

## WEEKLY OUTLOOK

*US markets...*

Last week, Fed governors' announcements were watched closely. In his speech last week, as being one of the dovish" governors in FOMC, Chicago Fed Chair Charles Evans stated that there might be two more rate hikes within 2017. Declaring that the monetary policy stance will be determined based on inflation and Trump's future fiscal policy actions, Evans emphasized that Fed will be on hold watching the data flow until its meeting in June. Likewise, San Francisco Fed Chair John Williams explained that 3 or 4 rate hikes in total would be reasonable in 2017, but the final decision will be taken upon upcoming course of employment and inflation. In this sense, Fed is likely to keep policy rates unchanged in May, yet a rate hike is more probable in June. Markets also focused on the recent developments about US healthcare reform which President Trump has promised to change. The future of this reform, being the first large-scale draft law proposed by Trump to the Congress since he took office, was actually evaluated as a sign of how successful Trump will be regarding his commitments during the election campaign. In this regard, postponing Thursday's voting to Friday and withdrawal of the proposed law upon inadequate support by the Congress, weakened the expectations of a tax cut as well as easing regulations in the coming future. This week, markets will keep on watching Fed governors' speeches.

*Political developments are on the agenda in Europe...*

Political developments were followed last week in Europe. It was announced that Prime Minister of the United Kingdom Theresa May will launch the Brexit process on March 29th in accordance with Article 50 of Lisbon Treaty. The process is expected to take place in 2-year time span. European Union will introduce a summit regarding the exit process at the end of April after UK submits the exit decision officially to the EU. The Brexit process will be closely monitored, especially in terms of foreign trade between EU and UK, and European citizens in the UK.

After Dutch Prime Minister Rutte's party won the elections in the Netherlands, French Presidential election, which will take place on April 23rd and May 7th, is now on the watch list in Europe. Macron's lead in the latest polls for presidency following the live debate on TV supported the euro. It is known that extreme right party leader Le Pen wants to abandon euro should she win the election.

*Inflation in Europe...*

Robust economic data releases in the Euro Area (EA) supported the expectations of a tapering regarding European Central Bank's (ECB) asset purchase programme and/or a rate hike. Nevertheless, as mentioned in the February issue of ECB's monthly Economic Bulletin, headline inflation has been still lower than preferred levels as a result of relatively weak underlying inflation and this actually decreases the chances of a possible change in the monetary policy in the short-term. Besides, consumer prices in the UK increased by 2.3% yoy in February, rising above Bank of England's (BoE) target of 2% since the end of 2013. On the other hand, inflationary pressures might be temporary as most of the rise has stemmed from the increase in oil prices.

## WEEKLY DATA

	17 Mar	24 Mar	Change		17 Mar	24 Mar	Change
BIST-100 Index	90,491	90,383	-0.1 % ▼	EUR/USD	1.0736	1.0797	0.6 % ▲
TRY 2 Year Benchmark Rate	11.57%	11.50%	-7 bp ▼	USD/TRY	3.6324	3.6098	-0.6 % ▼
US 10 Year Bond Rate	2.50%	2.40%	-10 bp ▼	EUR/TRY	3.9011	3.8982	-0.1 % ▼
EMBI+ (bps)	332	331	-1 bp ▼	Gold (USD/ounce)	1,228	1,244	1.3 % ▲
EMBI+ Turkey (bps)	318	311	-7 bp ▼	Brent Oil (USD/barrel)	50.6	50.2	-0.9 % ▼

bp: basis point

***Summary of the Monetary Policy Committee Meeting was released.***

Last week, CBRT released the summary of the Monetary Policy Committee Meeting which was held on March 16th. According to the summary, 10.13% inflation figure of February was influenced by the high volatility in unprocessed food prices along with the base effect and spillovers from the depreciating Turkish lira. Despite a relatively sluggish domestic demand, the growing EU demand continues to stimulate total exports, the automotive industry in particular. Despite industrial production posted a quarterly growth in the fourth quarter of 2016, the sectoral growth is uneven throughout the economy. CBRT reiterated that tight stance in monetary policy will be maintained until inflation outlook displays a significant improvement. At the March meeting, the late liquidity window lending rate was raised from 11% to 11.75%, while the other CBRT rates were kept unchanged. According to CBRT, economic activity is projected to display a gradual and slow rebound in 2017. However, the course of capital flows in line with uncertainties regarding global economic policies, geopolitical developments, the subsided course of the labor market and the lingering volatility in exchange rates may stand out as factors to limit the pace of growth in 2017.

