

WEEKLY OUTLOOK

US dollar depreciated in the international markets...

US dollar, which was on an upward trend for the last couple of weeks due to the expectations on the direction of US monetary and fiscal policies, closed lower last week. This development mainly stemmed from the rise in global risk appetite as president-elect Trump hinted little on future fiscal policy actions in his first press conference after the election. While US 10-year Treasury bond interest rates fell, rise in US stock exchange remained limited upon Trump's statements on pharmaceuticals industry. Gold prices on the other hand, rose above 1,200 USD/ounce for the first time after 6 weeks in thanks to the decline in US Treasury bond rates.

Data released in the US supported the positive expectations on the economic activity. NFIB (National Federation of Independent Business) index that reflects small-sized companies' confidence to the economy reached its highest level for the last 12 years indicating that recovery in private sector's employment prospects will continue. Additionally, lower-than-expected weekly jobless claims data which was announced as 247,000 people also supported the idea that the US labour market is converging to full employment. This week, Trump's upcoming speech at the presidency ceremony will be high on the agenda. During the week, Fed president Yellen's and other FOMC members' expected evaluations will be watched closely as well.

Recovery signs in the Euro Area...

Industrial production in the Euro Area (EA) was realized above the expectations, increasing by 3.2% yoy in December. Recovery in the economic activity is observed to be reflected in the labour market as well recently. For the last 12 months, unemployment rate in EA dropped to 9.8% which is the lowest level in 7 years where number of unemployed fell nearly 1 million people. Economic growth in Germany that is known to be the locomotive for the EA economies, reached a 5-year high. Besides, as recent upward trend in inflation becomes permanent, ECB's tapering will likely to be put on the agenda. Minutes of ECB's December meeting which was released last week revealed that the bank's decision at that time was actually related to the worries about decreasing depth in the markets rather than economic factors. ECB extended its asset purchase programme until the end of 2017 in its last meeting while cutting the amount of the monthly purchases to €60 billion starting from March 2017.

Credit growth continues in China.

China, where risks are rising due to the private sector's high debt stock, continues to implement expansionary monetary policies. Money supply and credit volume in the country rose well above the expectations while rapid increases in some commodity prices put upward pressure on the inflation. Production price index (PPI), which has been declining yoy since 2012, started increasing as of September 2016 and reached 5.5% yoy to the highest level in 5 years in December. It is important to note that rise in PPI was stemmed from the price growth in manufacture and processing of ferrous metals and mining of raw materials such as coal, petroleum and natural gas. Although upward trend of commodity prices are expected to slow down at upcoming months, inflation in China is projected to move up due to low base effect. Price developments in China, whose export volume accounts for 14% of the world exports, are influential on the course of the global inflation.

WEEKLY DATA

	6 Jan	13 Jan	Change		6 Jan	13 Jan	Change
BIST-100 Index	77,107	81,524	5.7 % ▲	EUR/USD	1.0530	1.0641	1.1 % ▲
TRY 2 Year Benchmark Rate	10.78%	11.21%	43 bp ▲	USD/TRY	3.6425	3.7210	2.2 % ▲
US 10 Year Bond Rate	2.42%	2.38%	-4 bp ▼	EUR/TRY	3.8407	3.9608	3.1 % ▲
EMBI+ (bps)	348	351	3 bp ▲	Gold (USD/ounce)	1,173	1,197	2.1 % ▲
EMBI+ Turkey (bps)	351	373	22 bp ▲	Brent Oil (USD/barrel)	56.1	54.3	-3.2 % ▼

bp: basis point

Fluctuations in oil prices...

During last week oil prices followed a volatile course. Prices declined at the beginning of the week with the announcement that the US will sell 8 million barrels from its strategic reserves. In the following days, prices increased as. Leading oil exporters Saudi Arabia and Iraq cut their oil production in line with the decision taken in November. The view that the production cut will continue in the coming period and that the rise in oil prices may be permanent.. The evaluation of Iraqi Energy Minister that 65 USD per barrel is reasonable for oil prices supported this view. Despite OPEC's decisions, we expect that uncertainty in oil prices will continue in the medium term. As a matter of fact, despite the cut down decisions from OPEC countries, the number of oil rigs in the US has increased significantly in the last two months, reaching 529 in the first week of 2017. In 2014, US were producing oil from around 1,600 oil rigs.

