

WEEKLY OUTLOOK

Waiting for the Fed meeting...

Last week, data released in the US confirmed that the strong trend in employment continued. In February, non-farm payrolls increased by 235k persons, well above expectations, while the unemployment rate fell to 4.7%. The average hourly earnings growth, on the other hand, did not meet expectations. In the US, factory orders in January also increased slightly by 1.2% on a monthly basis thanks to the uptick in demand for transportation vehicles, especially aircrafts. Besides, factory orders excluding transportation vehicles grew only by 0.3%. In the same period, the foreign trade deficit increased by 9.6% and reached its highest level since March 2012 with 48.5 billion USD. Fed meeting to be held on March 14-15 is at the top of the agenda this week. In line with the Fed officials' recent tone and the strong macroeconomic data, Fed is expected to raise interest rates at this meeting.

ECB kept its monetary policy unchanged.

European Central Bank (ECB) has not changed its policy rate and asset purchase program in line with expectations at its meeting last week. Recently, inflation and economic activity in Euro Area are improving significantly. The inflation in Euro Area came in at 2% in February, while the composite PMI index displayed its strongest performance since April 2011 with a reading of 56. At the beginning of the week, statements from German Banking Association were eye-catching. German Banking Association reiterated ECB should prepare the ground for an exit from its loose monetary policy given the pace of economic activity and recent price developments in Euro Area. ECB, on the other hand, emphasized that it would consider the permanent changes in inflation and signaled to keep its current monetary stance. After the meeting, ECB President Mario Draghi said that there is no sign of a convincing upward trend on underlying inflation while the risk of deflation faded away. Draghi told that ECB's MPC had decided to remove one phrase from its standard introductory statement that pledged acting "using all the instruments available within its mandate if needed to achieve its objectives", highlighting an improvement in the outlook as ECB is less likely to cut interest rates.

ECB has also revised its growth rate and inflation forecasts for Euro Area for 2017 and 2018 upward. Accordingly, growth rate forecasts for 2017 and 2018 were revised to 1.8% and 1.7%, respectively. CPI forecasts were raised from 1.3% to 1.7% for 2017 and from 1.5% to 1.6% for 2018. Besides, ECB kept its forecasts for 2019 unchanged.

Rapid increase in imports in China...

In China, imports in February increased by 38% yoy on the USD basis, while exports failed to meet expectations. While base effect accounts for the pick-up in imports, trade balance posted a deficit of 8.8 billion USD for the first time in the last 3 years. Imports which increased by 26.4% in the first two months of 2017 indicates a robust domestic demand in China.

WEEKLY DATA

	3 Mar	10 Mar	Change		3 Mar	10 Mar	Change
BIST-100 Index	89,722	89,611	-0.1 % ▼	EUR/USD	1.0620	1.0669	0.5 % ▲
TRY 2 Year Benchmark Rate	11.34%	11.48%	14 bp ▲	USD/TRY	3.7019	3.7289	0.7 % ▲
US 10 Year Bond Rate	2.49%	2.58%	9 bp ▲	EUR/TRY	3.9302	3.9850	1.4 % ▲
EMBI+ (bps)	331	336	5 bp ▲	Gold (USD/ounce)	1,234	1,204	-2.4 % ▼
EMBI+ Turkey (bps)	337	325	-12 bp ▼	Brent Oil (USD/barrel)	54.4	50.2	-7.8 % ▼

bp: basis point

Gold and oil prices decreased last week.

Last week, USD continued to appreciate in international markets ahead of Fed's possible rate hike in its meeting. As a result, global equity markets have been under selling pressure, while gold prices declined to the lowest level in the last 1.5 months with 1,195 USD/ounce last week.

US crude oil inventories continued to rise in the week ended on March 3rd. Rise in inventories accounted for the decline of 7.8% in oil prices which completed the week at 50.2 USD per barrel. High global oil stocks as well as increasing oil inventories in the US are putting pressure on oil prices and causing discomfort among OPEC members that are currently cutting off production. It is still in question whether production cut deal which will expire at the end of June will be extended or not.

