

WEEKLY OUTLOOK

US data released last week created disappointment in general.

US data released last week came in below expectations in general. While the University of Michigan's customer sentiment index in November fell from its October peak, which was the highest in 13 years, U.S. durable goods orders fell by 1.2% mom in October. November PMI (purchasing managers index), which was announced on the last trading day of the week, also came in below expectations decreasing mom. On the other hand, existing home sales, consistently declining since June, continued to recover in October, after September data.

Fed members are concerned regarding the inflation outlook...

Minutes of the latest Fed meeting that ended on 1st of November has been released last week. Minutes showed that policymakers generally agreed that “economic activity had been rising at a solid rate”, but some expressed concern that “the persistently weak inflation data could lead to a decline in longer-term inflation expectations”. While many policymakers expect that interest rates will have to be raised in the “near term”, it is commented by markets that Fed may be more cautious in rate hikes in 2018, following some policymakers’ indications on inflation outlook. Still, markets price in a nearly certain rate hike in December and one for 2018. On the other hand, minutes revealed that “several participants expressed concerns about a potential buildup of financial imbalances and worried that a sharp reversal in asset prices could have damaging effects on the economy”.

Fed chairwoman Janet Yellen, whose term will end in February, announced that “she plans to resign as a member of the Fed Board of Governors, effective upon the swearing in of her successor (Jerome Powell) as chair”. If decided not to resign, Yellen’s term on the Fed board wouldn’t expire until 2024. On the other hand, nomination of Jerome Powell as chairman is expected to be confirmed by Senate this week.

Euro area economies continue to gain momentum.

In Euro Area, November preliminary manufacturing PMI has reached 60, the peak level of 17,5 years. In the same period, services PMI has climbed to its 6-month peak. PMI data showed that the Euro Area economy has continued to pick up momentum in Q4.

The minutes of the European Central Bank’s monetary policy meeting which ended on 26th October has been published last week. Although it did not reveal any unexpected developments, it is seen that some policymakers were split over the open-ended nature of the asset purchase programme. In the related meeting, the ECB had opted to continue its monthly asset purchase programme of 60 billion EUR until the end of 2017 and to decrease it to 30 billion EUR in the 2018 January-September period.

CBRT will fund banks only via Late Liquidity Window.

CBRT announced that the “banks’ borrowing limits at the CBRT Interbank Money Market for O/N transactions have been reduced to zero to be effective as of 22 November 2017” and added funding would only be made via Late Liquidity Window (LOW). Accordingly, weighted average funding rate of CBRT rose from approximately 12% to 12.25%. Besides, CBRT has started the Turkish Lira-settled forward foreign exchange sale auctions last week. In this context, CBRT already completed 5 auctions in 1, 3 and 6-month maturities that worth 650 million USD in total. In

WEEKLY DATA

	17 Nov	24 Nov	Change		17 Nov	24 Nov	Change
BIST-100 Index	106,239	104,539	-1.6 % ▼	EUR/USD	1.1793	1.1930	1.2 % ▲
TRY 2 Year Benchmark Rate	13.73%	14.15%	42 bp ▲	USD/TRY	3.8745	3.9427	1.8 % ▲
US 10 Year Bond Rate	2.35%	2.34%	-1 bp ▼	EUR/TRY	4.5695	4.7046	3.0 % ▲
EMBI+ (bps)	345	343	-2 bp ▼	Gold (USD/ounce)	1,294	1,288	-0.5 % ▼
EMBI+ Turkey (bps)	322	318	-4 bp ▼	Brent Oil (USD/barrel)	62.0	63.8	3.0 % ▲

bp: basis point

the latest 1-month maturity FX sale auction, offers totally amounted 232 million USD and average forward FX rate became 3.9448.

Capacity utilization rose while confidence indices declined.

