

	11-Jan	18-Jan	Change		11-Jan	18-Jan	Change
BIST-100 Index	91,687	98,455	7.4 % ▲	EUR/USD	1.1467	1.1361	-0.9 % ▼
TRY 2 Year Benchmark Rate	18.94%	18.19%	-75 bp ▼	USD/TRY	5.4520	5.3273	-2.3 % ▼
Turkey 5-Year CDS	367	329	-38 bp ▼	EUR/TRY	6.2544	6.0577	-3.1 % ▼
MSCI EM Equity Index	1,001	1,018	1.7 % ▲	Gold (USD/ounce)	1,288	1,281	-0.5 % ▼
US 10-Year Bond Rate	2.70%	2.78%	8 bp ▲	Brent Oil (USD/barrel)	59.1	62.2	5.2 % ▲

bp: basis point

Statements by the Fed officials last week strengthened the possibility for a pause on interest rate hikes. Along with this, ongoing optimism over trade negotiations between the US and China boosted global risk appetite. In Turkey, as CBRT kept its tight monetary policy stance at the meeting on Wednesday, financial markets showed a positive performance. On the other hand, leading indicators indicated that economic activity continued to slow down. Labor market further deteriorated as of October.

Fed signals a slower pace in rate hikes...

Last week, Fed officials' statements pointed to a possible pause in the interest rate hikes. Mild inflation and growth concerns are behind these statements. Even though the yield curve has been slightly normalized in recent weeks due to the increase in long-term interest rates, the possibility of recession in the next two years continued to be discussed. The government shutdown since December 22 raises the concerns about the growth rate of the first quarter. On the other hand, industrial production released on Friday, showed an increase of 0.3% in December, slightly above the forecasts.

Ongoing optimism over US-China trade talks...

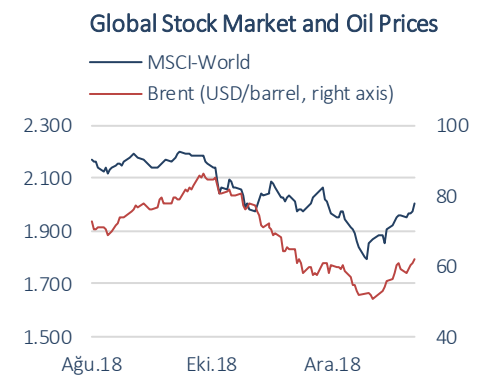
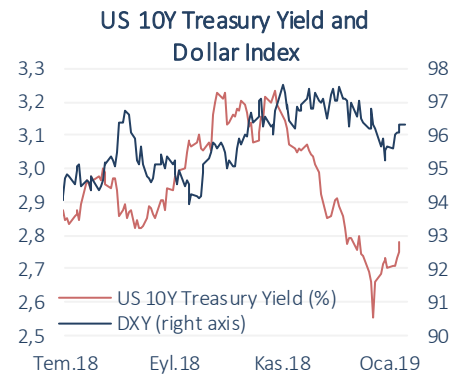
Positive signals are coming from the talks between the US and China. The news that the current ceasefire may last longer and that some of the previously taken decisions can be withdrawn are on the agenda. On the other hand, due to the trade wars, China's exports in December recorded the fastest decline in the last two years. In addition, Chinese economy, growing by 6.4% in the last quarter of 2018, recorded the weakest annual growth in the last 28 years with 6.6%. China's Central Bank's expansionary monetary policy steps against the slowing economy limit the deterioration in risk perception.

Global markets and commodity prices...

Strong earnings from US companies, optimistic expectations about trade wars and the rise in oil prices were among the developments that supported the global stock markets last week. As of Friday, the increase in oil prices since the end of the year has exceeded 20% due to the decline in US oil inventories and OPEC's production cuts. The monthly decline in the production of OPEC countries recorded the sharpest fall in the last two years.

Brexit gridlock...

The UK Parliament, which rejected the Brexit agreement reached between the EU and the May's government with a clear majority, gave a vote of confidence to May a day later. GBP/USD climbed up to 1.30 on Thursday thanks to the statements from both parties that strengthen the possibility of a renegotiation of the deal. Today, May is expected to present a new agreement proposal to the Parliament.



Source: Datastream

The year-end budget deficit was consistent with the NEP estimate.

The central government budget deficit increased by 52% compared to 2017 and was realized at 72.6 billion TRY. This level is parallel to the forecast in the New Economy Program announced in September. In NEP, the budget deficit to GDP ratio forecast was 1.9% for 2018 and 1.8% in 2019. In line with the slowdown in the economic activity and the tax cuts, tax revenues has increased significantly below the inflation rate, while non-interest expenditures have lost momentum ([Our Budget Balance Report](#)).

Employment indicators continued to deteriorate.

Seasonally adjusted unemployment rate reached its highest level since March 2017 with 11.5% in October. As of October, employment which increased in services and industrial sectors, decreased significantly in construction sector. Accordingly, the share of construction in total employment tended to decline.

CBRT kept the interest rate unchanged.

