

WEEKLY OUTLOOK

Minutes of Fed meeting have been published.

Last week, the minutes of the Fed's November Federal Open Market Committee (FOMC) meeting have been published. Minutes revealed that majority of the members concluded that it will be appropriate to raise interest rates. Furthermore, some of the members emphasized the importance of a rate hike in December in order to preserve Fed's credibility. As the markets focus on Fed's last policy meeting of this year which will be held on December 13-14th, a strong consensus has been reached about a rate hike. In fact, the data released throughout the week supported the positive outlook and the expectations of a rate hike in the US economy. In October, existing home sales increased more than expected by 2% reaching its highest level since February 2007. According to preliminary data, in November manufacturing PMI rose to highest level since October 2015 by 53.9 and indicated to a robust manufacturing activity. Consumer Confidence Index also surpassed the market expectations by rising to 93.8 in November.

Euro Area PMI at its highest level in 2016..

According to the preliminary data, Euro Area (EA) composite PMI reached its 11-month high in November as 54.1. Moreover, manufacturing PMI was realized as 53.7 by climbing to its highest level in 34 months. Although data releases indicated a more positive outlook than expected for the EA, thanks to the rise in USD in international markets, EUR/USD parity remained flat wow. On the other hand, constitutional referendum in Italy at the weekend will be the hot topic for the markets. It is feared that if pro-euro Prime Minister Matteo Renzi fails in the referendum, Italy could be plunged into political instability.

High volatility in oil prices ahead of OPEC meeting..

Oil prices have risen to the highest level for the past three weeks, with a bullish trend until Friday due to expectations for an agreement on production cut at the OPEC meeting this week. On Friday; however, oil prices fell sharply with the emergence of uncertainty regarding the meeting. Therefore, price of Brent crude oil increased by 2% weekly to 45.9 USD per barrel. For the first time since the US presidential elections, dollar had lost strength at the beginning of the week; however, it continued to gain value in the international markets thanks to robust data releases in US throughout the week. The DXY index, which shows the value of the dollar against developed countries currencies, reached its highest level in nearly 14 years, while the gold prices continued to decline with the pressure from strong dollar. Price of gold per ounce dipped to 1,180 USD, lowest level since February, before recovering slightly. Therefore, gold price per ounce decreased by 2.1% weekly to 1,183 USD.

Expected increase in investment expenditures within the framework of economic policy promised by Trump in the US is assumed to positively affect commodity demand and prices next year. On the other hand within the same framework, should trade barriers are implemented, they might adversely affect the global commodity demand, especially which is originated from China.

WEEKLY DATA

	18 Nov	25 Nov	Change		18 Nov	25 Nov	Change
BIST-100 Index	75,639	74,363	-1.7 % ▼	EUR/USD	1.0585	1.0584	0.0 % ▼
TRY 2 Year Benchmark Rate	10.29%	10.89%	60 bp ▲	USD/TRY	3.3743	3.4457	2.1 % ▲
US 10 Year Bond Rate	2.34%	2.37%	3 bp ▲	EUR/TRY	3.5640	3.6499	2.4 % ▲
EMBI+ (bps)	381	381	0 bp ●	Gold (USD/ounce)	1,208	1,183	-2.1 % ▼
EMBI+ Turkey (bps)	369	375	6 bp ▲	Brent Oil (USD/barrel)	45.0	45.9	2.0 % ▲

bp: basis point

New measures from the Central Bank...

CBRT took new measures on foreign exchange required reserves and rediscount credits while raising interest rates at its Monetary Policy Committee meeting last week. CBRT increased policy rate by 50 basis points to 8% and overnight lending (marginal funding) rate by 25 basis points to 8.5% for the first time since January 2014. According to the surveys before the meeting, CBRT was expected to increase the policy interest rate by 25 basis points.

In the press release published after the meeting, CBRT stressed that recently released data indicate a deceleration in the economic activity for the third quarter as demand from the EU economies continues to contribute positively to exports. With the supportive measures and incentives provided recently, economic activity is expected to recover starting from the final quarter. Moreover, while the slowdown in total demand supported the fall in inflation, CBRT emphasized that the exchange rate movements observed in the recent period would have an upward risk on inflation, stating future monetary policy decisions will be conditional on the inflation outlook.

CBRT also decided to extend the maturity of the export and foreign exchange earning rediscount credits, which will be due by 31 December 2016, till 31 March 2017, while reducing the foreign exchange reserve requirement ratios by 50 basis points in all maturity brackets. CBRT is aiming to provide an additional 1.5 billion dollar of liquidity to the financial system with the regulation on reserve requirements and aiming to ease the pressure on foreign currency borrowers.

Domestic markets...

Last week, European Parliament's (EP) votes to suspend talks with Turkey on EU membership increased the volatility at the financial markets despite the CBRT's interest rate hike decision. Before the CBRT's interest rate decision on Thursday, TRY diverged negatively from other emerging market currencies due to rising uncertainties. After the rate hike decision, however, USD/TRY fell below 3.37. EP's decision on Turkey later moved the USD/TRY upwards again. Parity increased 2.1% w/w to 3.4457. BIST-100 index was down by 1.7% w/w and 2-year benchmark interest rate rose by 60 basis points to 10.89%.

