

	16/Mar	23/Mar	Change		16/Mar	23/Mar	Change
BIST-100 Index	117,216	116,603	-0.5 % ▼	EUR/USD	1.2287	1.2351	0.5 % ▲
TRY 2 Year Benchmark Rate	13.93%	14.11%	18 bp ▲	USD/TRY	3.9186	3.9814	1.6 % ▲
US 10 Year Bond Rate	2.85%	2.83%	-2 bp ▼	EUR/TRY	4.8121	4.9198	2.2 % ▲
EMBI+ (spread)	337	348	11 bp ▲	Gold (USD/ounce)	1,313	1,347	2.6 % ▲
EMBI+ Turkey (spread)	312	320	8 bp ▲	Brent Oil (USD/barrel)	64.9	69.4	7.0 % ▲

bp: basis point

The US protectionist trade policies, the US politics and the Fed meeting were high on the agenda last week. In Turkey, falls in consumer and sectoral confidence indices and new economic measures taken by the government were followed. Both the global and the domestic financial markets performed poorly and the Turkish lira weakened sharply.

US politics and trade measures drove the global agenda last week.

US continued to adopt new protectionist foreign trade measures. President Trump signed a presidential memorandum that introduces tariffs on up to 100 products imported from China, mainly information technology and telecom products, and some investment restrictions. This decision has a 30-day consultation period. As a response, China announced that it will impose tariffs on US imported products such as fruit, wine and nuts. On the other hand, the EU and some other countries including South Korea and Brazil were exempted from the US tariffs on steel and aluminum until May.

Another important change took place in the US politics. John Bolton, known to have a tough stance on Iran, was appointed as the new U.S. National Security Advisor. The recent appointments indicated that the US may adopt a different approach in foreign policy in the upcoming period.

Fed sounded more “hawkish” for the upcoming years.

In line with expectations, the Fed raised the policy rate by 25 bps to 1.50-1.75% at the first meeting of the Chair Jerome Powell. FOMC members' median interest rate forecast for the end of this year remained the same despite expectations of a rise. Accordingly, Fed members continued to expect 3 rate hikes in 2018. On the other hand, members raised interest rate projections for 2019, 2020 and the longer run. While the growth forecast for 2018 rose to 2.7% from 2.5% the inflation forecast for the same period was unchanged at 1.9%. Despite the downward revisions to the unemployment rate predictions, no significant change was made in the inflation forecasts for the coming years. Powell, at its speech after the meeting, suggested that they were surprised by sluggish wage growth.

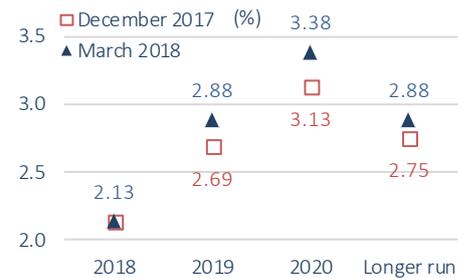
Economic data and Brexit talks with the EU painted a positive picture for UK.

Having held constructive talks with the EU over Brexit (excluding the status of Ireland), UK will complete the exit process from March 2019 until the end of 2020. Economic data in UK have also been relatively positive last week. The unemployment rate stood at 4.3% in January, the lowest level in the last 42 years, while the employment rate rose to a record high level of 75.3%. Retail sales beat the estimates in February. In this period, annual CPI increase decelerated and came in at 2.7%. The acceleration in wage increases, on the other hand, suggested that inflationary pressures may persist. BoE, keeping the rates unchanged in March, sounded hawkish for the period ahead and is likely to deliver a lift in the policy rate in May. Adding the weakness in the US dollar to these developments, sterling gained strength last week.

Trade Performances of the US and China
(USD billion)



Median Projections of Fed Members for the Federal Funds Rates



GBP/USD & DXY



Source: Fed, Datastream

ECB may not have that much room for a rapid normalization.

Last readings from Euro Area indicated that the economic activity might have difficulty to maintain its current pace. Despite standing at high levels, manufacturing and services PMI were realized below forecasts. Adverse weather conditions in the region and the appreciation of euro is considered to be influential in this development. Consumer confidence, which portrayed a bleak outlook for the European economy, also led to comments that ECB is likely to pursue its “wait and see” mode in the coming period.

Rise in oil prices...

Elevated tensions in Middle East, unexpected decline in US crude oil inventories and the rumors that the US could bring back its sanctions on Iran caused oil prices to surge last week. Besides, the news that OPEC's production cuts might be extended and the weak course of the US dollar also supported this increase.

Fall in consumer and sectoral confidence indices...