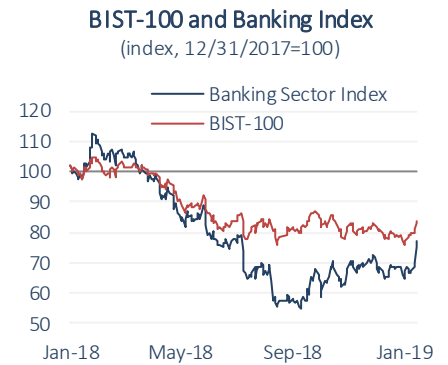
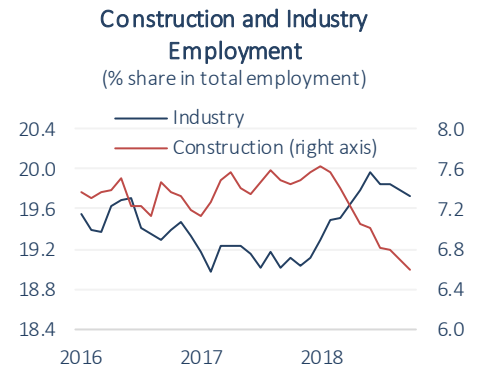
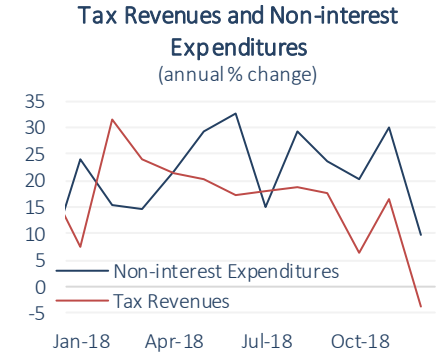
CBRT has left the policy interest rate at 24% in line with the expectations at the Monetary Policy Committee meeting on January 16. Indicating that the rebalancing trend in economic activity became more evident, the Central Bank has forecasted that the improvement in current account balance will continue. CBRT stated that the risks on price stability are continuing and reiterated that further monetary tightening could be made if needed.

Domestic markets...

Turkish lira appreciated against the dollar and euro last week due to the CBRT's tight monetary policy stance and increased risk appetite for emerging economies. BIST-100 index ended the week at 98,455 with a weekly increase of 7.4%. In this period, the rise in the banking index exceeded 14%. Bond market continued to present a more positive outlook compared to the previous months. The 2-year benchmark bond interest rate fell to its lowest level (17.99%) since June on Wednesday and ended the week at 18.19%.

This week's agenda...

Davos summit, US budget dispute, ECB meeting and Brexit process will be monitored this week. Also, trade negotiations between the US and China will remain on the agenda. On domestic markets, confidence indices are at the forefront. Geopolitical developments will also be followed.



Data Releases

		Period	Consensus	Prior
21 January	Central Government Debt Stock	December	-	1,409 billion TRY
22 January	2Y Treasury Bond Issuance	January	-	-
	US Existing Home Sales	December	5.24 million	5.32 million
23 January	Treasury Debt Redemption (1,540 million TRY)	January	-	-
	Consumer Confidence Index	January	-	58.2
24 January	Germany Manufacturing PMI (flash)	January	51.3	51.5
	Euro Area Manufacturing PMI (flash)	January	51.4	51.4
	ECB Monetary Policy Meeting	January	-	-
	US Manufacturing PMI (flash)	January	53.5	53.9
25 January	Manufacturing Capacity Utilization Ratio	January	-	74.1%
	Real Sector Confidence Index	January	-	91.5
	US Durable Goods Orders	December	1.8%	0.8%

Source: Datastream

Sectoral Developments

Home sales recovered somewhat in December while the increase in home prices continued to decelerate in November.

Having declined by 27% in November, home sales recorded a mild increase with 2.9% in December. The fall in mortgage sales slowed down to 79% from 86%. In 2018 as a whole, home sales contracted by 2.4%. Sales to foreigners gained speed along with the related stimulus. Sales to foreigners, which were 22 thousands in 2017, became 40 thousands in 2018. Most of these house sales were made in İstanbul, Antalya and Bursa.

The rise in house prices continued to lose momentum. Hedonic house price index increased by 6.6% yoy in November, at the slowest pace of the current index series which have begun to be released since 2010. House prices fell by 12.35% yoy in real terms during this period.

Retail sales volume index declined for the third month in a row.

Domestic retail sales further decelerated as the economic activity continues to slow down. Retail sales volume index registered an annual fall in November for the third consecutive month, according to calendar adjusted data. On the other hand, the seasonally adjusted index recorded a limited increase of 0.1% on a monthly basis. According to calendar adjusted data, annual increase in retail turnover index at current prices was 15.1%. The rate of the increase is the lowest since February 2017.

White goods sales shrank by 17% in 2018.

With the help of the tax cuts announced on October 31, the rate of the slump in domestic white goods sales eased in the last two months of 2018. Having stood at 50% in October, the annual fall became 15% yoy in December. In 2018 as a whole, on the other hand, domestic sales dropped by 17% yoy. The average monthly sales were 620 thousands in 2017. In 2018, this number came down to 515 thousands. According to White Goods Manufacturers' Association of Turkey, the sector will show a similar performance in 2019 if the special consumption tax cut is not further extended to the end of the year. In the current setting, tax cuts in furniture, white goods and automotive sectors will last until the end of March. Nevertheless, export performance of the white goods sector was satisfactory. Exports on a quantity basis, which rose by 8% yoy in December, increased by 6% yoy in 2018.

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