

	9/Feb	16/Feb	Change		9/Feb	16/Feb	Change
BIST-100 Index	113,590	116,511	2.6 % ▲	EUR/USD	1.2233	1.2404	1.4 % ▲
TRY 2 Year Benchmark Rate	13.15%	13.01%	-14 bp ▼	USD/TRY	3.8216	3.7464	-2.0 % ▼
US 10 Year Bond Rate	2.83%	2.88%	5 bp ▲	EUR/TRY	4.6763	4.6470	-0.6 % ▼
EMBI+ (spread)	310	343	33 bp ▲	Gold (USD/ounce)	1,317	1,348	2.4 % ▲
EMBI+ Turkey (spread)	273	296	23 bp ▲	Brent Oil (USD/barrel)	62.5	64.2	2.8 % ▲

bp: basis point

Last week, with the improvement in global risk perception, global stock markets compensated their previous losses. While inflationary pressures have been on the agenda in the US, the demand for bonds has weakened. Gold prices, supported by a retreat in US dollar, increased fast in global markets. In Turkey, labor market figures confirmed to recover parallel to robust economic activity in 2017. While the current account deficit exceeded expectations in December, in January central government budget realizations deteriorated due to base effect.

Global markets looking for directions...

The VIX index, which had risen rapidly and reflected the sales pressure in the markets in the previous week, tended to decline last week. With the improvement in risk appetite of investors, the global stock market indexes, led by the US stock exchanges, compensated most of their losses.

Recent increases in commodity prices are supporting inflationary pressures in the US. While the price increases started to spread across all commodity groups, the core CPI was realized above expectations in January. This pointed to the increased pressure on the core PCE, which has long been instrumental in Fed's monetary policy.

In the recent weeks, while the upside risks on inflation in the US are increasing, the forecasts that the recent fiscal policies will result in an increase in borrowing requirements have caused the market participants to reduce their current weight in bonds to replace them at lower prices later. Last week, the yields of the 10-year US treasury bonds have tested the highest level since January 2014, with 2.95%.

Last week US dollar tended to weaken against other currencies of advanced economies. After EUR/USD tested the level of 1.26 during the week, the dollar recovered to make up some of its losses on the last trading day. The trend of appreciation of JPY accelerated. USD/JPY fell below the level of 106, the lowest level in 15 months.

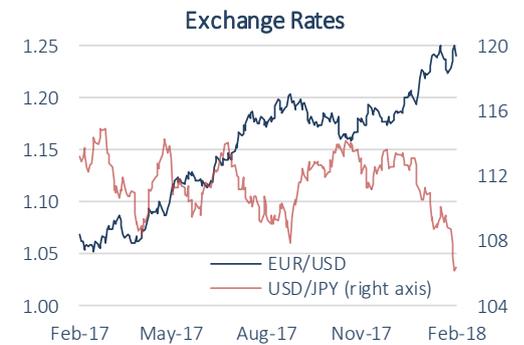
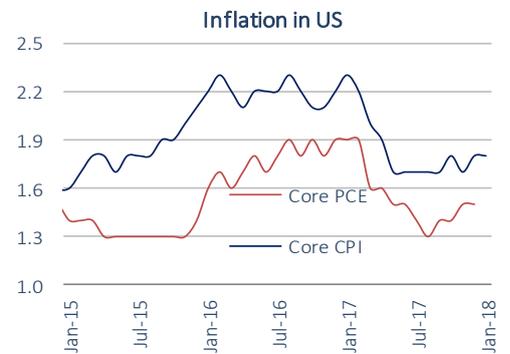
Japanese economy grew by 1.6% in 2017.

In addition to the loose monetary policy implemented, the support of the revival in global demand to exports sets the tone of a positive outlook for economic activity in Japan. In the last quarter of 2017, economic growth in Japan was realized slightly below expectations at 0.5%, but yearly growth reached 1.6%. Thus, the Japanese economy has recorded its fastest growth since 2013.

Gold prices increased.

Depreciation of the US dollar against major currencies supported gold prices to pick up last week. Gold prices rose by 2.4% and reached 1,348 USD/ounce.

Oil prices on the other hand, followed a volatile course last week. International Energy Agency's statements implying that US's rising oil production might lead to an excess supply in the global market caused oil prices to remain under pressure during the first half of the week. On the following days, news that Saudi Arabia and Russia has been evaluating new steps in order to balance oil market came forward. Consequently, Brent oil prices turned upwards and closed the week at 64.2 USD/barrel.



Source: Datastream

Economic data in the domestic markets...

