

## WEEKLY OUTLOOK

***Increase in US nonfarm payrolls lost momentum.***

Last week, notable data about US manufacturing industry and labor market were published. Factory orders were up in line with the expectations while ISM manufacturing index in March came in just above the market consensus. Although manufacturing PMI index declined, rising input costs supported positive sentiment towards future production figures. Overall, US manufacturing sector has kept its strong pace despite the recent partial deceleration.

Last Friday's data showed that rise in nonfarm payrolls was realized as 98,000 in March, well below expectations. It was mostly due to slow down in hiring activities at tourism-related sectors as a result of unfavorable weather conditions. On the other hand, during the same period unemployment rate was down to 4.5% from 4.7%. The unemployment rate, which has dropped to its lowest level in the last 10 years, indicated that recovery in labor market continues to be steady. Limited hike in average hourly earnings highlighted that improving labor market conditions will be reflected in wage inflation gradually.

***FOMC members are discussing to shrink Fed balance sheet.***

According to minutes of FOMC meeting held in March, most of the Fed officials favored plans to shrink the bank's 4.5 trillion USD balance sheet towards 2017 year-end if the US economic outlook continues to be moderate. Despite the expectations that the reduction will be implemented in a predictable way, how and when it will be started is uncertain. Such a decision will be considered as a tightening of market liquidity conditions. Therefore, it is expected that this will cause selling pressure on global markets, especially in emerging markets.

***ECB kept its policy stance.***

Data published in the Euro Area has signaled that the economic recovery in the area continues. Manufacturing and services PMI reached the highest levels nearly in the last six years. Retail sales figure which climbed faster than the estimates in February was received as a positive indicator of domestic demand. Additionally, despite the expectation of a fall, surge in Germany's industrial production supported the strong outlook in production.

On the other hand, President of the European Central Bank (ECB) Draghi said in Frankfurt last week that the recovery in the economy continued thanks to the expansionary policies, as downside risks for the economy persist. As inflation is mainly influenced by the expansionary monetary policy, current expansionary stance will be maintained in order to reach 2% inflation target in the medium term, according to Draghi. Executive Board member Peter Praet underlined that they expect interest rates to remain low for a long period of time. Euro fell against other major currencies following dovish statements from ECB officials last week.

## WEEKLY DATA

	31 Mar	7 Apr	Change		31 Mar	7 Apr	Change
BIST-100 Index	88,947	88,497	-0.5 % ▼	EUR/USD	1.0649	1.0588	-0.6 % ▼
TRY 2 Year Benchmark Rate	11.30%	11.48%	18 bp ▲	USD/TRY	3.6342	3.7284	2.6 % ▲
US 10 Year Bond Rate	2.40%	2.37%	-2 bp ▼	EUR/TRY	3.8721	3.9479	2.0 % ▲
EMBI+ (bps)	338	333	-5 bp ▼	Gold (USD/ounce)	1,249	1,254	0.4 % ▲
EMBI+ Turkey (bps)	315	303	-12 bp ▼	Brent Oil (USD/barrel)	52.3	54.3	3.8 % ▲

bp: basis point

***IMF warned against structural problems.***

IMF has published analytical chapters of the Global Financial Stability Report. In the related sections, it was noted that in the developed economies the growth rate did not increase to the desired levels despite the low interest rates. It was stated that slow-moving structural factors such as demographic aging and weak productivity growth were effective in this development. Thus, low interest rates should also be maintained for a while in order to support economic growth. In addition, it was emphasized that countries should take global financial developments into account while taking policy decisions.

***South Africa's credit rating was lowered.***

S&P and Fitch have lowered the credit rating of South Africa below the investment grade, citing that the removal of finance minister would likely weaken standards of governance and public finances. Moody's also announced that he has placed South Africa's sovereign credit rating on review for downgrade.