World Bank revised its 2016 growth forecast for Turkey.

In its "ECA Economic Update" report, World Bank lowered its 2016 growth forecast for Turkey by 0.4 percentage points to 3.1%. Having maintained its growth forecasts for 2017 at 3.5%, World Bank has revised its growth forecast for 2016 downward due to the weakness in private sector investments and the negative contribution of net exports.

Consumer confidence weakened while real sector confidence strengthened.

Consumer confidence decreased by 6.9% mom in November to 68.9 the lowest level since July. Year-on-year decrease in probabilities of households' buying a car and buying/building a home over the next 12 months led the decline in consumer confidence. Seasonally adjusted real sector confidence index, on the other hand, climbed by 3.8 points in November and indicated a moderate expanding trend in economic activity.

Survey of Expectations published by CBRT hinted that GDP growth rate expectations for 2016 dropped below 3% and expectations over USD/TRY worsened compared to the last month to a great extent. Inflation expectations for the end of the current year (7.8%) didn't change while projections for higher oil prices and depreciation of TRY moved expectations towards a widening current account deficit for the end of the current year.

INDUSTRY NEWS

Rapid increase in mortgage sales...

In October, house sales in Turkey increased by 25.1% yoy to 130,274, which is the highest level since December 2015. In this period, a rapid increase in mortgage sales (71.8% yoy) has been noted. House sales, which had been weak during January-July 2016, have gained momentum in August when the construction companies have initiated campaigns and banks reduced mortgage interest rates. It is thought that in 2016 house sales, which was realized as 2.7% above the previous year's level in January-October 2016 period, may stay below or close to the level of 2015.

Automotive parts and components industry continues to grow.

The automotive parts and components industry, which has a rapid growth in line with the positive outlook in the automotive sector, is also expected to increase its sales by 3.5-5% in USD terms in 2017. TAYSAD, the representatives of the sector, announced that they will submit a study to the Ministry of Science, Industry and Technology, consisting of various proposals to increase the revenues both in domestic and export markets. Approximately one-thirds of the automotive sector's exports, which have the biggest share in Turkey's total exports, are carried out by parts and components manufacturers.

