

## WEEKLY OUTLOOK

*US growth speeds up.*

The Senate testimony of Powell, nominated to be the Fed's next chairman in 2018, has been followed closely by global markets. Mentioning the positive effects of developments in labour markets on household expenditures, Powell stated that the economic growth of the US economy is projected to be at 2.5% in 2017 and to be maintained at 2.5% in 2018. Powell, the Fed chair nominee, said that current conditions support the case for a rate hike in December FOMC meeting. A point that drew attention in Powell's testimony was his views on the outlook of Fed's balance sheet. Projecting the size of Fed's balance sheet to gradually shrink to the range of 2.5-3 trillion dollars in the coming 3 to 4 years, Powell stated that the assets in the balance sheet should be mostly US Treasury notes.

Recording the fastest growth performance in three years, the US economy's growth rate in 3rd quarter was revised from 3% to 3.3%. This development was driven by the upward revision for investment expenditures indicating a stronger contribution to the growth. Moreover, existing home sales, customer confidence index and personal income released during the week also exceeded expectations and recorded a positive outlook. As the uncertainties about the tax overhaul bill diminished, the stock market indexes recorded sharp increases. On the other hand, market participants adopted a more cautious tone on the last trading day of the week because of the rising political uncertainties in the US. News that Trump's ex-national security adviser Michael Flynn, who previously pleaded guilty to making false statements to the FBI, will confess to contacting with the Russian side in consultation with Trump administration played a part in these developments. Having tested the level of 2.44% during the week, the yield of 10-year US Treasury bill retreated swiftly to 2.36%.

*Unemployment rates in the Euro Area have been falling.*

The impact of recovery in economic activity in the Euro Area has also been felt in labour markets. Unemployment rate in the area, which has recently been on a declining trend, fell to 8.8% in October, the lowest level since January 2009. According to preliminary data, while consumer inflation in November rose to 1.5% with recording a 10 bps monthly increase, energy prices are noted as having centre stage in this increase. In addition, the flat course that the core inflation indicators exhibited in the same period supported the views that the ECB needs more time for normalisation of monetary policies. On the last trading day of the week, Euro Area manufacturing PMI came in at 60.1, reaching the highest level in 17 years. It is observed that the recovery in the region's economy was broad based.

The progress made by counterparties in the Brexit negotiations in the recent weeks supports the positive prospects towards European economy. Last week, news that the UK is close to a deal agreement with the EU on a bill of 45-55 billion EUR was in spotlight. In the beginning of negotiations, the EU was being reported to state the settlement payment as 60 billion euros. During the week, EUR/USD and GBP/USD neared two-month highs.

## WEEKLY DATA

	24 Nov	1 Dec	Change		24 Nov	1 Dec	Change
BIST-100 Index	104,539	103,559	-0.9 % ▼	EUR/USD	1.1930	1.1889	-0.3 % ▼
TRY 2 Year Benchmark Rate	14.15%	13.51%	-64 bp ▼	USD/TRY	3.9427	3.9123	-0.8 % ▼
US 10 Year Bond Rate	2.34%	2.36%	2 bp ▲	EUR/TRY	4.7046	4.6541	-1.1 % ▼
EMBI+ (bps)	343	339	-4 bp ▼	Gold (USD/ounce)	1,288	1,280	-0.6 % ▼
EMBI+ Turkey (bps)	318	310	-8 bp ▼	Brent Oil (USD/barrel)	63.8	64.3	0.8 % ▲

bp: basis point

***OPEC decided to extend the oil output cuts.***

OPEC announced in the Vienna meeting that the decision to cut oil output by 1.8 million barrels has been prolonged until the end of 2018. The production of Nigeria and Libya, which were previously exempt from cut decision due to civil unrest, is capped at 2.8 million barrels per day. In the announcements made by OPEC members, it is highlighted that the demand and supply conditions in oil markets have improved and the price of 60 USD per barrel for Brent crude was reasonable. Also, it is declared that OPEC members will re-evaluate the agreement in June 2018 should a rise in oil prices occur. In this context, the price of Brent has completed the last trading day of the week at 64.3 USD/barrel. Gold prices came under downward pressure due to rising bond yields in the US. In global markets, gold prices fell by 0.6% w/w and was realized as 1,280 USD per ounce.

