

	8-Feb	15-Feb	Change		8-Feb	15-Feb	Change
BIST-100 Index	102,452	102,715	0.3 % ▲	EUR/USD	1.1328	1.1293	-0.3 % ▼
TRY 2 Year Benchmark Rate	18.37%	18.60%	23 bp ▲	USD/TRY	5.2464	5.2704	0.5 % ▲
Turkey 5-Year CDS	314	309	-5 bp ▼	EUR/TRY	5.9380	5.9520	0.2 % ▲
MSCI EM Equity Index	1,036	1,031	-0.5 % ▼	Gold (USD/ounce)	1,314	1,321	0.5 % ▲
US 10-Year Bond Rate	2.63%	2.67%	3 bp ▲	Brent Oil (USD/barrel)	61.7	66.0	7.0 % ▲

bp: basis point

Last week, while favorable developments were recorded in trade talks between the US and China, budget bill was signed in order to keep federal government open in US. These developments supported global markets. On the other hand, retail sales data, which signaled the US economy may be slowing faster than expectations, put pressure on markets. Domestic markets had a heavy data agenda. While industrial production contracted above forecasts in December, deterioration in labor market indicators continued in November period. In 2018, current account deficit declined to 27.6 billion USD. CBRT lowered reserve requirement ratios. S&P's assessment regarding Turkey's credit rating was also monitored in domestic markets.

Progress in US-China trade talks...

Last week, US and Chinese senior officials met in Beijing to discuss trade relations. After the talks, US Treasury Secretary Steven Mnuchin stated that they had productive talks, while China's President Xi said he hoped the talks would resume in the US this week and that an agreement would be reached between the two countries. Trump also asserted that the talks have been on a positive note, and announced that the tariffs to be raised on March 1 could be delayed for 60 days.

Trump signed the bill to avert another shutdown.

Last week, the Republicans and the Democrats agreed on the border security plan to prevent the government from closing again. Trump stated that he had agreed to sign the bill to avoid another government shutdown, but declared a national emergency to secure Mexican wall funding.

The US data drew a negative picture of the economy.

The data released last week in the US signaled that the economic activity might be slowing down faster than expected. In January, US consumer prices did not change mom, but increased by 1.6% yoy. Despite market forecasts in favour of an increase, retail sales fell 1.2% in January mom, demonstrating the sharpest decline since September 2009. Industrial production fell 0.6% in the same period and retreated for the first time since last May. Capacity utilization rate also came in below expectations.

Rapid rise in oil prices...

Oil prices rose sharply last week on the back of OPEC-led supply cuts and the partial closure of Saudi Arabia's largest offshore oilfield as well as optimism over US-China talks. The continued rise in crude oil inventories in the US limited the rise in oil prices. In addition, OPEC lowered global oil demand forecast for 2019, citing the slowdown in global economic activity.

Domestic industrial production contracted by 9.8% in December.

The contraction in industrial production continues to deepen. As per calendar adjusted data, industrial production index decreased by 9.8% yoy in December 2018, displaying the most negative monthly performance since June 2009. In the manufacturing industry, the production in 18 out of 24 sub-sectors fell annually. Among major expenditure groups, the decline in intermediate goods and capital goods production have accelerated.

Unemployment rate approached the highest in the last 3 years.

Unemployment rate increased by 2 points yoy to 12.3% in November 2018 period. Recording seventh rise in a row, the unemployment rate reached the highest level since February 2017. In the same period the unemployment rate of the young

Global Stock Markets



Oil Price
(Brent, USD/barrel)



Industrial Production Index
(ca, %, yoy)



Source: Datastream, Turkstat

population aged between 15-24 increased to 23.6%, while seasonally adjusted unemployment rate rose to 12%.

Budget deficit posted a surplus of 5.1 billion TRY in January.

In January, central government budget revenues increased by 66.6% yoy to 97 billion TRY, while budget expenditures rose by 62.5% yoy to 91.9 billion TRY. Hence, the budget surplus tripled compared to a year ago and came in at 5.1 billion TRY in the first month of 2019. CBRT's early profit transfer to the budget was effective in the rapid rise in budget revenues ([Our Budget Balance Report](#)).

Current account deficit became 27.6 billion USD in 2018.

Having posted surpluses on monthly basis since August 2018, current account balance gave a deficit of 1.4 billion USD in December. In 2018, current account deficit decreased by 41.6% yoy to 27.6 billion USD, the lowest level since 2009. While portfolio investments followed a weak course during 2018, official reserves and net errors omissions stood out in financing of current account deficit ([Our Balance of Payments Report](#)).

Inflation expectations declined.

According to the results of CBRT's Expectations Survey, markets' inflation expectations for the year-end declined from 16.45% to 15.91% in February. Also, the USD/TRY forecast for the year-end, which was 6.18 last month, declined to 5.99. Moreover, growth forecast for 2019 declined from 1.4% to 1.2% and the forecast for the current account deficit became 23.6 billion USD.

