

WEEKLY OUTLOOK

Trump's protectionist policies...

US President Donald Trump started to implement his protective trade policies on the first week of his mandate. Last week Trump decided to renegotiate the North American Free Trade Agreement (NAFTA) and signed an executive order to withdraw from Trans-Pacific Partnership. Trump also issued a decree to start building the wall on the Mexican border. At the meeting with the managers of the three major carmakers, the US President told that if domestic car production is increased, tax rates might be cut significantly and the environmental regulations on the sector would be eased.

The preliminary manufacturing PMI reading for January reached 55.1, the highest level since March 2015, confirming the upturn in US economy. The jobless claims, which displays volatile course during the holiday weeks, increased in the third week of January. Despite this recent figure, the 4-week average data painted a positive outlook for the labor market. The fourth quarter growth rate which was announced on the last trading day of the week was below the market expectation of 2.2% with 1.9%. In this period economic activity lost some momentum due to the net exports, while consumer spending recovered and the rise in private investments rekindled optimism.

At the beginning of last week, assessments on the "too strong" dollar caused greenback to depreciate against major counterparts. The DXY index tested its lowest level in the last 1.5 months. Moreover, in the following days US dollar erased its early losses and DXY closed the week at 100.5. The US stock markets continued to improve thanks to the strong company earnings as Trump's "pro-business policies" is anticipated to fuel the market rally in the coming period.

Recovery in Euro Area...

In January, Euro Area composite PMI was realized as 54.3 indicating that positive outlook in the economic activity continued. Besides, IFO Business Climate Index in Germany announced slightly below the expectations whereas GfK Consumer Confidence Index rose higher than expectations, exceeding the previous month's figure.

Brexit plan takes shape.

UK's Supreme Court has decided that the government must get a parliamentary approval before formally starting the Brexit process. On the other hand, the statement which ensured that there was no need for an approval from the Northern Ireland, Scotland and Wales in order to implement the process legally, reduced the Brexit related uncertainties. In fact, we observe that Brexit talks have not triggered a slowdown in UK economy at all. Preliminary data released last week showed that UK economy grew by 0.6% in the 4th quarter and 2% in 2016 as a whole thanks to strong domestic demand. Sterling appreciated against US dollar after robust GDP figures and the expectations of a policy rate hike from Bank of England (BoE) have increased. Moreover, recent comments about London keeping its "financial center" status in the upcoming period were noteworthy.

WEEKLY DATA

	20 Jan	27 Jan	Change		20 Jan	27 Jan	Change
BIST-100 Index	83,067	83,827	0.9 % ▲	EUR/USD	1.0699	1.0694	0.0 % ▼
TRY 2 Year Benchmark Rate	11.34%	11.37%	3 bp ▲	USD/TRY	3.7640	3.8770	3.0 % ▲
US 10 Year Bond Rate	2.47%	2.48%	1 bp ▲	EUR/TRY	4.0294	4.1320	2.5 % ▲
EMBI+ (bps)	351	347	-4 bp ▼	Gold (USD/ounce)	1,210	1,191	-1.5 % ▼
EMBI+ Turkey (bps)	364	356	-8 bp ▼	Brent Oil (USD/barrel)	55.7	54.9	-1.5 % ▼

bp: basis point

CBRT widened the interest rate corridor.

CBRT raised the upper bound of the interest rate corridor and late liquidity window lending rate at 2017's first meeting while keeping the policy rate (one week repo rate) unchanged at 8%. CBRT boosted the upper bound of the corridor (overnight lending/marginal funding rate) from 8.5% to 9.25% while pushing up the late liquidity rate from 10% to 11%. In this respect, CBRT widened the interest rate corridor, which has been gradually narrowed in the simplification process. Additionally, CBRT's decision to hike the late liquidity window lending rate shows that this unorthodox tool will continue to be used by CBRT. It was emphasized on the note released by CBRT after the decision that the recent significant rise in inflation is expected to continue in the short term. Moreover, CBRT decided to strengthen the monetary tightening to limit the deterioration in the inflation outlook and it will keep using all available tools when needed.

