

	7-Dec	14-Dec	Change		7-Dec	14-Dec	Change
BIST-100 Index	93,699	90,529	-3.4 % ▼	EUR/USD	1.1376	1.1307	-0.6 % ▼
TRY 2 Year Benchmark Rate	20.31%	21.35%	104 bp ▲	USD/TRY	5.3019	5.3625	1.1 % ▲
Turkey 5-Year CDS	383	376	-7 bp ▼	EUR/TRY	6.0389	6.0625	0.4 % ▲
MSCI EM Equity Index	981	972	-1.0 % ▼	Gold (USD/ounce)	1,248	1,238	-0.8 % ▼
US 10-Year Bond Rate	2.85%	2.89%	4 bp ▲	Brent Oil (USD/barrel)	60.5	58.6	-3.2 % ▼

bp: basis point

One of the calmest weeks in 2018 regarding trade war was left behind. While the optimism continued after Trump and Xi meeting at the G-20 summit, the US and China's positive steps supported the view that the trade war might be solved. UK's Prime Minister Theresa May has been experiencing troubled days due to the Brexit agreement. May, postponing the vote of agreement achieved with EU to be held in the Parliament last week, won the confidence vote in her party. However, the approval of the Brexit agreement in the Parliament in its current form seems difficult. At the last meeting of the year, the ECB confirmed the decision to end the asset purchase program and kept the interest rates. Italy submitted the draft budget, which foresees a lower budget deficit in 2019. The CBRT did not make any changes in the current monetary policy stance. While the contraction in current account deficit continued, geopolitical developments had a negative impact on domestic markets.

Positive developments regarding trade wars.

The optimism in global markets regarding the trade wars continued last week with the impact of positive steps from the US and China. US President Donald Trump has announced that trade negotiations with China are in progress and trade tariffs on Chinese products will not be raised until he is confident that an agreement will be reached between these two countries. Meanwhile, China has announced that it will suspend additional tariffs on imports of vehicles and auto parts from the US for 3 months from January 1st. These developments supported global markets last week

Brexit uncertainty prevails.

Brexit has been at the forefront of the global economy's agenda last week. Prime Minister Theresa May postponed the Brexit vote in parliament, previously scheduled for December 11. This decision triggered opposition within the Conservative Party. May won the no-confidence vote on her leadership by 200 to 117. Although May preserves its seat in the party, parliamentary approval for the draft deal remains difficult to get. In order for the agreement to be approved by parliament, May is expected to secure more guarantees from the EU. Indeed, although May, has requested additional guarantees regarding the Irish border, EU leaders suggest that it is not possible to renegotiate the recently reached agreement.

Italy lowered its budget deficit to GDP target for 2019 to 2%.

Revising the budget deficit/GDP target for 2019 down from 2.4% to 2.04%, Italy submitted the new budget draft to the EU Commission. After meeting with EU Commission President Juncker, Italian Prime Minister Giuseppe Conte stated that they adopt a cautious stance and declined to elaborate on how they pulled the budget deficit target down. In France, on the other hand, the new steps to be taken in order to calm the ongoing protests could push the country's budget deficit up and cause budgetary tensions between France and the EU.

ECB ends its asset purchase program as planned.

While the European Central Bank (ECB) did not change its policy rate in line with expectations in its meeting held last week, it confirmed the decision to end its asset purchase program at the end of the year. Noting that the downside risks to the European economy have become more evident, ECB President Draghi suggested that the loose monetary policy continued to support the economic activity in the region. Also, ECB reaffirmed that the policy rate will remain at its present level until the second half of 2019. On the other hand, compared to its September forecasts, ECB revised growth projections for 2018 and 2019 by 0.1 pts down to 1.9% and 1.7%, respectively.

Global Stock Markets



France-Germany and Italy-Germany Yield Spreads

(Spread differentiation of 10-y bonds)



ECB Projections

	December Forecasts		September Forecasts	
(%)	2018	2019	2018	2019
GDP	1.9	1.7	2.0	1.8
Unemployment	8.2	7.8	8.3	7.8
HICP	1.8	1.6	1.7	1.7
Core HICP*	1.0	1.4	1.1	1.5

(*) HICP excluding energy and food

Source: ECB, Datastream

CBRT kept its monetary policy on hold.

CBRT did not change the policy rate at its meeting last week. Noting that the rebalancing process in Turkish economy became more noticeable, the Central Bank pointed out that domestic demand slowed due to tighter monetary policy while external demand supported growth. Unlike its previous statements, CBRT cited some improvement in inflation outlook.

Current account balance gave a surplus also in October.

The positive impact of rebalancing process in economic activity on current account balance became more apparent in October. Accordingly, current account balance posted a surplus for the third consecutive month due to the slowdown in economic activity. Provisional foreign trade data for November indicated that current account balance will continue to give a surplus. In this framework, we anticipate that 12-month cumulative current account deficit will continue to decline and the current account deficit to GDP ratio will be realized at 3.3% in 2018 ([Our Balance of Payment Report](#)).

