

	23/Feb	2/Mar	Change		23/Feb	2/Mar	Change
BIST-100 Index	117,522	116,859	-0.6 % ▼	EUR/USD	1.2293	1.2317	0.2 % ▲
TRY 2 Year Benchmark Rate	12.97%	13.10%	13 bp ▲	USD/TRY	3.7880	3.8061	0.5 % ▲
US 10 Year Bond Rate	2.87%	2.86%	-1 bp ▼	EUR/TRY	4.6603	4.6892	0.6 % ▲
EMBI+ (spread)	331	338	7 bp ▲	Gold (USD/ounce)	1,329	1,322	-0.5 % ▼
EMBI+ Turkey (spread)	297	301	4 bp ▲	Brent Oil (USD/barrel)	67.4	64.8	-3.9 % ▼

bp: basis point

Global markets closely followed the remarks of the US Fed Chairman Powell to the House of Representatives and the Senate last week. Since Powell's expressions were regarded as "hawkish" by the markets, global equity markets were under downward pressure during the week. In addition, US President Trump's statement that the US will impose tariffs on steel and aluminum imports increased volatility in the markets. On the domestic front, the foreign trade deficit widened considerably in January, mainly driven by the rapid rise in imports of energy and gold. According to figures released today, annual CPI inflation came in at 10.26% in February.

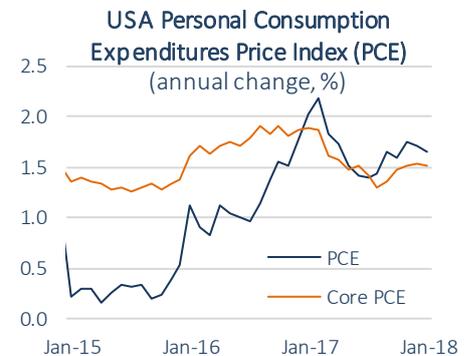
"Hawkish" remarks by Powell...

Last week, statements by Fed Chairman Powell were closely followed. Powell's first appearance on Tuesday was in front of the House of Representatives and Powell mentioned the increased confidence that the economy has been strengthening and inflation has been moving closer to the target. In the markets, this raised the likelihood that the Fed could hike interest rates four times this year. On Thursday, delivering a similar testimony to the Senate, Powell noted that there was no evidence of overheating in the economy and that gradual interest hikes would continue. The statements of the Fed Chairman Powell were evaluated as "hawkish" than market expectations.



Consumption expenditures in US recorded the fastest increase in a year.

Personal consumption expenditures (PCE) index, which Fed monitors as an inflation indicator, recorded the highest increase in a year, supporting expectations that inflation will increase in 2018. In January, PCE index rose by 0.4% mom, beating expectations. The core PCE index, excluding food and energy items, surged by 0.3% in line with the forecasts and recorded the strongest increase in the last 12 months. The annual PCE index also rose by 1.5%. Thanks to rising wages on the back of the solid outlook in job market, inflation is expected to approach the Fed's 2% target.

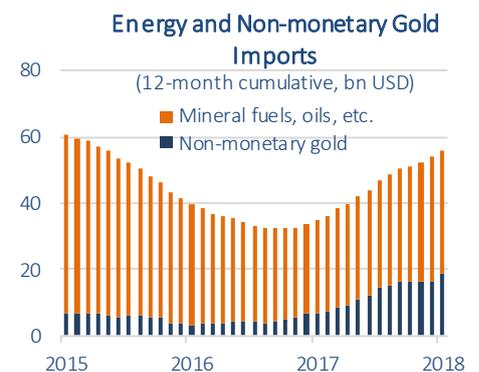


Strong performance in PMIs...

PMI data were closely monitored across the globe in the last week. In China, PMI climbed to 51.6, its peak of the last 6 months in February. In the US, PMI remained at 55.3, slightly below the expectations, while PMI for Euro Area maintained its strong performance with a level of 58.6. In February, Turkey's PMI came in very close to the previous month's reading with 55.6, indicating that strong growth has continued in manufacturing sector. According to the sub-indices, the main driver of this growth was the expansion in new orders. Besides, employment accelerated in line with the increase in capacity of the sector while growth in total production has kept its strong outlook.

Foreign trade deficit of Turkey widened in January.

In the first month of 2018, export volume increased by 10.7% yoy, while imports rose by 38% yoy. Thus, the foreign trade deficit nearly doubled compared to January 2017, reaching 9.1 billion USD. Recent upward



Source: Datastream, TURKSTAT

movement in oil prices continued to drive imports higher in January. Non-monetary gold imports were the biggest contributor to the increase in import volume. Surge in exports to the European market continued in January thanks to the course of the EUR/USD parity and positive demand conditions in the region ([our Foreign Trade Balance Report](#)). According to the provisional foreign trade data published by the Ministry of Customs and Trade, widening in the foreign trade deficit has continued in February as well. Exports increased by 9% yoy in February, while imports grew by 19.6% in the same period. Thus, the foreign trade deficit rose by 54% yoy.

Increase in CPI was above the expectation.