During last week CBRT didn't open any one-week repo auction and controlled funding through daily interventions causing an increase in weighted average cost of CBRT funding. The weighted average cost of funding was realized as 9.25% on Wednesday, 9.93% on Thursday and 10.27% on Friday, reaching its highest level since March 2014. This week, markets will focus on CBRT's first inflation report of 2017.

Fitch downgraded Turkey's credit rating.

Credit rating agency Fitch downgraded Turkey's long-term foreign currency credit rating by one notch to "BB+", which has been at investment grade since November 2012, but maintained Turkey's stable outlook. Fitch said in its statement that political and security developments have undermined economic performance and institutional independence. Fitch added that economic growth fell sharply in the second half of 2016 and is expected to recover to a pace that is well below the country's performance in recent years because of weak domestic demand and currency depreciation. Implementation of reforms that address structural deficiencies and reduce external vulnerabilities and a political and security environment that supports a pronounced improvement in key macroeconomic data were listed as the factors that could lead to positive rating action.

On Friday, S&P revised Turkey's credit rating outlook. S&P affirmed Turkey's foreign currency credit rating at "BB" and domestic currency rating at "BB+", while outlook was revised from stable to negative. S&P stated that the monetary policy response to currency and inflationary pressures of policy makers may prove insufficient to anchor its inflation-targeting regime, and added that given the large-scale dollarization of Turkey's economy, a weaker exchange rate erodes corporate balance sheets, financial sector asset quality, and growth.

Volatile course in domestic markets...

Last week, CBRT's interventions and the uncertainties before Fitch's credit rating decision were effective on the course of domestic markets. CBRT's decision to raise the transaction volume in the auction for FX deposits decreased the pressure on TL. USD/TL which stood at 3.7640 at the week's opening rose 3% to 3.8770. 2 year benchmark interest rate also increased by 3 basis points. After following a volatile course, BIST-100 index were up by 0.9% thanks to relatively strong foreign demand despite the recent volatility in FX markets.

Turkstat revised inflation baskets.

Turkstat revised the weights of main expenditure groups in CPI and D-PPI baskets within the framework of household budget and industrial production surveys. In addition, as of January 2017, instead of seasonal (variable) weight structure in which seasonal items have different weights in every month, fixed weight structure encouraged by EuroStat is going to be used. While the weight of food and housing in CPI basket decreased the weight of transportation, alcoholic beverages and tobacco increased. We think that this will increase the pressure on consumer inflation as changes in exchange rates and energy prices will be more visible in CPI with new weights. New baskets and calculation method will be used in calculation of the January inflation to be announced on February 3rd.

INDUSTRY NEWS

Sectoral confidence indices fell while consumer confidence recovered slightly.

In January, consumer confidence index rose by 5.6% to 66.9. The improvement was widespread in all the sub-indices, while the possibility of saving in the coming period, which was considerably deteriorated in December, recovered slightly. Nevertheless, the index remained below 100 indicating a pessimistic situation. In January, real sector confidence index decreased by 1.4 points mom to 97. Negative evaluations regarding orders and business outlook of the companies were decisive in this decline. In the same period, confidence indices in the services and construction sectors decreased by 6.2% and 1.7%, respectively, while the confidence index of the retail trade sector remained flat.

House sales increased by 4% in 2016.

In December, the highest monthly house sales in 2016 were realized with 142.7 thousand units, according to Turkstat. Thus, house sales in the whole year increased by 4% to 1,341 thousand units. The realization of the deferred demand, after the discount in the mortgage interest rates in August, was effective in this increase. The reduction in advance payments from 25% to 20% for mortgage loans and discount of VAT for houses larger than 150 m2 also affected the sales positively. It is thought that housing demand increased as households prefer to buy homes before depreciation in TRY boosts the home prices. CBRT's house price index shows that house prices increased 12.26% in nominal and 4.92% in real terms yoy as of November 2016.

Sector representatives are aiming to sell 1.5 million homes in 2017, while prices are expected to increase due to the rise in the production costs with the depreciation of TL. Recently a campaign by Emlak Konut GYO, Association of Housing Developers and Investors (KONUTDER) and the Association of Real Estate and Real Estate Investment Companies (GYODER) is on the agenda of the sector. With the campaign which is planned to last during February 1st – March 30th, houses are planned to be sold with lower interest rates and 240 months maturity.