Expansion in current account deficit...

In November, the current account deficit was 2.3 billion USD, while the 12-month cumulative current account deficit continued to rise, reaching \$33.6 billion. The contraction in tourism revenues plays an important role in the expansion of the deficit. In the upcoming period, it is expected that the developments in oil prices as well as the outlook of tourism revenues will affect the current account deficit. On the financing side, fragilities become more evident in November. Due to the increasing uncertainties in the global markets, the portfolio investments had a net outflow of 2.7 billion USD, while reserves decreased by 788 million USD. The fact that the weakness on the current account was compensated by net errors and omissions drew attention ([Our Balance of Payments Report](#)).

Boost in industrial production...

Turkish economy, which contracted at 2016 Q3, shows signs of recovery lately. Industrial production, which started the last quarter of 2016 with a positive growth at the last quarter, continued growing in November. According to the calendar adjusted figures, industrial production index increased more than expected by 2.7% yoy. Recovery in economic activity varied at sub-group level. Motor vehicles made the highest contribution to the industrial production thanks to its strong export performance. With the new investments, industrial production in computer and electronic products and pharmaceuticals industries increased significantly. On the other hand, production in base metal industry, which was positively impacted by the rising commodity prices and showing an upward trend previously, shrank in November.

Credit rating agencies' evaluations on Turkish economy...

The markets followed credit rating agencies' evaluations on Turkish economy closely last week. Moody's emphasized that increasing geopolitical risks have deteriorated the investment environment in Turkey and slowing capital inflows to the country depreciated Turkish lira. Moody's asserted that pressure on the asset quality of banks increased. The agency estimated that non-performing loans (NPL) ratio will go up to 4% and profitability of Turkish banks will come down. BRSA (Banking Regulation and Supervision Agency) President Mehmet Ali Akben responded to the Moody's pessimist outlook. He underlined that there is no sign of deterioration at asset quality of Turkish banks and profitability in the sector has an upward trend. Fitch, which is the only rating agency holding Turkey's credit rating at investment grade indicated that there has been a high level of vulnerability in Turkish economy. The recent news on the media refer that Fitch will downgrade the Turkey's rating on January 27th.

High volatility in domestic markets, new measures from CBRT...

Following the assessments released by credit rating agencies in the first days of the last week, domestic markets decoupled from its peers in the negative direction. In response to the increasing volatility in financial markets, CBRT took its first measure on Tuesday by reducing the borrowing limits of the banks to 22 billion TRY at the Interbank Money Market. Moreover, FX reserve requirement ratios have been reduced by 50 basis points for all maturity brackets. This provided an additional liquidity of approximately 1.5 billion USD to the financial system. As the effects of the measures were quite limited, USD reached record high at 3.94 against TRY before Trump's press conference.

As a result of the high volatility in foreign exchange markets on Thursday, CBRT took its second measure and changed the funding policy. In this context, CBRT reduced the liquidity in the market by not launching one-week repo auction. CBRT expressed its willingness to take additional steps in order to maintain price stability and financial stability. Besides, verbal interventions which underlined that CBRT will take necessary actions eventually increased the demand for TRY. BIST-100 index rose 4.15% daily, thanks to the increase in banks' shares, while TRY appreciated 3.8% against dollar on Thursday. Thus, the domestic markets have recorded the best daily gains since November 2015.

On the last trading day of the week, CBRT maintained its tight funding policy and didn't launch a repo auction, thus preventing TRY from depreciating. After the markets closed on that day, CBRT took its third measure. Banks' borrowing limits at the Interbank Money Market have been reduced to 11 billion TRY. CBRT said that on the days deemed necessary, the amount of funding provided by the CBRT through BIST repo markets may be limited and banks will be able to meet their remaining liquidity needs without limits at late liquidity window funding rate at the end of the day. This decision allows the CBRT to raise its weighted average funding cost, which was hovering around 8.3% in previous weeks, up to 150 basis points. As domestic markets experienced a highly volatile week, TRY depreciated by 2.2% and 3.1% against dollar and euro, respectively. 2-Year benchmark rate increased by 43 bps to 11.21%. Risk premiums of Turkish Eurobonds, increasing to highest level for 4 years during the week, were reached 373 basis points on Friday.

