

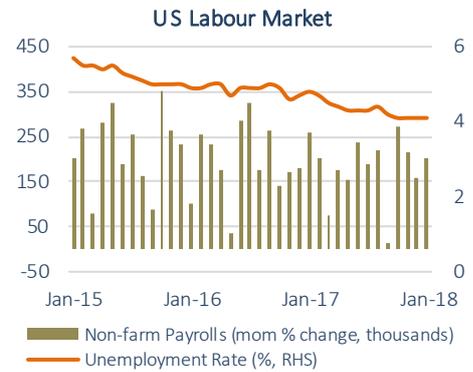
	26/Jan	2/Feb	Change		26/Jan	2/Feb	Change
BIST-100 Index	120,702	118,119	-2.1 % ▼	EUR/USD	1.2419	1.2460	0.3 % ▲
TRY 2 Year Benchmark Rate	13.33%	12.91%	-42 bp ▼	USD/TRY	3.7520	3.7705	0.5 % ▲
US 10 Year Bond Rate	2.66%	2.85%	19 bp ▲	EUR/TRY	4.6594	4.7011	0.9 % ▲
EMBI+ (spread)	314	310	-4 bp ▼	Gold (USD/ounce)	1,350	1,333	-1.2 % ▼
EMBI+ Turkey (spread)	276	273	-3 bp ▼	Brent Oil (USD/barrel)	70.2	67.9	-3.3 % ▼

bp: basis point

Last week, a heavy agenda was followed in the global markets. In its first FOMC meeting of the year, the Fed left the policy rate unchanged as expected while US data releases generally pictured a favorable outlook. Euro Area recorded highest economic growth rate in 10 years in 2017 whereas China's economy gave signals of a probable slowdown in GDP growth in 2018. Domestic markets focused on foreign trade figures and January data of manufacturing PMI which recorded the strongest performance for the last 7 years. CBRT published the first Inflation Report for this year and announced that 2018 year-end inflation forecast was revised upwards.

#### Solid US economic data...

Last week's data signaled a positive outlook for the US economic performance. Core personal consumption expenditures (PCE) price index, the measure of inflation closely-watched by the Fed, rose by 1.5% yoy in December 2017. Consumer confidence data, which showed a stronger-than-expected momentum in January, gave positive signals over consumption spending in the forthcoming periods. Additionally, higher-than-expected factory orders and manufacturing PMI data indicated that growth in industrial production has been sustained. Strong US economic performance was also reflected in employment data. Monthly increase in nonfarm payrolls exceeded the expectations in January by 200K while unemployment rate came in at 4.1% as expected. Average hourly earnings, on the other hand, caught market's attention by an annual rise of 2.9%.



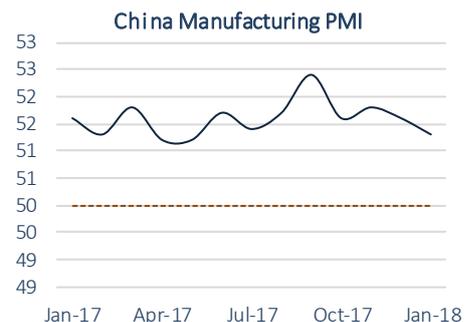
#### Euro Area recorded the fastest growth in a decade.

In the last quarter of 2017, Euro Area GDP growth was 0.6% qoq and 2.7% yoy. Thus, the region recorded its fastest growth rate in a decade with 2.5% for the whole of 2017. In parallel with the robust economic activity, the unemployment rate in the region has fallen to its lowest level in the last 8 years with 8.7% in December. Markit PMI data, which came in at 59.6 in January, also confirmed the general economic outlook. On the other hand, according to preliminary figures, consumer inflation continued to be falling short of policy target with a reading of 1.3% in January.



#### Chinese manufacturing PMI in retreat...

According to official figures, manufacturing PMI was realized as 51.3 in January, the lowest level in the last 8 months. In this period, export orders index has fallen below the threshold of 50 for the first time in 15 months, echoing weaker export performance. In addition, it was observed that the increase in input prices slowed down. The data show that China's manufacturing industry activities have lost some of their momentum. On the other hand, non-manufacturing PMI data for the same period increased to 55.3, indicating that the growth in the service and trade sectors continued. Growth in the Chinese economy, with a stronger-than-expected 2017 growth, is expected to decelerate in 2018.



Source: Datastream

### Turkey's foreign trade deficit continued to expand.

According to Turkstat data, foreign trade deficit expanded by 36.8% yoy in 2017. It is observed that the gap between the annual growth in imports and exports has been widened recently ([Our Foreign Trade Balance Report](#)). Preliminary data compiled by the Ministry of Customs and Trade also indicated that foreign trade deficit rose to 9.1 billion USD in January, surging by 109% yoy. In this period, the import coverage ratio decreased by 14.3 points to 57.9%.

### Manufacturing industry recorded its fastest growth for the last 7 years.

In January, Turkey manufacturing PMI rose to 55.7, the highest level seen since March 2011. Thanks to the favorable outlook in domestic and foreign demand, new orders gained momentum and employment growth continued. However, in the same period, manufacturers reported that their production costs moved up due to the depreciation in TRY and the rise in input costs. It was observed that firms passed on rising costs to customers.

