

## WEEKLY OUTLOOK

**Global and domestic markets in 2016...**

In 2016, both domestic and foreign markets fluctuated within a wide range. The expectations regarding the Fed's tightening cycle and the presidential elections in US influenced the course of US dollar in global markets. DXY index, which represents US dollar's value against major counterparts, rose by 3.6% compared to the end of 2015. Similarly, dollar appreciated by 3.2% against euro. In the commodity market, oil prices increased by 49.5%, while gold prices, which rose up to 1,366 dollar/ounce during the year, increased by 8.5% yoy to 1.151 dollar/ounce at the end of 2016. In domestic markets, BIST-100 index rose by 8.9% yoy, while TL depreciated against dollar and euro by 20.9% and 17.2%, respectively. The compound interest rate of the 2-year benchmark bond, which was 10.86% at the end of 2015, declined to 10.63% at the year end.

**Seasonally and calendar adjusted growth rate was announced.**

Turkstat published the seasonally and calendar adjusted GDP growth last week. Accordingly, Turkish economy narrowed by 2.7% qoq in the third quarter of 2016. As reported by Turkstat on Dec 12th, the newly adopted GDP standard, compatible with the European Accounting System, had indicated that GDP contracted by 1.8% yoy at Q3.

**Capacity utilization rate picked up in 2016.**

According to the data published by CBRT, real sector confidence index declined by 5.3 points mom to 98.4 in December. The index, which was realized below 100, indicated a negative outlook and dropped to its lowest level since December 2012. On the other hand, capacity utilization rate (CUR) of the manufacturing industry climbed by 0.7 points yoy to 76.5% in December. During the whole year, CUR was 75.6% on average. Automotive industry was observed to have the fastest increase in CUR while manufacture of tobacco products, other transport equipment, paper and paper products followed the automotive industry, respectively. On the contrary, CUR in manufactures of chemical, electronic and pharmaceutical products fell sharply.

**Economic confidence index fell.**

Economic confidence index in December slumped by 18.5% mom to 70.5. The index, which was realized at its lowest level since the beginning of data release in January 2012, continued its fluctuating trend in December. Real sector and services confidence indices had reducing effect on the composite index while retail trade and construction confidence indices improved to some extent.

## WEEKLY DATA

	23 Dec	30 Dec	Change		23 Dec	30 Dec	Change
BIST-100 Index	76,972	78,139	1.5 % ▲	EUR/USD	1.0454	1.0513	0.6 % ▲
TRY 2 Year Benchmark Rate	10.58%	10.63%	5 bp ▲	USD/TRY	3.5159	3.5267	0.3 % ▲
US 10 Year Bond Rate	2.54%	2.43%	-11 bp ▼	EUR/TRY	3.6742	3.7116	1.0 % ▲
EMBI+ (bps)	362	363	1 bp ▲	Gold (USD/ounce)	1,133	1,151	1.6 % ▲
EMBI+ Turkey (bps)	356	360	4 bp ▲	Brent Oil (USD/barrel)	54.0	55.2	2.3 % ▲

bp: basis point

***Foreign trade deficit narrowed in November.***

In November, exports recorded an annual increase of 9.7%, rising at the fastest pace of the year while imports expanded by 6% yoy. As a result, foreign trade deficit narrowed by 4.1% yoy to 4.1 billion USD. Despite the significant recovery recorded in November, exports decreased by 1.7% yoy in the January-November period. The contraction in imports came in at 4.8% in this period thanks to lower commodity prices as well as slowdown in domestic demand. In this context, the foreign trade deficit narrowed by 11.8% compared to the first eleven months of 2015. Exports of the motor vehicles, the largest export item, picked up by 18.8% yoy in November. In addition to the gold exports, the rises in exports of iron-steel and ships were also noteworthy in this period ([Our Foreign Trade Balance report](#)).

According to preliminary data released by Ministry of Customs and Trade, compared to the same month of the previous year, exports and imports rose by 9.3% and 2.2%, respectively in December. In this period, narrowing in the foreign trade deficit continued. Throughout 2016, exports declined by 0.8% to 142.6 billion dollars while imports decreased 4.2% to 198.6 billion dollars.

***House price growth slowed down.***

CBRT's house price index for October has been published last week. According to the figures, in October house prices in Turkey rose by 0.5% mom and 12.9% yoy. New housing prices increased by 11.4% yoy where the real increase was 4%. However, monthly drop in new housing prices in Istanbul was noteworthy.

***Foreign visitors to Turkey fell by 21.4% in November.***

Recent figures published by Ministry of Culture and Tourism showed that in November foreign visitors coming into Turkey dropped by 21.4% to 1.35 million people. Visitors from Russia declined by 35.8% yoy and even decreased more in the first 11 months of the year, namely falling by 77.3% yoy.

***CBRT published its MPC meeting minutes.***

The summary of the MPC meeting held by CBRT on December 20th was published last week. It was emphasized that the economic activity after weakened in the third quarter of the year recovered to some extent recently, thanks to the accommodative incentives and measures. CBRT also stressed that inflation might quicken in December due to unprocessed food and oil prices while the uptrend in exchange rate would have an adverse impact on inflation. CBRT kept the interest rates unchanged in December meeting, contrary to the expectations.

