

WEEKLY OUTLOOK

US economy grew above the expectations.

US economy grew 2.1% in the last quarter of 2016, above the expectations thanks to the robust consumption spending. Chicago PMI for March remained strong at 57.7, indicating a positive outlook for the US economy. On the other hand, the decline in University of Michigan consumer sentiment index and the weak personal spending data showed that there might be volatility in the consumption spending in the coming period.

Last week, Fed officials expressed that the interest rate hikes should continue for the rest of the year, as the economy is expected to display a strong performance. Fed officials agreed that the economy has "normalized" on the basis of growth, unemployment and inflation indicators. It has been stated that expansionary fiscal policies are needed to put the economy on a stable growth path. While there is no consensus among the members about the pace of the interest rate hikes in 2017. It is emphasized that inflation should rise significantly in order to increase the interest rates more than 2 times for the rest of the year.

The sustainability of recovery in European economy is being questioned.

According to the preliminary figures in Euro Area, CPI increased slower than expected by 1.5% in March yoy, while the economic confidence index declined. Since the last quarter of 2016, economic activity in the region recovered mildly, but the recent data casted doubts on the sustainability of this trend. Ongoing weak demand conditions in Euro Area are considered to be one of the factors that delay the recovery in economic activity. In fact, consumer confidence in the region is still weak, contrary to the partial increase in March. This development is thought to ease the pressure on ECB that is expected to unwind its expansionary policy.

Brexit process officially started.

UK Prime Minister triggered Article 50 of Lisbon Treaty with a letter to European Council President Donald Tusk, officially starting the exit process from European Union (EU). It is expected that the exit negotiations will be tough and both parties may suffer from the consequences of this process on political and economic sides. Brexit may cause slower economic growth in UK, hence; low income, high debt and unemployment. It is also expected that the UK will make a payment of 60 billion EUR to EU for its commitments as a member state. It is thought that internal balance in the EU will be shifted and need a rebalancing as economic and political alliance with UK will be broken. It may even disrupt the policy making capacity of EU because of the fact that UK has significant voting rights and its contribution to EU budget.

Positive course in leading indicators in China...

In March, China's official manufacturing industry purchasing managers index (PMI) rose to 51.8, the highest level in five years. In this period, services PMI also increased to 55.1. Data above the 50 reference value indicates that economic activity is accelerating in the industrial and services sectors. Manufacturing industry production, which has maintained its upward trend since mid-2016 thanks to the private sector investments, gives positive signs of the recovery in the Chinese economy.

WEEKLY DATA

	24 Mar	31 Mar	Change		24 Mar	31 Mar	Change
BIST-100 Index	90 383	88 947	-1.6 % ▼	EUR/USD	1.0797	1.0649	-1.4 % ▼
TRY 2 Year Benchmark Rate	11.50%	11.30%	-20 bp ▼	USD/TRY	3.6098	3.6342	0.7 % ▲
US 10 Year Bond Rate	2.40%	2.40%	-1 bp ▼	EUR/TRY	3.8982	3.8721	-0.7 % ▼
EMBI+ (bps)	331	338	7 bp ▲	Gold (USD/ounce)	1 244	1 249	0.4 % ▲
EMBI+ Turkey (bps)	311	315	4 bp ▲	Brent Oil (USD/barrel)	50.2	52.3	4.3 % ▲

bp: basis point

Turkish economy grew above expectations in 2016.

Turkish economy, which narrowed in the third quarter of 2016, recovered in the last quarter as a result of the measures to support the economic activity. GDP expanded by 3.5% in the fourth quarter compared to the same quarter of the previous year, while the economy posted an annual growth rate of 2.9%, above expectations. Consumption spending accelerated in the last quarter, while investment spending kept its moderate performance. Contribution of net exports to the growth continued to be negative. Looking at the changes in the value added by the sectors, there was a decrease in services and agriculture in 2016, while the increase in industry and construction was recorded. The decline in the agricultural sector was largely due to foreign trade developments and high base effects. In addition, final consumption expenditures of households increased by 2.3% in this period, while share of such expenditures in GDP was 59.5% ([Our GDP Growth Report](#)).

Recovery signs in domestic consumption...

Economic and consumer confidence indices published last week indicated that expectations for a pickup in domestic economic activity strengthened. Economic confidence index rose by 5% mom to 96.1 in March. The surge in construction sector confidence index by 12.3% mom drew attention. Recent sale campaigns, decline in mortgage rates and VAT discounts are considered to be effective on the rise in the construction sector confidence. Similarly, consumer confidence index grew by 3.2% mom to 67.8 in March. Expectations for the general economic situation over the next 12 months regained its momentum while financial situation of households compared to the past 12 months accelerated. Likewise, real sector confidence index swelled by 2.8 bps to 108.1. Seasonally adjusted data pointed out that current situation of total amounts of orders is recovering while export orders and volume of production output over the next 3 months are expected to narrow.

Foreign trade deficit widened.

