

WEEKLY OUTLOOK

US tax overhaul legislation was enacted.

In the US, the House of Representatives and the Senate approved the legislation for tax cuts. Tax bill, which was signed by President Trump on Friday, represents the country's biggest overhaul in the tax code in more than 30 years. It is expected that banking, retail, transportation and telecommunication sectors will benefit most from corporate tax reductions. On the other hand, a higher tax burden for lower income groups has created criticism on the grounds that the bill will benefit the wealthy most. According to recent surveys, about 40% of the participants said they did not approve the bill, while about 20% remained undecided.

The tax reform is not only influential on economic activity, but also important for monetary policy. Concerns that tax cuts, meaning easing in fiscal policy, may increase inflationary pressures and cause Fed to speed up tightening of the monetary policy are driving bond interest rates upward. At the December meeting, the Fed forecast that it would raise interest rates three times in 2018.

Last week's data release about the US economy gave a mixed outlook.

The third quarter growth of the US economy, previously announced as 3.3%, was revised to 3.2%. Downward revision for net exports and consumption expenditures was effective in this change. Jobless claims for the second week of December, industrial production in November and capacity utilization rates gave a negative outlook, as opposed to the market expectations. On the other hand, the Philadelphia Fed manufacturing index exceeded forecasts in December, bolstering optimistic expectations for economic activity. The housing data for November showed that sector performed above estimates. Although last week's data was mixed, the data flow in the last month of the year, as a whole, reinforces the estimates that the US economy will exhibit a positive growth performance in 2017. US growth in the fourth quarter is expected to gain some momentum.

Political developments in Spain and Germany are high on Europe's agenda.

Last week, there was a heavy political agenda in Europe. While coalition formation talks in Germany continued, early election was held in autonomous Catalan region of Spain. The hope of forming a coalition of Merkel with Social Democrats', which had gained strength at beginning of last week, weakened in following days and as of last week the record duration for forming coalition, which had been 86 days, was broken. In Spain, on the other hand, early election in Catalonia region was watched closely. The victory of pro-independence parties put pressure on euro.

"Brexit process should be complete by 31 December 2020"

Barnier, Brexit negotiator of EU, argued that the leaving process of UK should be completed by the end of 2020. The current EU budget also covers a period until this time. The fact that around 750 international agreements implemented by the UK via EU channels will become invalid by March 2019 raises the time pressure. After the Brexit referendum, which was held in summer of 2016, the process was expected to end at the beginning of 2019.

WEEKLY DATA

	15 Dec	22 Dec	Change		15 Dec	22 Dec	Change
BIST-100 Index	109,330	111,099	1.6 % ▲	EUR/USD	1.1752	1.1857	0.9 % ▲
TRY 2 Year Benchmark Rate	13.47%	13.40%	-7 bp ▼	USD/TRY	3.8590	3.8130	-1.2 % ▼
US 10 Year Bond Rate	2.36%	2.49%	13 bp ▲	EUR/TRY	4.5448	4.5155	-0.6 % ▼
EMBI+ (bps)	339	331	-8 bp ▼	Gold (USD/ounce)	1,255	1,275	1.5 % ▲
EMBI+ Turkey (bps)	300	287	-13 bp ▼	Brent Oil (USD/barrel)	63.7	64.9	2.0 % ▲

bp: basis point

BoJ made no change in monetary policy.

Bank of Japan (BoJ) in December meeting kept its monetary policy unchanged as expected. BoJ, which updated its assessments on private consumption and capital expenditures to more positive stance, predicted that recovery in the economy would gain strength. BoJ Governor Kuroda stated that despite the recovery in economic activity and tightening in employment conditions, inflation remained in low levels albeit gained some momentum. He also added that without reaching 2% inflation target, positive performance of economic activity is not enough to raise interest rates. Currently, there is no sign for BoJ's exit strategy from ultra-loose monetary policies, which is expected to be on the table next year or in 2019 as the impacts of the other leading central banks' normalization processes increase.

US crude oil inventories are at the lowest level in two years.

Last week, oil prices rose compared to the previous week. In this period, momentum loss in US oil production and decreasing US crude oil inventories, which declined to the lowest level in two years last week, were behind this rise. In addition to the extended OPEC-led production cuts, as well as the ongoing closure of operations at the Forties pipeline in the North Sea in the UK exerted an upward pressure on oil prices. The pipeline is expected to be placed in service next month.

The CBRT stated that additional tightening in the monetary policy could be adopted if needed.

