

## WEEKLY OUTLOOK

**Statements regarding the timing of Fed's next interest rate hike...**

Cleveland Federal Reserve President Mester said earlier last week that she would be “comfortable” for interest rates to be higher if the economy continues on the path its own, while Philadelphia Fed President Harker expressed that he would support rate hikes as long as macro indicators such as inflation and industrial production display a strong growth in US. Harker became a voting member in Federal Open Market Committee (FOMC) in 2017, while Mester does not have the right to vote in 2017 due to planned rotation. As the statements made by Fed officials were mainly positive for rate hike, dollar appreciated in global markets. This trend was supported by the Minutes of the Fed meeting which announced that it is appropriate to increase interest rates “fairly soon”. On the other hand, according to the Minutes, Fed evaluates the uncertainties regarding President Trump's economic policies and strong increase in inflation is categorized as “moderate risk” as policy makers will have enough time to act accordingly, should such risk materializes. President Trump's speech at the Congress on February 28th, inflation figures and non-farm employment data will shape the expectations ahead of Fed meeting on March 15th.

**Global stocks posted gains.**

Over the past week, global stock exchange markets have gone up thanks to US stock market, which accounts nearly half of the transaction volume. Asian stock markets rose to the highest level since July 2015 within the week before returning some of the gains due to declining commodity prices, especially copper. In Japan, Central Bank President Kuroda said that Japan's economy is not yet ready for an increase in interest rates because it is away from the inflation target of 2%. According to Kuroda, Bank of Japan will not face difficulties ahead buying bonds to achieve their yield curve control policy.

**Positive data from European economy...**

Last week, preliminary manufacturing and services PMI for Euro Area were realized above the expectations, indicating the economic activity continued to recover in February. The strong data released in Germany, the largest economy of the region, also painted a positive picture. Inflation in Germany in January was realized as 1.9%, surpassing the Euro Area average of 1.8%. German economy grew by 0.4% in the last quarter of 2016, with the contribution of exports and domestic demand. Thus, Germany economy recorded its highest annual growth since 2011 with 1.9%

**Flat course in oil prices...**

Last week, OPEC officials' statements that they aimed to implement the November oil cut decision fully affected the oil prices upwards while the news that the oil production in US continued to rise in October and November, reaching 8.9 million barrels per day balanced increase in the oil prices. OPEC and non-OPEC countries, which reached 90% and 50% of their supply cut target, respectively, is anticipated to meet on May 25th in Vienna.

## WEEKLY DATA

	17 Feb	24 Feb	Change		17 Feb	24 Feb	Change
BIST-100 Index	88,830	88,258	-0.6 % ▼	EUR/USD	1.0611	1.0560	-0.5 % ▼
TRY 2 Year Benchmark Rate	11.45%	11.15%	-30 bp ▼	USD/TRY	3.6280	3.6055	-0.6 % ▼
US 10 Year Bond Rate	2.43%	2.32%	-11 bp ▼	EUR/TRY	3.8495	3.7990	-1.3 % ▼
EMBI+ (bps)	339	336	-3 bp ▼	Gold (USD/ounce)	1,235	1,257	1.7 % ▲
EMBI+ Turkey (bps)	326	331	5 bp ▲	Brent Oil (USD/barrel)	54.9	54.6	-0.4 % ▼

bp: basis point

***USD/TRY parity has been declining for the last 4 weeks.***

Last week, the weighted average funding cost of the CBRT has reached its highest level since May 2012, with 10.41%. 2-year benchmark bond yield declined by 30 basis points w/w, while USD/TRY parity touched 3.55. CBRT's recent measure enabling the repayments of rediscount credits for export and foreign exchange earning services in terms of local currency was also crucial on the downward course of USD/TRY. On the other hand, gross FX reserves have decreased to the lowest level since August 2012.

***Food and Agricultural Product Markets Monitoring and Evaluation Committee convened.***

CBRT announced that the signals captured by early warning system were evaluated and product based measures are taken to increase the competition and to give the necessary incentives at Food and Agricultural Market Monitoring and Evaluation Committee meeting last week. At the meeting, it was also assessed to expand licensed warehouses, to minimize product losses during the transportation stages and to increase the number of product specialized commodity exchanges. Markets will watch closely the effects of the measures taken by the CBRT to limit the impact of the increase in food prices and the effects of recent appreciation of TRY on consumer inflation.

***Capacity utilization rate decreased in February.***

In February, manufacturing industry capacity utilization rate (CUR) decreased to 75.4%. While CUR rose rapidly (+4.2 points) in the production of computer, electronic and optical products, it drew attention that CUR in the production of non-metallic mineral products which includes glass, ceramics and cement products (-3.3 points) and furniture products (-3.0 points) fell significantly. It is anticipated that CUR will maintain its high course in durable consumption goods production due to the accelerated sales with the tax cut announced recently.

