

WEEKLY OUTLOOK

Fed kept the interest rates unchanged.

At its May meeting, the US Federal Reserve (Fed) did not change the policy rate, in line with market expectations. At its FOMC statement, Fed told that the deceleration in GDP growth was temporary as the labor market displayed a strong performance. The statement also emphasized that the increase in consumption expenditures is based on solid foundations, while the investment expenditures enliven and inflation is moving closer to the target. Fed's recent tone hinted two more interest rate hikes for 2017.

Unemployment rate in the US declined to 4.4%.

Last week, US employment data was closely monitored. On Friday, Bureau of Labor Statistics announced that non-farm payrolls increased by 211,000 people in April, well above expectations, while the unemployment rate declined to 4.4%. On the other hand, average hourly earnings rose by 2.5% yoy, indicating that the strength in labor market did not put any significant pressure on wages. Robust employment data hinted that a June hike is on the table. Besides, manufacturing ISM reading for April decelerated to 54.8, although the sector continues to grow. Non-manufacturing ISM index, on the other hand, rose to 57.5 in the same period.

Macron won the election in France.

Emmanuel Macron won the second round of the presidential election in France. The markets responded to the results positively. At his speech after the elections, Macron voiced economic reforms aiming to revive the French economy. During his campaign, Macron had pledged to a reduction in government jobs, which might cut the public spending by 60 billion euros in 5 years, and a tax reform.

Last week, data released in Euro Area pointed that the recovery in economic activity continued. According to preliminary figures, the GDP in Euro Area grew by 0.5% in Q1 on a quarterly basis. Thus, the annual growth rate in Euro Area was recorded as 1.7%. Moreover, manufacturing PMI data for April reaching the highest level for the last six years and retail sales data which came in above the expectations, painted a positive picture for the economy.

Production in China has lost momentum.

The Caixin/Markit PMI data, which shows the private sector production activity in China, fell to 50.3 in April, the lowest level for the last seven months. The sluggish performance of the reading was mainly driven by the recent decline in commodity prices, especially in iron ore and steel. Moreover, the measures taken by the Chinese government to cool down the real estate market might have an adverse effect on industrial production.

WEEKLY DATA

	28 Apr	5 May	Change		28 Apr	5 May	Change
BIST-100 Index	94,655	93,928	-0.8 % ▼	EUR/USD	1.0895	1.0995	0.9 % ▲
TRY 2 Year Benchmark Rate	11.34%	11.28%	-6 bp ▼	USD/TRY	3.5506	3.5431	-0.2 % ▼
US 10 Year Bond Rate	2.30%	2.35%	6 bp ▲	EUR/TRY	3.8677	3.8957	0.7 % ▲
EMBI+ (bps)	327	324	-3 bp ▼	Gold (USD/ounce)	1,268	1,228	-3.2 % ▼
EMBI+ Turkey (bps)	289	283	-6 bp ▼	Brent Oil (USD/barrel)	50.5	47.3	-6.3 % ▼

bp: basis point

Portfolio inflows to emerging markets increased at Q1.

According to data published by Institute of International Finance (IIF), portfolio inflows to emerging markets recorded the best 3 months period in April since 2014. IIF emphasized that Turkey's need for external financing, which accounts for 28% of GDP, may cause concerns for the country's financing needs in case of a deceleration in capital inflows. On the other hand, capital inflows to Turkey have fastened since 2016H2 and there hasn't been a significant problem regarding the capital inflows to the country despite weekly fluctuations. In the first 4 months of 2017, equity and debt inflows recorded as 1.2 billion USD and 1.7 billion USD, respectively, while net inflows through banking sector's off-balance sheet transactions reached 26.7 billion USD. This week, balance of payments figures will be closely monitored by the market.

IIF also revised up GDP growth forecasts for Turkey thanks to the lessened political uncertainty after the referendum. GDP growth forecast was moved up from 3% to 4.2% for 2017 and from 3.2% to 3.5% for 2018. Although IIF expected that high interest rates will weigh on the country's economic activity, accelerated reforms will boost Turkey's potential growth and reduce its external fragility.

Consumer price inflation jumped to 9-year high.