Turkey's foreign trade deficit widened by 15% yoy to 3.7 billion USD in February. Exports declined by 1.9% yoy, while imports increased by 1.6% yoy during the same period. Imports coverage ratio decreased to 76.7%. Manufacture of motor vehicles had the highest export volume and the sector's exports boosted by 13% yoy in February. Mineral fuels and oils on the other hand, had the highest import volume and climbed by 42.8% yoy. Main export markets were Germany, United Arab Emirates, Iraq and United Kingdom in February while share of European Union (EU-28) was down to 45.7%. China kept its first place among Turkey's import markets while Germany and Russia following it. Foreign trade deficit is expected to keep expanding due to the political and economic issues in the export markets and upward-trended commodity prices ([Our Foreign Trade Balance Report](#)).

Inflation continued to increase in March.

According to TURKSTAT data, CPI increased by 1.02% and domestic PPI by 1.04% mom in March. Thus, the annual increase was 11.29% in CPI and 16.09% in domestic PPI. The highest monthly increase in this period was realized in the clothing and footwear group in consumer prices and in basic pharmaceutical products in producer prices ([Our Inflation Report](#)).

INDUSTRY NEWS

Limit on meat prices....

Minister of Food, Agriculture and Livestock announced that maximum price limit will be implemented on red meat, in order to prevent recent price acceleration due to market speculations. In this regard, Meat and Milk Board (MMB) is said to sell fresh carcass beef to butchers at a price level of 22.5 TL+VAT per kg. and frozen carcass beef to catering firms along with meat producers at 20.5 TL+KDV per kg. Moreover, butchers will no longer be able to sell quarter or whole carcass meat. Besides, maximum amount of meet to be sold by MMB to firms is set as 50 tons per month.

Decline in the number of foreign visitors continued.

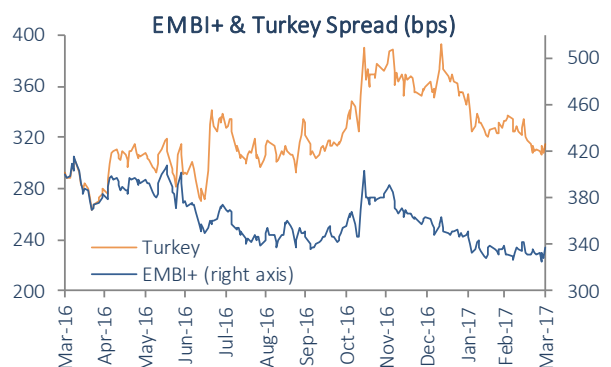
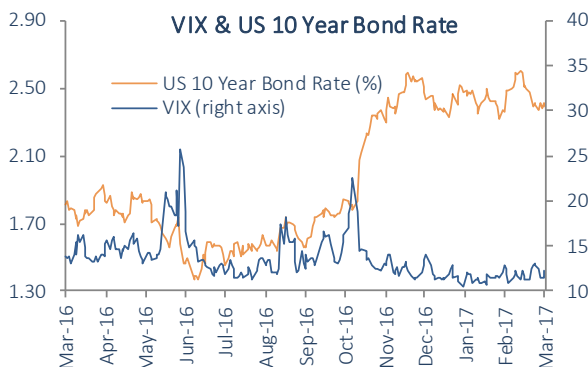
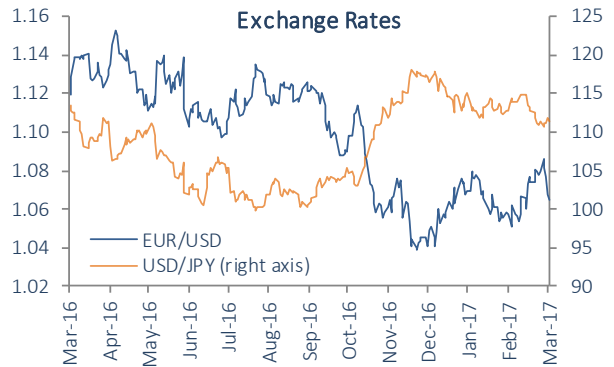
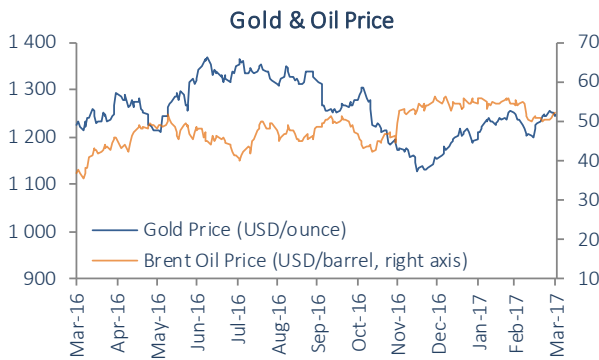
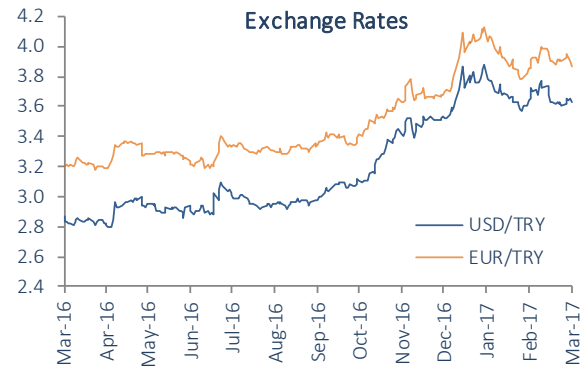
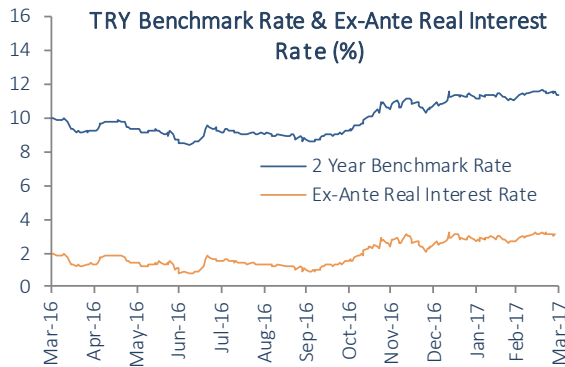
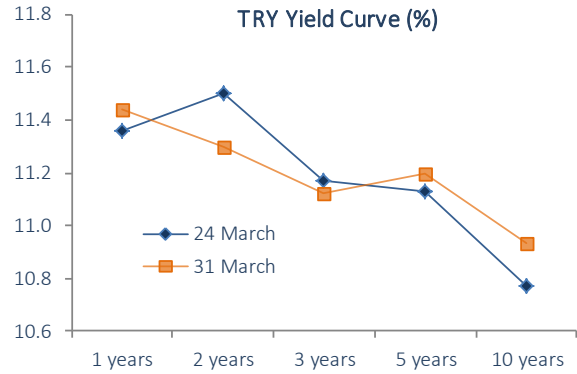
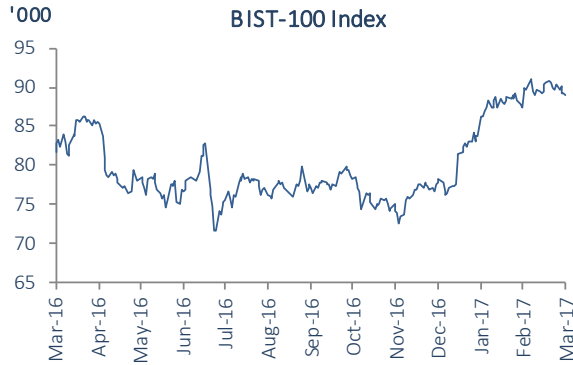
Ministry of Culture and Tourism figures showed that in February number of foreign visitors who travelled to Turkey declined by 6.5% yoy. During this period, the number of visitors from Russia doubled thanks to the improving relations while the number of European ones continued to fall as a result of security concerns.