***Industrial production in Turkey...***

According to seasonally and calendar adjusted figures, the industrial production index decreased by 0.4% in February compared to the previous month. Within this period, declines in the manufacturing of capital goods and in the manufacturing industry production (-0.9%) were noteworthy. On sectoral drilldown, the highest monthly decline was realized in manufacturing of other transport vehicles (other than motor vehicles, trailers, semi-trailers) with 21%, followed by manufacturing of pharmaceutical products with %11.4. Influenced by the weak demand conditions, furniture and automotive production also declined in February. Manufacturing of beverages was the sector with the highest monthly increase. On the other hand, manufacturing PMI, which surpassed the level of 50 for the first time since February 2016 in March, supported the view that economic activity is strengthening in the first quarter of the year by registering the fastest increase in the last three years. In this period, all the sub-indices of PMI, especially manufacturing, displayed a positive outlook.

***Foreign trade deficit narrowed in March.***

According to the preliminary data by the Ministry of Customs and Trade, exports in March increased by 13.7% yoy to 14.5 billion dollar and imports rose by 7% yoy to 19.9 billion dollar. Thus, foreign trade deficit declined by 10% to 4.5 billion dollar and import coverage ratio was realized as 76.3%. As of the first quarter of 2017, motor vehicles sector ranked first in exports, followed by boilers, machinery and mechanical equipment sector and precious or semi-precious stones and metals. In the export markets, Germany, United Arab Emirates and Iraq took the first three places, respectively.

***Increasing geopolitical risks weighed on markets.***

Geopolitical concerns, which rose with the terrorist attacks in Russia, increased further on Thursday after US carried out a missile attack on Syria. Russia argued that the attack was illegal; stating bilateral relations with US would suffer from this development. US announced that it was a "one-off" attack, which has helped calmed down the markets to some extent. In global markets, US dollar appreciated in line with the elevated geopolitical risks and Fed minutes pointing to monetary tightening, while euro tumbled after ECB's announcement that it will keep its loose monetary policy stance in the coming period. Besides, elevated geopolitical concerns also caused gold and oil prices to rise.

In addition to the developments in the global markets, domestic markets displayed a sluggish performance due to the cautious stance of investors before the referendum. TRY depreciated against dollar and euro due to the sale pressure on the emerging currencies aftermath of the Fed minutes. While BIST-100 index declined on a weekly basis, benchmark compound interest rate rose by 18 bps wow.

## INDUSTRY NEWS

***Decline in auto sales...***

Automotive Distributers' Association figures showed that sales of passenger cars and light commercial vehicles (LCV) declined by 11% yoy in March. In this period, sales in passenger cars and LCVs fell by 13.1% and 4%, respectively. Consequently, in the first quarter of 2017 car sales were down by 9% yoy and light commercial vehicles by 1.1%. In fact, the market is projected to contract by 11% by the year-end. Minister of Finance Naci Ağbal said that they will continue taking measures in order to support the automotive sector. These measures actually include strategies for boosting investment, exports and domestic sales. Ağbal also noted that the "1 million sales-target" will be maintained for the year 2017 and the sector's views on Special Consumption Tax will be taken into account.

***Investigation for tyre imports...***

The board of assessing trade controls regarding imports decided to open an investigation for importing of tyres that is used in cars, trucks and buses as well as agricultural and construction machinery. In accordance with the relevant regulation, the body decided to set a temporary fine of 0.5 USD/kg for the following 200 days. The body also decided to submit a proposal to the Cabinet to make an exception for the tyre imports from developing countries.

