

	6-Dec	13-Dec	Change		6-Dec	13-Dec	Change
BIST-100 Index	108,869	110,477	1.5 % ▲	EUR/USD	1.1057	1.1119	0.6 % ▲
TRY 2 Year Benchmark Rate	12.15%	11.83%	-32 bp ▼	USD/TRY	5.7756	5.8072	0.5 % ▲
Turkey 5-Year CDS	308	291	-17 bp ▼	EUR/TRY	6.3883	6.4586	1.1 % ▲
MSCI EM Equity Index	1,049	1,087	3.6 % ▲	Gold (USD/ounce)	1,460	1,476	1.1 % ▲
US 10-Year Bond Rate	1.84%	1.82%	-2 bp ▼	Brent Oil (USD/barrel)	66.7	67.8	1.6 % ▲

bp: basis point

Monetary policy meetings of the Fed, ECB and CBRT were high on the agenda last week. Fed and ECB decided at the last meetings of the year to maintain their current policy stance. Optimistic expectations for the trade agreement supported global markets in general and election results in the UK reduced Brexit uncertainty leading to a rapid appreciation of the pound. CBRT cut the policy rate from 14% to 12%. While CBRT's monetary policy remains accommodative, economic activity continued to provide mixed signals. Industrial production increased below expectations in October, while retail sales rose strongly in the same period. Weak employment outlook persisted also in September.

Agreement on the phase one trade deal...

Last week, optimistic expectations regarding the trade deal led markets. Trump's announcement that they were "very close to a deal" and the hints that additional tariffs against China would not take effect boosted global risk appetite. On Friday, both parties announced the agreement on the phase one trade deal, yet they did not provide all the details and when the signing will take place remained uncertain. Along with these statements, US equity markets reached new record high levels last week, while emerging market equities recorded rapid increases.

Fed officials do not expect a change in the policy rate in 2020.

At its last monetary policy meeting of the year, the Fed left the policy rate at 1.50-1.75% in line with expectations. Fed officials' macroeconomic projections for 2020 were closely monitored. While no revision was made to the growth and inflation forecasts, the "dot plot" revealed that 13 out of 17 Fed members predicted that the policy rate would remain at the current level next year. 4 members estimated a 25 bp increase. This outlook supports the views that the Fed may choose to remain on hold ahead of the US presidential election in November 2020.

The first monetary policy meeting of Lagarde as ECB President...

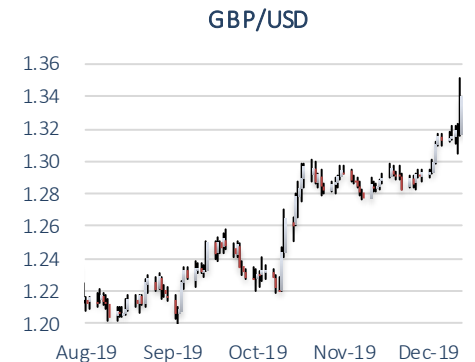
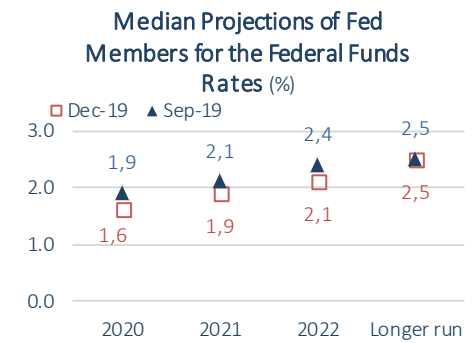
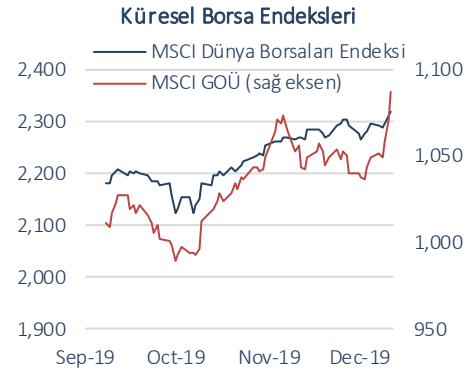
In its first meeting chaired by Christine Lagarde, ECB did not change interest rates. As the statement released after the meeting was almost the same with the previous meeting was interpreted as the new president will maintain the current monetary policy stance. ECB's macroeconomic projections did not show a significant change. ECB predicts that the Euro Area economy will grow by 1.1% in 2020, after expanding by 1.2% in 2019, and forecasts that inflation will end 2019 and 2020 at 1.2% and 1.1%, respectively.

Conservative Party's landslide victory at UK election...

At the UK election held on 12 December, the Conservative Party, led by Prime Minister Boris Johnson, won 365 of the seats and exceeded 326, which was necessary for an outright majority. As the Conservative Party, which promised to fulfill Brexit, won the election by a landslide, the uncertainties diminished, while the pound recorded a rapid appreciation. The GBP/USD parity reached its highest level since May 2018 at 1.3514 during the intraday trading on December 13.

CBRT lowered the policy rate by 200 basis points more to 12%.

At the Monetary Policy Committee meeting held on December 12, the CBRT cut the policy rate from 14% to 12%. With this decision, CBRT's total interest rate cuts



Source: Datastream

since July reached 1,200 bp. In the press release published after the meeting, it was stated that inflation expectations displayed a widespread decline and the risks around the disinflation path for 2020 were balanced. In this context, expectations that gradual rate cuts would follow strengthened.

