

	26-Feb	5-Mar	Change		26-Feb	5-Mar	Change
BIST-100 Index	1,471	1,542	4.8 % ▲	EUR/USD	1.2074	1.1917	-1.3 % ▼
TRY 2 Year Benchmark Rate	15.08 %	16.01 %	93 bp ▲	USD/TRY	7.4226	7.5348	1.5 % ▲
Turkey 5-Year CDS Premium	318	330	12 bp ▲	EUR/TRY	8.9622	8.9811	0.2 % ▲
MSCI EM Equity Index	1,339	1,339	0.0 % ●	Gold (USD/ounce)	1,733	1,701	-1.9 % ▼
US 10-Year Bond Rate	1.46 %	1.55 %	10 bp ▲	Brent Oil (USD/barrel)	66.1	69.4	4.9 % ▲

bp: basis point

While the volatility in the 10-year US Treasury bond interest rates led to fluctuations in global stock markets last week, the expectation that the stimulus package would be approved by the Senate in the US supported markets. On the other hand, in an environment where concerns about inflation continue in the US, Fed Chairman Powell's statements could not alleviate the concerns in the markets. In Turkey, the annual increase in the CPI, which came in above the expectations in February, rose to 15.61%, reaching the highest level since July 2019. With the annual D-PPI inflation increasing to 27.09%, the difference between CPI and PPI increased to 11.5 points. In the statements made by the CBRT during the last week, the emphasis on price stability was reiterated. However, TRY came under pressure due to the increasing volatility in the markets and the strengthening US dollar. This week, the assessments regarding the asset purchase program at the ECB meeting, bond issues and inflation data in the US will be closely monitored. In Turkey, balance of payments, employment and industrial production data will be followed as well as the impacts of developments in global markets.

Fed's assessments were followed closely.

In his speech last week, Fed Chair Powell stated that the volatility observed in the bond market in the last period was evident and remarkable, yet he did not signal any change in monetary policy stance. Powell also stated that it is unlikely that the full employment level will be reached this year. It was noteworthy that the increase in non-farm payroll in the US came in above expectations with 379 thousand people in February. The increase in employment in the service sector played an important role in this development, together with the speed up in vaccination and the slowdown in the number of cases. The annual increase in average hourly earnings became 5.3%, unchanged from the previous month. The unemployment rate came in at 6.2%, slightly below the estimates. Even though the markets responded positively to the approval of the 1.9 trillion USD stimulus package by the Senate last weekend, the high course of bond yields put pressure on the risk appetite.

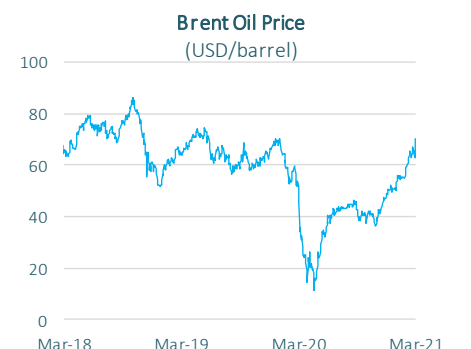
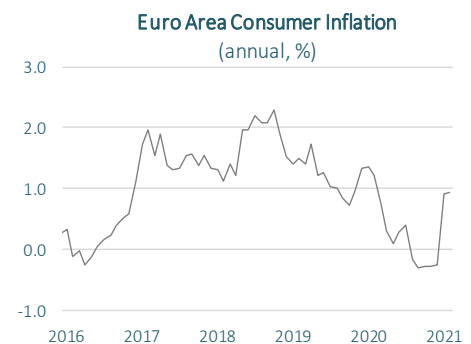
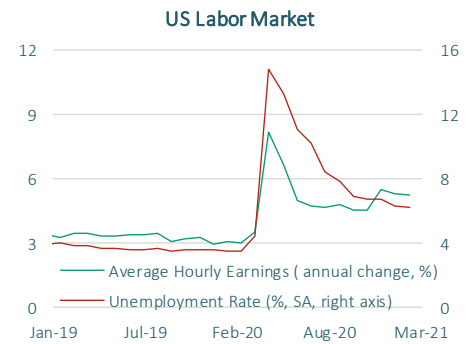
In the Beige Book, which is a Fed publication about current economic conditions across the 12 Federal Reserve Districts, it was stated that economic activity increased moderately in February and that most businesses maintained their optimism for the next 6 to 12 months with the effect of the widespread vaccination and additional pandemic relief package in the country. While ISM manufacturing PMI data for February came above expectations at 60.8, services PMI data fell to the lowest level of the last 9 months with 55.3.

Annual CPI increase in the Euro Area is 0.9%.

In February, annual CPI increase in the Euro Area became 0.9%, remaining flat compared to the previous month. In January, CPI had increased for the first time on an annual basis since July 2020 with the same rate. On the other hand, it was noteworthy that retail sales in the region shrank by 5.9% mom and 6.4% yoy in January due to the impact of the restrictions imposed due to the pandemic.

OPEC+ countries extended production cuts for another month.

At the meeting last week, OPEC+ countries decided to extend their current production cuts for another month. It was stated that Saudi Arabia will extend its voluntary oil output cut of 1 million barrels per day. Currently, OPEC+



Source: Datastream

countries are implementing a daily supply cut of 7 million barrels. After the decision, the barrel price of Brent crude oil increased by 4.9% w/w and exceeded 69 USD, reaching the highest level since May 2019. Brent crude oil price has exceeded the 70 USD/barrel this morning, owing to the attacks on Saudi Arabia's production facilities at the weekend.

Annual CPI inflation rose to 15.6%.