## INDUSTRY NEWS

***8% growth expectation in automotive sector exports...***

Exports of the automotive sector in 2017 are estimated to increase by 8%. In the first 11 months of 2016, sector exported 19.5 billion USD worth of vehicles while it is calculated that the total exports in 2016 exceeded 21 billion USD. In 2017, total exports are expected to reach 23 billion USD. Despite the sector's robustness in non-domestic markets, we anticipate that the growth in the domestic market will slow down due to the increase in exchange rates and the new SCT rates.

***The minimum wage for 2017 was set.***

The net minimum wage was increased by 8% to 1,404 TL, thus leading the gross minimum wage to 1,777.5 TL. It was stated that minimum wage will not decrease throughout the year, should wage earners went up to the next tax bracket. Continuation of the incentive of 100 TL which was being paid to employers remains to be seen in the following days.

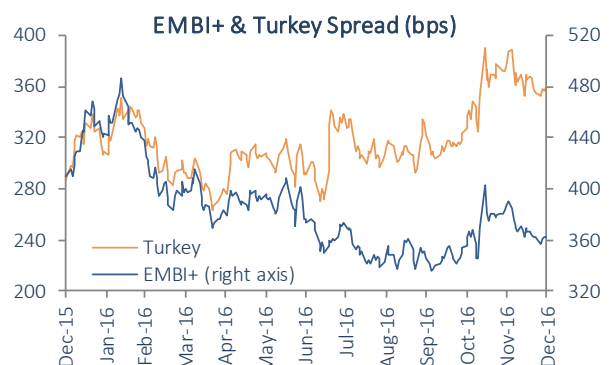
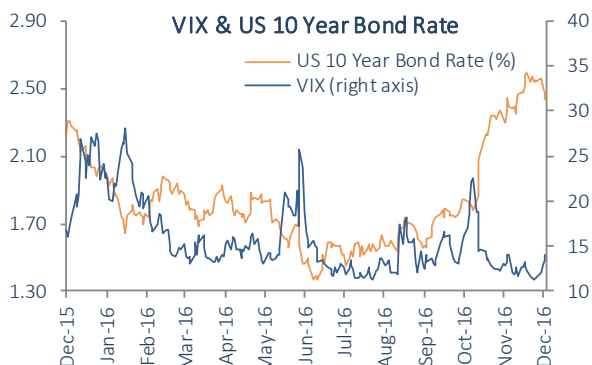
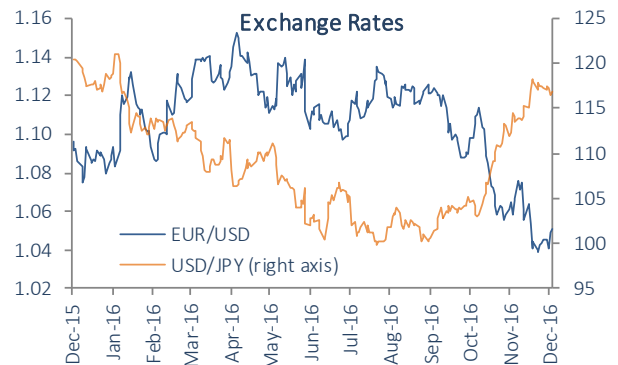
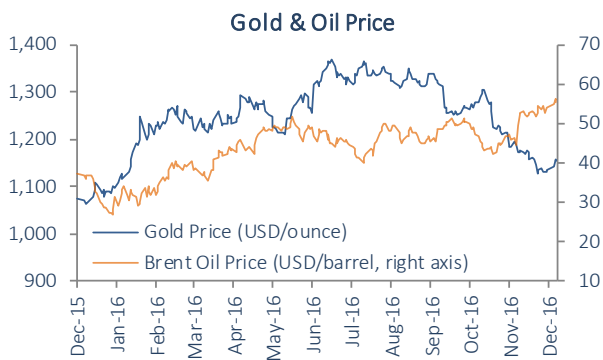
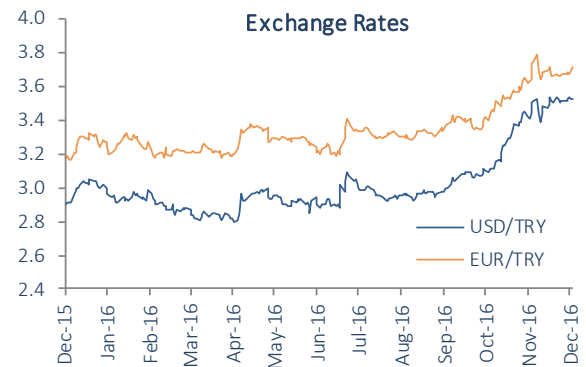
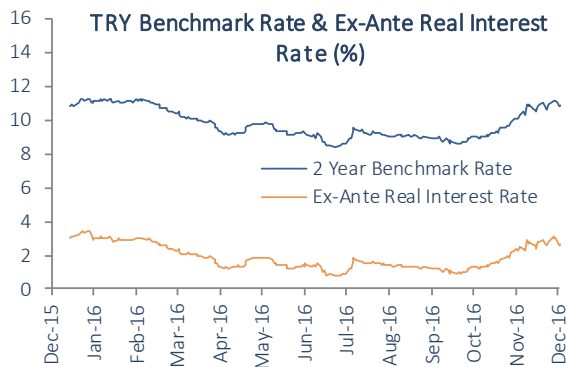
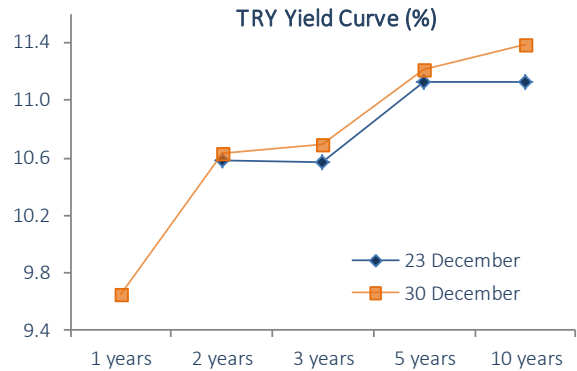
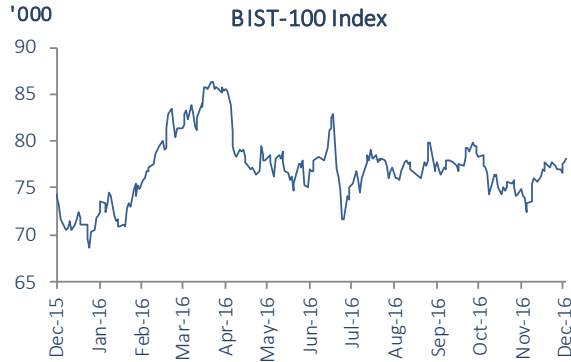
***Steel production is expected to grow by 5% in 2017.***

