

	14-Dec	21-Dec	Change		14-Dec	21-Dec	Change
BIST-100 Index	90,529	91,861	1.5 % ▲	EUR/USD	1.1307	1.1367	0.5 % ▲
TRY 2 Year Benchmark Rate	21.35%	20.87%	-48 bp ▼	USD/TRY	5.3625	5.3171	-0.8 % ▼
Turkey 5-Year CDS	376	359	-17 bp ▼	EUR/TRY	6.0625	6.0444	-0.3 % ▼
MSCI EM Equity Index	972	957	-1.5 % ▼	Gold (USD/ounce)	1,238	1,256	1.4 % ▲
US 10-Year Bond Rate	2.89%	2.79%	-10 bp ▼	Brent Oil (USD/barrel)	58.6	51.6	-11.9 % ▼

bp: basis point

Last week; Fed's meeting, developments regarding Brexit, decline in oil prices and budget talks between the EU and Italy were in the center of markets' attention. While Fed hiked interest rates by 25 bps in line with expectations, Fed Chairman Powell's "hawkish" statements supported the US dollar. Undergoing preparations for "no deal" Brexit raised concerns in the markets, while preliminary agreement between the EU and Italy regarding the budget plan was seen as a positive development. In a week where oil prices declined considerably due to the growing concerns about global economic growth, data release calendar in Turkey was quite busy. Data for housing, white goods and retail sectors along with consumer confidence confirmed the ongoing slowdown in economic activity in the last quarter.

#### Fed increased its policy rate by 25 bps, in line with expectations.

Fed's meeting was at the forefront of the global markets last week. As expected, Fed raised its funds target range by 25 bps to 2.25% to 2.50%. Therefore, Fed raised its interest rate for the 4<sup>th</sup> time in 2018 and 9<sup>th</sup> time since 2015 when first rate hike was delivered. FOMC statement said that labor market continued to strengthen and economic activity has been rising at a strong rate. According to the FOMC forecasts, Fed members revised their annual growth forecasts for 2018 and 2019 down to 3.0% and 2.3%, respectively. Core PCE inflation forecasts were revised down to 1.9% and 2.0%. According to the projections, Fed funds rate for 2019 and 2020 will be 2.9% and 3.1% which suggests that there will be 2 rate hikes in 2019, rather than 3. Powell said in a speech after the meeting that Fed is extending its current 50 billion USD per month reduction while highlighting that Fed's decisions are not affected by the statements of the politicians. Stock exchange markets, which were under selling pressure due to ongoing concerns about global economic activity, extended their losses following "hawkish" tone of Powell.

#### Political developments stood out in the US.

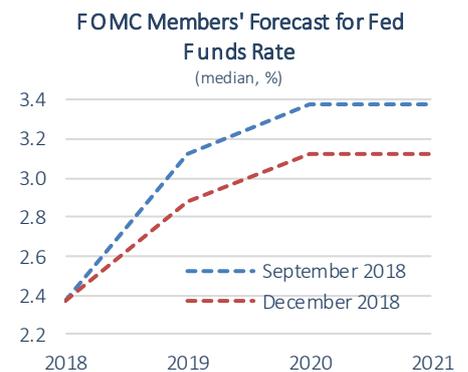
Having stopped since the US Congress did not reach an agreement in budget draft, some state services may not be operating till the opening of the Congress in January. Also, news on Trump's plans about firing Fed President Powell and resignation of Defense Secretary James Mattis raised political concerns. On the other hand, third quarter growth data was revised down from 3.5% to 3.4%. Downward revisions in consumption expenditures and exports led this development.

#### Italy and EU reached a budget deal.

Long-running budget tension between Italy and EU came to an end last week. Italy pulled down budget deficit/GDP ratio target to 2.04%, which was previously announced as 2.4%. The disciplinary action against Italy was halted after the EU Commission accepted the new target. Even though Italy's decision to reduce the budget deficit in line with the EU recommendations was considered as positive development for region's economy, criticism on "populist" budget composition remained high on agenda.

#### Preparation for "Brexit with no deal" is on agenda.

With approximately 3 months left until Brexit, The British government warned



Source: ECB, Datastream

businesses and citizens to prepare for a “no-deal” scenario. In the statement, companies and citizens were asked to evaluate seriously the possibility of an exit from the EU with no deal and to make plan in this direction. Last week, the EU Commission also announced the measures that have been taken against the UK’s separation from the EU with no agreement. Measures cover 14 topics including mainly financial services, air transport, customs and climate policies.

#### Sharp decline in oil prices...

Growing concerns over global economic growth put downward pressure on oil prices via demand channel. The assessments that the production rise in the US will accelerate in the coming period also led oil prices to follow generally a downward trend over the past week. Brent crude oil’s barrel price fell by 11.9% on a weekly basis and closed the week at 51.6 USD.

