

	30-Nov	7-Dec	Change		30-Nov	7-Dec	Change
BIST-100 Index	95,416	93,699	-1.8 % ▼	EUR/USD	1.1315	1.1376	0.5 % ▲
TRY 2 Year Benchmark Rate	20.26%	20.31%	5 bp ▲	USD/TRY	5.2118	5.3019	1.7 % ▲
Turkey 5-Year CDS	387	383	-3 bp ▼	EUR/TRY	5.8994	6.0389	2.4 % ▲
MSCI EM Equity Index	995	981	-1.3 % ▼	Gold (USD/ounce)	1,222	1,248	2.1 % ▲
US 10-Year Bond Rate	3.01%	2.85%	-16 bp ▼	Brent Oil (USD/barrel)	57.5	60.5	5.2 % ▲

bp: basis point

Last week, the heavy data agenda in the US and developments in trade wars were the focus of global markets. OPEC decided to reduce its oil production by 1.2 million barrels per day. Losing its momentum, Turkish economy grew by 1.6% yoy in the 3rd quarter of the year. Due to the questioning of the monetary policy steps of the CBRT following the release of the inflation data, the Turkish lira started the week with a depreciation. Then it took back some of its losses thanks to the statements by CBRT in the following days. This week, inflation data in the US and the ECB meeting are among the highlights of the global agenda. In Turkey, CBRT meeting on Thursday will be closely monitored.

Heavy data flow in the US...

Nonfarm payrolls in the US rose lower than expected by 155 K persons in November. Monthly rise in hourly wages was 0.2% whereas unemployment rate kept its 3.7% level which is at 49-year low. Besides, factory orders declined in October and September readings were revised downwards. Monthly decline of 4.3% in durable goods orders was remarkable. Recent data indicate that US economy will probably slowdown next year, yet general outlook is likely to be positive. Adding to that, US 10-year Treasury bond yields kept falling due to the Fed members' restatements that rate hikes would be more gradual in 2019.

Trade wars related developments were high on the agenda once again. Positive outlook emerged in the global markets at the beginning of the week upon the announcement of a 90-day ceasefire between China and the US, was damaged after Trump's statements during the week. Arrest of Meng Wanzhou, a top executive of a Chinese technology giant Huawei accused of violating US sanctions on Iran caused deterioration in global risk appetite and selloff pressure in financial markets.

ECB announced its exit strategy.

News regarding ECB's exit strategy from the loose monetary policy was followed in the markets last week. According to that, ECB is cited to target increasing deposit rates first and opening long term credit lines at floating rates to the banking sector. Thus, ECB plans to avoid a potential liquidity squeeze, taking into account the countries that have fragile banking systems such as Italy.

Oil prices remained volatile throughout the week.

Another major development of last week was the OPEC meeting. Members' not being able to draw a clear roadmap for the future of oil supply led oil prices to plunge on Thursday. On Friday, however, Brent crude prices headed up again thanks to OPEC members and non-member ally countries' decision of cutting daily production by 1.2 million barrel. Hence, oil prices closed higher by 5.2% wow at 60.5 USD/barrel.

Global Stock Markets



US 10-Y Yields and Dollar Index



Oil Price

(Brent, USD/barrel)



Source: Datastream

The deceleration in growth continues.

In the third quarter, Turkish economy grew by 1.6% yoy, below the market expectations of 2%. In this period, agriculture and manufacturing sector grew by 1% and 0.3%, respectively, while construction sector declined by 5.3%. According to the Turkstat classification, the value added of the services sector, which consists of trade, transportation, accommodation and food service activities, increased by 4.5%. While household consumption expenditures slowed down, net exports contributed significantly to growth figures.

Standard&Poor's and Fitch revised their forecasts on Turkey.

