

	4-Jan	11-Jan	Change		4-Jan	11-Jan	Change
BIST-100 Index	88,831	91,687	3.2 % ▲	EUR/USD	1.1393	1.1467	0.6 % ▲
TRY 2 Year Benchmark Rate	19.71%	18.94%	-77 bp ▼	USD/TRY	5.3301	5.4520	2.3 % ▲
Turkey 5-Year CDS	357	367	10 bp ▲	EUR/TRY	6.0603	6.2544	3.2 % ▲
MSCI EM Equity Index	965	1,001	3.7 % ▲	Gold (USD/ounce)	1,285	1,288	0.2 % ▲
US 10-Year Bond Rate	2.66%	2.70%	4 bp ▲	Brent Oil (USD/barrel)	55.9	59.1	5.7 % ▲

bp: basis point

The expectation that the Fed, which raised the policy rate four times in 2018, will continue rate hikes at a much slower pace in 2019 supported the global markets last week. The positive developments regarding the trade negotiations between the USA and China were also influential in the course of global markets. While current account balance gave a surplus in November in Turkey, the new regulations to support economic activity were closely monitored. This week, Brexit vote in UK Parliament in January 15 is expected to be high on the global agenda.

### Fed signals slower pace of rate hikes.

As the minutes of the Fed's December meeting showed, the Fed officials are likely to adopt a more cautious policy approach on interest rate increases in the following period. Last week, Fed Chair Jerome Powell stated that the Fed's balance sheet will continue to shrink, yet they could afford to be patient on rate hikes. In an environment where concerns about global economic activity have been growing, the views that the Fed may reduce the pace of hikes in 2019 strengthened. These expectations supported the global markets while the US dollar remained under pressure.

### Optimism grows over trade talks.

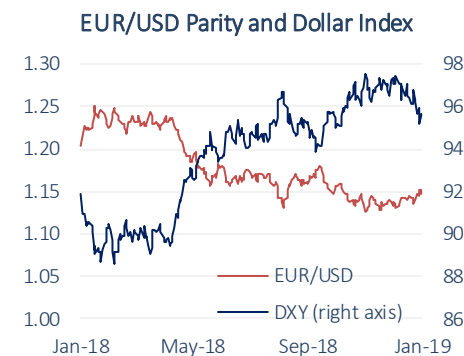
The first round of negotiations between the USA and China held in Beijing yielded signs of progress. Following these mid-level officials' talks, Vice Premier Liu He, the highest-level official in China's trade talks, is due to visit the United States this month and to meet with Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin. High-level talks deserve more attention since they may culminate in the two sides coming out with the necessary decisions to calm the trade war.

### Minutes of the ECB meeting...

The European Central Bank (ECB) published the minutes of its December meeting. According to the minutes, ECB members' concerns about global growth heightened. They suggested that economic activity in the Euro Area slowed down due to weak external demand and country-specific factors. The minutes also included a suggestion to review the contribution of targeted longer-term refinancing operations to the monetary policy stance in the upcoming period.

### World Bank trimmed its global growth forecast.

World Bank released its Global Economic Prospects report. Noting trade wars and the recent slide in financial markets, World Bank cut its global growth forecast for 2019 by 0.1 points to 2.9%. Citing that EMs could remain under further pressure due to the fall in foreign demand, the rise in borrowing costs and political uncertainties, World Bank lowered its 2019 growth forecast for emerging countries by 0.5 points to 4.2%. For Turkey, estimating a growth rate of 3.5% in 2018, the Bank revised its growth forecast for 2019 down to 1.6% from 4%.



### World Bank Growth Projections

	January Projections	January - June 2018 Projections		
World	2.9	2.8	-0.1	-0.1
AE	2.0	1.6	0.0	-0.1
EE	4.2	4.5	-0.5	-0.2
Turkey	1.6	3.0	-2.4	-1.0

AE: Advanced Economies, EE: Emerging Economies

Source: World Bank, Datastream

### Current account balance gave a surplus also in November.

Current account balance posted a surplus of 986 million USD in November, giving a surplus in the fourth consecutive month. Foreign trade figures and positive course of tourism revenues were effective on this development. 12-month cumulative current account deficit (CAD), which continued to decline, fell to 33.9 billion USD, the lowest level since March 2017. Besides, 12-month CAD excluding net energy trade gave a surplus of 4.7 billion USD as of November ([Our Balance of Payments Report](#)).

### Industrial production continued to decline.

Parallel to the rebalancing in economic activity, contraction in industrial production continued in November. According to calendar adjusted figures, industrial production and production in manufacturing industry decreased by 6.5% and 7.1% yoy, respectively. Production fell on annual basis in 18 out of 24 sub-sectors in the manufacturing industry. It was noteworthy that production shrank at double digit levels in leading sectors like automotive and basic metals.