The CBRT published the summary of the Monetary Policy Committee meeting held on December 14th. In the summary, it was stated that additional tightening of the monetary policy could be adopted if needed. Suggesting that most data on the fourth quarter of the year have offered a positive outlook, CBRT noted that even though the sectors supported by the tax incentives until the end of September have lost steam in the recent period, many other sectors have continued to perform strongly. It is underscored that the services, trade and tourism sectors preserved their momentum lately. It is also predicted that investments in machinery and equipment, which had provided significant boost to the economy in the third quarter, could make a similar contribution in the last quarter.

Consumer confidence is at the lowest level of 2017...

In December, consumer confidence in Turkey declined for the fifth month in a row. Consumer confidence index was at the lowest level of the year with 65.1 in December, recording a slight decline compared to November. It was promising that the deterioration in this period was not broad-based contrary to the previous three months. The sharpest decline in December was recorded in the assessment of buying time condition of durable goods with 5.8% while the fastest increase was seen in the probability of buying a home over the next 12 months.

Financial markets...

During the last days of the last week, the volume of transactions and volatility in global equity markets remained low ahead of the Christmas holiday. Along with the continued demand for equities, US stocks reached new record highs during the week. Domestic markets also showed a positive mood. Having fallen by 5.6% mom in November in parallel with the rise in exchange rates, the BIST-100 index followed an upward trend since the beginning of December. Supported by the rise in risk appetite, the index closed the week at 111,099 with a weekly rise of 1.6%. In this period, the decline in the foreign exchange basket was 1.1%, while the interest rate of the 2-year benchmark bond decreased by 7 basis points compared to the previous week and became 13.40% on Friday.

INDUSTRY NEWS

Fall in home sales...

Home sales which had fallen year-on-year in October also declined in November by 7.5% yoy and become 122,732. The high base effect and the rise in mortgage interest rates have been behind these poor performances. Indeed, mortgage sales, which have a share of more than 30% in total home sales, registered a sharp annual drop in November by 23.9%. Other home sales, on the other hand, rose by 2.1%. While home sales to non-residents continued to increase, it is observed that most of the home sales were made to Iraq citizens in this period.