The Treasury borrowed 14.5 billion TRY from the market last week.

The Treasury completed a significant part of its March domestic borrowing program with four auctions last week. With bond auctions, Treasury borrowed 14.5 billion TRY from the market as the demand for the auctions were high and interest rates were realized as expected. High demand for CPI-Indexed bond suggests that investors prefer to hedge against high inflation risk. The Treasury, which plans to issue bonds with a maturity of 5 years on March 14 and a maturity of 13 months on March 21 under the framework of its monthly program, has total domestic debt redemption of 17.7 billion TRY in March.

CBRT Governor's announcements were watched.

In his speech last week, CBRT Governor Murat Çetinkaya stated that recent FX volatility has raised the inflationary pressures in the short run but inflation is expected to ease by mid-year in accordance with the tight monetary policy stance. Noting that the steps taken for limiting negative effects of FX volatility on pricing behaviour became successful on a large scale, Mr. Çetinkaya emphasized that they will monitor pricing behaviours closely and additional monetary tightening may be implemented if necessary.

CBRT's tightening measures have been limiting the depreciation of TRY while accelerating the rise of the weighted average cost of funding. In fact, real effective exchange rate index which hit all-time low in January, increased by 1.3% mom to 88.8 in February. Last week, TRY depreciated due to global developments, CBRT's weighted average cost of funding raised to 10.82%. Monetary Policy Committee meeting to be held on March 16th will be watched closely this week.

Current account deficit was in line with the expectations.

In January, current account deficit (CAD) increased by 561 million USD yoy to 2.8 billion USD. Thus, 12-month cumulative CAD which was 32.6 billion USD by year-end 2016 increased to 33.2 billion USD in January 2017 mainly stemming from widening foreign trade deficit and declining net services income due to falling travelling revenues. On the financing side, foreign direct investments declined while portfolio investments rose. In January CBRT's official FX reserves also decreased by 2.1 billion USD.

INDUSTRY NEWS

Industrial production increased in January.

In January, calendar adjusted industrial production rose by 2.6% yoy, indicating the ongoing recovery in economic activity. While the production in the electricity generation and distribution sector and the manufacturing industry increased by 7.4% and 2.8%, respectively, mining and quarrying sector production decreased by 13.7%. While increase in the overall manufacturing industry production is not reflected in most sub-sectors, increase in the production of automotive, food and electronics sectors is quite noteworthy.

Turkey-Russia High Level Cooperation Council meeting was held.

Last week, Turkey-Russia High Level Cooperation Council meeting was held. A number of agreements between Russia and Turkey are expected to be signed in economic, technical and cultural fields, including a protocol on establishing a mutual fund between the Russian Investment Fund and the Turkish Asset and Investment Fund. In addition, Russian Prime Minister Medvedev has announced the signing of a resolution allowing the export of some agricultural products from Turkey to Russia. It is noted that the importation of fresh or frozen onion, cauliflower, broccoli and carnation flowers from Turkey is allowed within this resolution, while the ban on tomatoes and grapes, which are the biggest export items, continues.