Consumer price index (CPI) in April rose by 1.31% as expected while annual change in CPI hit 9-year high by 11.87%. Clothing and footwear showed the highest increase by 9.13% mom among all expenditure sub-groups. Domestic PPI during the same period was up by 0.76% mom while annual change in production price inflation climbed to 16.37%. Although TL's recent appreciation and decline in oil prices are expected to reduce the upwards pressure on inflation, rising input costs at food industry have moved the prices up. We foresee that lagged impact of FX pass-through and partial recovery in demand will keep CPI at double-digits in 2017 H1. TL's appreciation and tax incentives are expected to limit the inflationary pressures during the rest of the year (Our Inflation Report).

Increase in industrial production...

According to seasonally and calendar-adjusted figures, industrial production rose by 1.3% mom in March. In this period, manufacturing industry production increased by 1.6% compared to the previous month while the fastest increase among the sub-sectors was realized in the production of leather and related products with 23.5% thanks to recent improvements in foreign markets especially in Russia. In March, production of basic pharmaceutical products decreased most sharply. The calendar adjusted industrial production index increased by 2.8% in March yoy, while the growth in the first quarter was 2.2%.

Manufacturing PMI, the leading indicator of industrial production, declined to 51.7 in April. Nevertheless, the index, which rose above the threshold in March after a long time, was positively perceived in April as well.

Moody's report on Turkish banking sector.

In its report on the Turkish banking sector published last week, Moody's reported that the banking system's outlook was negatively affected by "challenging operating conditions." Moody's said that despite the resilient bank financials, the decline in investor confidence due to domestic political and geopolitical risks and the rise in funding costs could affect the sector negatively. Moody's reported that further depreciation of TRY would be an important risk factor underlining that NPL in the banking sector might increase in the coming period.

S&P affirms Turkey's credit rating.

Standard & Poor's (S&P) affirmed the credit rating of Turkey as two notches below the investment grade maintaining its 'negative' outlook. Stating that the negative outlook reflects the risk of the possibility of fiscal deterioration or inflationary pressure beyond current projections, arising from weak growth and exchange rate volatility, S&P said these risks could be assessed within the next 12 months. In its note, S&P stated that the flexible exchange rate regime would allow the adaptation to external shocks, but the high level of external financing needs, especially in the corporate sector, would limit the benefits of a weaker TRY to the economy as a whole.

Global and domestic markets...

Positive data released in the US and the rising expectations for an interest rate hike from Fed have caused the USD to appreciate in global markets and US bond yields to rise. The reduction in political concerns for EU, parallel to the anticipation that the pro-EU candidate Macron would win the presidential election in France, has allowed EUR to appreciate. USD/TRY, which tested the lowest levels of the year in the week thanks to tight monetary policy stance of CBRT and the rise in risk appetite in the global markets, turned upside parallel to the strengthening USD, but fell slightly on Friday. BIST 100 index, which moved in line with the global markets, declined due to the selling pressure in emerging markets. Moreover, oil prices decreased with the expectations that the excess global supply would continue and gold prices declined with the expectations regarding Fed's interest rate hike and strengthening of USD.



INDUSTRY NEWS

Contraction in the automotive market continues.

Automotive Distributors' Association figures showed that automotive (passenger car and light commercial vehicle) market decreased by 10.5% yoy in April. In this period, passenger car and light commercial vehicle sales were down by 11.6% and 6.6%, respectively. In the first 4 months of the year, total sales declined by 8.4% yoy. During this period, passenger car sales recorded a sharp decline of 10.1% compared to the same period of last year, while light commercial vehicle sales went down only gradually.

Illness causes production loss in hazelnut harvest.

İstanbul Hazelnut Exporters' Association Chair Ali Haydar Gören expressed that hazelnut production has dropped substantially as a result of 'Phyllactinia Guttata' illness. In his speech Mr. Gören reminded that Turkey's share in world production has now decreased to 65% from 85% compared to 15 years ago, adding that the illness and rising competition were effective on this loss of performance. Mr. Gören said the production loss as a result of the illness was amounted to 100 thousand tons worthing 300 billion USD. He emphasized the necessity of a battle with the illness in 80% of the 700 thousand hectare hazelnut plants.