Turkish Steel Producers Association (TÇÜD) Secretary General Veysel Yayan said that Turkey's crude steel production will increase by 5% in 2017 to 35 million tons while final consumption is expected to increase by 4% to 36 million tons. Crude production in Turkey, being the eighth largest in the world, will surge due to decline in steel imports and robust domestic demand, according to Yayan. Production in Turkey remained flat in 2016.

***The price of raw milk was increased.***

Turkish Milk Board raised the reference price of raw milk from 1.15 TL to 1.21 TL. The criterion for the quality of the raw milk price which has been flat for the last 30 months was introduced for the first time. Accordingly, reference price was set for raw milk containing 3.5% fat and 3.1% protein. While raising the price of raw milk is positive for the milk producers, past experiences suggest that the decision will not actually raise milk prices. While the reference price is the ceiling price in the sector, the average raw milk price currently on the market is around 0.80-0.90 TL. Given that the cost of milk production is around 0.95 TL, according to Turkish Milk Board, raw milk producers may face sustainability problems in the coming periods. As the problems persist in livestock sector, unbalanced milk production may worsen the outlook in both sectors.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>2 January</b>	Eurozone Manufacturing PMI	December	
	Re-Issuance of Fixed Coupon Bond with July 11th, 2018 maturity		
	Re-Issuance of Fixed Coupon Bond with April 20th, 2022 maturity		
	Germany Manufacturing PMI	December	
	China Caixin Manufacturing PMI	December	50.7
<b>3 January</b>	TURKSTAT Consumer Price Index	December	
	TURKSTAT Domestic Producer Price Index	December	
	Re-Issuance of Fixed Coupon Bond with September 22nd, 2021 maturity		
	Re-Issuance of Fixed Coupon Bond with February 11th, 2026 maturity		
	USA ISM Manufacturing Index	December	53.8
	USA Manufacturing PMI	December	
<b>4 January</b>	Treasury Domestic Debt Redemption (7.52 billion TRY)		
	Fed Open Market Committee Minutes	December	
	USA ADP Employment Report	December	172k
	Eurozone Consumer Price Inflation (Preliminary)	December	1.0%
<b>5 January</b>	Eurozone Producer Price Index	November	0.1%
<b>6 January</b>	USA Nonfarm Payrolls	December	175k
	USA Unemployment Rate	December	4.7%
	USA Factory Orders	November	-2.5%
	USA International Trade Statistics	November	
	Eurozone Retail Sales	November	-0.4%

## İŞBANK - Economic Research Division

**İzlem Erdem - Division Head**

izlem.erdem@isbank.com.tr

**Aslı Gökşun Şat Sezgin - Economist**

goksun.sat@isbank.com.tr

**Alper Gürler - Unit Manager**

alper.gurler@isbank.com.tr

**Bora Çevik - Economist**

bora.cevik@isbank.com.tr

**H. Erhan Gül - Asst. Manager**

erhan.gul@isbank.com.tr

**Ahmet Aşarkaya - Economist**

ahmet.asarkaya@isbank.com.tr

**Dilek Sarsın Kaya - Economist**

dilek.kaya@isbank.com.tr

**Ayşe Betül Öztürk - Asst. Economist**

betul.ozturk@isbank.com.tr

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

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.