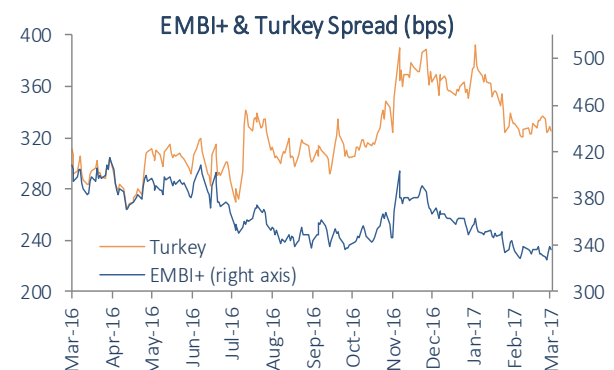
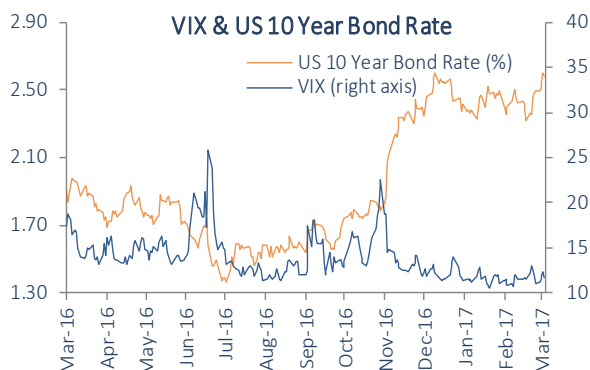
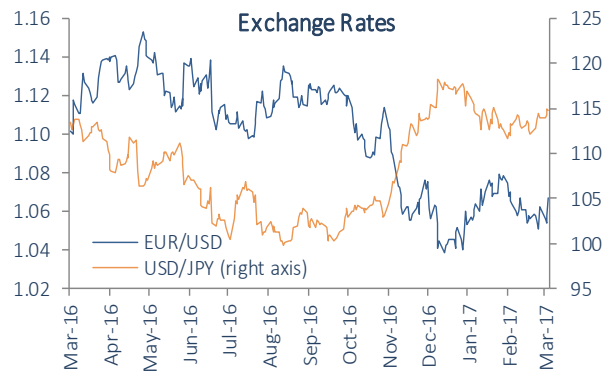
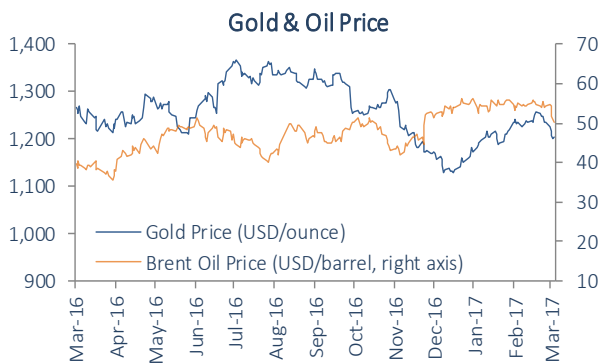
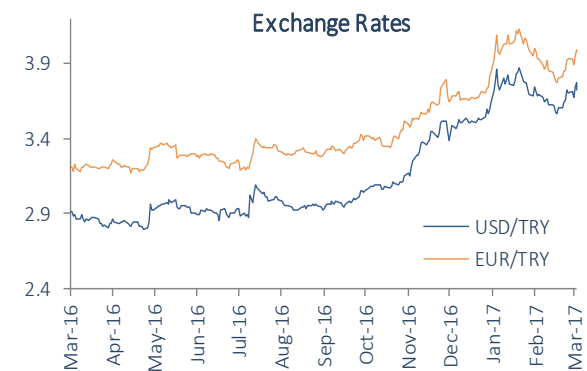
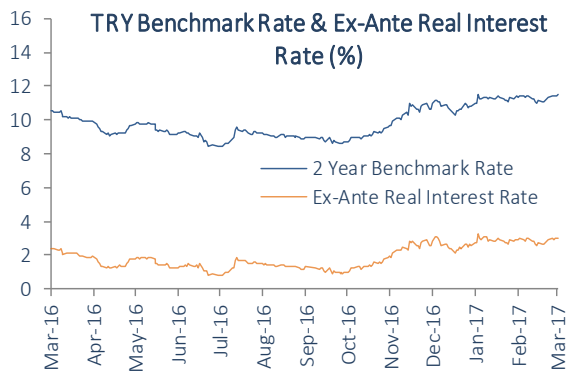
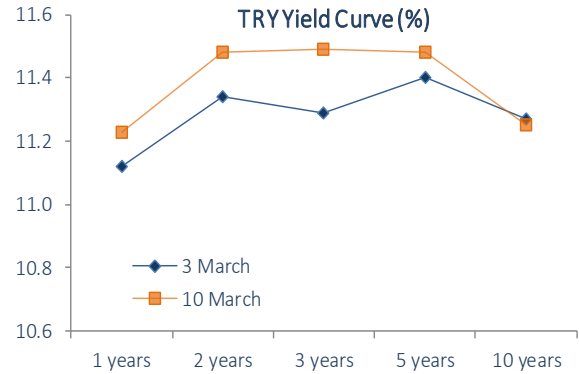
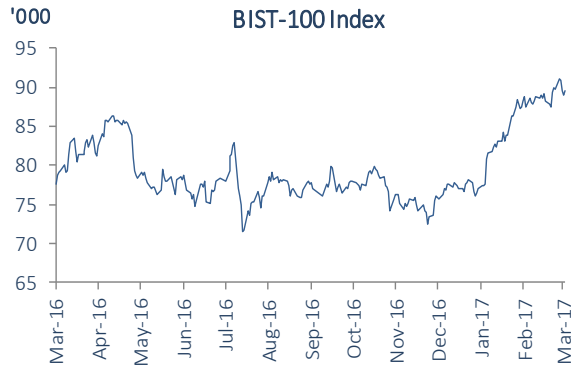
Credit Guarantee Fund...