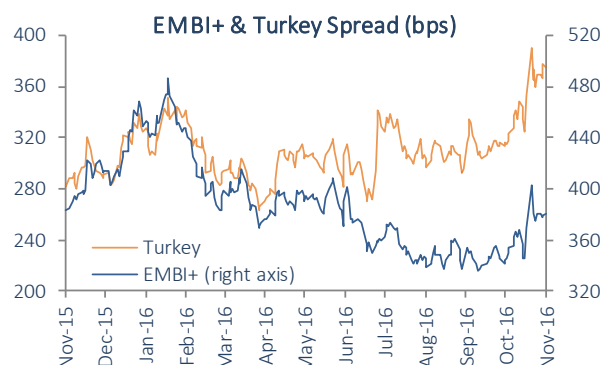
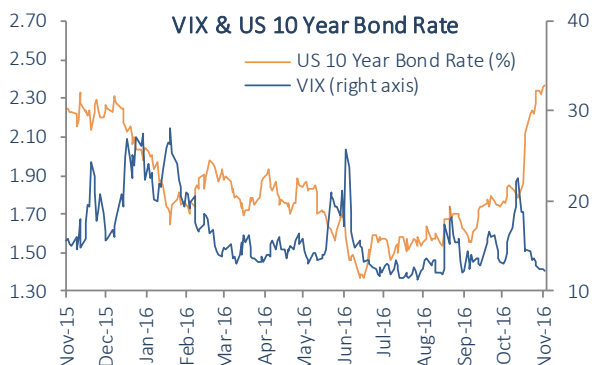
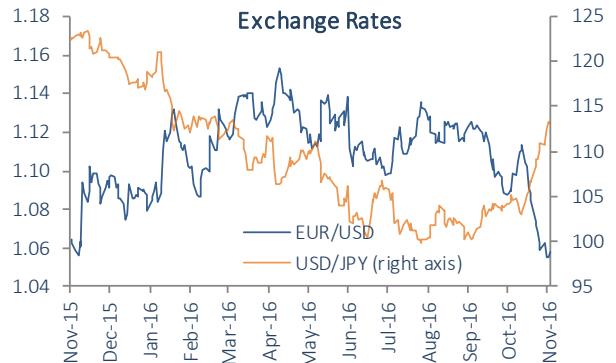
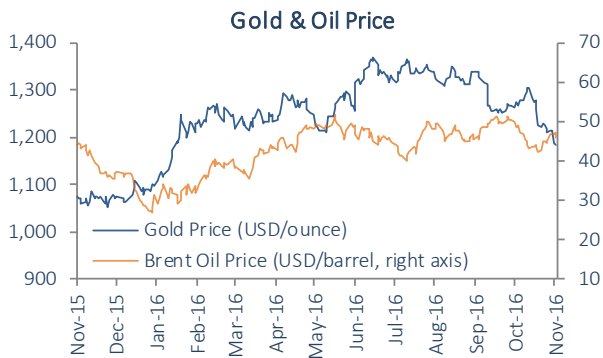
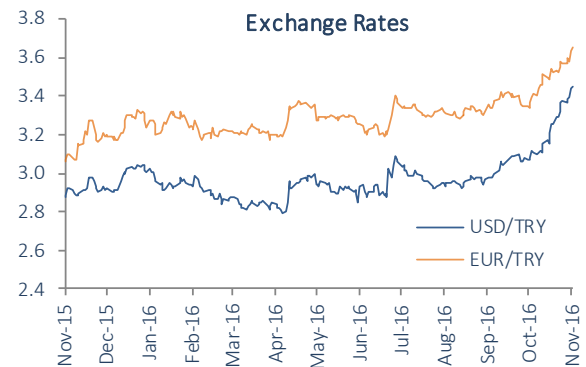
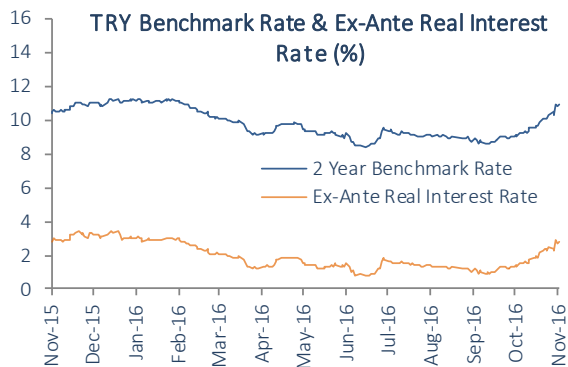
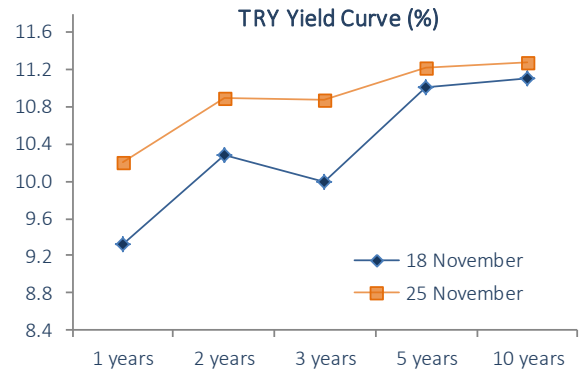
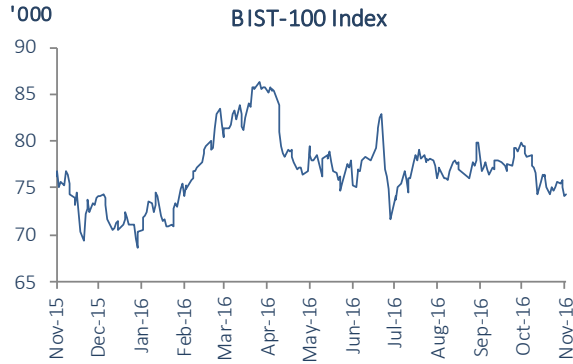
Project-based incentive system...

A legislation package which sets out the principles and procedures for the project-based incentive system was published in the Official Gazette. The minimum investment amount for the incentive system was set as 100 million USD. According to the system, the public will be able to call one or more companies for the areas that they want to be invested. The investment, which will benefit from incentives, will be decided with the acceptance of the Council of Ministers after the approval of the Ministry of Economy. In this context, it is aimed to support the investments which will reduce external dependence, provide technological transformation and increase international competitive power. The package includes tax exemptions, subsidies on infrastructure and land allocation to investors.

In October, 425 companies qualified to get state investment incentives.

Last week, investment incentives data for October were published in the Official Gazette. Accordingly, 425 companies (132 in manufacturing sector, 182 in energy sector and 91 in services sector) were given investment incentive certificates which contain various tax exemptions. Under the investment incentive scheme of October, total fixed investments are planned to be 8.5 billion TRY, while the machinery and equipment imports amount to 1.3 billion USD and total employment is projected to be 16,952 persons.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
29 November	US The Conference Board Consumer Confidence Index	November	
	US GDP (Revision)	2016-III	3.1%
30 November	Turkstat Foreign Trade Statistics	October	
	CBRT Financial Stability Report	2016-II	
	Eurozone Consumer Price Inflation (Preliminary)	November	
	US Consumer Spending	October	0.5% mom
	US Personal Income	October	0.4% mom
	US ADP Employment Report	November	160,000
1 December	CBRT Summary of the Monetary Policy Committee Meeting	November	
	Eurozone Unemployment Rate	October	
	Eurozone Manufacturing PMI	November	
	China Caixin Manufacturing PMI	November	
	Germany Manufacturing PMI	November	
	US Manufacturing PMI	November	53.9
	US ISM Manufacturing Index	November	52.3
2 December	Eurozone Producer Price Index	October	
	US Nonfarm Payrolls	November	170,000
	US Unemployment Rate	November	4.9%

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