

	19/Jan	26/Jan	Change		19/Jan	26/Jan	Change
BIST-100 Index	115,147	120,702	4.8 % ▲	EUR/USD	1.2220	1.2419	1.6 % ▲
TRY 2 Year Benchmark Rate	13.56%	13.33%	-23 bp ▼	USD/TRY	3.8050	3.7520	-1.4 % ▼
US 10 Year Bond Rate	2.64%	2.66%	2 bp ▲	EUR/TRY	4.6571	4.6594	0.0 % ▲
EMBI+ (spread)	319	314	-5 bp ▼	Gold (USD/ounce)	1,331	1,350	1.4 % ▲
EMBI+ Turkey (spread)	281	276	-5 bp ▼	Brent Oil (USD/barrel)	68.7	70.2	2.2 % ▲

bp: basis point

Davos summit and the ECB's monetary policy meeting were high on the global agenda last week. Highlighting the brighter outlook, the IMF revised its global growth forecasts up in its January update of the Global Economic Outlook report. On the domestic side, while geopolitical developments came to the forefront, improvement in risk perception towards Turkey boosted markets. Most leading indicators for the first month of 2018 also showed positive signs for the economic activity.

Davos agenda...

At the Davos summit of the World Economic Forum, where business executives and policy makers met to discuss economic and environmental policies, protectionist discourses led by the US and US Treasury Secretary Mnuchin's speech about the weakness of the USD that reminds currency wars came to the forefront. These concerns lost ground somewhat after the Trump's speech on Thursday stating that he wants USD to be strong.

USD weakened, US bond yields continued to rise.

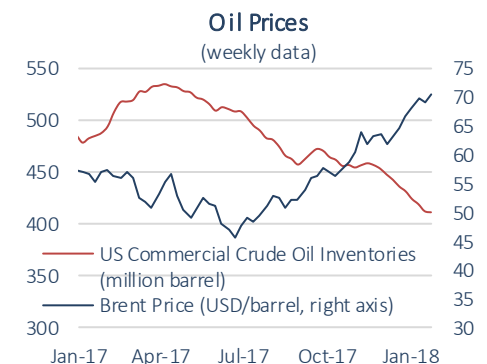
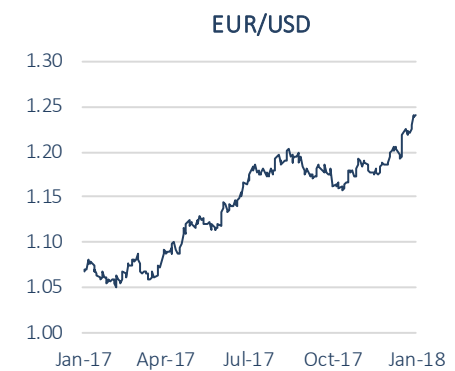
After the temporary budget approved by the Senate at the beginning of the last week, the US agenda was normalized for a while. Strong balance sheets led the stock market indices to reach new record highs. On the other hand, Trump administration's additional tariffs on washing machines and solar panels imports and expressions in Davos indicating the rise in the risks for protectionist policies caused US dollar to depreciate. Bond yields climbed as the inflation expectations increase. As the market's expectation for Fed's rate hike in 2018 increased, US 10-year Treasury bond yield climbed to 2.66%, highest level for 3.5 years. GDP growth in Q4 was announced as 2.6% and remained much below the market expectations. While consumer spending supported the GDP growth, negative performance of the net exports led the data to be realized below expectations.

Draghi pointed to the possible risks led by "volatility" in euro.

ECB made no change in its current policy at January meeting. Draghi adopted a dovish tone in its speech after the meeting. Euro, which has appreciated recently by the comments of some ECB officials as well as the strong economic performance in the region, retained its strength despite Draghi's statements. EUR/USD parity climbed 1.2536 on January 25th, the highest level of last 3 years. Economic data releases also supported euro during the week. Confidence indicators, which exceeded expectations, contributed to the positive course in the region.

Oil prices continued to rise.

Oil prices are close to finish the first month of the year at three-year high. Ongoing decline of crude oil inventories in the US in addition to OPEC and Russia's production cut supported the rise in oil prices. Price of the Brent crude oil follows a course above 70 USD.



Source: Datastream

IMF raised its global growth forecasts.

IMF published the January update of World Economic Outlook. It was observed that the forecasts for 2018 are more optimistic than in October's report. IMF increased the growth expectations for developed countries other than Spain and United Kingdom. Besides, IMF's upwards revisions for the US economy drew attention. It was expressed that the revisions reflected the increased global growth momentum and US tax policy changes. Besides, IMF predicted that Turkey and Poland in developing Europe may exceed forecasts in the coming period.

Domestic economic activity maintains its strong course in general.

Leading indicators for Turkish economy signal a positive performance. While consumer and real sector confidence strengthened in the first month of the year, capacity utilization rate continued to remain well above previous year's levels, albeit a little decline on a monthly basis. Evaluations on economic activity in the summary of CBRT's last MPC meeting were in line with this outlook. CBRT stated that domestic demand maintains its strength whereas external demand continues to support exports.

BIST-100 hit new records.

