

### Weekly Data

	5/Jan	12/Jan	Change		5/Jan	12/Jan	Change
BIST-100 Index	116,638	114,645	-1.7 % ▼	EUR/USD	1.2028	1.2185	1.3 % ▲
TRY 2 Year Benchmark Rate	13.33%	13.39%	6 bp ▲	USD/TRY	3.7340	3.7455	0.3 % ▲
US 10 Year Bond Rate	2.48%	2.55%	8 bp ▲	EUR/TRY	4.4959	4.5648	1.5 % ▲
EMBI+ (bps)	321	319	-2 bp ▼	Gold (USD/ounce)	1,320	1,338	1.4 % ▲
EMBI+ Turkey (bps)	274	278	4 bp ▲	Brent Oil (USD/barrel)	68.1	70.3	% 3.3 ▲

bp: basis point

Economic agenda was quite busy for global markets in the last week. News reporting that China may halt its US Treasury bond purchases and Bank of Japan's (BoJ) trimming the amount of its Japanese government bond purchases were on the top of the agenda. While minutes of European Central Bank's (ECB) released last week drew market attention, data releases showed that overall recovery was still ongoing in Euro Area. Domestic data releases didn't create any significant movement in domestic markets.

### Is China halting its US Treasury bond purchases?

News regarding China's US Treasury bond purchases created volatility in global markets in the first half of the last week. China is reportedly considering slowing down or even halting its US Treasury bond purchases on the grounds that US debt is becoming less attractive compared with other assets. US Treasury yields have increased following the news. However, China's consequent denial of such claim positively affected the markets. In addition, demand for US bond auctions was quite high last week.

### Bank of Japan trimmed bond purchases.

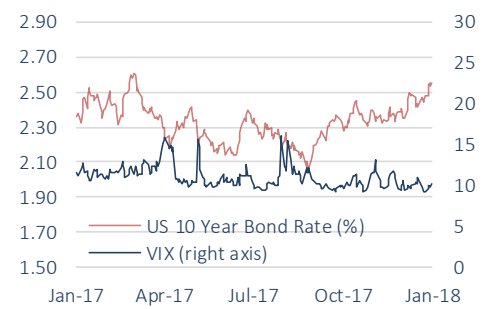
At the beginning of last week, BoJ cut buying of bonds with more than 10 years to maturity by 10 billion yen. Therefore, buying of 10 to 25 year and 25 to 40 year bonds were down to 190 billion yen and 80 billion yen, respectively. BoJ's action was taken by some investors as a step toward normalization in monetary policy. Positively affected by this development, USD/JPY was down by 1.8% last week.

### Positive economic outlook continues in the Euro Area.

Industrial output growth in the region exceeded forecasts in November, while the unemployment rate fell to 8.7% in the same period, the lowest reading in nine years. The economic confidence index and retail sales also came in above expectations, supporting optimistic views regarding region's economy. The German economy posted an annual expansion of 2.2% in 2017, the fastest growth in the last 6 years.

The minutes of the ECB meeting in December were interpreted as being more "hawkish" than expected by the markets. In the minutes, it is stated that economic outlook has improved and growth is approaching its potential. The main point of interest was the statement that ECB could gradually adjust its communication stance. On Friday, Germany chancellor Merkel opened the way for an official negotiation for the coalition in the country, announcing that she had reached an agreement with the Social Democratic Party leaders. In the light of these developments, the EUR/USD parity has reached above the level of 1.21, the highest in the last 3 years.

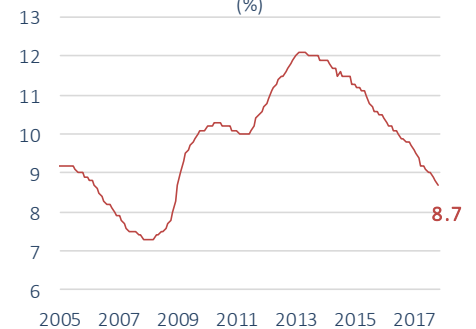
VIX & US 10 Year Bond Rate



Exchange Rates



Euro Area Unemployment Rate (%)



Source: Datastream

### Increase in core inflation in the US...

In the US, monthly increase in consumer prices in December was 0.1%, while core consumer prices (excluding energy and food) rose by 0.3% mom. This development was welcomed in terms of inflation outlook. On an annual basis, headline and core inflation were 2.1% and 1.8%, respectively.

### Turkey's current account deficit continues to widen.

In November, current account deficit came in above expectations at 4.2 billion USD, posting an annual increase of 86%. Thus, 12-month cumulative current account deficit reached its highest level in three years with 43.8 billion USD. While foreign direct investments and portfolio investments displayed a weak performance in November, reserves fell by 3.9 billion USD. This indicates that quality of the financing of current account deficit will remain on the agenda in the coming period. Upward trend in energy prices poses a risk for current account deficit. Brent crude oil price is about 30% higher by mid-January compared to the same period of 2017 ([Our Balance of Payments report](#)).

