

	28-Dec	4-Jan	Change		28-Dec	4-Jan	Change
BIST-100 Index	90,435	88,831	-1.8 % ▼	EUR/USD	1.1436	1.1393	-0.4 % ▼
TRY 2 Year Benchmark Rate	19.73%	19.71%	-2 bp ▼	USD/TRY	5.2715	5.3301	1.1 % ▲
Turkey 5-Year CDS	359	357	-1 bp ▼	EUR/TRY	6.0203	6.0603	0.7 % ▲
MSCI EM Equity Index	963	965	0.2 % ▲	Gold (USD/ounce)	1,281	1,285	0.3 % ▲
US 10-Year Bond Rate	2.74%	2.66%	-8 bp ▼	Brent Oil (USD/barrel)	50.6	55.9	10.5 % ▲

bp: basis point

Volatility in global markets heightened in the first week of 2019. Deterioration in the risk perception due to the increase in concerns about global growth caused selling pressure in global financial markets, particularly in emerging markets. Domestic markets were also affected negatively by these developments. In the last week, inflation, foreign trade and PMI were closely monitored in domestic market. Throughout this year, trade wars and expectations for global economic activity are expected to be the focus of the markets.

Robust rise in US nonfarm payrolls...

Rise in US nonfarm payrolls was well above the expectations by 312K people in December. Upward revisions in October and November data confirmed that strong recovery is still in effect regarding the US labour market. In addition to the robust employment readings, 0.4% monthly rise in hourly wages also surpassed the market expectations. Although employment figures supported the expectations of a continuation of the current rate-hike path as anticipated by Fed members, risk appetite has increased thanks to Fed Chair Jerome Powell's statements on Friday, saying that Fed would be "patient" with its monetary policy and watch the markets closely.

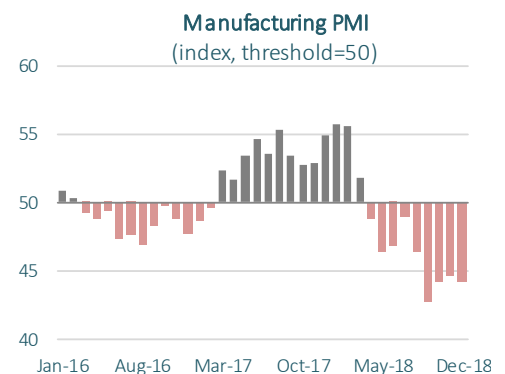
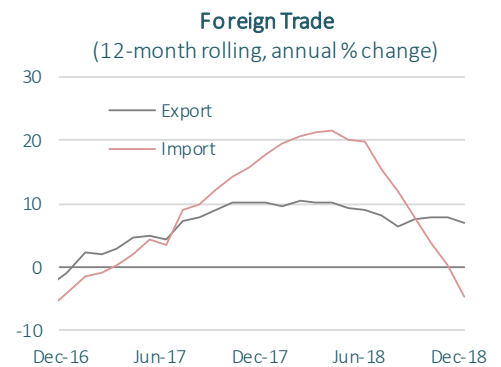
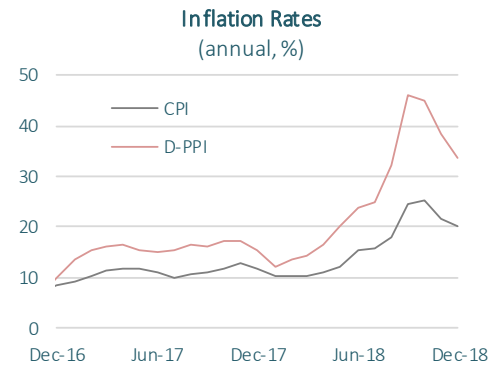
Inflation stood at 20.3% at the end of 2018 in Turkey.