#### Domestic retail sales fell sharply in October.

According to figures released by TURKSTAT, in October, domestic retail sales volume contracted by 7.5% compared to the same period of the previous year. While food, beverages and tobacco sales posted a limited annual increase of 1.6%, non-food sales decreased by 12.1% in the same period. The fact that the retail sales volume, which considered as a leading indicator of private consumption spending (an important sub-item of GDP), made a weak start to the last quarter, supported the views that the domestic demand has been weak in this period.

#### Consumer confidence remains weak.

According to data released by TURKSTAT, Consumer Confidence Index declined by 1.4 points mom to 58.2 in December. With a quarterly average of 58.4, the index exhibited a weak outlook in the last quarter of 2018, recording its weakest quarterly performance since the global financial crisis.

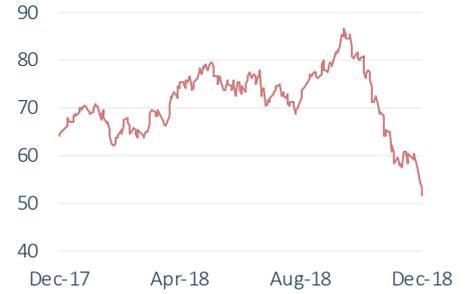
#### Financial markets...

Global stock exchange indices displayed a downward trend in the last week, while the BIST-100 index had a favorable outlook. During the week, improved risk appetite in domestic markets driven by diminishing geopolitical concerns and the decline in oil prices provided support to TRY. Although USD/TRY tested below 5.20 during the week, the parity has completed the week above 5.30 level, after the Fed’s interest rate hike. The compound interest rate of the 2-year benchmark bond also decreased by 47 basis points to 20.87% on a weekly basis thanks to the optimism in the markets.

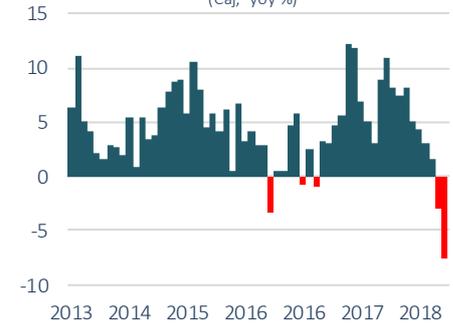
#### This week’s agenda...

Due to Christmas holiday, trading volumes in global markets are expected to be generally low. This week, there are no significant data releases either locally or in the global markets while geopolitical developments and news about the trade wars may come to the forefront.

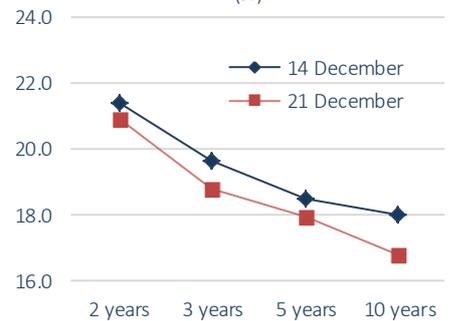
**Oil Price**  
(Brent, USD/barrel)



**Retail Sales**  
(Caj, yoy %)



**TRY Yield Curve**  
(%)



#### Data Releases

		Period	Consensus	Prior
<b>26 December</b>	TR Capacity Utilization Ratio	December	-	74.1%
	TR Real Sector Confidence Index	December	-	92.8
<b>27 December</b>	US Build Permits (mom %)	November	-	5.0%
	US Jobless Claims	17-22 Dec	-	214k person
	US Consumer Confidence	December	134.3	135.7
<b>28 December</b>	US New Home Sales (mom %)	November	2.0%	-8.9%
	TR Economic Confidence Index	December	-	73.7
	US Chicago PMI	December	63	66.4
	US Pending Home Sales (mom %)	November	-0.5%	-2.6%

## Sectoral Developments

### Home sales declined in November.

In Turkey, home sales in November decreased by 27% compared to the same period of the previous year to around 90k units. Mortgage sales which have high interest rate sensitivity, had dropped by 85.7% yoy. Thus, the share of mortgage sales in total sales was 5.9%. AS discounts on both VAT and title deed fees together with the sector campaigns had brought forward demand, housing sales had increased by 19.2% yoy in October. Due to the weak performance of mortgage home sales throughout the year, the annual fall in home sales was 3% during the January-November period.

### House prices have remained weak.

According to data released by the Central Bank, house prices increased by 6.8% yoy in October. As inflation indicators picked up to high levels in this period, house prices decreased by 14.7% yoy in real terms due to the weak demand in the sector. The annual decline in house prices, on real basis, was 18.7% in Istanbul, 17.6% in Ankara and 11.9% in Izmir.

### White goods sales fell despite the reduction in SCT.

Domestic white goods sales, which have been contracting for a while in parallel with the slowdown in domestic demand, plunged by 21% yoy in November. The annual fall in sales came in at 17% during the January-November period. In order to stimulate domestic sales in the sector, the special consumption tax (SCT) rate was reduced to 0% on October 31. This development led to 4-5% fall in prices and the contraction in white good sales slowed down slightly. Despite the weak course in the domestic market, exports of the sector continued to increase. Exports, which increased by 11% yoy in November, climbed by 7% yoy in the first 11 months of the year, on quantity basis.

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