***OECD revised growth projections.***

Last week, OECD released the Economic Outlook Report for November. While OECD has revised its global growth estimate upwards by 0.1 point to 3.6%, it has forecast that the global growth in 2018 and 2019 will be 3.7% and 3.6%, respectively. OECD announced the 2017 and 2018 growth rate projections for Turkey as 6.1% and 4.9%, respectively. Stressing Turkey's progress in structural reforms, OECD noted that this development would support fiscal transparency, inflation and private business investment. On the other hand, the organization emphasized that Turkey needs foreign financing stemming from high current account deficit and this condition leads to financial vulnerabilities.

***S&P statements...***

Credit rating agency S&P statements draw attention to the negative side-effects of recent weak course in Turkish Lira on the inflation outlook and emphasized the importance of monetary policy actions. S&P mentioned that rising interest rates has not put a downward pressure on Turkey's credit rating yet, however continuous rise in inflation along with inadequate measures by CBRT might bring up the issue of reassessing the credit rating in the following period.

***Widening foreign trade deficit...***

Widening in foreign trade deficit became significant in the last couple of months. In October, exports rose by 9% to 13.9 billion USD and imports increased by 25% to 21.3 billion USD. Therefore, foreign trade deficit expanded by 74% yoy. In this period, import coverage ratio declined from 75.2% to 65.6%. Automotive and machinery exports stood out with its strong performance in October. Having lost some steam in the third quarter of the year, iron and steel exports regained momentum in October. Strengthening euro, the currency through which Turkey conducts 50% of its total exports, provided a boost to the export figures during this period. Besides, improving economic activity continued to boost import of intermediate goods. Moreover, energy imports have been pushing up the foreign trade deficit. In the coming period, oil price developments may exert an upward pressure on foreign trade deficit although strong exports driven by robust demand from the EU is likely to limit the deterioration ([Our Foreign Trade Report](#)).

***Inflation increased rapidly in November.***

The recent depreciation of the Turkish Lira and the rise in oil prices have exerted upward pressure on inflation. In November, CPI rose by 1.49% mom, above market expectations. Thus, the annual increase in CPI was 12.98%, the highest level since the base year of inflation (2003). In November, prices in food and non-alcoholic beverage group pushed up CPI by 46 basis points. This was mainly stemmed from the rapid increase in unprocessed food prices, while the previous price hikes in raw milk prices seemed to have an upward impact on processed food prices. Transportation group made 33 basis points contribution to CPI in which fuel prices saw an increase in November.

A combination of the seasonal factors and the change in the inflation basket, the price changes in the clothing and footwear group contributed 28 basis points to the inflation. D-PPI, which is more sensitive to the exchange rate movements, picked up by 2.02% mom in November. Thus, the annual increase in the D-PPI reached 17.3%.

### ***Positive messages from CBRT...***

Last week CBRT published the Financial Stability Report. In the report it is assessed that the upward trend in global financial markets continues to underpin by positive outlook in the global economy, the rise in risk appetite, and the diminishing uncertainties in monetary policies of advanced economies. CBRT said that economic activity has accelerated in Turkey thanks to the macro-prudential policies that have been implemented in tandem with public incentives. Stating that the strong outlook in economic activity continued also in the third quarter, CBRT underlined that domestic economic activity will start to move in line with its long-term trend in the forthcoming period. Diminishing impacts of the macro-prudential incentives and loans under the Credit Guarantee Fund (CGF) scheme on growth lay the ground for the CBRT's prediction. It is pointed out that Turkish banks have maintained their strong liquidity position against possible shocks and the asset quality of the sector has improved.

### ***Volatility in domestic markets...***

Since the risk appetite declined due to recent uncertainties, domestic financial markets had a weak start to the week. Stock market, which tested below 102 thousand points on Tuesday, rose again in the following days thanks to the low level purchases. However, BIST-100 index declined by 0.9% to 103,559 points on a weekly basis. Following a volatile course similar to the stock market, Turkish Lira appreciated somewhat in the second half of the week. Appreciation in TRY was mainly stemmed from expectation of a possible interest rate hike by CBRT with an interim meeting before the 14 December meeting. In addition, the US dollar weakened on Friday in global markets and this movement was also reflected in domestic market. The exchange rate basket (0.5\*USD+0.5\*EUR), which reached its historical high level of 4.33 in the first half of the week, was realized as 4.28 on Friday. On the other hand, it was noteworthy that demand for TL-denominated borrowing instruments has been increased. The yield curve declined on medium-term and long-term instruments. The compound yield of the benchmark bond fell by 64 basis points to 13.51% on a weekly basis.