In December, consumer prices declined faster than market expectations by 0.4% on a monthly basis. In December, domestic PPI (D-PPI) has continued its rapid decline by decreasing 2.22% mom. In December, annual CPI inflation, which has followed a downward trend after reaching its peak in October, fell to 20.3%. This level is lower than the year-end forecast of New Economic Program (20.8%) and CBRT's expectation (23.5%) announced in the latest Inflation Report. The annual increase in D-PPI also declined to 33.64%. Previously, it was announced that electricity prices for residences, as well as natural gas prices for residences, SME's and commercials will be reduced by 10%. We estimate that this development will pull down the January CPI inflation by about 0.45 points.

In 2019, the inflation is expected to be driven by domestic demand and exchange rate developments. In this context, we expect annual CPI inflation to hover around 20% in the first half of the year and to decrease to 16% at the end of 2019 after following a downward trend in the second half of the year ([Our Inflation Report](#)).

Recovery in the foreign trade balance continues.

In November, export volume increased by 9.4% yoy to 15.5 billion USD while import volume declined by 21.3% to 16.2 billion USD. Falling for the sixth consecutive month, foreign trade deficit narrowed by 89.8% compared to the same period of the previous year. Due to the weak course in domestic demand, imports of consumption goods declined by 43.1% yoy in November, continuing the falling trend since April. According to preliminary data announced by Ministry of Commerce, in December, exports rose by 0.4% yoy to 13.9 billion USD while imports fell by 28.2% yoy to 16.6 billion USD. As a result, foreign trade deficit was contracted by 71.1% yoy to 2.7 billion USD in December ([Our Foreign Trade Balance report](#)).



Source: Datastream

Leading indicators for December...

Manufacturing industry purchasing managers' index (PMI) declined to 44.2 in December, pointing out the ongoing contraction in the sector's activities since April 2018. On the other hand, economic confidence index rose by 2% mom to 75.2 in December. The index, which declined to its lowest level in the last 10 years in October, has brought its rise to its second consecutive month.

The seasonally adjusted real sector confidence index has been realized at 97.7, the highest level since July. However, the fact that the index remained below the 100 threshold level indicates that the confidence of the real sector representatives regarding the economic activity continues to follow a weak outlook. Seasonally adjusted manufacturing capacity utilization rate (CUR) increased slightly compared to the previous month. The CUR, which was 74% in December, had started the year 2018 at around 80%.

26% increase in minimum wage...

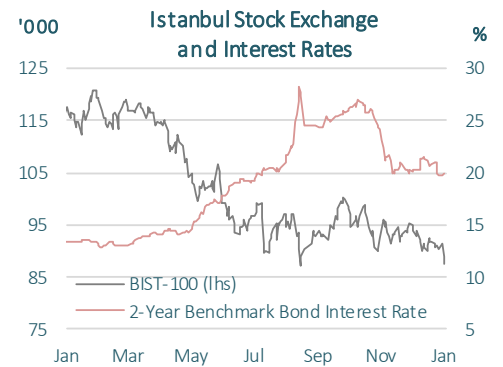
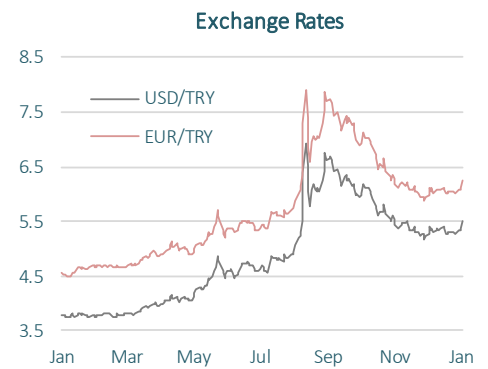
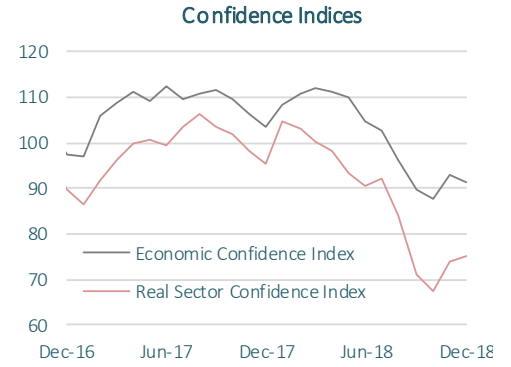
The minimum wage for 2019 has been set at 2,020 TRY, with 26% increase. In addition, it is announced that in order to support the labor market, the state will cover all insurance and tax expenses of the people to be hired for the first time. Moreover, the minimum wage support and regional employment incentives were extended by 1 year; while VAT will not be collected from new machinery equipment purchases of the real sector. In addition, tax cuts applied in the housing, furniture, white goods and automotive sectors were extended for three months.

