

| | 11-Feb | 18-Feb | Change | | 11-Feb | 18-Feb | Change |
|---------------------------|---------|---------|----------|------------------------|---------|---------|----------|
| BIST-100 Index | 2,051 | 2,032 | -0.9 % ▼ | EUR/USD | 1.1349 | 1.1321 | -0.2 % ▼ |
| TRY 2 Year Benchmark Rate | 20.86 % | 20.74 % | -12 bp ▼ | USD/TRY | 13.5177 | 13.6426 | 0.9 % ▲ |
| Turkey 5-Year CDS Premium | 509 | 532 | 23 bp ▲ | EUR/TRY | 15.3435 | 15.4595 | 0.8 % ▲ |
| MSCI EM Equity Index | 1,241 | 1,232 | -0.7 % ▼ | Gold (USD/ounce) | 1,860 | 1,898 | 2.0 % ▲ |
| US 10-Year Bond Rate | 1.92 % | 1.93 % | 1 bp ▲ | Brent Oil (USD/barrel) | 94.4 | 93.5 | -1.0 % ▼ |

bp: basis point

Last week, global markets were under the influence of geopolitical developments. In the minutes of the January FOMC meeting, Fed drew attention to the upside risks on inflation. In January, annual PPI inflation in the US remained high at 9.7%, while inflation indicators improved in China in the same period. The CBRT kept the policy rate at 14% at its February meeting. In the text released after the meeting, statements about the importance of permanent liraization and long-term TRY investment loans came to the fore. This week, leading PMI data for February in the US and Euro Area will be followed in global markets. In Turkey, capacity utilization rate of manufacturing industry and real sector confidence index will be monitored.

Fed drew attention to the upside risks on inflation in FOMC minutes.

In the minutes of the Fed's meeting held on January 25-26, the upside risks on inflation were highlighted, while the majority of Fed members predicted an interest rate hike in March. In the minutes, it was also stated that interest rate hikes could be faster than expected if inflation continues its high course.

The data released in the US drew a positive picture regarding the course of economic activity in January. In this period, industrial production increased by 1.4% mom, above expectations, while retail sales increased by 3.8%, the fastest since March 2021. Although housing starts in the country were 1.64 million units in January, below the market expectations of 1.70 million units due to cold weather conditions, construction permits reached their highest level since 2006 with 1.9 million units and signaled a recovery in the housing sector for the coming period. Annual PPI inflation in the US remained high at 9.7% in January with a limited decrease of 0.1 percentage points.

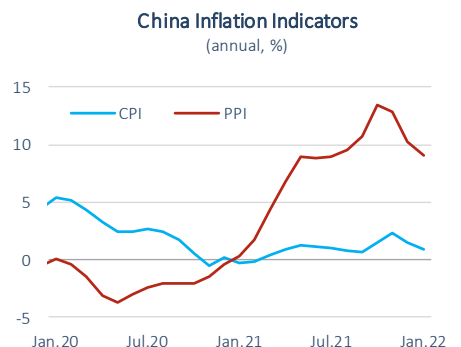
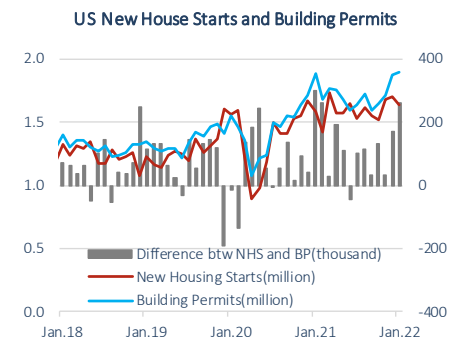
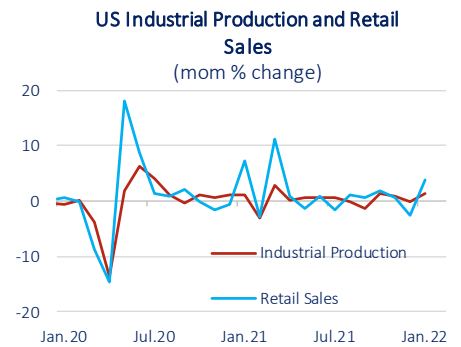
Annual PPI inflation in China came in at 9.1% in January.