### Treasury's bond issuance...

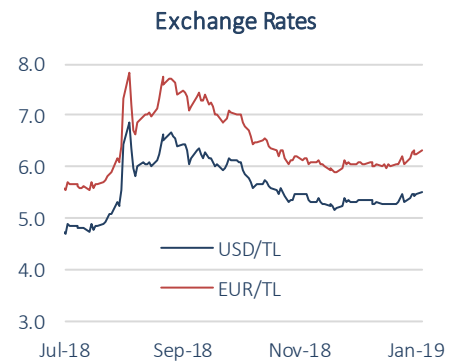
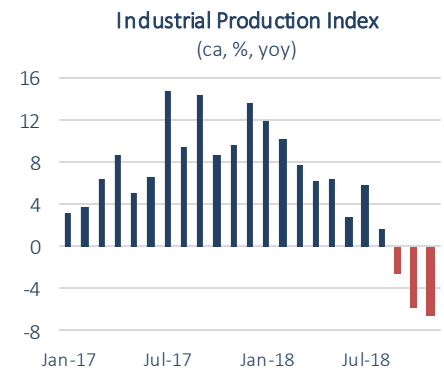
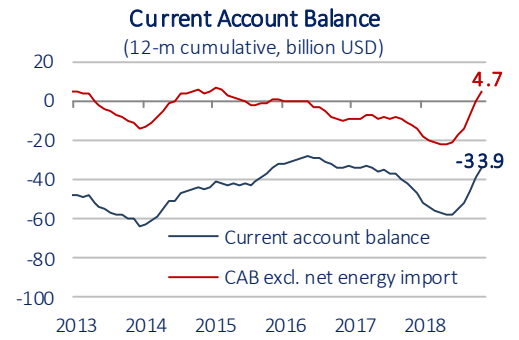
As part of Treasury's external financing program of 2019, Ministry of Treasury and Finance issued USD denominated bond with April 2029 maturity date. The coupon rate was realized as 7.625% in bond issuance. While total amount of the issuance was converted into an equivalent euro liability, total euro funding cost became 4.965%. The demand for bond issuance was more than 2 times of the amount. With this transaction, Treasury completed 2 billion USD of 8 billion USD external financing program of 2019.

### Domestic markets...

BIST-100 index increased by 3.2% on a weekly basis to 91,687 as favorable outlook in global markets was mirrored in domestic market. Turkish lira continued its fluctuating trend last week. While USD/TL completed the week at 5.4520, EUR/TL became 6.2544.

### This week's agenda...

This week, Brexit vote in UK parliament will be followed closely in global markets. The agreement is not expected to be approved by parliament. Developments in trade negotiations between US and China and US government shutdown were high on agenda. CBRT meeting will be closely monitored in domestic market.



### Data Releases

		Period	Consensus	Prior
14 January	Industrial Production, ca, yoy	November	-6.5% (A)	-5.7%
	Euro Area Industrial Production, yoy	November	-	1.2%
15 January	Unemployment Rate	October	-	11.4%
	Budget Balance	December	-	7.6 billion TRY
16 January	USA PPI, yoy	December	-	2.5%
	CBRT Meeting	January	-	-
17 January	UK CPI, yoy	December	-	2.3%
	USA Retail Sales, mom	December	0.2%	0.2%
18 January	Euro Area HICP, final, yoy	December	2.2%	1.9%
	USA New Home Sales	December	1.26 million unit	1.26 million unit
18 January	USA Industrial Production, mom	December	0.3%	0.6%
	USA Michigan Consumer Sentiment	January	96.9	98.3

(A) Actual

Source: Datastream

## Sectoral Developments

### **Turkey resumed imports of Iranian crude oil..**

Turkey restarted to import crude oil from Iran under the waiver granted by the USA which had re-imposed sanctions against Iran. The USA had granted exemptions from Iran sanctions for 8 countries, including Turkey, from the beginning of November. Under the exemption Turkey is allowed to import about 60 thousand barrels crude oil per day. On the other hand, the USA authorities have announced that exemptions will end in May and granting new exemptions is not on the agenda.

### **The proposal regulating the price of domestic crude oil was approved by the Parliamentary Committee.**

The legislative proposal for amendments to some laws, including the Mining Law and the Petroleum Market Law, was approved by the Turkish Parliament's Committee on Industry. The price of domestic crude oil will be based on Arab Heavy prices in Saudi Arabia instead of Ras Gharib in Egypt. The organization of the Energy Market Regulatory Authority (EMRA) is being restructured via the proposal, while the proposal gives right to EMRA to request letter of guarantee from license holders for the collection of financial obligations defined under the regulation. Some amendments have been made in the Petroleum Market Law and high penalties are foreseen for the actions that fall within the scope of fuel smuggling.

### **The number of installments in TV purchases up to 3,000 TRY has been increased.**

The Banking Regulation and Supervision Agency (BRSA) announced that the installment limit has been increased from 3 months to 9 months for television purchases up to 3,000 TRY. On the other hand, the regulations that determine the amount of installments to be applied to credit cards are removed. It was announced that the installment numbers will be determined by the BRSA by taking into consideration the views of Presidency Strategy and Budget Directorate, the Ministry of Treasury and Finance and the Ministry of Commerce. It was announced that the installment restrictions announced before the amendment are valid.

### **New loan package to support SMEs...**

The details of the new loan package for SMEs to support economic activity were announced. The package aims to meet the financing needs of enterprises with an annual turnover of less than 25 million TRY. The total size of the package is planned to be 20 billion TRY, while the package is intended to provide loans to 40,000 enterprises.

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