Capacity utilization rate (CUR) of manufacturing industry kept on rising and reached 79.9% in November. This month, industries such as the manufacture of tobacco products, chemicals and chemical products, motor vehicles and basic metals came forward in terms of higher capacity utilization.

On the other hand, Turkstat figures pointed out that consumer confidence index dropped by 3.2% mom to 65.2 in November. Hence, consumer confidence index hit the lowest level in 2017 upon declining 4 months in a row. Deterioration in the probability of saving for the next 12 months period and buying a car or a home were quite remarkable. Furthermore, rising inflation played a significant role in declining consumer confidence in November. As a matter of fact, consumers' assessment on price changes indicated a rise in this period. In November, real sector confidence index also declined to its lowest level since February 2017 with 106.3. Steep fall in total orders in the last 3 months-period along with the negative prospects in the coming 3 months' production were noteworthy.

Treasury borrowed less than what was projected for November.

Treasury completed the financing program of November with the last reissuance of five year fixed coupon bond auction on November 21st. The annual compound rate of the auction was realized as 13.82%. Treasury borrowed less than what it had planned for November since interest rates' rising trend compared to previous months have been pushing the government's borrowing costs up. Treasury, which projected 6.2 billion TRY of domestic borrowing compared to 4.4 billion TRY of domestic debt redemption, completed November with three auctions at the total amount of 4.7 billion TRY.

Fitch revised its forecasts for Turkey.

Fitch Ratings revised its evaluation for Turkey's economic growth and inflation. Fitch kept Turkey's GDP growth prediction for 2017 stable at 5.5% while decreasing its forecast for 2018 from 4.1% to 3.9%. Additionally, Fitch revised Turkey's inflation forecast up to 10.9% from 9.5% for 2017 and to 9.4% from 8% for 2018. Fitch, which also noted on the developments in the banking sector, emphasized that risks to bank capitalization remain in case of further TRY depreciation or higher than expected non-performing loan growth. However, it was added that the capital buffers in the country's banking sector were currently "sufficient to absorb moderate shocks".

Financial Markets...

Last week strong PMI data released in Euro Area and the uncertainties regarding the price stability in the US, led euro gain strength against dollar. EUR/USD parity, which was around 1.17 at the beginning of the week, exceeded 1.19. Oil prices increased as the decline in US oil inventories is expected to continue. Besides, news ahead of the OPEC meeting that will be held on this week, put further pressure on oil prices. The price of the Brent-type crude oil has reached the highest level for more than 2 years with 63.8 USD. While the weakening in dollar caused a rise in gold prices, gold prices finished the week at 1,288 USD/ounce.

The course was negative in domestic markets. Due to the deterioration in risk perception towards Turkey, USD/TRY has risen to a historic high of 3.9815 in the middle of the week, while parity erased some of its early losses after the FOMC minutes and the CBRT's interest rate decision. In the last day of the week USD/TRY was realized as 3.94. Bond yields continued to increase. The yield of 2-year benchmark bond climbed by 42 bps wow and came in at 14.15%. The BIST-100 index, which had fallen to 103,016 at the beginning of the week, increased slightly in the following days. Thus, the weekly decline in BIST-100 index was 1.6%.

INDUSTRY NEWS

Home sales declined in October.

Home sales in Turkey decreased by 5.7% to 123k units in October compared to the same period of last year. Thus, home sales declined in October 2017 for the first time after February. The base effect stemmed from the rapid increase in home sales due to the discounts made in the housing loan interest rates in 2016 was also an important factor in this decline. Mortgage sales, which are highly sensitive to changes in housing loan interest rates, fell sharply by 19.8% yoy, while other home sales rose by 2.6%. On the other hand, home sales to foreigners increased by 70.9% yoy, reaching 2,677, while Istanbul received first place in sales with 1,321 houses.