Last week, the 75 bps increase in the late liquidity window lending rate is reflected as an increase of about 50 bps to the weighted average cost of the CBRT funding which reached its highest level since January 2012 with 11.33%.

***Domestic markets...***

After starting the week with a rise, BIST 100 lost ground parallel to the global markets in the following days. The restriction of the US and UK regarding the use of mobile devices during direct flights from some Middle Eastern and North African countries, including Turkey, was effective in the decline of aviation stocks in Istanbul Stock Exchange. On the other hand, USD/TRY saw the level of 3.58 in the week due to the views that Fed's decision to raise interest rates would not be as aggressive as the expectations, together with the current monetary tightening measures of CBRT. 2-year benchmark bond interest rate also decreased by 7 bps. After Fed's interest decision, CBRT increased overnight interest rates applied to FX required reserves, reserve options and free reserves from 0.75% to 1% at the beginning of last week.

***Consumer confidence index is rising.***

In March consumer confidence index rose by 3.2% to 67.8. The improvement in the general economic expectation and the weakening in the probability of saving supported the increase in the index. The sharp increase in the suitability of the current period for purchasing durable goods, which is the result of the ongoing tax reductions, drew attention. On the other hand, the unemployment rate in Turkey increased by 0.6 points yoy to 10.9% in 2016. Despite 2.9% increase in the workforce, 8.9% rise in the number of unemployed persons was effective in the upward movement of the unemployment rate. The number of unemployed persons increased by 273k yoy, while the number of employed ones rose by 584k.

## INDUSTRY NEWS

***Home sales dropped in February.***

Home sales in Turkey dropped in February by 0.2% annually to 101,468. Hence, home sales rose by 5.7% yoy in the January-February period. Home sales with mortgage surged by 27% yoy, while its share in all home sales has gone up to 38% from 30% last year. Although existing home sales increased by 3.6% yoy, decline in new home sales by 4.6% yoy was effective on the decrease in overall house sales. Additionally, homes sold to foreigners were down by 17.6%.

Moderate course of mortgage rates and tax discounts at the housing sector are expected to boost the sales. On the other hand, there are developments regarding the real estate certificates last week which are aiming to support the companies and sales in the sector. Issuance of first real estate certificate for a project that will be built in Başakşehir will be underway this week. Certificates will be traded at Istanbul Stock Exchange as of April 5th and investment from Gulf countries is expected to be high due to interest-free returns from certificates.

***Auto sales to drop in domestic market...***

Automotive Manufactures Association estimates that automotive production will rise by 11% to 1.65 million in 2017. Exports will increase by 18% in value and 13% in volume while domestic market will narrow by 11% during the same period. Despite increasing cost of the imported vehicles due to depreciating lira and low consumer confidence, demand was pulled ahead and supported the sales in 2016 in the wake of the rise in Special Consumption Tax in the sector. Sector officials expressed that commercial vehicles should be allowed for leasing and scrap vehicle program is required for old and unused cars in order to increase commercial vehicle sales in 2017

***First tender for Renewable Energy Resource Areas was completed.***

Ministry of Energy and Natural Resources continue to support the local production of the resources used for power generation in order to reduce energy imports. Within the scope of Renewable Energy Resource Areas, the Ministry aims to provide incentives to the solar and wind power plants and to the production of the equipment which will be used in those plants. First tender for the related project was implemented in Karapınar, Konya for the establishment of a solar power plant with a projected installed capacity of 1,000MW. The tender requires the winner to use locally-produced equipment by 60% for the first half of the plant and by 70% for its second-half. The consortium of Kalyon Energy and South Korea's Hanwa submitted the best bid with 6.99 cent/kwh and it is estimated that the project's cost will be 1.3 billion USD in total.