Tourism sector expects some recovery in 2017.

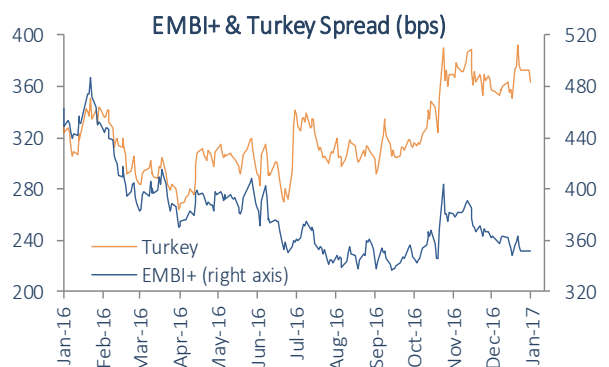
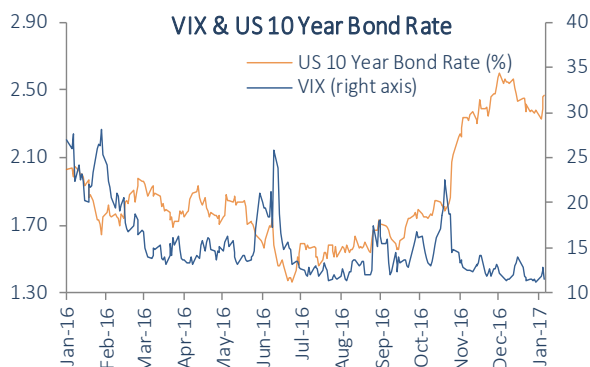
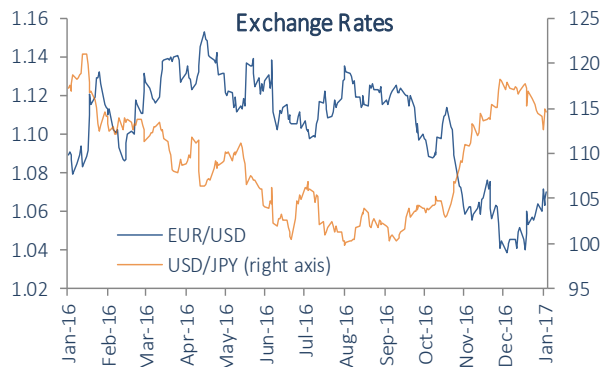
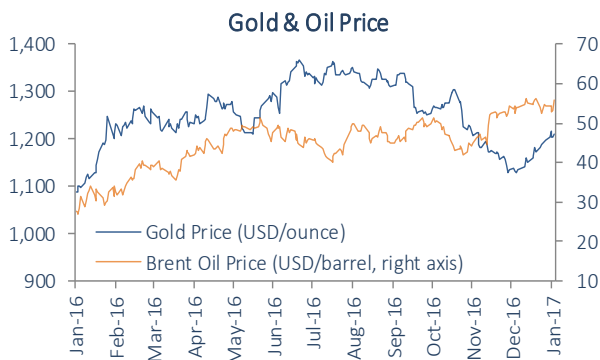
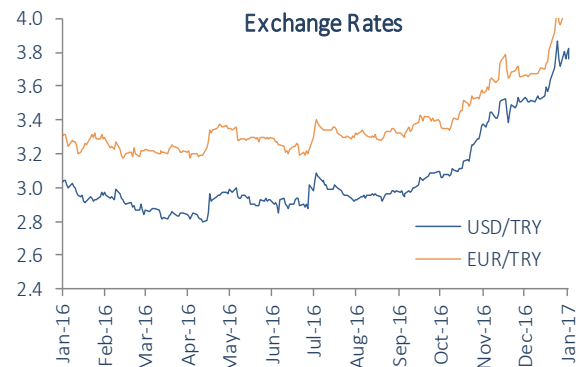
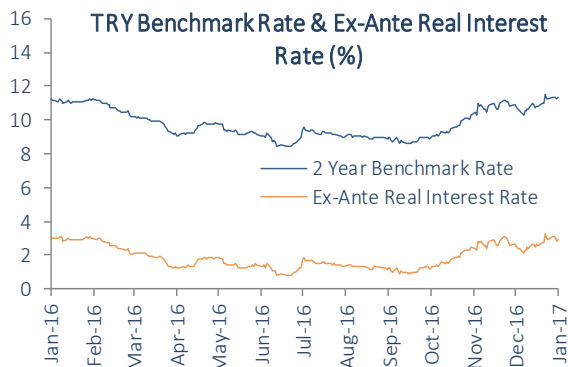
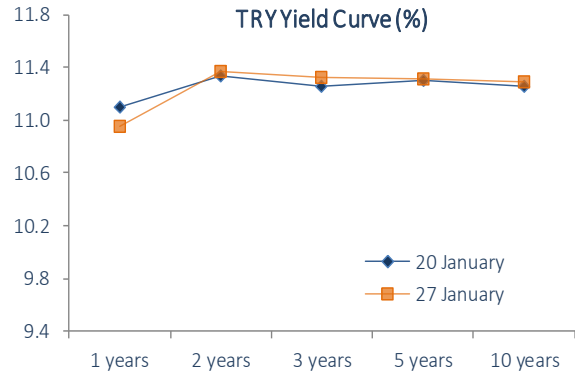
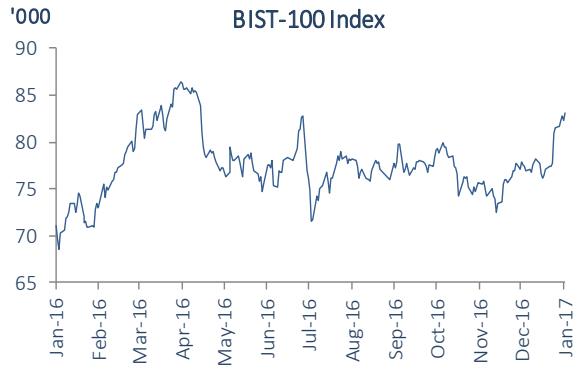
Hotel Association of Turkey announced that the hotel occupancy rate in Turkey decreased to 50.8% in 2016 from 61.7% in 2015. This ratio points to the lowest rate in Europe. Moreover, in 2016, the revenue per available room in Turkey decreased to 39.5 euros while it was 68.4 euros in Europe.