### In January, annual increase in CPI was 10.35%.

In January, CPI and D-PPI posted a monthly rise of 1.02% and 0.99%, respectively. Thus, the annual CPI increase, which was 11.9% in December 2017, fell to 10.35%. On the other hand, the core inflation indicators painted a negative picture for price stability as they surpassed the headline reading.

### CBRT raised its inflation forecast.

In its first Inflation Report of 2018, CBRT stated that year-end inflation in 2017 exceeded its October forecasts due to rapid depreciation in TRY, significant increase in food, oil and other intermediate goods' prices and robust economic activity. Emphasizing that deterioration in inflation outlook and expectation has come to a halt, CBRT Governor said that tight stance in monetary policy will be maintained decisively "until inflation outlook displays a significant improvement, independent of base effects and temporary factors and becomes consistent with the targets". While core inflation figures remain high as stated in the Report, year-end inflation forecast was raised to 7.9% from 7% and to 6.5% from 6% for 2018 and 2019, respectively. CBRT anticipated that inflation would stabilize around the target rate of 5% in the medium term.

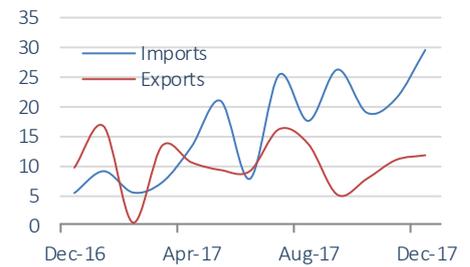
### Increase in US Treasury bond yields...

Upward trend in US Treasury bond yields continued last week as US Treasury has increased its bond issues for the first time since 2009 and higher inflation expectations. Global stock markets were under selling pressure. BIST-100 index followed a volatile path throughout the week before eventually declining by 2.1% weekly. On the other hand, 2-year benchmark bond yield decreased by 42 bps due to high demand for emerging market bonds.

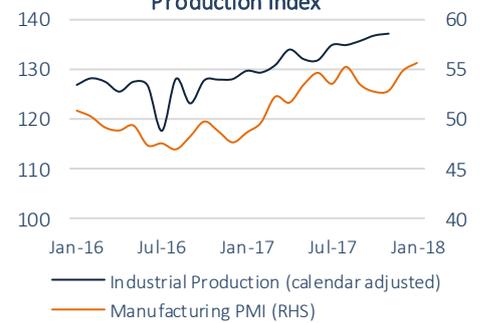
### Headlines for the week...

Services PMI data for USA and Euro Area as well as Bank of England's meeting will be closely monitored this week in global markets. In domestic market, Industrial production index for December 2017 will be watched.

**Imports and Exports**  
(calendar adjusted, yoy % change)



**Manufacturing PMI & Industrial Production Index**



**DXY & US Treasury Bond Yield**



### This Week's Data Releases

		Period	Consensus	Prior
<b>February 5</b>	US ISM Non-manufacturing PMI	January	56.2	55.9
	Euro Area Markit Services PMI	January	58(A)	58.8
	Euro Area Retail Sales	December	-1.1%(A)	1.5%
	Consumer Price Index (CPI)	January	1.02%(A)	0.69%
	Domestic Producer Price Index (D-PPI)	January	0.99%(A)	1.37%
<b>February 8</b>	Bank of England (BoE) Monetary Policy Meeting	January	0.5%	0.5%
	China Foreign Trade Figures	January	-	-
	Industrial Production Index (yoy)	December	-	7%
<b>February 9</b>	China Consumer Price Index	January	-	0.3%

(A) Actual

Source: TUIK, Datastream

## Sectoral Developments

### Rise in house prices continued to stay below inflation.

House price index in Turkey rose by 11.3% yoy and 10.4% compared to the year-end 2016 by November 2017. Hence, annual rise in house prices continued to stay below inflation. However, building construction cost index picked up by 22.8% yoy in the last quarter of 2017. While house price increases have been slowing down, rising cost pressures cause narrowing profit margins in the construction sector. January 2018 edition of Construction Sector Analysis report which was published by Turkish Contractors Association drew attention to the downward risks stemming from FX rates, rising interest rates and accelerating inflation on the sector's overall activity. According to the report, these factors are likely to limit demand by adversely affecting purchasing power.

### Tourism revenues increased in 2017.

Ministry of Culture and Tourism figures revealed that the number of foreign visitors to Turkey went up by 22.9% yoy in 2017. According to the nationality statistics, Russia (with its share of 14.6%) stood out as the country which sent most visitors to Turkey. This country was followed by Germany (11.1%) and Iran (7.7%), respectively. In 2017, 18.9% annual expansion in tourism revenues remained below the rise in the number of visitors. In fact, expenditure per visitor declined from 705 USD in 2016 to 681 USD in 2017. Due to the announcements of Minister of Culture and Tourism, this year Turkey aims to attract 36 million tourists and generate revenue of 34 billion USD from the tourism activities.

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