***Record high natural gas consumption in January.***

Rising natural gas demand at housing sector due to cold weather conditions pushed the gas consumption up to a record level in January. Surging gas consumption by 11.2% yoy in January increased the gas import by 9.7% as well. Spot LNG import also surged by 47% to meet the domestic demand during the same period. On the other hand, after number of provinces having access to natural gas reached to 78 at 2016 year-end, tenders for the remaining three cities, Artvin, Hakkari and Şırnak are planned to take place this week. It is targeted that 200-250 new districts will have access to natural gas for the first time in the upcoming two years. It is expected that expanding distribution network of natural gas will move the consumption up.

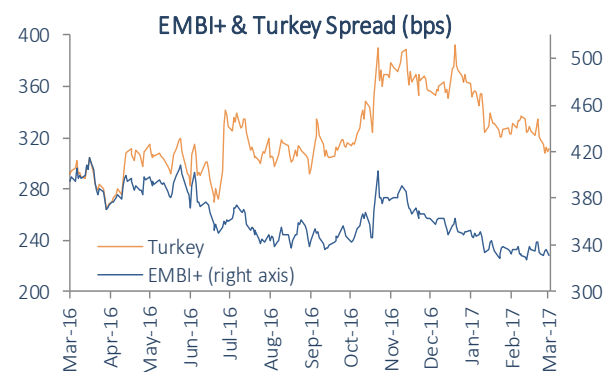
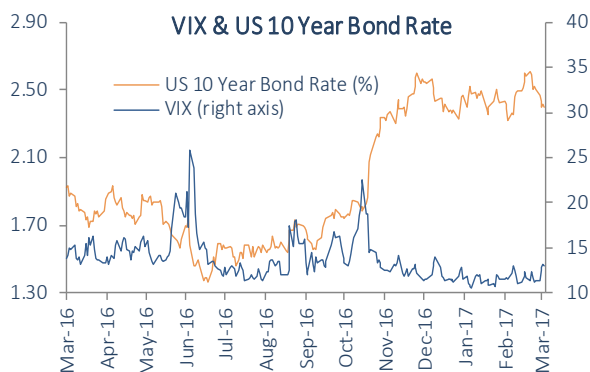
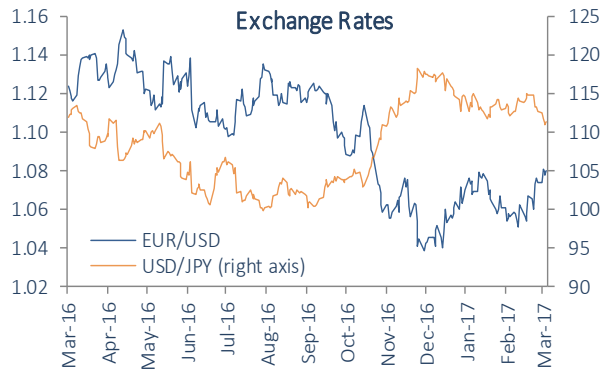
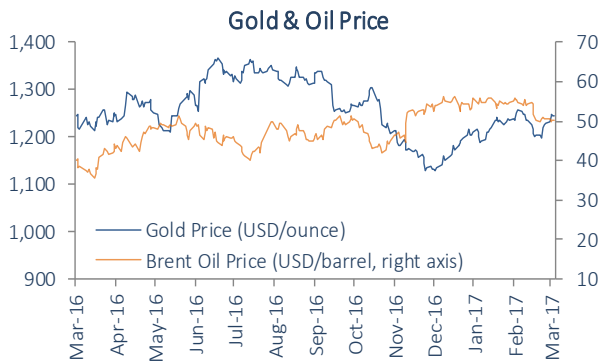
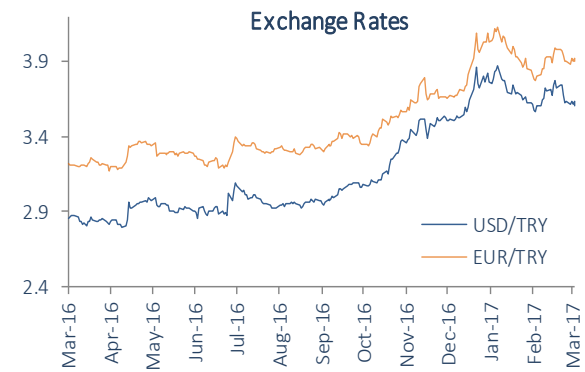
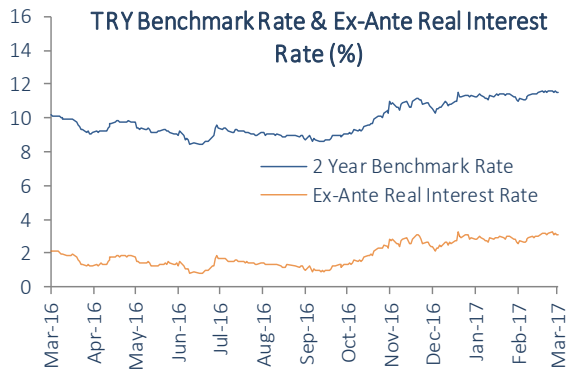
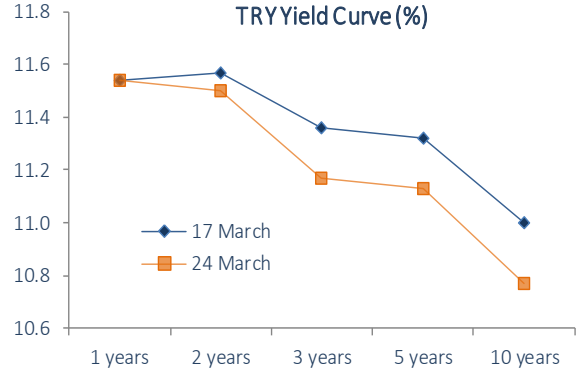
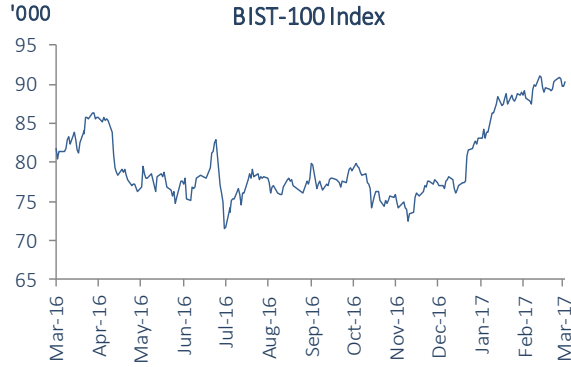
## INDUSTRY NEWS