## INDUSTRY NEWS

***The tourism sector continued to improve.***

The number of foreign visitors to Turkey increased by 22.2% yoy in October. The largest number of visitors in this period came from Russia, followed by Germany and Iran. In January-October period, the annual increase in the number of visitors was recorded as 28%. Thus, the number of tourists coming to Turkey rose by 6.4 million persons to 29 million persons. In the first ten months, the number of visitors from Russia climbed by 3.8 million persons, contributing most to the improvement in the tourism sector. In the same period, the number of tourists coming from Iran and Iraq also increased by 1.1 million persons. It is seen that the number of European visitors, which constituted almost half of the tourism market in the previous years, has been on a declining trend. For the first 10 months of the year, the number of European visitors, which had been 17.6 million persons in 2015, was 12.1 million and 11.9 million persons in 2016 and 2017, respectively.

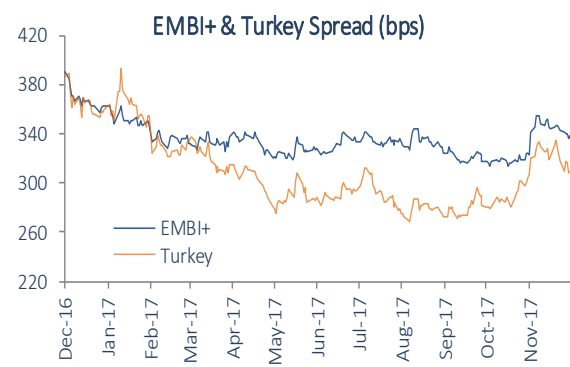
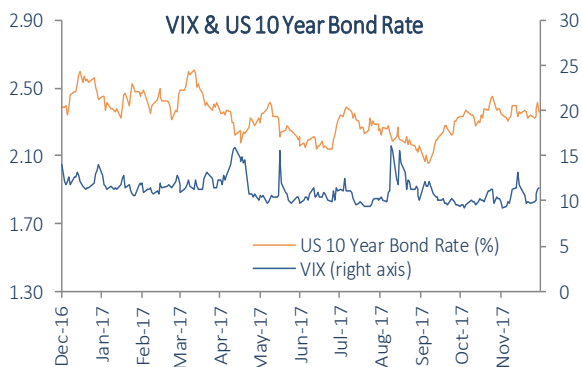
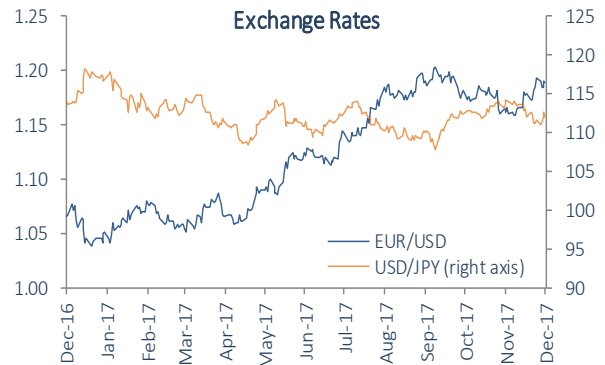
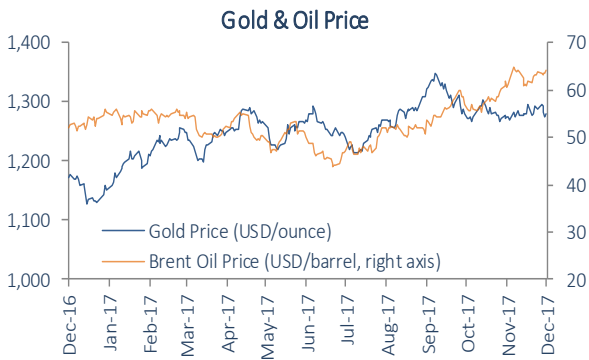
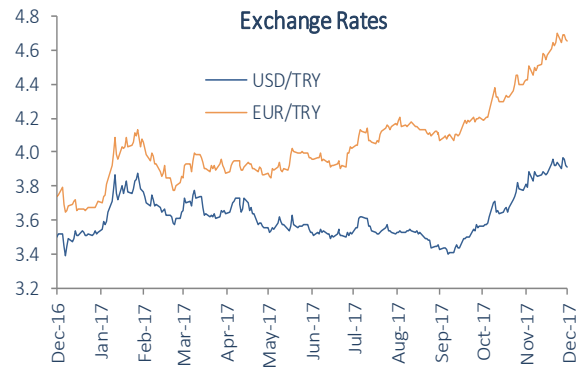
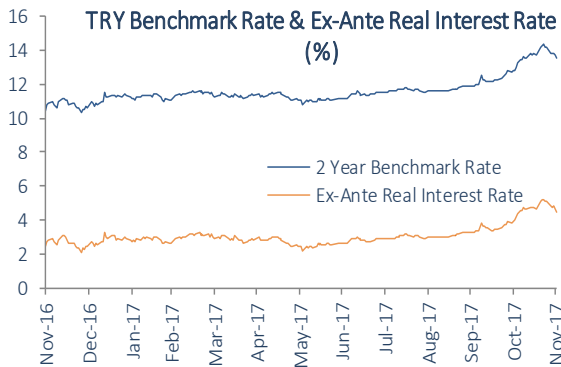
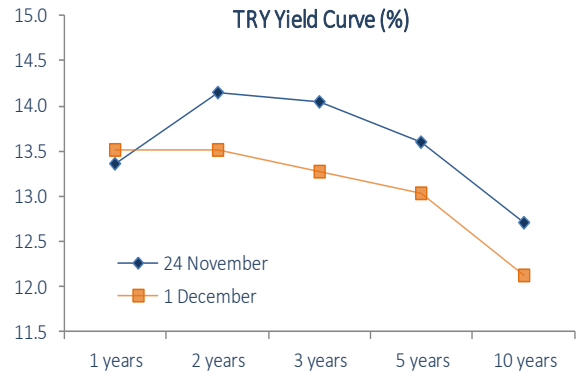
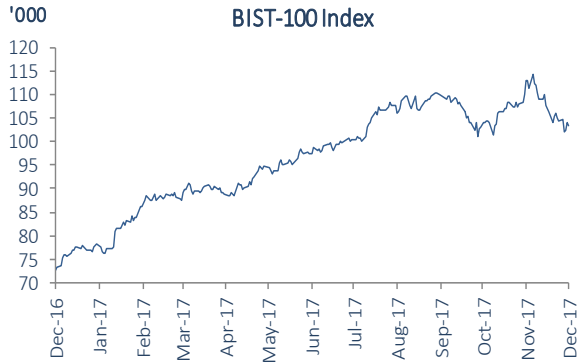
***House prices...***