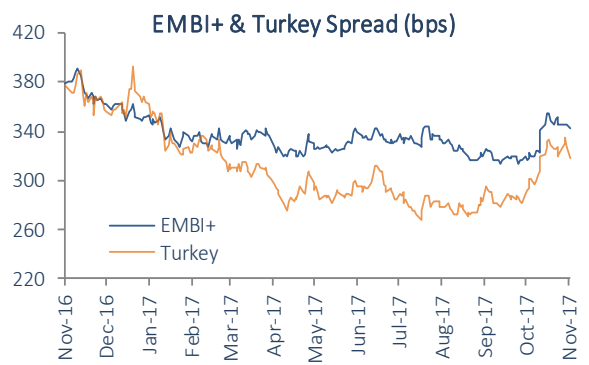
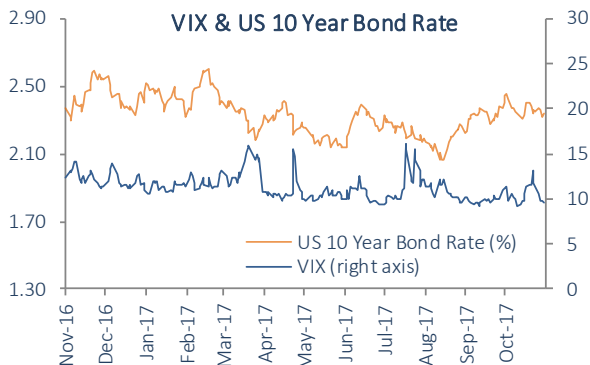
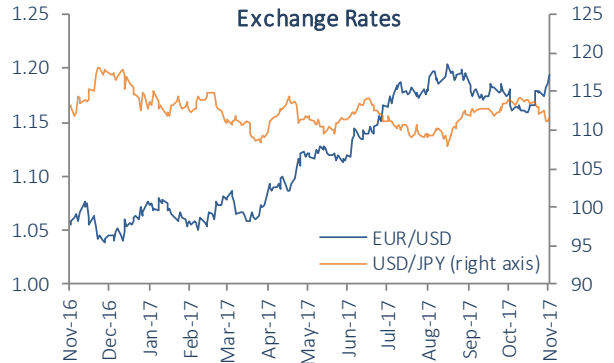
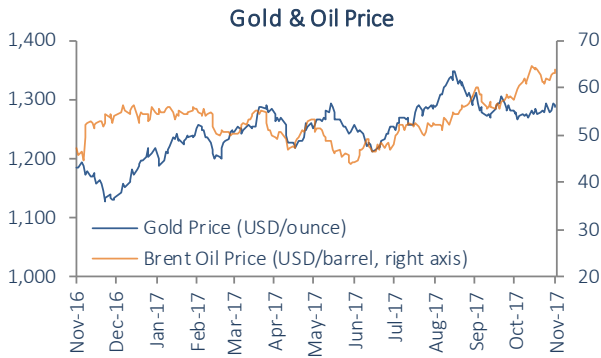
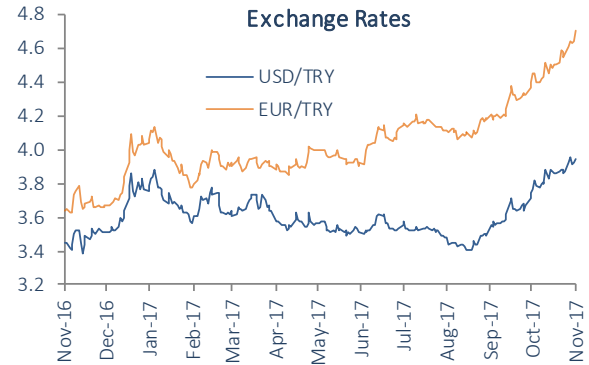
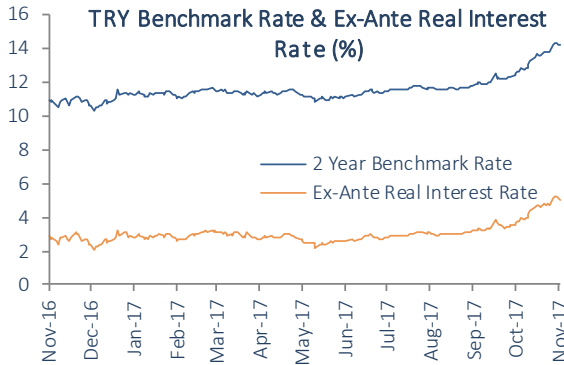
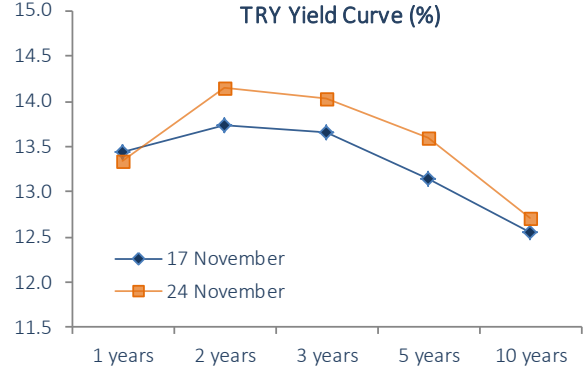
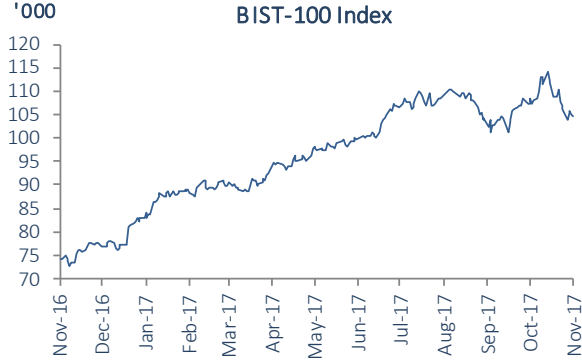
Iron and steel sector maintains its strong outlook.