Treasury auction...

At the Treasury auction of 2-year benchmark bond, the average compound yield became 18.62%. Treasury borrowed a total of 2 billion TRY, 1.5 billion TRY from non-competitive bids and 504 million TRY from the competitive one. It was noteworthy that the average compound yield declined compared to the previous issuance. On the same day of the auction, 2-year benchmark bond yield was 21.37% in the secondary market. In addition, Treasury will collect demand for USD and EUR denominated government bonds this week. Demand collection for gold based bonds will continue until February.

Domestic markets...

Last week, domestic markets diverged negatively from global markets in line with the rise in geopolitical risks. BIST-100 index decreased 3.4% and closed the week at 90.529. USD/TRY and EUR/TRY rose by 1.1% and 0.4%, respectively. Parallel to the negative outlook in domestic markets, yield curve increased compared to the previous week.

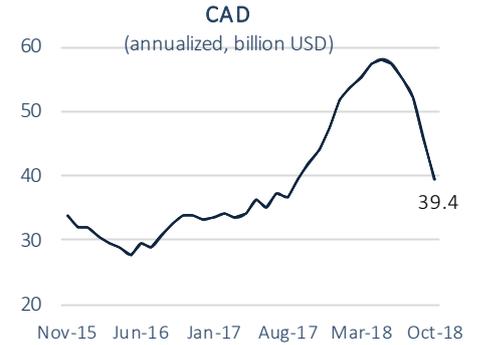
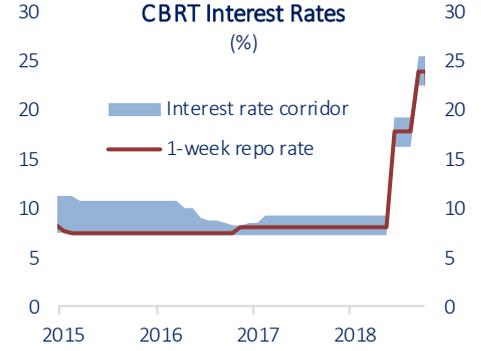
Credit rating agency Fitch affirmed Turkey's credit rating as 'BB' and credit outlook as "negative" on announcement made on Friday after the closure of the financial markets.

Industrial production contracted in October.

According to data released on the first day of the week, industrial production contracted by 5.7% in October, indicating that slowdown in economic activity accelerated in the last quarter. In addition, the deterioration in the labor market indicators in September period (August, September, October period) confirms this situation. Unemployment rate increased by 0.8 points compared to the previous year and became 11.4% in September period. On the other hand, the central government budget posted a surplus of 7.6 billion TRY in November.

This week's agenda...

Fed's FOMC meeting on Wednesday will be high on this week's agenda. While Fed's rate hike expectations strengthened, the clues regarding the monetary policy in 2019 will be closely monitored.

**Data Releases**

		Period	Consensus	Prior
17 December	TR Industrial Production	October	-5.7% (A)	-2.7%
	TR Unemployment Rate	September	11.4% (A)	11.1%
	TR Budget Balance	November	7.6 billion TRY (A)	-5.4 billion TRY
	Euro Area HICP (monthly)	November	-0.2%	0.2%
19 December	Treasury Debt Redemption (890 million TRY)	December	-	-
	FOMC Meeting and Interest Rate Decision	December	-	-
20 December	BoE Meeting and Interest Rate Decision	December	-	-
21 December	TR Consumer Confidence	December	-	59.6
	USA GDP, final	3rd quarter	3.5%	3.5%
	USA Michigan Consumer Sentiment	December	97.5	97.5

(A) Actual

17.12.2018

Source: Datastream 2

Sectoral Developments

Crude steel production contracted in November.

According to Turkey Steel Producers Association, domestic crude steel production decreased by 2.1% yoy to 3.1 million tons in November. In this period, the production of electric arc furnace plants, consisting almost 75% of domestic crude steel production, decreased by 4.7% compared to the same month of the previous year, while the production of integrated mills increased by 4.3%. In the January-November period, crude steel production rose to 34.4 million tons with a limited increase. Turkey's billet production in this period fell by 2.8% to 22.9 million tons; slab production, on the other hand, rose by 7.8% and reached 11.5 million tons.

Share of imports in automobile market decreased.

According to the figures announced by Automotive Manufacturers Association, automotive production decreased by 8% yoy to 1.4 million units in January-November 2018. In this period, automobile and light commercial vehicle production fell by 10% and 3%, respectively. In the heavy commercial vehicle group, the production increased by 10%. In the January-November period, the total automotive market contracted by 34% compared to the previous year, while the automobile market shrank by 32%. Due to the exchange rate developments, imported automobile sales decreased by 35% and domestic automobile sales declined by 24%. Thus, the share of imports in the automobile market fell to 67%.

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