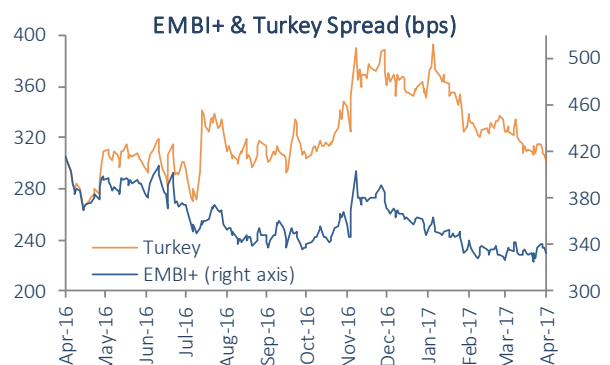
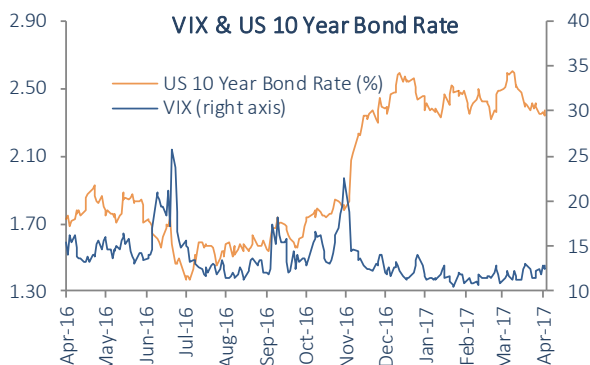
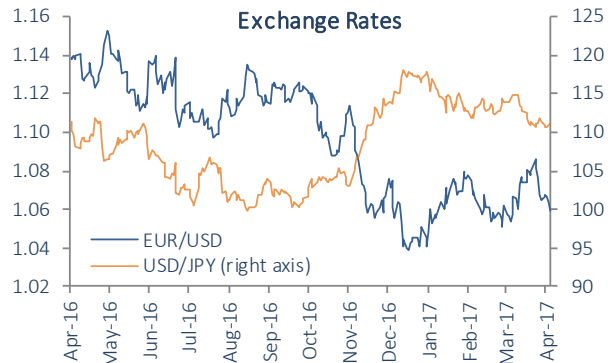
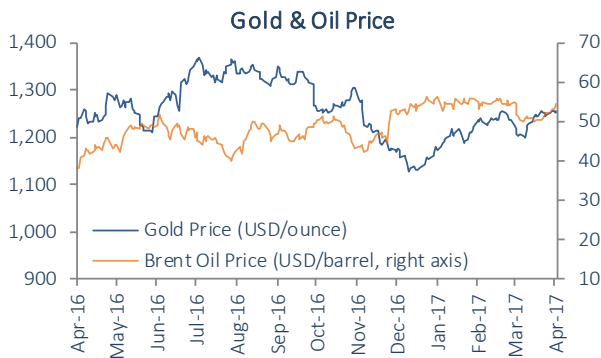
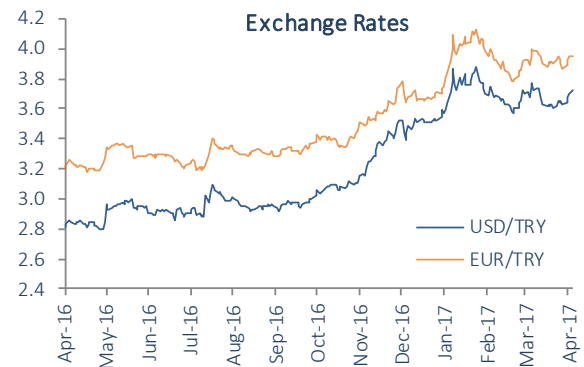
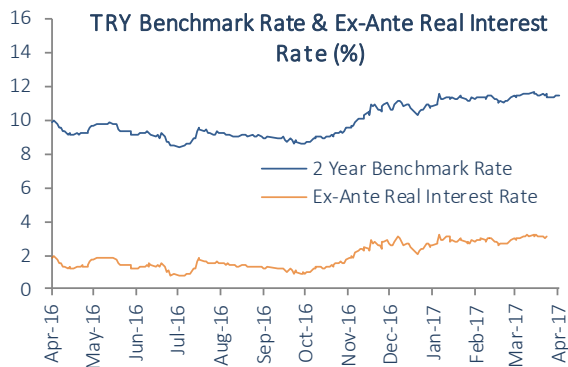
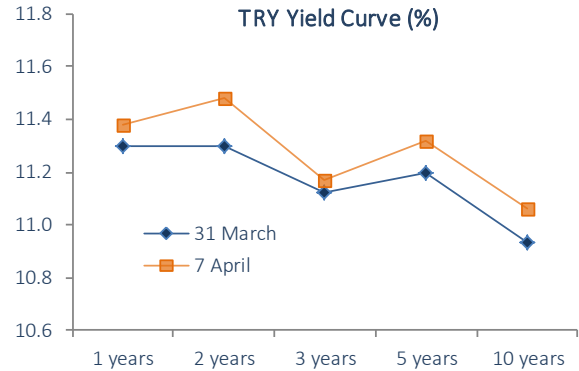
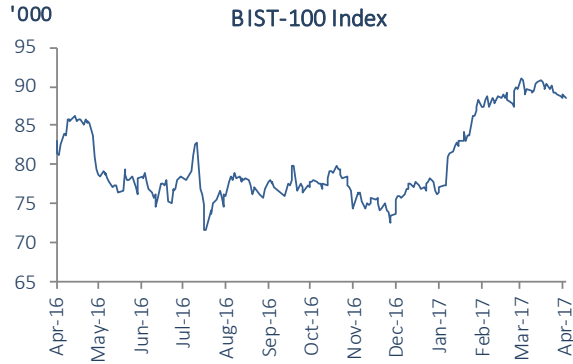
***Production fell in the construction sector.***