Iron and steel sector has displayed the most favorable year since 2011. Crude steel production rose by 13.3% yoy in January-October period, mainly stemmed from the production increase in Electric Arc Furnace (EAF) facilities. Steel billet, generally used in construction sector, has increased by 10.8%; while steel slab production, which is a crucial input to the industrial sector, rose by 19%. In this period, especially the demand from the European market stimulated the export performance and supported the increase in production. On the other hand, China, world's largest consumer of iron ore, decided to cut steel production in winter as part of the fight against rising air pollution, which in turn causing iron ore prices to fall.

Customs duties on animal feeds have been changed.

Customs duties on oilseeds, medical plants, straw and roughage imports are determined as zero for Georgia, Bosnia and Herzegovina, South Korea, Malaysia and 10% for EU, EFTA, D8 countries and other countries. Customs tax rates of roughage and bran species were also lowered to zero for all countries. On the other hand, customs tax rate for cotton, linen, sunflower, rapeseed and pulp will be applied as 6.5% if they are imported to be used as animal feed. The tax rate will be zero if these products are imported from Bosnia and Herzegovina. The customs duties on such products were 7.3%, 11.5% and 13.5% for different country groups before.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
27 November	US New Home Sales	October	620 million units
28 November	Turkstat Economic Confidence Index	November	
	CBRT Home Price Index	September	
	US Consumer Confidence Index	November	124.0
29 November	US GDP Growth (second estimate)	Quarter III	annual %3.2
	Euro Area Consumer Confidence Index (final)	November	monthly %0.1
30 November	Turkstat Foreign Trade Balance	October	
	US Personal Consumption Expenditures	October	monthly %0.3
	Euro Area Inflation (flash)	November	annual %1.6
	Euro Area Unemployment Rate	October	%8.9
1 November	Manufacturing PMI	November	
	USD ISM Manufacturing Index	November	58.5
	Euro Area Manufacturing PMI	November	60.0



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