The guarantee amount of the Credit Guarantee Fund, which aims to support SMEs' access to financing, has been set as 250 billion TRY with a decree published in the Official Gazette. The beneficiaries will be responsible for a maximum of 0.03% commission for each bailment under these guarantees. The minimum period of the commercial loans has been set as minimum 6 months, and maximum 5 years with a grace period of maximum 1 year. For investment loans the maximum period will be 10 years with a maximum of 3 years grace period. The guarantee limit for each beneficiary will be determined by the Undersecretariat of Treasury with a maximum of 12 million TRY for SME beneficiaries and 200 million TRY for others. With the provisional provision added to the decree, the maritime sector's operating and investment credits are extended by one year.

Certificates as a financing tool for real estate projects...

The notice of real estate certificates, which was published in the Official Gazette last week, is making the finance of residence and office projects possible. Real estate certificates are not only a financing tool for property developers, but also a saving and investment tool which offer yields to the investors and make house-purchasing easier thanks to their tranche offerings. Individual and corporate investors will be able to purchase shares from real estate projects, which are already divided in small and independent parts. The investors will be able to save enough certificates to buy a house as the project is over. It will also be feasible to sell the certificates at Istanbul Stock Exchange.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
13 March	CBRT Balance of Payments Statistics	January	-2.8 bln USD (A)
	CBRT Survey of Expectations	March	
14 March	Euro Area Industrial Production	January	1.3%
	US Production Price Index	February	0.1%
15 March	Turkey Central Government Budget Realizations	February	
	Turkstat Employment Statistics	December	
	US Consumer Price Index	February	
	US Retail Sales	February	0.1%
16 March	Fed FOMC Meeting and Interest Rate Decision	March	
	CBRT Meeting and Interest Rate Decision	March	
	US Housing Starts	February	1.26 mln
	US Housing Permits	February	
17 March	BoE Meeting and Interest Rate Decision	March	
	US Industrial Production	February	
	US University of Michigan Consumer Confidence Index	March	
	US Capacity Utilization	February	

(A) Actual

İŞBANK - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

H. Erhan Gül - Asst. Manager
erhan.gul@isbank.com.tr

Dilek Sarsın Kaya - Economist
dilek.kaya@isbank.com.tr

Aslı Göksun Şat Sezgin - Economist
goksun.sat@isbank.com.tr

Bora Çevik - Economist
bora.cevik@isbank.com.tr

Ahmet Aşarkaya - Economist
ahmet.asarkaya@isbank.com.tr

Ayşe Betül Öztürk - Asst. Economist
betul.ozturk@isbank.com.tr

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