

### Weekly Data

	12/Jan	19/Jan	Change		12/Jan	19/Jan	Change
BIST-100 Index	114,645	115,147	0.4 % ▲	EUR/USD	1.2185	1.2220	0.3 % ▲
TRY 2 Year Benchmark Rate	13.39%	13.56%	17 bp ▲	USD/TRY	3.7455	3.8050	1.6 % ▲
US 10 Year Bond Rate	2.55%	2.64%	9 bp ▲	EUR/TRY	4.5648	4.6571	2.0 % ▲
EMBI+ (bps)	319	319	0 bp ●	Gold (USD/ounce)	1,338	1,331	-0.5 % ▼
EMBI+ Turkey (bps)	278	281	3 bp ▲	Brent Oil (USD/barrel)	70.3	68.7	-% 2.4 ▼

bp: basis point

Last week, budget debates in the US have come to the forefront, while US industrial production posted its best performance since 2010 in the last quarter. Despite the robust economic activity, the inflation remained weak in the Euro Area, where the statements of the ECB officials and recent strengthening trend of the euro were watched closely. In China, GDP growth accelerated in 2017. CBRT's meeting and geopolitical developments were also high on the domestic agenda last week.

### Budget impasse in the US...

Developments regarding the temporary budget bill that will fund the government until February 16 has been the main topic over the last week in the US. The 4<sup>th</sup> temporary budget bill for the fiscal year 2018 was passed by the House of Representatives and then submitted to the Senate for approval. As Republicans do not have enough votes in the Senate and the Democrats' demands on immigrants issue were not included to the bill, federal government experienced a shutdown for the first time since October 2013. A new vote will be held today to pass a temporary funding measure so that the federal government services could resume.

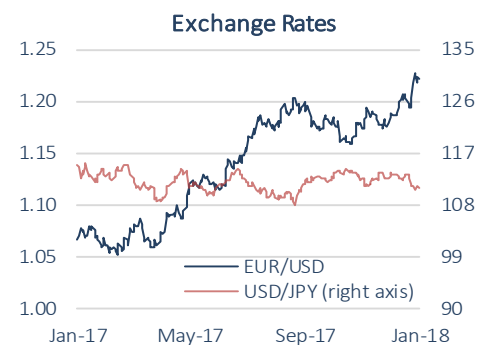
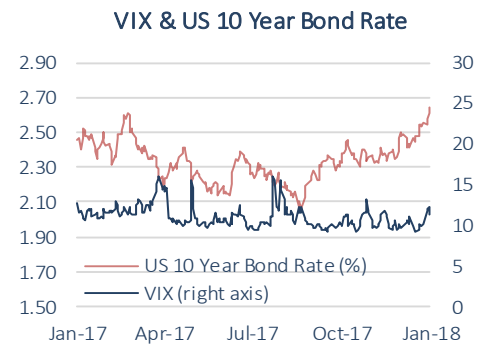
Despite a limited growth in the manufacturing industry in December, industrial production in the US increased by 0.9% mom on rising energy demand for heating which triggered mining and water, electricity and gas production. Thus, in the last quarter of the year, industrial production expanded by 8.2% on an annual basis and displayed its best performance since the second quarter of 2010.

### Euro keeps strengthening.

Statements by the ECB authorities drove the euro's value last week. At the beginning of the week, the ECB Executive Board member Hansson suggested that the change in the tone of the Central Bank's forward guidance should be introduced before the summer months and asset purchase programme should be ended by September 2018. Reaching 3 year-high following this statement, EUR/USD parity fell somewhat due to the comments made by the Vice President Constancio and Executive Board member Nowotny indicating that they are worried about the strengthening trend of euro. In the following days, EUR/USD parity ended the week on a higher note, as the developments regarding the temporary budget of the US weighed on the dollar. On the other hand, December annual inflation in the Euro Area was confirmed at 1.4% in line with expectations. Monthly inflation became 0.4%. Core inflation excluding energy and unprocessed food, which had stood at 1.1% since October, remained flat during this period.

### Chinese growth gained momentum in 2017 for the first time in seven years.

The Chinese economy, performing well above the estimates in the last quarter of 2017, accelerated for the first time in seven years and recorded an annual growth of 6.9% in 2017, in contrast to the expectation of a slowdown. The broad-based global recovery was behind this performance, boosting China's export volume. On the other hand, the news that the US will apply customs duties on imports of commodities from China are raising concerns about the sustainability of this growth performance.



Source: Datastream

### Budget deficit was below MTP estimate in 2017.

Turkey's central government budget deficit came in at 47.4 billion TRY, 14.3 billion TRY below the MTP estimate. Year-end realizations showed that fiscal discipline was largely maintained in 2017 despite the recent expansionary fiscal policies ([Our Budget Deficit Report](#)).