***Mixed course in confidence indices...***

In February consumer confidence index decreased by 1.8% to 65.7. The sharp decline in the possibility of savings and the expectation of an increase in the number of unemployed were effective in the negative performance of consumer confidence. On the other hand, the real sector confidence index rose to 105.3 rising by 8.5% in February. The overall improvement in the volume of production and export orders for the next three months supported the upward trend. The divergence in consumer and real sector confidences in February complicates to clarify the predictions on the Turkish economy. Sectoral confidence indices showed that confidence in construction; services and retail sectors have also increased significantly.

## INDUSTRY NEWS

***Share of domestic resources in electricity generation is increasing.***

Minister of Energy and Natural Resources Berat Albayrak revealed last week that it is essential to push the share of domestic resources in electricity generation up to 50% till the year-end from its current level of 49.3% and keep the share of domestic coal increasing, which is around 16% at present. Electricity generation company EÜAŞ earlier this year had tendered the coal reserves in Çayırhan on the condition that the private-sector partnership has to build a thermal power plant nearby. EÜAŞ is also considering transferring operational rights of reserves in Afyonkarahisar-Dinar, Konya-Karapınar and Afşin-Elbistan. As part of a plan to raise the domestic resources in electricity generation, lignite production in Turkey also rose by 21.9% in 2016.

Moreover, it was announced last week that up to 1,000 MW installed capacity of hydroelectric power plants (HES) operated by EÜAŞ will be transferred to the newly established Sovereign Wealth Fund in Turkey. Turkish Petroleum (TPAO), Petroleum Pipeline Corporation (BOTAŞ) and Eti Maden had previously been transferred to the Fund. EÜAŞ's share in Turkey's installed electricity capacity became 25.9% at the end of January while share of hydroelectric plants was the highest among all resources by 34% at that time.

***White goods sector made a good start to 2017.***

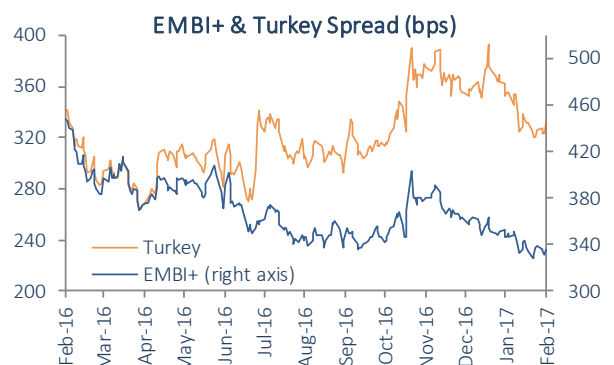
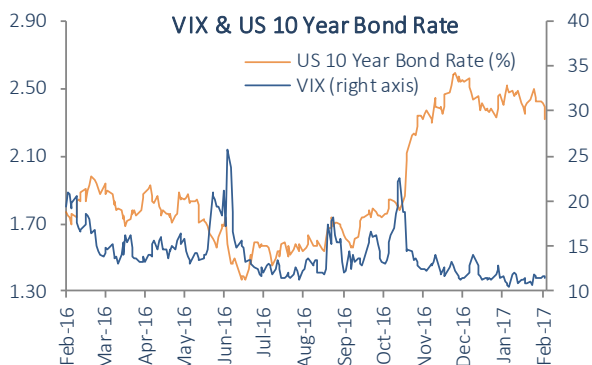
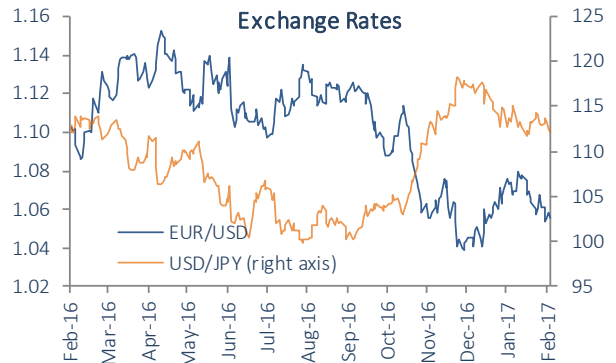
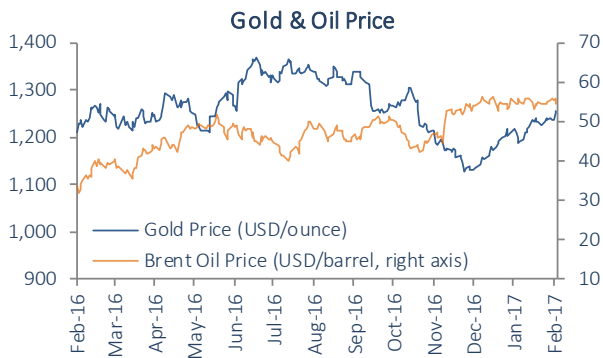
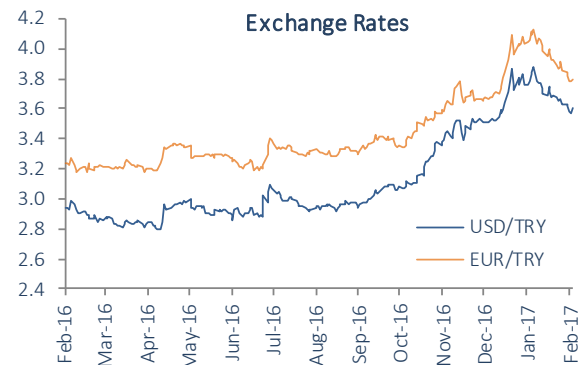
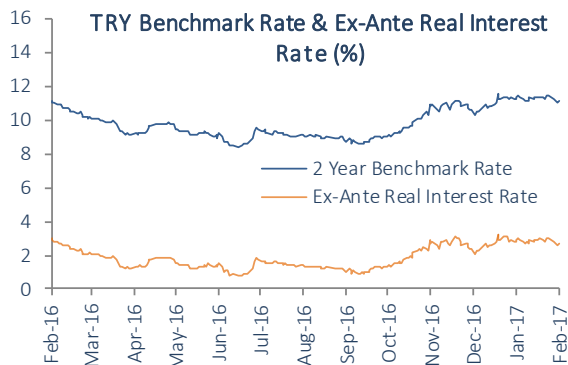
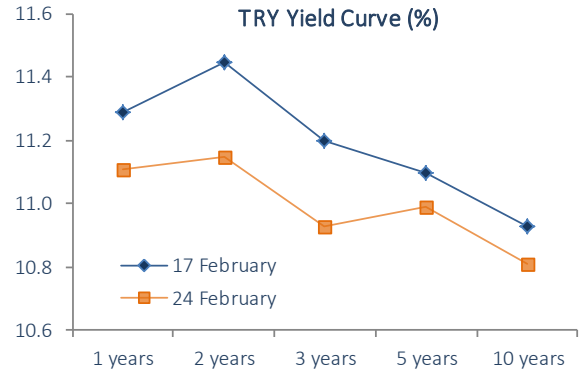
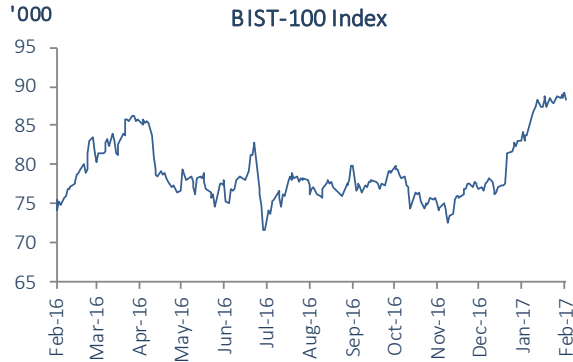
In 2016, white goods production grew by 6.8% yoy while exports and domestic sales climbed by 8.1% and 5.4%, respectively. Sector officials project that domestic sales will rise by 4.5% yoy and exports will increase by 8.3% in 2017. The sector, which was boosted by the exemption of special consumption tax (SCT) in February, which will last until April 30th, expects a double-digit growth in domestic sales as tax exemption reflected on prices. On the other hand, retail sector's fight against off-the-record economy is continuing. Renewal of cash registers, whose deadline was previously postponed to January 1st, 2018 from January 2017, will have totaled 2.3 million. Up to now, 850,000 new cash registers have been sold at domestic market and the sales volume is expected to accelerate towards the end of the year.