Financial markets...

Last week, when trading volumes were relatively low, global markets fluctuated in a wide band. While increasing concerns about the slowing down of global economic growth led to deterioration in risk perception, positive developments for the ongoing trade war between the United States and China supported the markets. Domestic markets, which remained calm before the New Year's holiday, has experienced relatively higher volatility with the beginning of trading after the holiday. USD/TRY rose by 2% in the first trading day of the year; however, it marginally fluctuated in Asian markets when Turkish markets were closed before settling around 5.40. BIST-100 index also declined by 1.8%.

The markets in 2018 ...

USD/TRY rose by 39.6% yoy in 2018 and closed the year at 5.29. EUR/TRY also increased by 33.1% yoy to 6.05 as of the year end 2018. In this period, BIST-100 index declined by 20.9% while 2-year benchmark bond's interest rate surged by 633 basis points. The barrel price of Brent oil, which exceeded 85 USD within the year, plunged by 24.6% yoy to 50.6 USD as of year-end 2018.



Data Releases

		Period	Consensus	Prior
7 January	USA Factory Orders, mom	November	0.4%	-2.1%
	Euro Area Retail Sales, mom	November	0.2%	0.3%
8 January	Euro Area Economic Sentiment	December	108.9	109.5
9 January	Treasury Debt Redemption	January	1,951 million TRY	-
	Fed FOMC Minutes	December	-	-
11 January	China CPI, yoy	December	2.1%	2.2%
	CBRT Balance of Payments Statistics	November	-	2.8 billion USD surplus
	CBRT Survey of Expectations	January	-	-
	USA CPI, yoy	December	1.9%	2.2%

Source: Datastream

Sectoral Developments

Tax incentives to increase domestic demand were extended for three months.

Tax incentives covering housing, furniture, white goods and automotive sectors, which were initially implemented for the last two months of 2018, have been extended for three more months. Additionally, special consumption tax (SCT) on motorbikes has been reduced to "0%". In white goods sector, SCT had been reduced to "0%" till the end of the year, while VAT on furniture had been decreased from 18% to 8%. In the automotive sector, VAT on motor vehicles less than 1600 cc had been reduced by 15 points; VAT on commercial vehicles had been readjusted as 1% from 18%. Furthermore, the title deed fees and VAT for house sales which had respectively been brought down to 3% and 8% will remain at these discounted percentages until the end of the March. On the other hand, excise tax on alcoholic beverages was increased by 13.5%. In addition to the excise tax, other tax on alcoholic beverages was not changed.

Number of tourists continued to increase in November.

Recovery in the number of tourist arrivals to Turkey has continued in November. According to data released by the Ministry of Culture and Tourism, number of foreign visitors to Turkey increased by 19% in November and reached 2 million people. In January-November period, number of visitors increased by 22.25% to reach 37.5 million people. Positive trend in the tourism sector is expected to continue in 2019.

Final product imports in livestock sector are expected to continue in 2019.

Quota that is allowing Meat and Milk Board to import livestock and carcass meat with zero custom tax has been extended till the end of 2019. Last year on July 29th, Meat and Milk Board was authorized by Council of Minister to import as much as 500K cattle, 475K sheep, 75K tons of bovine meat and 20K tons of carcass meat with zero custom tax. This extension means that import of final goods in the sector will continue in 2019. However, considering the course of economic activity, it is estimated that imports may slightly decline in 2019.

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