According to the data compiled by the CBRT, house prices in Turkey increased by 9.6% year-on-year in September 2017. Thus, house prices, which had a sluggish performance since the first quarter of the year, rose slightly in September. The recent price developments in Istanbul, where the largest number of houses were sold, were remarkable. In fact, having lost momentum in the last 2 years, the annual house price growth in Istanbul came in at 5.7%. The reading for September 2015 had been 24%. The annual increase in house prices in Ankara fluctuated between 8-11% in previous years, became 7.6% in September. It has been observed that the price growth in İzmir has accelerated despite the stagnation in the market. In this region, house prices were up by 16.8% year on year.

***New regulations from BOTAŞ...***

The recent rise in energy prices in global markets and the depreciation of the Turkish lira have led the regulatory institutions to take new steps in Turkey, which is heavily dependent on natural gas imports. Petroleum Pipeline Corporation of Turkey (BOTAŞ) announced that it increased the tariff for natural gas-fired power plants by 8.4%. In addition, BOTAŞ stated that it would meet only 40% of total demand of the natural gas-fired power plants with an annual consumption of more than 50 million m<sup>3</sup> in 2018. This step hints that large natural gas-fired power plants would meet their gas demand with a higher cost from other suppliers. In this context, the sm<sup>3</sup> price of natural gas for electricity production charged by BOTAŞ rose to 0.76 TRY while the price is around 0.85 TRY in the market. Considering that nearly one-third of the electricity production in Turkey is generated from natural gas, we think that the recent steps taken by BOTAŞ might put upward pressure on electricity prices.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
4 December	CPI Inflation	November	1.49% (A)
	D-PPI Inflation	November	2.02% (A)
	US Factory Orders	October	-0.4%
5 December	US Foreign Trade Balance	October	-48.3 billion USD
	US Services ISM	November	54.7
7 December	Euro Area GDP (revision)	Q3	0.6%
	Germany Industrial Production	October	1.4%
8 December	Industrial Production	October	
	US Nonfarm Payrolls	November	185k persons
	US Unemployment Rate	November	4.2%

(A) Actual



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