In China, inflation indicators for January followed a downward trend. In this period, annual CPI inflation in the country became 0.9%, the lowest level of the last 4 months, due to the decline in food prices. In January, annual PPI inflation came in at 9.1%, below the market expectation which was 9.5%. The decrease in real estate demand together with the measures to combat coronavirus and the government's intervention in the rising raw material prices were effective in the decline of the inflation.

The CBRT kept the policy rate at 14%.

At the Monetary Policy Committee meeting held on Thursday, the CBRT kept the policy rate at 14%, in line with market expectations. In the text published after the meeting, CBRT stated that the cumulative impact of the recent policy decisions is being monitored and to create a foundation for sustainable price stability a comprehensive review of the policy framework is being conducted with the aim of encouraging permanent liraization. The Board also stated that strengthening of the improving trend in current account balance is important for price stability and the long-term Turkish lira investment credits will play a significant role in achieving this target. The Board also reiterated its prediction that the disinflationary process will begin once the base effects in inflation disappear, along with the steps taken to establish sustainable price stability and financial stability.

According to the decision published in the Official Gazette on February 18, it was announced that the companies in which non-resident Turkish citizens have a stake and whose qualifications are determined by the Central Bank are also included in the Deposit



Source: Datastream

and Participation Scheme for Non-Resident Turkish Citizens (YUVAM). Thus, these companies can benefit from this incentive if they transfer FX funds that they keep at banks abroad to FX deposit or participation accounts in USD, EUR and GBP in domestic banks and convert them to YUVAM accounts in TRY. Last week, the submission and payment deadlines for the 4th Provisional Tax Period of 2021, which is important for the tax advantage provided to companies that switch to Currency Protected Deposits, were extended until February 25. According to the data released by the BRSA, the balance of the FX-protected TRY deposit and participation accounts became 368.9 million TRY as of February 14.

Central government budget posted a surplus of 30 billion TRY in January.

With the support of the rapid rise in budget revenues, budget indicators made a positive start to 2022. The central government budget, which gave a deficit of 146 billion TRY in December 2021, posted a surplus of 30 billion TRY in the first month of this year. In this period, budget revenues surged by 96.4% yoy, thanks to the support of the rapid rise in tax revenues, while budget expenditures expanded by 28.3%. The primary balance, which gave a deficit of 2.2 billion TRY in January 2021, posted a surplus of 44.3 billion TRY in the same month of this year. It is estimated that the positive outlook in the revenues continued in February due to the transfer of CBRT's operating revenue to the budget. However, the reduction of VAT on basic food products to 1% is expected to suppress tax revenues in the upcoming period, while the course of the pandemic as well as rising energy prices indicate that upside risks on budget expenditures will continue ([our Budget Balance Report](#)).

Housing sales increased by 25.1% yoy in January.

Although house sales in Turkey increased by 25.1% in January compared to the same month of last year due to the low base effect, they were realized as 88,306 units, in line with the January averages of the last 10 years. In this period, mortgaged house sales went up by 69.4% yoy, while the rise in other sales was 17.2%. In January, when first sales increased by 22.2% yoy, house sales to foreigners surged by 56.5%. The share of house sales to foreigners in total house sales was 4.7% in this period.

The Housing Price Index rose by 7.9% mom and by 59.6% yoy in December 2021. In this period, the provinces where housing prices increased the fastest were Istanbul (63%), İzmir (58.3%) and Ankara (55.7%). The annual real increase in the index was realized as 17.9% in 2021.

Consumer confidence index fell to 71.2 in February.

Seasonally adjusted consumer confidence index decreased by 2.8% mom to 71.2 in February. While the decreases in the sub-indices for the next 12 months was effective in this development, the increases in the indices of probability of buying a car or a home and spending money on home improvements or renovations limited the decrease in the index.

Last week, there was a fluctuating course in gold and oil prices.