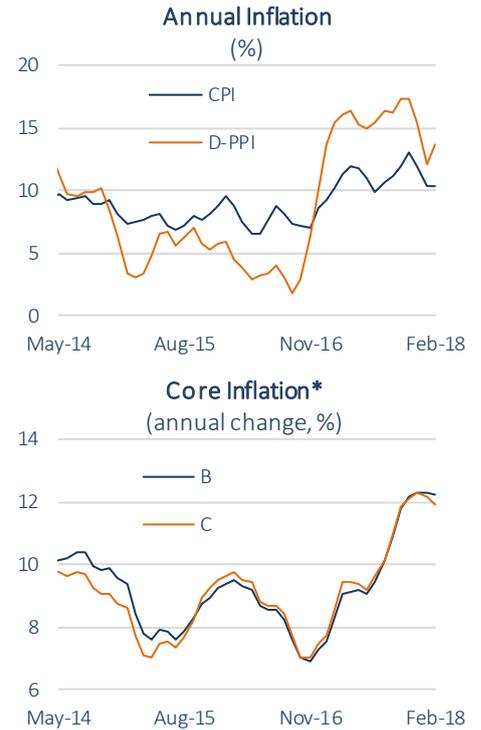
In February, monthly CPI inflation exceeded expectations and reached 0.73%. Annual inflation dropped to 10.26% from 10.35% in January. Food and non-alcoholic beverages made the highest contribution to monthly consumer inflation, while clothing and footwear group dragged down the inflation due to seasonal effects. Although upward trend in core inflation indicators halted in February, these indicators have been still high. Producer price inflation picked up by 2.68% on a monthly basis and thus annual inflation surged to 13.71% in February.

Financial markets came under pressure.

Last week global stock markets followed a volatile course. At the beginning of the week, there was a positive outlook in the market before the Fed Chair's speech. Yet, stock market indices fell sharply as Powell's announcements were considered as "hawkish". Besides, declarations on a proposed customs duty for steel and aluminum imports in the US led the volatility in the market to rise significantly. Brent oil prices per barrel also followed a downward trend. Despite the fluctuations in the global markets, domestic markets were relatively flat last week. On a weekly basis, TRY depreciated against the USD and the EUR by 0.5% and 0.6%, respectively. BIST-100 index also declined by 0.6% wow.

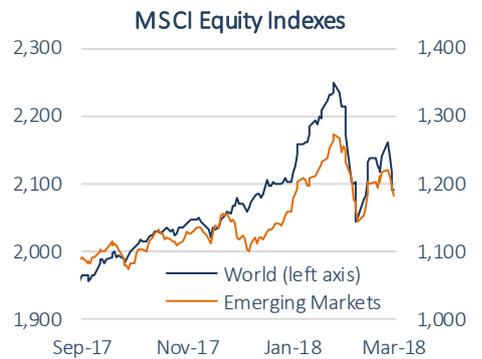
This week, markets will focus on central bank meetings.

CBRT is expected to keep the rates unchanged in its monetary policy meeting on Wednesday. Regarding the meetings of the European Central Bank (ECB) and Bank of Japan (BoJ), markets will look for clues on monetary policy normalization. In the US, developments about foreign trade policy and non-farm payrolls figures will be watched closely.



(*) B Index: CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold

C Index: CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold



Weekly Data Releases

		Period	Consensus	Prior
5 March	TR Consumer Inflation (annual)	February	10.26% (A)	10.35%
	TR Domestic Producer Inflation (annual)	February	13.71% (A)	12.14%
6 March	USA Factory Orders (monthly)	January	-1.2%	1.7%
7 March	CBRT MPC Meeting	March	-	-
	TR Treasury Debt Redemption (1,812 million TRY)	March	-	-
	USA ADP Employment Report	February	203K	234K
	Fed Beige Book	February	-	-
	Euro Area GDP Growth	2017Q4	2.7%	2.7%
	Japan GDP Growth (annualized)	2017Q4	0.7%	0.5%
8 March	ECB Meeting	March	-	-
	China Foreign Trade Balance	February	-	20,3 billion USD
9 March	USA Nonfarm Payrolls	February	205K	200K
	USA Unemployment Rate	February	4.0%	4.1%
	Bank of Japan Meeting	March	-	-

(A) Actual

Source: Datastream

Sectoral Developments

USA to introduce import tariffs on steel and aluminum...

US President Trump said that imported steel and aluminum will be subjected to tariffs of 25% and 10%, respectively. The decision, which is expected to be finalized within this week, is intended to protect local steel and aluminum producers. New tariffs are expected to affect countries like Canada, Brazil, South Korea and Mexico whose steel exports to the US are relatively high. The US reportedly considered imposing import tariffs over 50% to some countries including Turkey. Thus, currently proposed tariffs are being assessed as a positive development for Turkish steel industry. Chairman of the Turkish Steel Exporters' Association Namık Ekinci stated that Turkish exports to the US would not be greatly affected by the new tariffs. Mr. Ekinci added that unease in the sector that has been emerged in the recent period by the expectation that new tariffs would be implemented by the US, has already pulled down Turkey's exports. Turkey's steel exports to the US declined by 22.5% yoy to 1.83 million tons in 2017.

House prices...

According to CBRT data, the rate of increase in house prices continued to slow down in the last month of 2017. In December, house prices rose by 9.8% on an annual basis. In this period price developments in Istanbul, where approximately one sixth of the overall house sales occur, attracted attention. House prices in Istanbul have surged by 5% annually, the lowest increase since 2010. While house prices in Ankara increased by 6.9% yoy, prices in Izmir, where urban transformation projects have accelerated recently, rose by 18.5% yoy.

Automotive sales in February...

According to the Automotive Distributors Association (ODD), automobile sales in February amounted to 35 thousand 901 units, with an annual increase of 3.6%. In February, light commercial vehicle sales decreased by 9.7% to 11,108 units compared to the same period of the last year. Thus, in the first two months of the year, automobile market expanded by 3.6% yoy, while light commercial vehicle market shrank by 10.8% yoy. ODD's total market size estimate for 2018 remained in the range of 925 - 975 thousand units.

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