***Restriction on the imports from Russia...***

In parallel with normalizing relations, Russia lifted most of its import sanctions from Turkey regarding fruits and vegetables. However, Russia didn't lift the sanction for some important items such as tomatoes and Turkey is preparing to take a counter-measure by effectively banning imports of six products, namely wheat, corn, raw sunflower oil, pea and rice from Russia. The news regarding Turkey's implementation of customs tax from Russia on corn, wheat and raw sunflower oil up to 130% last week, almost stopped the imports of the related products from Russia. It is possible that Turkey will have difficulties for raw material supply to its food manufacturing industry should the import from Russia come to a halt. Russian shares in total imports of wheat and raw sunflower oil in 2016 were %55 and %75, respectively. Russia was also the main market for Turkish tomato exporters in 2015 with a share of 70%



FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
27 March	CBRT Business Tendency Survey and Real Sector Confidence Index	March	108.1 (A)
	CBRT Capacity Utilization Rate of Manufacturing Industry	March	74.9% (A)
28 March	USA The Conference Board Consumer Confidence Index	March	113.5
	USA International Trade Statistics	February	-66.5 billion USD
29 March	Treasury Debt Redemption (1.675 billion TRY)	March	
30 March	USA GDP Growth (Final)	Q4 2016	2.0%
31 March	TURKSTAT Foreign Trade Statistics	February	3.7 billion USD
	TURKSTAT GDP Growth	Q4 2016	1.9%
	USA Consumer Spending Data	February	0.2% mom
	USA Personal Income Data	February	0.4% mom
	USA Michigan University Consumer Sentiment	March	97.6
	Eurozone Consumer Price Inflation (Preliminary)	March	1.8%

(A) Actual

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