INDUSTRY NEWS

Share of domestic resources in electricity production increased...

The share of domestic and renewable energy sources in electricity production continued to increase in line with the policies implemented in Turkey. Berat Albayrak, Minister of Energy and Natural Resources, told that electricity produced by renewable resources and domestic coal increased by 31% and 23%, respectively on an annual basis in 2016. Thus, the share of domestic resources in electricity production reached a record level of 49.3%. Albayrak also pointed out that electricity produced by natural gas has declined by more than 10%, emphasizing that the increase in the use of imported resources in electricity production has lost momentum.

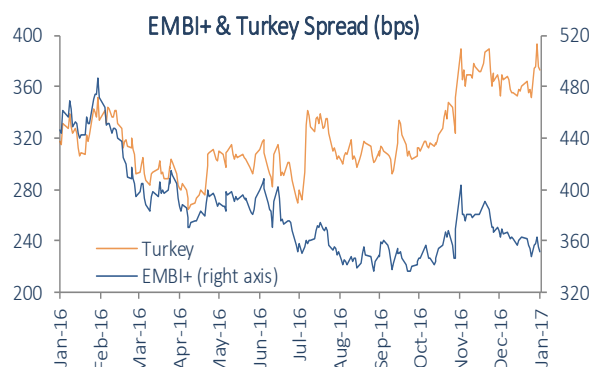
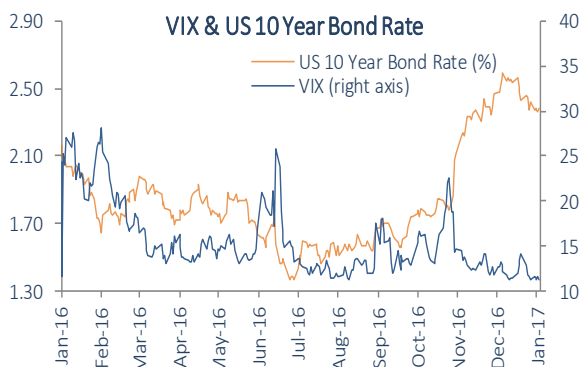
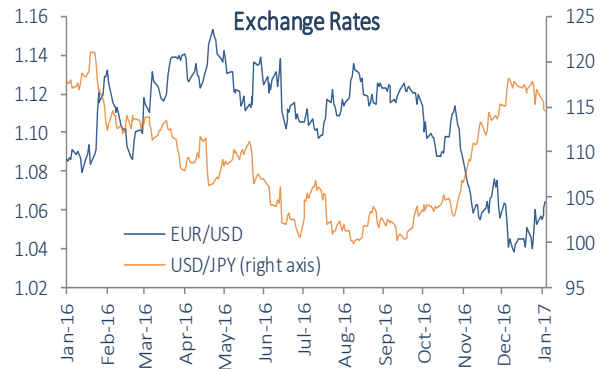
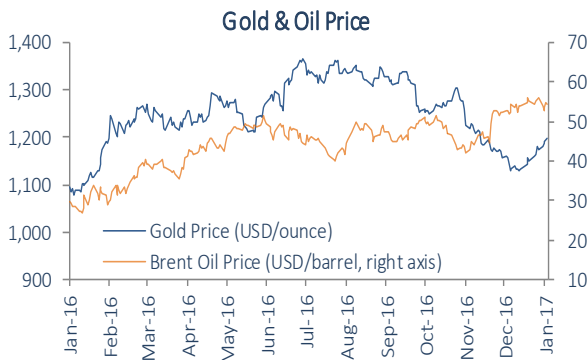
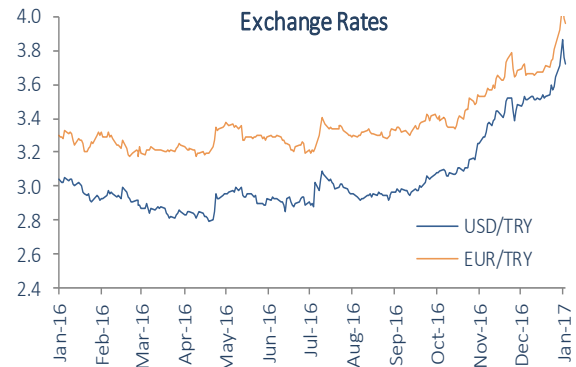
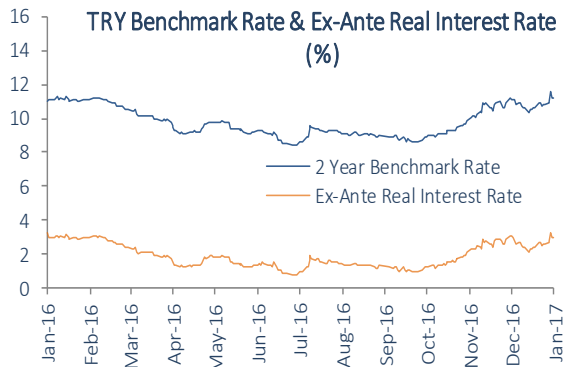
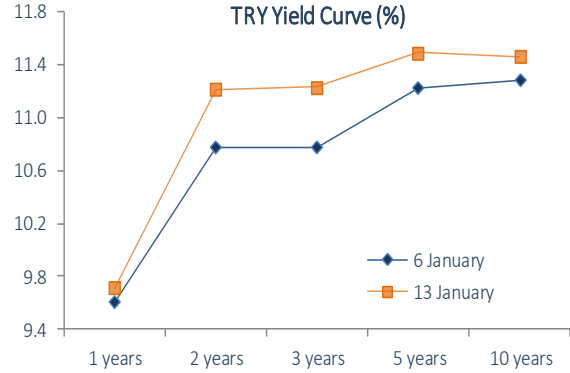
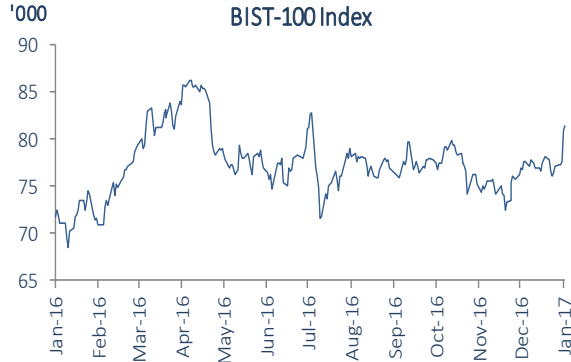
Mergers and acquisitions in Turkey slowed down.