***Home sales accelerated in January.***

According to data published by Turkstat, home sales in Turkey grew by 12.8% yoy to 95,389 in January. Istanbul had a sales growth of 1.8% during the same period. Although the mortgaged home sales declined mom, it recorded an increase of 35.4% yoy. Share of mortgaged home sales hiked to 37.7% in January. Additionally, it is important to note that home sales to foreigners dropped by 5.2% yoy.

As stated in The Official Gazette published in January, foreigners, who fulfil required conditions, will be able to get a Turkish citizenship. It was also announced last week that home and office sales paid by foreign currency brought from abroad will be exempted from value added taxes (VAT). All related incentives are estimated to keep the momentum at real estate sector. Furthermore, based on the note published on the Official Gazette on the weekend, whoever would like to make their own urban transformation projects, will be able to do it financed by Ministry of Environment and Urbanization. Ministry will credit people and corporations for up until 10 years depending on the flat size. The regulation is expected to help unfinished urban transformation projects to be completed rapidly.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
27 February	USA Durable Goods Orders	January	1.8% (A)
	TURKSTAT Economic Confidence Index	February	91.5 (A)
28 February	USA GDP Growth (Final)	2016Q4	2.1%
	USA International Trade Statistics	January	
	USA The Conference Board Consumer Confidence Index	February	110.9
	Eurozone Consumer Price Inflation (Preliminary)	February	
	TÜİK Foreign Trade Statistics	January	
1 March	USA Consumer Spending	January	0.3%
	USA Personal Income	January	0.3%
	USA Manufacturing PMI	February	
	USA ISM Manufacturing Index	February	55.6
	China Caixin Manufacturing PMI	February	50.6
2 March	Eurozone Producer Price Index	January	
	Eurozone Unemployment Rate	January	
3 March	TURKSTAT Consumer Price Index	February	
	TURKSTAT Domestic Producer Price Index	February	

(A) Actual

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