Cross-border operation, which increased its weight on the agenda since the second half of January, had limited impact on markets. BIST-100 index hit new highs, while bond and FX markets also performed well throughout the week. USD/TRY which was 3.83 at the beginning of the week declined to 3.75 thanks to improving risk perception and weakening US dollar. CBRT President Çetinkaya stated at Davos summit that they were aiming to bring inflation down to single digits in a short time and bring it closer to the target. This statement supported the positive expectations towards TRY.

This week's headlines...

Fed meeting, PCE inflation, non-farm employment data in the US and inflation data in the Euro Area are the main headlines in the global markets. Geopolitical developments and new measures to be submitted to parliament this week will be followed in domestic market. Finance Minister Ağbal stated that they would not take VAT from machinery expenditures and they lean toward SCT return for vehicle equipment used in the production of cars and commercial vehicles.

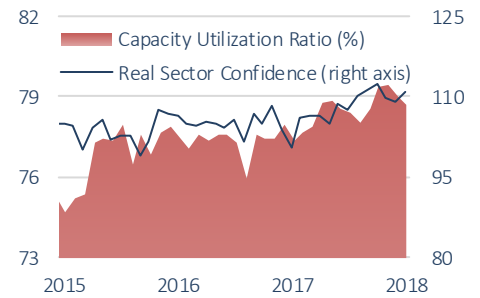
IMF's Forecasts for 2018

	%	Change* (% points)
Growth		
World	3.9	0.2
Advanced Economies	2.3	0.3
US	2.7	0.4
Euro Area	2.2	0.3
UK	1.5	0.0
Japan	1.2	0.5
Developing Economies	4.9	0.0
China	6.6	0.1
Brazil	1.9	0.4
Turkey	3.5**	-
Inflation		
Advanced Economies	1.9	0.2
Developing Economies	4.5	0.1

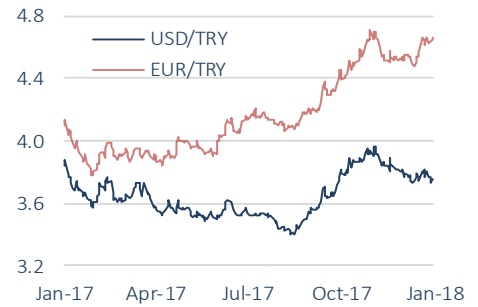
(*) Difference from October forecasts (**) October forecast

Leading Indicators

(seasonally adjusted)



Exchange Rates



This Week's Data Releases

		Period	Consensus	Prior
January 29	US Core PCE (monthly)	December	0.2%	0.1%
January 30	Turkstat Economic Confidence Index	January	-	95
	Euro Area GDP (flash)	2017 4Q	0.6%	0.6%
	CBRT Inflation Report	2018/1	-	-
January 31	Treasury Domestic Debt Redemption			
	Fed Monetary Policy Meeting Announcement	January	-	-
	US ADP Employment	January	180 thousand	250 thousand
	Euro Area Inflation (flash)	January	1.3%	1.4%
	Euro Area Unemployment Rate	December	8.7%	8.7%
	Turkstat Foreign Trade Deficit	December	-	-6.3 billion USD
February 1	US, Euro Area and Turkey PMIs	January	-	-
February 2	US Nonfarm Payrolls	January	175 thousand	148 thousand

Source: Datastream, Reuters, IMF

Sectoral Developments

Decree on non-financial companies' use of foreign exchange loans...

In order to manage the FX position of the real sector, the terms of use of foreign currency loans are tightened. According to the new provisions, companies with less than 15 million USD foreign currency denominated liabilities could borrow only as much as their FX revenues of the last three years. The legislation offers a number of exceptions. Public institutions, banks, domestic leasing and factoring companies, and residents with foreign currency loans equal or higher than 15 million USD are kept out of the scope of this legislation. In addition, the lower limit for FX loans imposed on companies with no foreign exchange earnings is raised from 5 million USD to 15 million USD. This legislation will be operational on May 2nd.

Tourism sector...

The President of the Federal Association of Germany's Tourism Industry suggested that early bookings for Turkey from Germany have strongly rebounded in recent period. The fact that the recovery in tourist numbers in 2017 was not led by European tourists had caused some concern about the strength of tourism revenues. According to 12-month cumulative figures, as of November 2017 the numbers of Russian tourists increased by 5 times compared to the end of 2016, while the number of tourists from Germany dropped by 8%.

The President of Turkish Tourism Investors Association, Oya Narin, also stated that they observed a rising interest by the German and British tourists for Turkey, confirming the said news. Narin also made comments on the sector's current financial state. Noting that, after recording a rapid growth performance in 2013 and 2014, the tourism sector has been caught up in the middle of a period of flourished investments when challenges of 2015 and 2016 have arisen, Narin pointed out that the positive impact of the Credit Guarantee Fund has been felt in the sector in 2017, mainly through restructurings. She added that the sector still needs a more convenient payment schedule merely due to its unique features. Another noteworthy statement belonged to Minister of Development Elvan. Elvan argued that tourism sector requires a transformation. Indicating that the Ministry of Culture and Tourism will begin working on new strategies for the sector this year, Elvan said that public-private partnerships are aimed to have more share in the tourism sector.

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