12-month cumulative current account surplus is 4.3 billion USD.

Gradual recovery in domestic economic activity began to be felt in current account in October. In this period, current account surplus decreased by 41% yoy to 1.55 billion USD. 12-month cumulative current account surplus, reaching a record high level of 5.4 billion USD in September, came in at 4.3 billion USD in October (Our Balance of Payment report)

Industrial production, budget balance and employment data...

In October, industrial production increased yoy by 3.8% (market expectation: 6.2%). Seasonal and calendar adjusted industrial production, on the other hand, decreased by 0.9% compared to the previous month and drew a weak outlook regarding recovery.

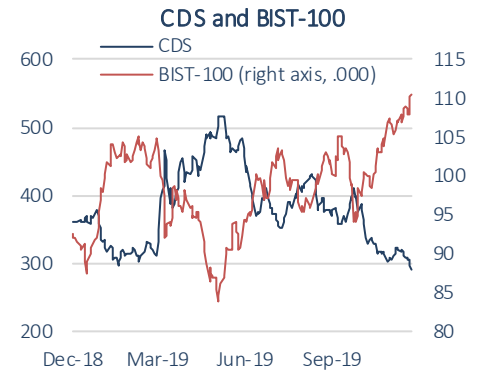
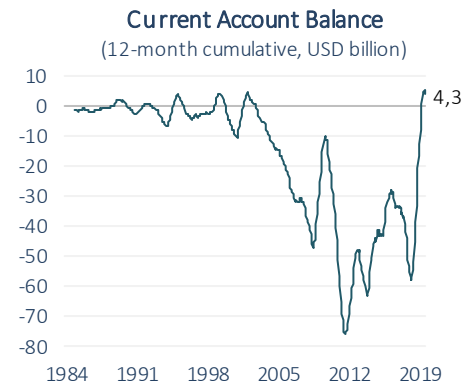
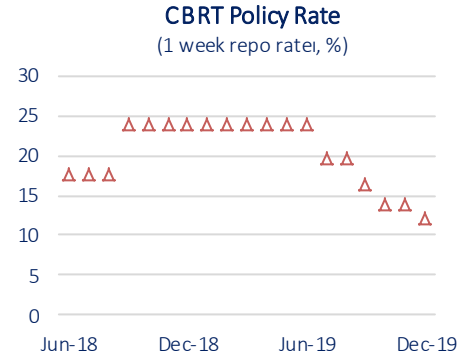
During the September period, unemployment rate increased by 2.4 pps on an annual basis to 13.8%. In this period, employment in construction sector decreased by 432 thousand, the highest among other sectors. On the other hand, the services sector was recorded as the only sector that the employment increased with a 68 thousand rise.

The central government budget posted a surplus of 7.8 billion TRY in November. In January-November period, budget deficit increased by 70.4% and was realized as 92.9 billion TRY.

5-year CDS premiums fell below 300 for the first time since February.

Despite the mixed signals from the news regarding relations with the US, 5-year CDS premiums, which is an indicator for risk perception towards Turkey, declined by 17 bp wow and became 291 at the end of Friday. The 2-year benchmark bond yield fell by 32 bp to 11.8%. BIST-100 index closed the week with a gain of 1.5%. USD/TRY, which completed the week from 5.8071, tested the 5.85 level on the early hours of the new week.

This week global markets have a heavy agenda. Flash PMI data for advanced economies, inflation and final GDP data in US stand out. This morning, manufacturing PMI in the Euro Area was below expectations with 45.9. Services PMI beat forecasts with 52.4. Trump's impeachment investigation will also be watched this week. In Turkey, consumer confidence will be released on Friday.



Data Releases

		Period	Consensus	Prior
16 December	Euro Area Manufacturing PMI (flash)	December	47.0	45.9 (A)
	Euro Area Services PMI (flash)	December	52.0	52.4 (A)
	US Markit Manufacturing PMI (flash)	December	52.6	52.6
	TR Unemployment Rate	September	-	13.8% (A)
17 December	TR Budget Balance	November	-	7.8 billion TRY (A)
	US Industrial Production	November	0.8%	-0.8%
18 December	US Capacity Utilization Ratio	November	77.2%	76.7%
	Euro Area Inflation (final)	November	-0.1%	0.1%
19 December	BoE Meeting	December	-	-
20 December	US GDP (final)	Q3	2.1%	2.0%
	US PCE Inflation (annual)	November	-	1.3%
	UK GDP	Q3	-	1.0%
	TR Consumer Confidence Index	December	-	59.9
	TR Central Government Gross Debt Stock	November	-	1,261 billion TRY

(A) Actual

Source: Datastream

Sectoral Developments

Retail sales volume increased by 5.9% yoy in October.

Retail sales volume surged by 5.9% compared to the same period of the previous year in October. This was the fastest increase since April 2018. While non-food sales rose by 9.2% yoy supporting the overall index upwards, food, beverages and tobacco sales posted a slight increase with 0.2%.

Automotive production increased by 5.4% yoy in November.

According to data released by the Automotive Manufacturers' Association, automotive production recorded an increase of 5.4% yoy in November reaching 136k units. During this period, domestic sales rose by 0.3% to 59,565 units. In January-November period, on the other hand, automotive production declined by 7.1% yoy. In this period, domestic sales contracted by 28.9% yoy while automotive exports fell by 6% yoy to 1.1 million units.

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