Due to high increases in medicine and food prices, CPI inflation came in above the market expectations in February. The monthly increase in CPI became 0.9%, while annual CPI inflation reached 15.6%, the highest level since July 2019. The lagging effects of the rise in commodity prices and the increase in exchange rates also played a role in this development. In February, the monthly D-PPI inflation was 1.2%, the lowest of the last 7 months, while the annual D-PPI inflation surged to 27.1%, the highest in the last 21 months. The recent volatility in exchange rates and high inflation expectations indicate that the pressures on inflation may continue ([Our Inflation Report](#)).

Foreign trade deficit widened by 10.7% yoy in February.

According to preliminary foreign trade data released by the Ministry of Trade, exports increased by 9.6% yoy and became 16 billion USD in February, the highest February level that dated back to 2015. In the same period, imports rose by 9.8% yoy to 19.4 billion USD. Foreign trade deficit, which fell by 32.8% yoy in the first month of the year, widened by 10.7% yoy in February. Thus, foreign trade deficit contracted by 15.3% yoy in the first 2 months of the year, also thanks to the rise in the EUR/USD parity. The automotive sector recorded the highest export figure of 2.2 billion USD in this period.

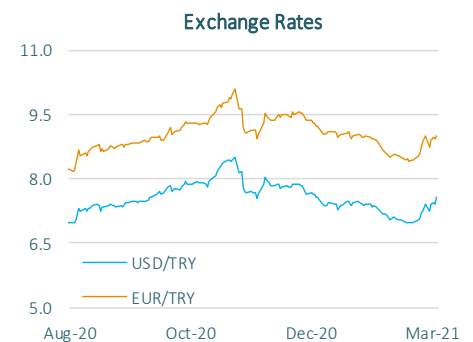
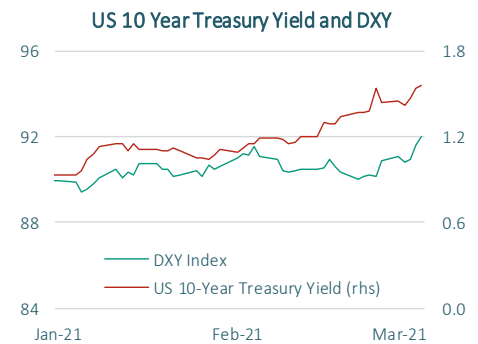
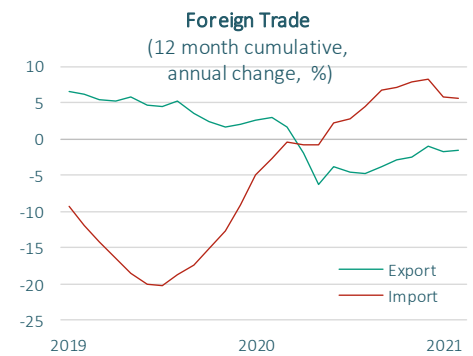
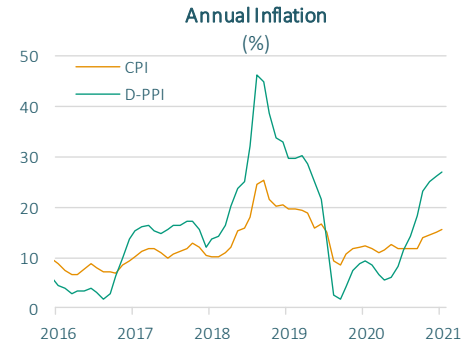
Financial markets...

Due to the rise in inflation expectations in the US and the concerns that the Fed may raise the policy rate sooner than expected, the volatility in the US 10-year Treasury bond rates put pressure on global stock markets. Last week the US 10-year Treasury bond yields rose to 1.55%. This development negatively affected global risk appetite, leading to the appreciation of the US dollar. On the other hand, the approval of the 1.9 trillion USD stimulus package by the Senate supported the markets.

The Turkish lira, which appreciated at the beginning of last week, came under pressure due to the higher than expected February inflation figure and the developments in the global markets. In the statements made by the CBRT, it was emphasized that the tight monetary policy stance will be maintained decisively until the inflation target is achieved. On the other hand, USD/TRY, which reached 7.58 level during the week, increased by 1.5% w/w to 7.53. Turkey's 5-year CDS risk premium increased to 330 bps reaching its highest level since January. The interest rate of the 2-year benchmark bond rose by 93 basis points w/w to 16.01%.

This week's agenda...

This week, February inflation data and bond issuances in the US and the ECB meeting to be held on Thursday stand out on the agenda of global markets. The ECB's assessments regarding its asset purchase programme will be closely monitored. In Turkey, balance of payments, industrial production and employment data for January will be closely followed. Also, the CBRT Expectations Survey for March will be announced.



Source: Datastream, Ministry of Trade

Data Releases

		Period	Consensus	Prior
8 March	Euro Area Sentix Index	March	1.9	-0.2
9 March	Euro Area GDP Growth, revised	2020 Q4	-5.0%	-5.0%
10 March	TR Unemployment Rate	January	-	12.9%
	TR Treasury Debt Redemptions	March	603 million TRY	-
	USA CPI Inflation, yoy	February	1.7%	1.4%
11 March	TR Balance of Payments	January	-	-3.2 billion USD
	US Initial Jobless Claims	1-5 March	725K	745K
	ECB Meeting	March	-	-
12 March	TR Industrial Production, yoy	January	-	9.0%
	CBRT Survey of Expectations	March	-	-
	TR Treasury Debt Redemptions	March	11.1 billion TRY	-
	USA Michigan Consumer Confidence, prelim	March	78.0	76.8
	Euro Area Industrial Production, yoy	January	-2.7%	-0.8%

(A) Actual

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