According to the assessment by Ernst & Young Türkiye, mergers and acquisitions (M&A) in Turkey declined by 53% yoy and came in at 7 billion USD in 2016. In this period, M&A transaction volume by non-residents was realized as 2.5 billion dollar, the lowest level since the 2009 crisis. This figure was 6.6 billion USD in 2015. The energy sector ranked first in M&A deal volume. The 30 M&A deals in energy sector created a transaction volume of 1.6 billion USD. Privatizations accounted for 23% of total deal volume in 2016, as domestic investors continued to be the key element. M&A transaction volume is expected to reach 10 billion USD in 2017. In the coming period, privatizations in energy and infrastructure sectors would be on the top of the list. In private sector, on the other hand, retail, health, manufacturing and information sectors are anticipated to be attractive.

New regulations on imports...

Last week, new regulations on imports were closely monitored in domestic markets. According to the decision taken by Cabinet of Turkey, in 2017, the steel wire imports will be subject to zero customs duty with a 6k ton limit. In 2015, Turkey imported around 50k tons of steel wire, mainly from China and South Korea. Besides, it has been also decided to apply an additional custom duty between 17-25% on imports of personal care products such as perfumes, shampoos and toothpaste.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
16 January	Turkstat Laborforce Statistics	October	11.8% (A)
	Ministry of Finance Budget Realizations	December	-27 billion TRY (A)
17 January	Issuance of Treasury Bill with 11 Months Maturity		
	Germany ZEW Survey	January	
18 January	USA CPI	December	0.3%
	USA Industrial Production	December	0.6%
	Euro Area CPI	December	
	Treasury Domestic Debt Redemption (1,522 million TRY)		
19 January	ECB Governing Council Meeting		
	USA Housing Starts	December	1.2 million units
20 January	China Industrial Production	December	
	China GDP	Q4	

(A) Actual

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