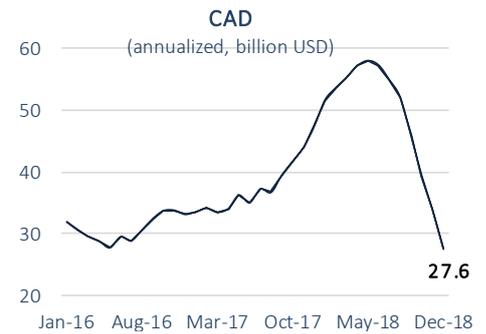
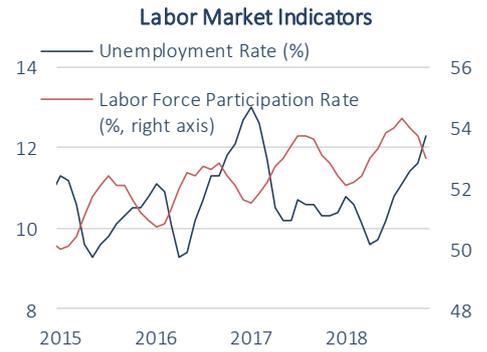
CBRT reduced the required reserve ratios.

CBRT reduced the Turkish lira reserve requirement ratio by 100 basis points for deposits and participation funds with maturities up to 1-year and for other liabilities with maturities up to (and including) 3-year, and by 50 basis points for all other liabilities subject to reserve requirements. Furthermore, the upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents has been increased from 5% to 10% of Turkish lira reserve requirements.

Domestic markets and this weeks agenda...

Having a data-intensive agenda last week, domestic markets also followed credit rating agency S&P's assessments about Turkey's credit rating. The agency maintained Turkey's sovereign rating at "B+" with a stable outlook. S&P stated that Turkey's credit rating might be decreased if the risks that suppress Turkey's financial stance appears. Last week, BIST-100 index remained flat, while the 2-year benchmark bond yield increased by 23 basis points to 18,60%. USD/TRY, which rose to 5.32 during the weekdays, completed the week at 5.27.

This week, global markets will closely follow ongoing meetings between the US and China regarding trade issues as well as Fed's meeting minutes and flash PMI data in US and Euro Area. In Turkey, capacity utilization rate and real sector confidence index will be announced on Friday.



Data Releases

		Period	Consensus	Prior
19 February	Germany ZEW Economic Sentiment	February	-13.5	-15.0
20 February	Euro Area Consumer Confidence, flash	February	-8.0	-7.9
	FOMC Minutes	January	-	-
	Treasury Debt Redemption (17.9 billion TRY)	February	-	-
	Consumer Confidence	February	-	58.2
21 February	US Durable Goods	December	1.5%	0.7%
	US Existing Home Sales	January	5.0 billion units	5.0 billion units
	US Manufacturing PMI, flash	February	54.7	54.9
	Euro Area Manufacturing PMI, flash	February	50.3	50.5
22 February	Euro Area HICP, yoy	January	0.0%	-0.2%
	Capacity Utilization Rate	February	-	74.4%
	Manufacturing Confidence	February	-	93.0

Source: Datastream, CBRT, Turkstat

Sectoral Developments

Retail sales volume declined by 9.2% yoy in December.

According to data released by TURKSTAT, calendar adjusted retail sales volume with constant prices decreased by 9.2% yoy in December 2018. Thus, the said data recorded the fastest annual decline since 2011. During this period, food, drinks and tobacco sales decreased by 2.7% yoy while non-food (except automotive fuel) sales fell by 12.6%.

Euro exchange rate base for drug prices was increased by 26.4%.

Euro exchange rate base on which drug prices are calculated was increased by 26.4% for 2019. Thus, the rate, which was fixed at 2.6934 TRY in 2018, was raised to 3.4 TRY for 2019. Previously, the fixed euro currency taken as a base price was calculated as 70% of previous year's average EUR/TRY. With this adjustment, the said coefficient ratio was reduced to 60%. Turkish pharmaceutical sector has a high dependency on imported products and raw materials. Hence, the fixed exchange rate for pricing drugs below 40% of current market euro exchange rate may lead to difficulties in the sector.

House sales declined yoy in January.

House sales decreased by 24.8% yoy to 72,937 units in January. During this period, mortgage sales dropped by 77.2% yoy, while other sales fell by 2.8%. House sales to foreigners, on the other hand, continued the strong course thanks to the incentives. House sales to foreigners increased by 81.9% to 3,168 units in the same period. Total house sales to non-residents in 2018 were about 40K units.

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

H. Erhan Gül
Asst. Manager
erhan.gul@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

Ayşim Kalkan
Asst. Economist
aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