The increase in occupancy rates in December 2016 indicates that there may be some recovery in the sector in 2017. While activity in the tourism sector revives thanks to winter facilities, it is stated that early reservation campaigns have seen higher demand than last year. Some recovery is expected in the market this year with the domestic demand and Russian tourists.

Discount in natural gas...

Last week Iranian authorities have announced that a discount of 13.3% would be applied to the natural gas that is exported to Turkey after the international arbitration decision against Iran. 1.9 billion USD will also be paid to Turkey as compensation. As a matter of fact, as of October 1st, 2016, domestic natural gas price was already reduced by 10% in favor of the arbitration case's favorable result.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
30 January	US Personal Income	December	0.4%
	US Consumer Spending	December	0.5%
	Turkstat Economic Confidence Index	January	85.7 (A)
31 January	US The Conference Board Consumer Confidence Index	January	112.8
	US Chicago PMI	January	55
	Euro Area GDP Growth	2016 Q4	1.7% yearly
	Euro Area CPI	January	1.5% yearly
	Euro Area Unemployment	December	9.8%
1 February	Turkstat Foreign Trade Statistics	December	-
	US ADP Employment Report	January	160,000
	China Manufacturing Industry PMI	January	51.2
	Euro Area Manufacturing Industry PMI	January	55.1
	US ISM Manufacturing Industry Index	January	55
	US Manufacturing Industry PMI	January	
	Fed FOMC Meeting	February	-
2 February	Turkey Manufacturing Industry PMI	January	
	Euro Area PPI	December	1.2% yearly
3 February	Bank of England Monetary Policy Committee Meeting	February	
	US Non-farm Employment Data	January	158,000
	US Employment Data	January	
	US Factory Orders	December	1.4%
	China Caixin Manufacturing Industry PMI	January	51.8
	Turkstat CPI	January	
	Turkstat PPI	January	

(A) Actual

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