Current account deficit (CAD) in December was realized above the expectations as 7.7 billion USD. Hence, CAD increased by 42.1% yoy to 47.1 billion USD in 2017. Rising oil prices and accelerating gold imports put an upward pressure on CAD during this period. On the other hand, tourism revenues backed by the improvement in bilateral relations with Russia limited the deterioration in CAD. The foreign direct investments in CAD financing weakened while securities issued by Treasury and banks took great attention of non-residents. Reserve assets' contribution to CAD financing at the last month of 2017 pushed down the CBRT's official reserves by 8.6 billion USD ([Our Balance of Payments report](#)).

Positive outlook in the domestic economic activity in 2017 has contributed to the labor market statistics. Unemployment rate declined by 1.8 percentage points to 10.3% in the period of November 2017. The number of employed persons rose by 1.4 million while the job creation for 898 thousand people in the services sector became the determinant of recovery in the employment.

Central administration budget gave a surplus of 1.7 billion TRY in January. Budget revenues were down by 1% yoy because of the decrease in privatization revenues and decline in tax revenues over tobacco products due to the strong base effect. On the expenditures side, surge in capital expenditures suppressed the budget balance ([Our Budget Balance report](#)).

Deterioration in the expectations of current account deficit...

February issue of CBRT's Survey of Expectations revealed that growth rate and inflation estimates for Turkish economy for the year-end 2018 did not change compared to the previous month. According to the survey, in 2018, Turkish economy is expected to grow by 4.6% and consumer inflation is expected to be 9.5%. Moreover, USD/TRY expectations for 2018 year-end improved slightly in favour of local currency and decreased to 4.10. However, oil prices that have been rising recently caused deterioration in the expectations of current account deficit. Hence, current account deficit expectations for 2018 went up by 1.3 billion USD mom to 45.1 billion USD.

Financial markets...

Last week, recovery in the global risk appetite and diminishing geopolitical uncertainties had a positive effect on investor demand for TRY denominated instruments. BIST-100 index closed higher by rising 2.6% wow. On Friday, decline in USD/TRY became more visible. EUR/TRY, after testing record-high levels by reaching 4.73 depending on the developments in EUR/USD, closed the week at 4.65.

This week's agenda...

There are no major economic data releases scheduled in the global markets this week. Domestic markets, on the other hand, will follow credit ratings agency, S&P's reviews for Turkey on Friday. It is not expected that S&P will change Turkey's credit rating; however, its evaluation on Turkish economy will be watched closely.

CAD (annualized, billion USD)**CBRT's Survey of Expectations***

	January	February
GDP Growth	4.55%	4.56%
CPI	9.55%	9.52%
WACF	12.75%	12.75%
USD/TRY	4.12	4.10
CAD (billion)	43.8 USD	45.1 USD

(*) Market expectation for the end of 2018

Exchange Rates

	Period	Consensus	Prior
20 February	TR Treasury Reissuance of 6 Year Bond		
	TR Consumer Confidence Index	February	72.3
	GER ZEW Index	February	20.4
21 February	TR House Sales	January	133k units
	TR Treasury's Domestic Debt Redemption (3.8 billion TRY)		
	US Existing Home Sales	January	5.54 million units / 5.57 million units
22 February	EA Manufacturing PMI (flash)	February	59.6
	TR Capacity Utilization Ratio	February	78.2%
	US Jobless Claims	February III.	
23 February	TR S&P's Credit Note Decision		

Source: Turkstat, CBRT, Datastream

Sectoral Developments

Bright outlook for exports...

According to the survey published by the Turkish Exporters Assembly, domestic companies' expectation for economic activity has improved. According to the survey results, three quarters of the participants foresee that their exports will increase in 2018 compared to last year. 63% of companies told that they entered new markets in 2017 and would keep their expansionary tendency in 2018. In this context, the automotive industry decided to accelerate its activity in America continent, while steel and food industry will try to improve their market shares in US and Asia region, respectively. The problems in the target countries are reported as the main difficulty, while the rise in imported input prices is also considered a factor that puts pressure on foreign sales.

Domestic animal production has declined.

In Turkey, red meat production declined by 4% yoy and came in at 1.13 million tons in 2017. It has been observed that the ongoing structural problems in the livestock sector have also exerted pressure on milk production. During this period, cow milk production decreased by 1% and amounted to 9.11 million tons. On poultry farming, on the other hand, Turkey is self-sufficient. Last year, thanks to the ease in geopolitical uncertainties in neighboring countries, foreign sales improved and chicken meat production in Turkey increased by 14% to 2.14 million tons.

Optimism for automotive market...

Due to the regulation on SCT rates and the rise in exchange rates, new automotive sales declined by 2.8% to 956k units in 2017. In order to overcome the recession in automotive market, a number of measures have been taken by the authorities. Sector officials told that sales would increase by around 10% in 2018 thanks to the changes in the STC brackets and scrap car incentives.

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