### Employment indicators continued to recover.

Recovery in employment indicators continued in October 2017. While a net change of 1 million people recorded in labor force yoy, number of employed persons increased by 1.4 million people. Thus, unemployment rate declined by 1.5 points to 10.3% yoy. Employment grew among all sectors whereas service sector stands out in terms of creating new jobs. According to seasonally adjusted figures, the unemployment rate decreased by 0.3% to 10.3% on monthly basis, the lowest in last 1.5 years.

### CBRT stated that tight monetary policy will be maintained independent of base effects and temporary factors.

CBRT did not change interest rates in January 18<sup>th</sup> meeting in line with expectations. It is noteworthy that the phrase "until inflation outlook displays a significant improvement" which was included in previous meetings' statements changed to "until inflation outlook displays a significant improvement, independent of base effects and temporary factors". Markets reacted this change positively due to the fact that the tight monetary policy will continue in the first quarter when inflation is expected to decline via base effect.

### Fitch did not change Turkey's credit note.

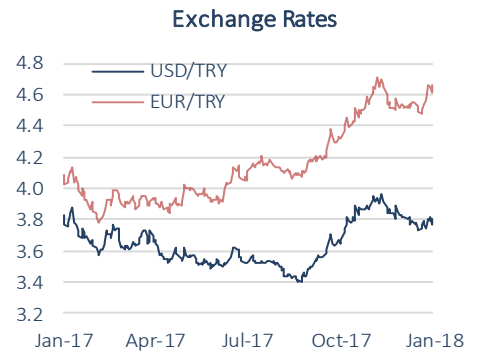
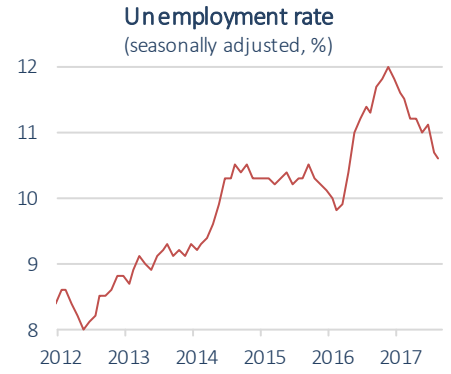
Fitch kept Turkey's credit rating (BB+) and rating outlook (stable) on Friday. Fitch forecasts that Turkish economy will grow 3.9% in 2018 and 4.7% in 2019.

### Financial markets...

While capital flows to developing countries continued last week, equity market indices rose to record levels led by US stock markets. US dollar continued to fall, hitting the lowest level for more than 3 years. During last week, Turkey's preparations for cross-border operation and related developments closely followed by the markets. While TL depreciated against US dollar and euro, CBRT's statement limited that loss. BIST-100 surged up by 0.4% whereas interest rate of 2-year benchmark bond increased by 17 basis points compared to the previous week.

### This week's agenda...

This week, global markets will follow the developments regarding the federal government shutdown in the US and coalition negotiations in Germany. In addition, Japan and European central banks' meetings and US growth data will stand out on agenda. Geopolitical developments concerning cross-border operation undertaken by Turkey will be closely monitored by domestic markets.



### Weekly Data Releases

		Period	Consensus	Prior
January 22	TR Central Government Debt Stock	December	-	-
	New Issuance of ZCB with 01/18/2023 Maturity	January	-	-
	Reissuance of ZCB with 06/05/2024 Maturity	January	-	-
January 23	TR Consumer Confidence Index	January	-	-
	Reissuance of ZCB with 08/11/2027 Maturity	January	-	-
	New Issuance of ZCB with 01/12/2028 Maturity	January	-	-
January 24	BoJ Meeting	January	-	-
January 24	Treasury Domestic Debt Redemption	January	-	TRY 6,046 million
January 25	TR CBRT Real Sector Confidence Index	January	-	103.3
	TR CBRT Capacity Utilization Ratio	January	-	79%
January 26	EU ECB Meeting	January	-	-
	UK GDP, flash	2017 4Q	-	0.4%
	US GDP, flash	2017 Q4	3%	3.2%
	US Durable Goods Order	December	0.8%	1.3%

Source: Datastream, Reuters

## Sectoral Developments

### House sales rose by 5.1% in 2017.

According to the house sales statistics published by Turkstat, house sales throughout the country contracted annually by 6.8% and were realized as 132,972 in December. In this period, while rapid decline in mortgaged sales continued (-30.7%), other sales recorded an increase of 5.7%. In 2017, on the other hand, house sales increased annually by 5.1% and were realized above 1.4 million units. Throughout the year, mortgaged house sales and other house sales performed in balance and expanded by 5.2% and 5.0%, respectively. Last year, as house sales to foreigners rose by 22.2% on annual basis, Iraqi citizens were the main buyers.

### Rapid rise in livestock investments...

Domestic livestock investments increased significantly in 2017. In 2017, investments in agriculture increased by 150.4% and reached over 2 billion TRY, of which about 65% were livestock investments. According to the figures announced by Ministry of Economy a hundred livestock projects had incentive certificates last year, most of which were cattle farming. Livestock investments, which realized as 487 million TRY in 2016, were reached 1.3 billion TRY in 2017.

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