

	25-Jan	1-Feb	Change		25-Jan	1-Feb	Change
BIST-100 Index	101,801	102,937	1.1 % ▲	EUR/USD	1.1412	1.1454	0.4 % ▲
TRY 2 Year Benchmark Rate	18.19%	18.34%	15 bp ▲	USD/TRY	5.2678	5.2074	-1.1 % ▼
Turkey 5-Year CDS	315	306	-9 bp ▼	EUR/TRY	6.0103	5.9658	-0.7 % ▼
MSCI EM Equity Index	1,032	1,050	1.7 % ▲	Gold (USD/ounce)	1,303	1,318	1.1 % ▲
US 10-Year Bond Rate	2.75%	2.69%	-6 bp ▼	Brent Oil (USD/barrel)	61.7	62.6	1.4 % ▲

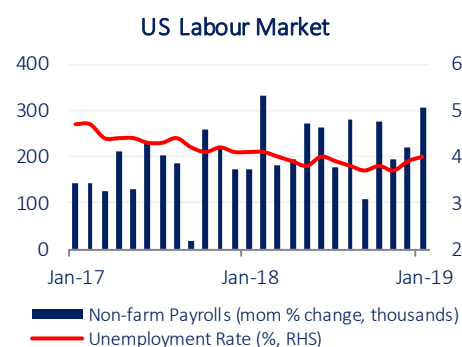
bp: basis point

Last week, Fed's monetary policy meeting and interest rate decision were closely watched in global markets. As expected, the Fed kept the interest rates on hold while having a dovish tone on the trajectory of interest rates. Hence, risk appetite has increased in the markets. US labor market data pointed out that strong employment growth continued in the economy. On the other hand, the data of Euro Area and China have raised concerns about the extent of the slowdown observed in both economies. In addition, the Brexit vote held in the UK Parliament was closely monitored. CBRT's Inflation Report came to the forefront in the agenda of domestic markets, where foreign trade, inflation and manufacturing PMI data were followed.

Fed has kept the interest rates on hold.

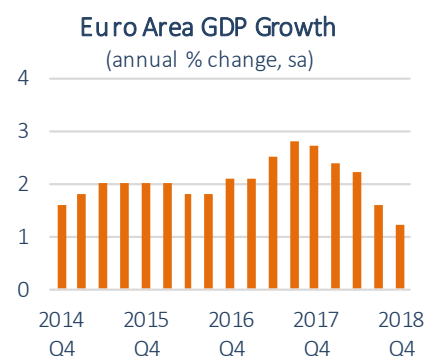
At the first meeting of 2019, the Fed has kept the policy interest rate on hold in the range of 2.25-2.50% in line with the expectations. The statement released after the meeting included some notable changes from last month. It dropped the reference to the Fed's plan for further gradual rate hikes and stated that Fed will be patient in the next period. Fed Chairman Powell said that the likelihood of a rate hike in recent period has weakened and Fed will be patient to support the economy. The dovish statements of Fed have increased the risk appetite in global markets.

In the US, non-farm employment increased far above the expectations with 304K in January, while the monthly rise in average hourly wages was below the forecasts with 0.1%. In this period, the unemployment rate increased by 0.1 points to 4%. The people that have not worked during the shut down of the US government also contributed to the rise in unemployment rate.



GDP growth of Euro Area has continued to slowdown in the last quarter.

According to the preliminary data, GDP growth in the last quarter of 2018 was realized as 1.2% yoy in the Euro Area. The figure, which is in line with the expectations pointed out that the rate of economic growth in the region now has slowed down continuously for the last five quarters. Moreover, according to the preliminary data, consumer inflation in the Euro Area declined to 1.4% in January, signaling a slowdown in domestic demand. Unemployment rate on the other hand, remained stable at 7.9% in December.



While the Italian economy receded into recession, Germany's retail sales data dropped sharply in December, with 4.3%, creating questions about the growth momentum in the Euro Area's largest economy. In his speech last week, ECB President Draghi, pointed out that the Euro Area economy has performed worse than the expectations in recent period.

Last week, Brexit votes in British Parliament showed that many of the members were keen to continue with the existing Brexit agreement if EU steps back on Irish Border issue and they were against a no-deal Brexit. On the other hand, EU administration stated that, there is no plan to have a new Brexit negotiation with Britain. Prime Minister May seems to be determined that UK leaves the European Union on March 29.

PMI realized at the lowest level for the last three years, in China.

According to official data released in China, the NBS manufacturing PMI was realized at 49.5 in January, slightly higher than the expectations. On the other hand, Caixin manufacturing PMI, which reflects the performance of small and medium-sized companies, has decreased to 48.3 which is the lowest level in the last three years. The data have raised concerns over the pace of the slowdown in the Chinese economy.