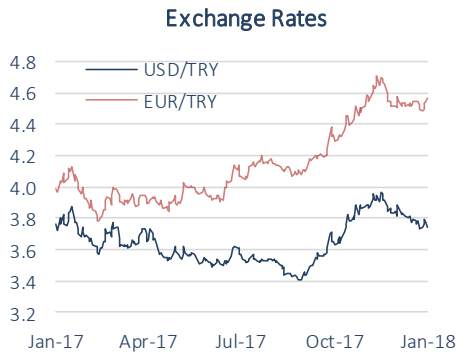
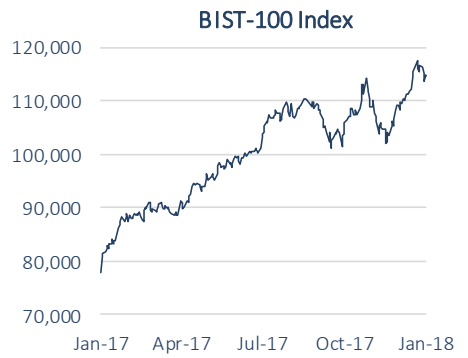
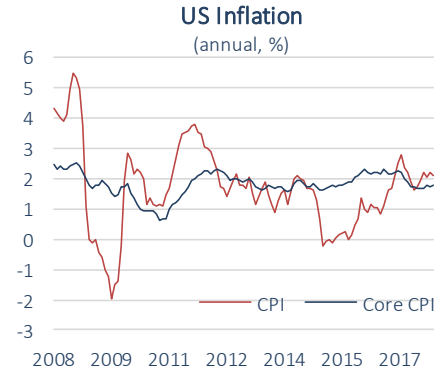
### Financial markets...

Last week, global markets followed a volatile course. Majority of the stock indices closed higher upon the upward trend observed in the markets during the second half of the week. DXY index which increased at the beginning of the week due to the appreciation in the US dollar, eventually turned lower and declined by 1.1% wov.

BIST-100 index and FX market also performed a volatile course as the impacts of the developments in global markets faded risk appetite towards domestic markets. BIST-100 index fell by 1.7% wov. USD/TRY increased by 0.3% wov after testing above 3.80 levels. EUR/TRY also went up by 1.5% in line with the upward movement in the parity. 2-year benchmark bond yield rose to 13.39%, increasing by 6 basis points.

### This week's agenda...

This week, manufacturing data will be monitored in the US where markets are closed today. On the local front, markets will focus on the CBRT's Monetary Policy Meeting which will be held on January 18th.



### Weekly Data Releases

		Period	Consensus	Prior
January 15	TR Central Government Budget Balance	December	- TRY -20.9 billion (R)	
	TR Unemployment Rate	October	-	10.3% (R)
January 16	UK CPI (annual % change)	December	-	3.1%
	US NY Fed Manufacturing Index	January	18.5	18.0
	New Issuance of ZCB with 01/16/2019	January	-	-
	Treasury Domestic Debt Redemption	January	-	TRY 1.255 billion
January 17	Euro Area CPI (annual change, %)	December	1.4%	1.4%
	US Beige Book	January	-	-
	US Industrial Production (monthly ch., %)	December	0.3%	0.2%
	US Capacity Utilization Ratio	December	77.3%	77.1%
January 18	TR CBRT Monetary Policy Meeting	January	-	-
	US Housing Starts	December	1.284 million	1.297 million
	US Jobless Claims	January 02-07	-	261k persons
January 19	UK Retail Sales (annual change, %)	December	-	1.6%
	US Michigan Sentiment Index	January	97.0	95.9

## Sectoral Developments

### China's steel production is projected to decelerate in 2018.

Increase in steel production in China is estimated to slow down as a result of environmental policies in 2018. China's steel production was increased by 5.7% yoy in the first 11 months of 2017, according to the World Steel Association. Analysts forecast that China's steel production will rise by only 0.6% in 2018. Ongoing excess supply in steel production has been negatively affecting the companies operating in the sector on a global scale. Thus, it is anticipated that the slowdown in China's steel production, which constitutes nearly half of global production, will have a positive impact on global steel market.

### New model in housing support...

Deputy Prime Minister Mehmet Şimşek expressed that the existing housing savings account model, which has been implemented in 2015, has not yet yielded the desired outcome. For this reason, they have started to work on a new interest rate-based model to encourage the population to save funds for buying house. According to the current "housing savings account" model, after at least 3-year of saving period, 20% of the total amount is being added to households' balance at the end of three years as a state-contribution. Mehmet Şimşek said that there have been 10,520 accounts amounting to 73 million TRY so far. Under the new model, it is planned to offer a lower interest rate for mortgage loans to household who are willing to get lower interests from their housing saving account during the saving period. Şimşek mentioned that 20% of the state contribution will be reconsidered and they will work for incentives such as lowering the withholding tax rate for saving accounts and reducing title fees.

---

## Economic Research Division

İzlem Erdem  
Division Head  
izlem.erdem@isbank.com.tr

Hatice Erkiletliođlu  
Asst. Manager  
hatice.erkiletlioglu@isbank.com.tr

Alper Grler  
Unit Manager  
alper.gurler@isbank.com.tr

Dr. Mustafa Kemal Gndođdu  
Economist  
kemal.gundogdu@isbank.com.tr

---

Our reports are available on our website <https://research.isbank.com.tr>

### **LEGAL NOTICE**

This report has been prepared by Trkiye İř Bankası A.ř. 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 Trkiye İř Bankası A.ř. 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, Trkiye İř Bankası A.ř, accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.