Consumer confidence fell by 1.3% mom to 71.3 in March while all sectoral confidence indices showed monthly declines. The most significant deterioration was at the construction sector. During the same period, real sector confidence index recovered to 111.9, its highest level since last June.

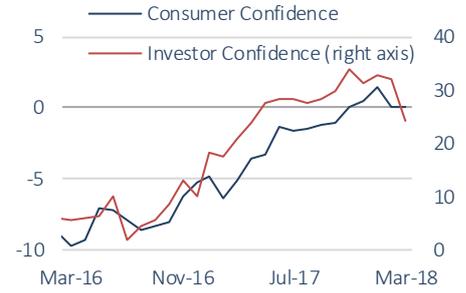
Weak performance in financial markets...

Facebook's abuse of its privacy principles, the US's protectionist trade measures as well as political developments put global markets under pressure last week. BIST-100 index closed the week with a decrease due to Turkey-specific factors aside from the negative outlook at global markets. Strong demand for Treasury auctions on March 20th supported the bond market; however, 2-year benchmark interest rate increased on a weekly basis. FX rates also moved upwards last week. TRY reached its all-time high levels against both USD and EUR.

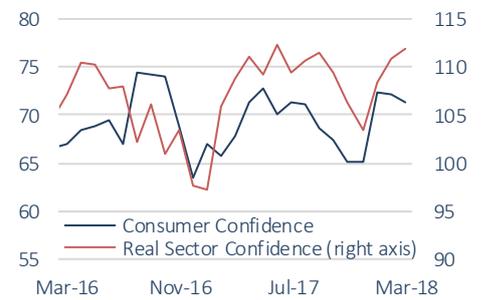
Turkey's GDP figure for Q4 2017 is to be released this week.

Final estimate for the US GDP for Q4 2017 and personal consumption expenditures price index in February are on the agenda of global markets this week. Investors in Turkey will watch the summit of EU and Turkish officials in Varna. Turkey's GDP release for Q4 is also expected on the upcoming days. Following the release of new industrial production indices, it is estimated that Turkey grew by 7% in Q4 and 7.3% in 2017 as a whole.

Confidence Indices in the Euro Area



Confidence Indices in Turkey



Global Stock Markets



Data Releases

		Period	Consensus	Prior
27 March	Turkstat Economic Confidence Index	March	-	103
	US Consumer Confidence Index	March	130	130.8
28 March	US GDP Growth (final)	Q4	2.6%	2.5%
	US Pending Home Sales	February	-	-4.7%
29 March	Turkstat GDP Growth	Q4	-	11.1%
	TR Treasury's Domestic Debt Redemption (1,687 million TRY)	-	-	-
	Germany Unemployment Rate	March	-	5.4%
	UK GDP Growth	Q4	-	0.4%
	US Personal Income	February	0.4%	0.4%
	US Core PCE	February	0.2%	0.3%
	US Chicago PMI	March	62.3	61.9
	30 March	Turkstat Foreign Trade Deficit	February	-
US Michigan Consumer Confidence Index (final)		March	102	102

Source: Datastream, Turkstat

Sectoral Developments

House sales on a downward trend since the last quarter of 2017...

House sales have displayed a weak performance since the last quarter of 2017. Domestic house sales declined by 5.4% yoy in February. Mortgaged house sales shrank by 27.8% during this period. The fall in house sales in January-February period was 2% yoy. While mortgaged sales dropped by 24.2% during this period, other sales recorded an increase of 11.6%. On the other hand, sales to foreigners remained strong, surging by more than 30% yoy in February.

Weak domestic demand for white goods...

The downward trend in white good sales, which emerged after the expiration of the measures taken for supporting the sector, continued in February. Domestic sales narrowed by 17% compared to a year ago when the measures were enacted. The annual decline registered in January had been 16%. Exports of white goods expanded 16% yoy in February. As the weak domestic demand offset the positive impact of rising exports, production of white goods contracted by 2% in this period. This marked the fifth annual decline in a row.

The Government's new economic measures...

The bag law including new labor market incentives, scrap vehicle discounts on the purchase of new cars and VAT exemption for machinery and equipment was passed at the Grand National Assembly of Turkey last week. These measures, aiming to create 700,000 additional jobs, are expected to cost 17.3 billion TRY to the public sector. Some of the new measures are social security premium support for additional employees who are hired by the private firms, the provision of SCT incentives on the purchase of a new vehicle for the owners of vehicles over 16 years of age, making the temporary measures for 6.2 million minimum wage earners permanent, VAT exemption on machinery and equipment purchases of enterprises with industry registration certificate until 31 December 2019, irrespective of whether they have an investment incentive certificate or not.

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