Source: Datastream

The weak outlook in Turkish manufacturing industry continues.

The Turkish manufacturing PMI data started the year 2019 with a flat course. The data, which was realized as 44.2 in January, showed that the weak outlook in manufacturing industry's activity continues. According to the sub-groups of the index, while the production and total orders lost momentum, new export orders remained flat. On the other hand, the decrease in cost inflation and the decrease in final product prices have continued in the first month of the year.

Foreign trade deficit declined 28.4% in 2018.

In 2018, foreign trade deficit declined by 28.4% yoy and realized at 55 billion USD. In this period, export volume increased by 7% and reached 168 billion USD, a record high level. On the other hand, import fell by 4.6% to 223 billion USD. The items related with iron&steel and automotive sectors recorded the largest increases in exports. The decrease in imports spread to all sub items, excluding energy and metal products. With the expected downward pressure on imports that are coming from the decrease in consumption and investments in the first half of 2019, it is forecasted that net exports will have a significant importance for the GDP growth ([Our Foreign Trade Balance Report](#)).

January inflation rate is released.

In January, CPI increased by 1.06% mom, while the annual rise was realized as 20.35%. In this period, annual consumer inflation in food and non-alcoholic beverages group has reached 31%. Following the 2.2% drop in December, D-PPI rose by 0.45% mom and by 32.9% yoy in January. ([Our Inflation Report](#)).

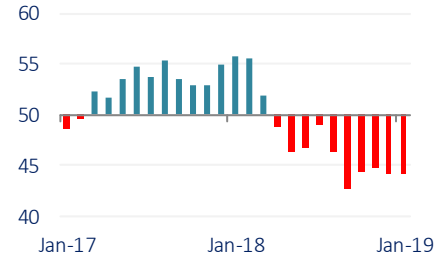
Domestic Markets...

Last week, domestic markets followed a positive course generally. As well as Fed's dovish statements, CBRT's statements about preserving the current tight monetary stance, have supported the risk appetite. While BIST-100 index increased 1.1% w/w, Turkish lira appreciated against the dollar and the euro. Starting the week over 5.30 level, USD/TL closed the week at 5.21 after hitting its lowest at 5.16.

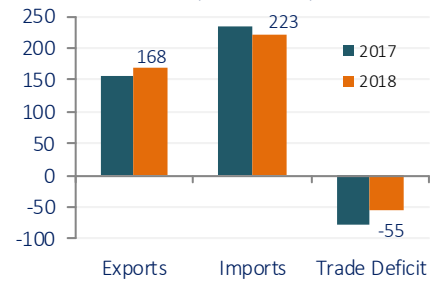
This week's agenda...

This week global markets will follow the services PMI data, PPI in Euro Area, BoE meeting and the growth data in UK. In domestic markets, inflation data's influence on markets will be followed.

TR Manufacturing PMI
(seasonally adjusted)



Foreign Trade
(billion USD)



Exchange Rates



Data Releases

		Period	Consensus	Prior
4 February	TR CPI, monthly	January	1.06% (A)	0.40%
	TR D-PPI, monthly	January	0.45% (A)	-2.22%
	Euro Area PPI, monthly	January	-0.8% (A)	-%0.3
5 February	US ISM Non Manufacturing PMI	January	57.1	57.6
	US Markit Services PMI	January	54.2	54.2
	Euro Area Markit Services PMI	January	50.8	50.8
6 February	Treasury Debt Redemption (725 million TRY)	February	-	-
7 February	Germany Industrial Production, monthly	December	0.6%	-1.9%
	BoE Meeting	February	-	-

(A) Actual

Source: Datastream

Sectoral Developments

Fall in economic confidence index...

Turkstat figures showed that economic confidence index fell by 4.2% to 78.5 in January. In this period, all sub-indices excluding construction sector declined while sharp drops in confidence in services and retail trade sectors were noticeable.

Rise in tourism revenues....

According to data published by Ministry of Culture and Tourism, number of foreign visitors rose by 22% yoy to 40 billion in 2018. In this period, tourism revenues increased by 12.3% to 29.5 billion USD. Positive outlook in the sector influenced hotel occupancy rates as well. Data published by the Hotel Association of Turkey (TUROB) pointed out that Turkey became the leader country among Europe in terms of recorded rise in both revenues per room and occupancy rates in 2018. On the other hand, revenue per room continued to remain below the European average. Commenting on these figures, TUROB Chair cited that average room prices still haven't reached the levels of the previous 4-5 years.

Tariffs on steel exports to EU are now in place...

In January, European Commission had announced that proposed tariffs on steel exports to the EU market would be in place starting from February 2nd. Along with Turkey, China, Russia, Ukraine and South Korea will likely to be effected by the execution which will be due by July 2021.

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