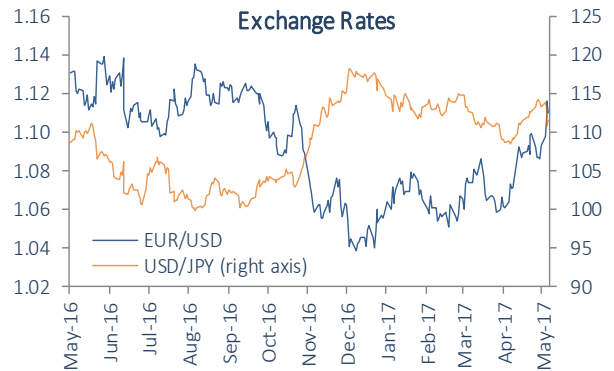
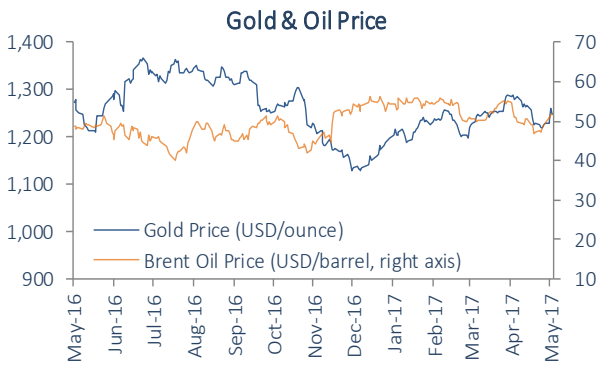
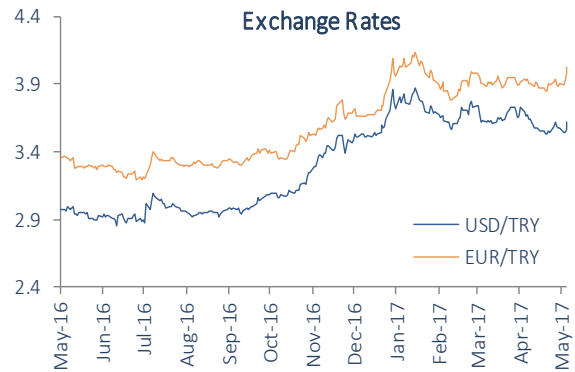
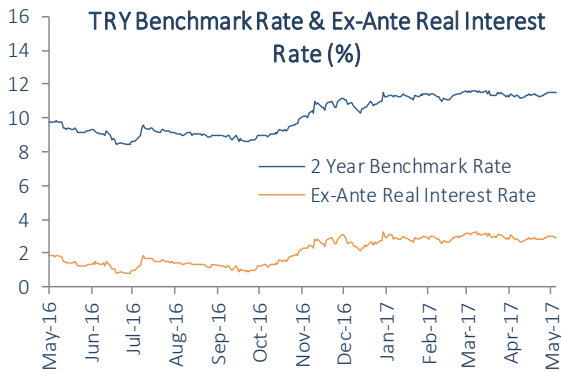
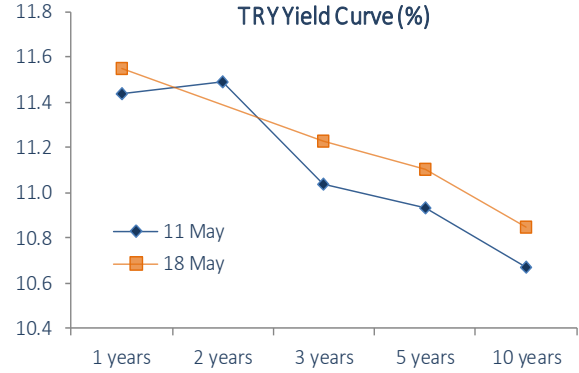
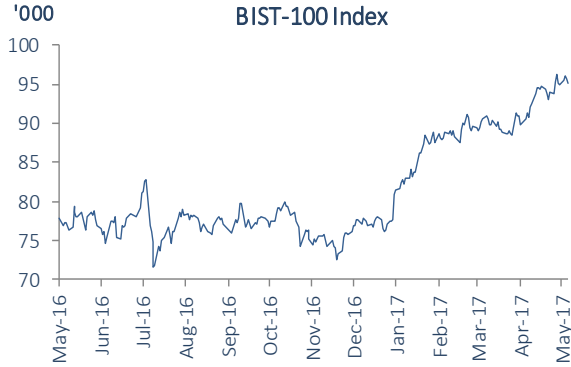
US last week set the final anti-dumping duties on steel concrete reinforcing bar (rebar) imports from Turkey at the band of 5.39-8.17% for a final finding of dumping by Turkey. Turkish exporters will also face anti-subsidy duties of 16.21%. US imported 511.9 million USD of rebar in 2016 from Turkey. Final injury determination will be given in June after the US International Trade Commission's investigation whether or not US producers will be caused any harm.

Rising demand at the construction sector is causing a supply problem at the domestic iron-steel market triggering a surge in prices. Officials at the construction sector demand that import duties will be eased at the iron-steel market, which has lately focused on exports, so that supply and the sector prices will back into balance. Sector's consumption is estimated to be up by 5% yoy to 36.5 million tons in 2017.

Consolidation of mines...

The Parliament's Plan and Budget Commission's decision last week, regarding the consolidation of licenses of mines which are closely located/adjacent to each other in the city center, was not received well by the sector officials. Officials pointed out that the recent regulation will put the license security in danger and mine investments, which already take years, will be pressured. The regulation requires that mine investors will have to agree on a deal with other investors in the region in 6 months, while there was no detailed explanation regarding the situation of the factories in the mining area. The regulation is expected to have a negative impact mostly on the natural stone sector, which Turkey is globally competitive. It is also foreseen that some mines will be forced to shut down since it is not probable for all companies to agree on a consolidation. Ministry of Energy and Natural Resources, on the other hand, claims that the decision was taken for the reason that mines get very deep into the land and make steep excavations in their limited area, which might be risky to environment and human health.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
23 May	USA New Home Sales	April	625K
	CBRT Capacity Utilization Rate of Manufacturing Industry	May	75.2%
	Reissuance of the Treasury bonds with 7-month maturity	May	
24 May	USA Manufacturing PMI (Preliminary)	May	
	Eurozone Manufacturing PMI (Preliminary)	May	
	USA Existing Home Sales	April	5.67 million
	Fed Open Market Committee Minutes	May	
	Treasury Domestic Debt Redemption (641 million TL)	May	
25 May	USA International Trade Statistics	April	64 billion USD deficit
26 May	USA Durable Goods Orders	April	
	USA GDP Growth (Revision)	2017 Q1	+%0,9 yoy
	USA The University of Michigan's Consumer Sentiment Index	May	97.5

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