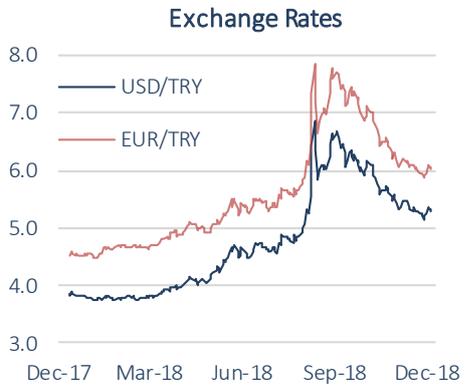
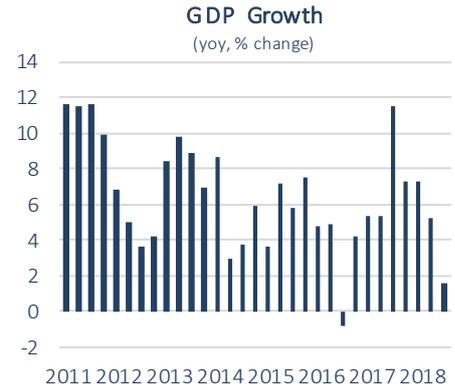
Last week, Standard&Poor's (S&P) and Fitch published reports on Turkish economy. S&P's report drew attention to the uncertainties in Turkey and stressed that GDP would shrink in 2019 while the economy would record a moderate growth of 3-4% in 2020. S&P noted that the slowdown in the economy, the depreciation of TRY and the rise in financing costs could lead to deterioration in the asset quality of the banking sector, while the NPL ratio may rise to 6% in the next 12-18 months period. In its report, Fitch stated that the elevated financing costs would hamper the profitability of Turkish banks while the economy would grow below its potential in the coming period. Fitch underlined that the high inflation would persist. Fitch revised down its GDP forecasts for 2018 (from 3.8% to 3.5%), for 2019 (from 1.2% to 0.6%) and for 2020 (from 3.9% to 3.1%). Fitch's inflation expectation for 2019 increased from 15% to 17%.

Real effective exchange rate rose.

CBRT's CPI based Real Effective Exchange Rate (REER) hinted TRY gained strength in November for the second consecutive month. In November, REER rose by 7.9% mom and was realized as 74.6. As REER approached its precrisis levels of July, recent figure indicated that TRY depreciated by 12.5% in real terms compared to the year-end of 2017.

Domestic markets...

After the CPI data, which fostered the views that the inflation might ease in the coming period, CBRT's next steps on the monetary policy questioned and this development put pressure on TRY assets. In the following days, in line with the CBRT's statements that inflation focused tight monetary stance will be maintained in its Monetary and Exchange Rate Policy Report for 2019, TRY erased some of its early losses. The developments regarding the global trade war were also reflected in domestic markets. BIST-100 index decreased by 2.1% wow, while the compound interest rate of the 2-year benchmark bond increased by 5 basis points to 20.31%. USD/TRY and EUR/TRY went up by 1.7% and 2.4%, respectively.



Data Releases

		Period	Consensus	Prior
10 December	GDP Growth	3. Quarter	1.6% (A)	5.2%
11 December	Balance of Payments	October	-	1.83 billion dollar
	USA PPI, mom	November	0.1%	0.6%
12 December	Treasury Debt Redemption (1.956 million TRY)	November	-	-
	USA CPI, mom	November	0.1%	0.3%
	Euro Area Industrial Production, mom	October	0.3%	-0.3%
13 December	CBRT Meeting	-	-	-
	ECB Meeting	-	-	-
14 December	USA Retail Sales, mom	November	3.7%	3.7%
	Euro Area Services PMI	November	53.5	53.4
	Euro Area Manufacturing PMI	November	52	51.8

Sectoral Developments

Automobile and light commercial vehicle sales continued to contract in November.

According to data announced by the Automotive Distributors Association, in Turkey, automobile and light commercial vehicle sales contracted by 42.3% yoy in November. On the other hand, due to SCT reductions, there was some recovery in the market compared to the previous months. Automobile and light commercial sales, which were 21,571 units in October, totaled 58,204 units in November.

Imported coal used in thermal power plants will be replaced by domestic coal.

According to a new agreement between Coal Producers Association and TERSANED (an association that represents imported coal using thermal power plant owners) on substituting 10% of the imported coal with domestic coal, it is aimed to decrease coal imports. Minister of Energy Fatih Dönmez said that at the first stage 10% of imported coal will be replaced by domestic coal and then it is planned to increase this figure in the coming period. According to TurkStat data, last year Turkey imported 36.6 million tons of coal and about 18.8 million tons of this amount was used by thermal power plants.

Air traffic increased in November.

According to the statements of General Directorate of State Airports Authority's General Manager Funda Osman, Turkey has reached the highest traffic rate in European airspace with 14.24% in November. Istanbul was ranked 3rd according to scheduled flights whereas Antalya was ranked 2nd according to non-scheduled flights. While the number of grounding and taking off aircrafts have increased by 10% yoy, transit flights have risen by 11.3%. In this context, the rate of increase in total air traffic was recorded as 4.4%.

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

Batuhan Atman
Asst. Economist
batuhan.atman@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