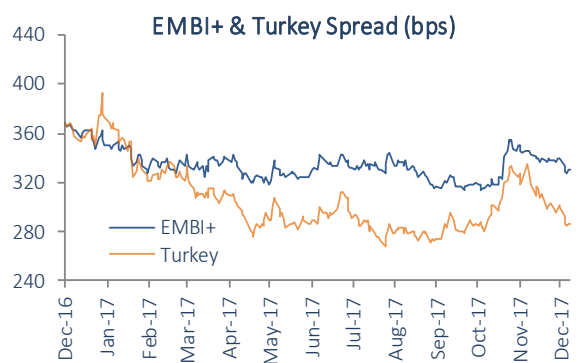
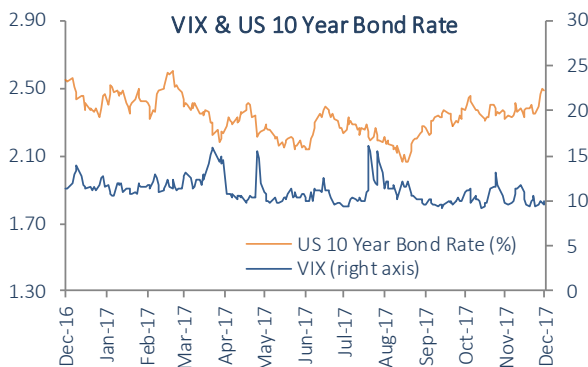
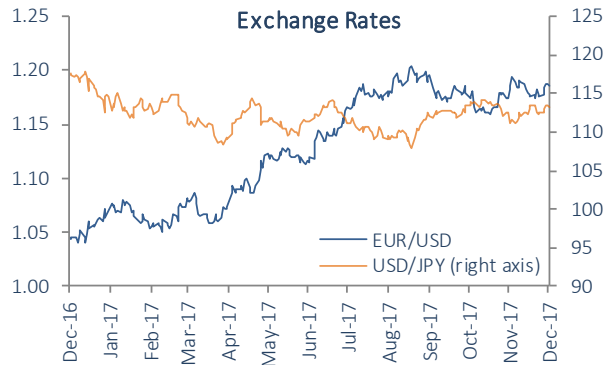
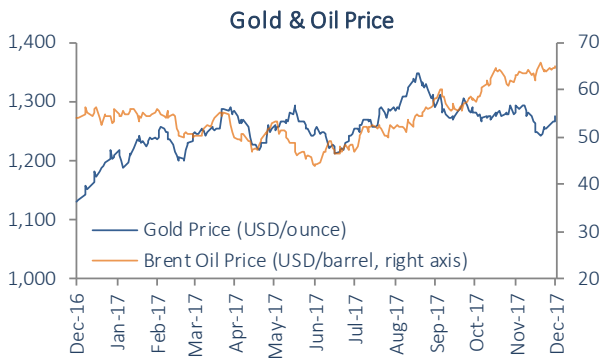
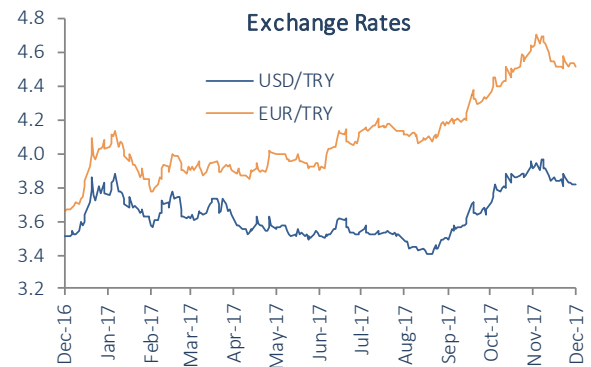
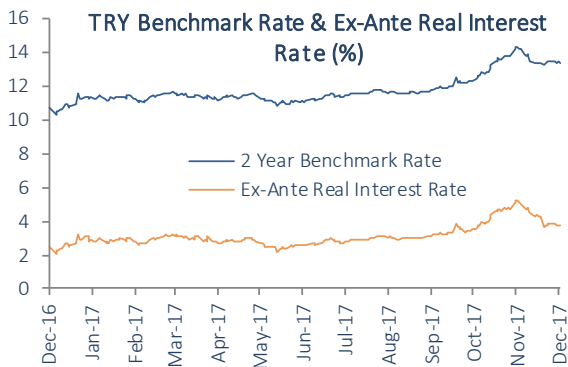
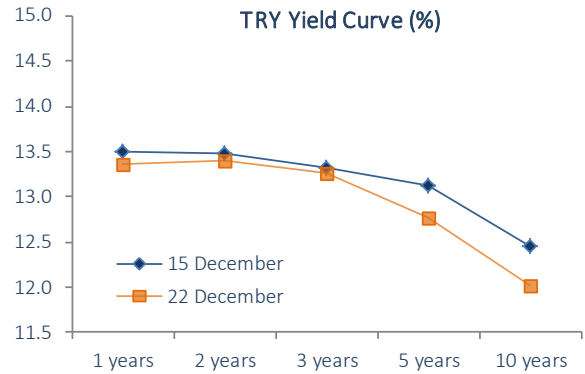
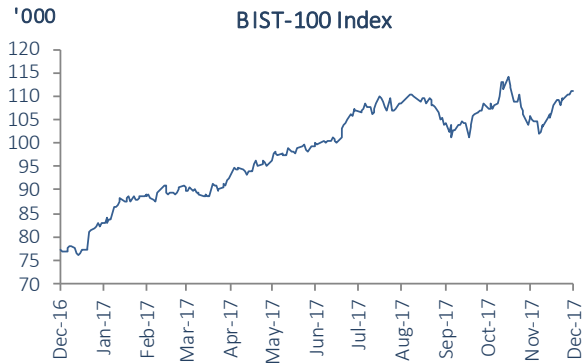
Decline in white goods sales...

Domestic white goods sales continued to decline in November following October. Declining by 16% yoy, white goods sales were stifled by shrinking domestic demand as special consumption tax cuts expired by the end of September. Seasonal factors also weighed on sales. Total production in the sector declined by 5% yoy in November. As these figures suggest, the contribution made by durable goods to GDP growth would fall in the last quarter of the year. Durable goods, increasing by 31% yoy, had made a strong contribution to growth in the third quarter.

Investment incentive for Akkuyu Nuclear Power Plant...

Akkuyu Nuclear Power Plant was included in the list of Ministry of Economy's investment incentive certificates for November. The project will be provided by an investment incentive for its fixed investment sum of 76 billion TRY. In addition to this amount, the support through the value-added tax and customs duties will cover 4.5 billion USD worth of imported machinery and equipment. With the introduction of Akkuyu project, it is anticipated that 2,764 jobs will be created initially. If the investments incentivized in the energy and mining sectors are all fulfilled, a total of 3,059 employees will be employed. It is also noted that 115 of the 639 investment incentive certificates issued in November were granted to the energy and mining sectors. Furthermore, 106 of the 115 investment incentives were directed to new investments.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
December 26	US Consumer Confidence Index	December	128.1
	CBRT Real Sector Confidence Index	December	-
	CBRT Manufacturing Industry Capacity Utilization Rate	December	-
	Turkstat Economic Confidence Index	December	-
December 27	US Pending Home Sales	November	-0.5%
December 28	US Chicago PMI	December	62.5
December 29	Germany Flash CPI	December	1.4%
	Turkstat Foreign Trade Balance	November	-



This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.