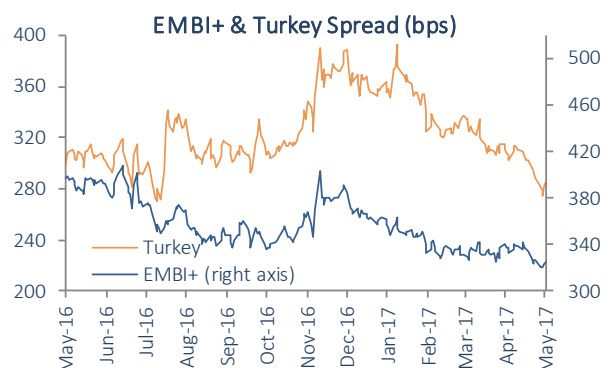
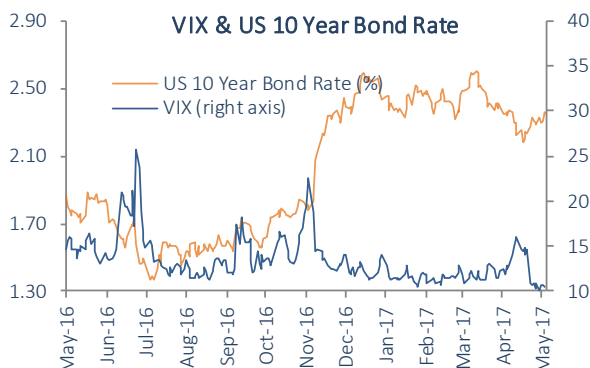
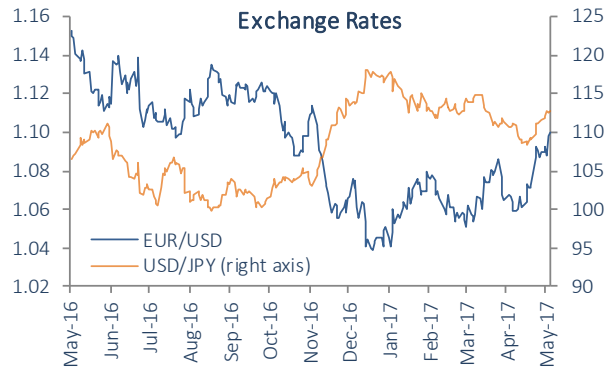
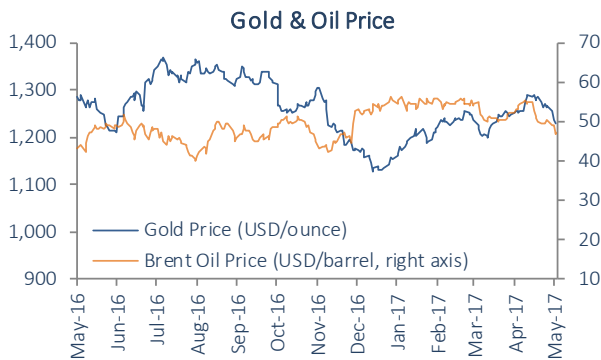
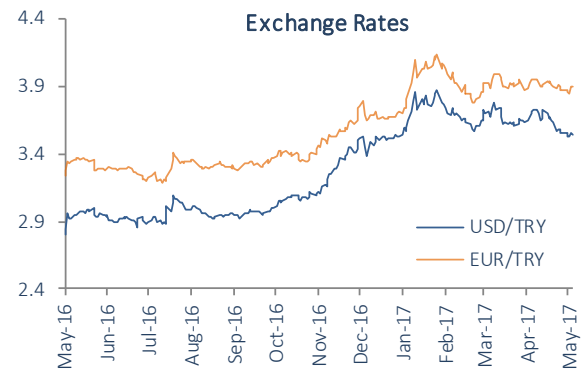
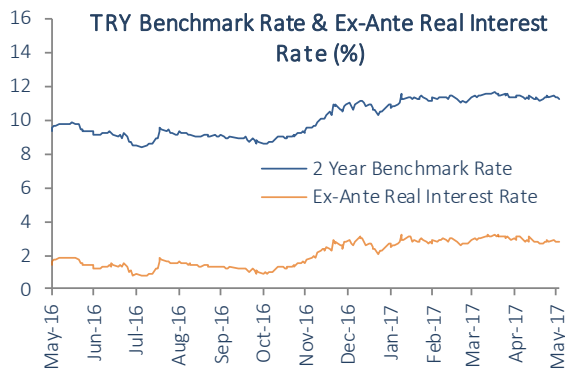
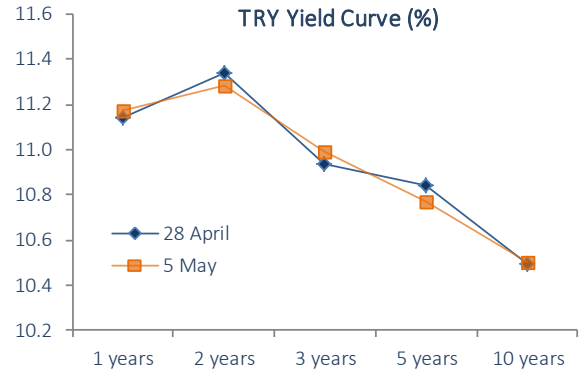
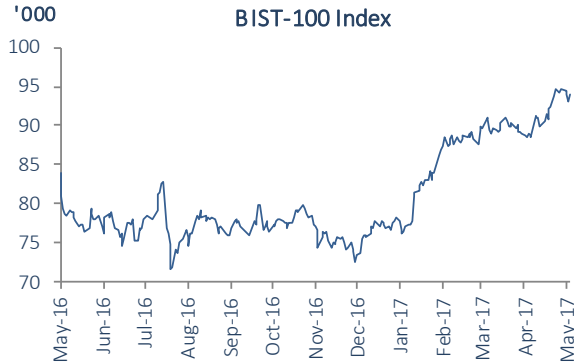
Bans on Turkey's tomato exports to Russia will continue.