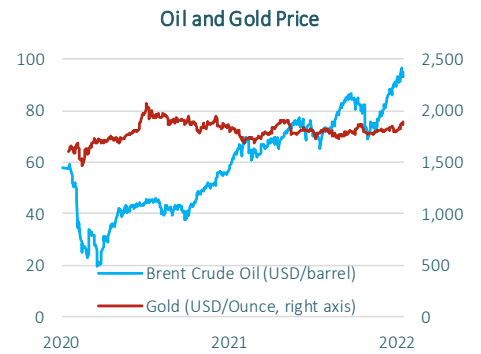
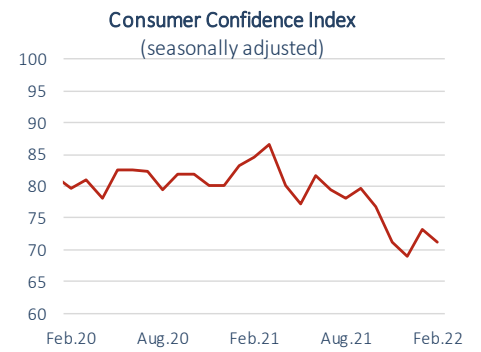
Last week, global markets were under the influence of geopolitical developments. Gold prices increased by 2% wov, closing the week at 1,898 USD/ounce, as the news flow regarding the tension between Russia and Ukraine increased the demand for safe havens. The barrel price of Brent crude oil, followed a fluctuating course due to the developments regarding the nuclear agreement with Iran along with the tensions between Russia and Ukraine, and decreased by 1% wov to 93.5 USD/barrel.

Last week, the BIST-100 index followed a downward trend in line with the emerging markets. While Turkey's 5-year CDS premium rose by 23 bps and ended the week at 532 bps, 2-year benchmark bond yield decreased by 12 bps wov to 20.74%. USD/TRY continued its course in a narrow band throughout the week.

This week, where an intense data agenda will be followed, leading PMI data for February to be announced in the US and Euro Area comes to the fore in global markets. In domestic markets, capacity utilization rate of manufacturing industry and real sector confidence index data will be monitored.

| Central Government Budget | | (billion TRY) | |
|---------------------------|--------------|---------------|-------------|
| | January | | % |
| | 2021 | 2022 | Change |
| Expenditures | 113.8 | 146.0 | 28.3 |
| Interest Expenditures | 21.9 | 14.2 | -35.1 |
| Non-Interest Expenditures | 91.8 | 131.7 | 43.5 |
| Revenues | 89.6 | 176.0 | 96.4 |
| Tax Revenues | 79.2 | 147.4 | 86.1 |
| Other Revenues | 10.4 | 28.6 | 175.3 |
| Budget Balance | -24.2 | 30.0 | - |
| Primary Balance | -2.2 | 44.3 | - |

Numbers may not add up to total value due to rounding.



Source: Datastream

Data Releases

| | | Period | Consensus | Prior |
|-------------|--|----------|-----------|-------------------|
| 21 February | TR Central Government Gross Debt Stock | January | - | 2,748 billion TRY |
| | TR Foreign Visitors, yoy | January | 151.4%(A) | 170.6% |
| | Euro Area Manufacturing PMI, flash | February | 58.7 | 58,7 |
| 22 February | Euro Area Services PMI, flash | February | 52.0 | 51.1 |
| | TR Capacity Utilization Rate | February | - | 77.6% |
| | TR Real Sector Confidence Index | February | - | 109.5 |
| | USA Manufacturing PMI, flash | February | 56.0 | 55.5 |
| 23 February | USA Services PMI, flash | February | 53.0 | 51.2 |
| | USA Consumer Confidence, flash | February | 109.8 | 113.8 |
| | Euro Area CPI Inflation, final, yoy | January | 5.1% | 5.1% |
| | USA GDP Growth, revision, yoy | 2021 Q4 | 7.0% | 6.9% |
| 24 February | USA New Home Sales, units | January | 807K | 811K |
| | TR Economic Confidence | February | - | 100.8 |
| 25 February | USA Personal Consumption Expenditures, mom | January | 1.5% | -0.6% |
| | USA Durable Goods Orders, mom | January | 0.7% | -0.7% |
| | USA Michigan Consumer Confidence, final | February | 61.7 | 61.7 |
| | USA Pending Home Sales, mom | January | 0.5% | -3.8% |
| | Euro Area Consumer Confidence, final | February | - | -8.8 |

(A) Actual

Economic Research Division

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

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

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

Ahmet Berat Ocak
Asst. Economist
berat.ocak@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.