According to the seasonally and calendar adjusted figures, in the last quarter of 2016, construction sector production index decreased by 1.4% where turnover index increased by 6.9% compared to the same period of last year. Both production and turnover in civil engineering followed a positive course. Moreover, the slowdown in the production of buildings lost pace in Q4. Recent campaigns and improving finance opportunities affected production positively. However, decline in home sales in February (yoy) raised concerns about the strength and sustainability of this boosted demand.

***Retail sales volume increased in February.***

Seasonally and calendar adjusted retail sales volume increased by 1.6% mom in February. In this period, food, drinks and tobacco sales were up by 1% and non-food sales increased by 2.5%. Analysing the sub-sectors of the non-food group, rise in electronic goods and furniture sales were noticeable. This was mainly stemmed from the recent tax incentive for furniture and white goods sectors under the context of government measures to boost domestic demand. Besides, calendar adjusted retail sales volume was down by 4.4% yoy. In February, food, drinks and tobacco sales decreased by 0.9% and non-food sales declined by 2.7%. Looking at the non-food sub-sectors in detail, sales in all items contracted except sales via mail orders and internet. Although, government measures to support domestic demand have already affected consumption positively, downside risks such as rising inflation, volatility in the FX markets and political risks remain, threatening consumer demand in the medium term.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
10 April	Industrial Production Index	February	-0.4% mom (A)
11 April	Balance of Payments	February	-
	Euro Area Industrial Production	February	0.1% mom
	Euro Area ZEW Survey - Economic Sentiment	April	25
	Germany ZEW Survey - Economic Sentiment	April	14
	UK Consumer Price Index (CPI)	March	0.3% mom
	UK Producer Price Index (PPI)	March	0.1% mom
12 April	China Consumer Price Index (CPI)	March	-0.3% mom
13 April	USA Producer Price Index (PPI)	March	0% mom
	Germany Consumer Price Index (CPI)	March	0.2% mom
	China Foreign Trade Balance	March	-
14 April	Industrial Turnover Index	February	-
	USA Consumer Price Index (CPI)	March	0% mom
	USA Retail Sales	March	0% mom
	Japan Industrial Production	February	-

(A) Actual

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