Besides, the case on preventing unfair competition from the international travel and reservation portal Booking.com which was opened by the Association of Turkish Travel Agencies (TURSAB) in 2015 resulted last week. The court has ruled for the suspension of Booking.com's activities in the country. Authorities from Booking.com on the other hand, stated their opposition to the verdict and expressed that they would go for an appeal. This verdict may be applicable to other related online reservation portals in the coming future.

New regulation for grocery bags ...

According to the statements of Turkish Plastic Industry Foundation (PAGEV), under the regulations on "Control of Waste", new rules regarding grocery bags will be implemented on 1 January 2019. It is also highlighted that the whole process is set to be completed gradually until 2025. PAGEV emphasized that there will not be any prohibition for the use of plastic bags; however the main aim is to limit their consumption under EU regulations. In this context, fee on grocery bags will only be implemented for 15-50 micron sized products. Besides, use of plastic bags in outdoor markets will be excluded from the proposed change.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
3 April	Consumer Price Index (CPI)	March	1.02% mom (A)
	Domestic Producer Price Index (D-PPI)	March	1.04% mom (A)
	US Markit Manufacturing PMI	March	53.5
	US ISM Manufacturing PMI	March	57.1
	Euro Alanı Markit Manufacturing PMI	March	56.2 (A)
	Euro Area Unemployment Rate	February	9.5% (A)
	Euro Area PPI	February	0% mom 8A)
4 April	Reissuance of Treasury Bill with 4.4.2017 Maturity Date	-	-
	US Factory Orders	February	1% mom
	Euro Area Retail Sales	February	0.5% mom
5 April	Treasury Debt Redemption (834 million TL)	-	-
	US Markit Services PMI	March	-
	US ISM Non-Manufacturing PMI	March	57
	US ADP Employment Report	March	170,000
	Euro Area Markit Services PMI	March	-
6 April	Germany Factory Orders	February	-
7 April	US Non-Farm Payrolls	March	178,000
	US Unemployment Rate	March	4.7%
	Germany Industrial Production	February	-
	UK Industrial Production	February	-

(A) Actual

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