In the context of "normalized" relations between Turkey and Russia, several trade sanctions have been removed. Accordingly, grain trade are set to start again and recent improvement in the tourism sector is expected to continue. Nevertheless, bans on tomato exports from Turkey to Russia are likely to continue for a while. In his speech last week, Russian President Putin said that more time is needed to remove the sanctions on tomato trade with Turkey. Russian Deputy Prime Minister Dvorkovich also said trade barriers on tomatoes will probably be implemented for 3 to 5 years more whereas problems over grain trade have already been solved. Likewise, Turkish Economy Minister Zeybekçi highlighted the removal of all trade barriers on agricultural products excluding tomatoes; he also gave positive signs for a free trade agreement between the two countries. Zeybekçi also pointed out the removal of bans regarding the Turkish firms' construction activities as well as getting working licenses and Turkish workers' employment in the Russian market.

Agricultural investments in the external markets are rising.

According to Dünya newspaper, there is a notable increase in the Turkish businessman's investments in agriculture and food sector in the external markets. Despite the falling size of planted agricultural land and rising imports in the domestic market, local capital owners are directing more of their investments to different regions including Africa. In this regard, major destinations for these investments came out as Sudan, Ethiopia, Zambia and Nigeria in Africa as well as Argentina, USA, Malaysia, Germany. Main agricultural products subject to investment are wheat, corn, soy, canola, sunflower, tomatoes, cherry, strawberry and peach. Moreover, investments on dairy products and tomato paste production are also on the rise and several investors are said to be produced for the EU market.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
8 May	Industrial Production Index	March	1.3% mom (A)
	Treasury Cash Realizations	Nisan	-
	China Foreign Trade Balance	April	38 billionUSD (A)
9 May	Germany Industrial Production	March	-
10 May	Treasury Domestic Debt Redemption (63 Billion TRY)	-	-
	China Consumer Inflation	April	1.1% yoy
	China Producer Inflation	April	6.8% yoy
11 May	Balance of Payments	March	-
	Foreign Trade Statistics	March	-
	Industrial Turnover Index	March	-
	US Producer Prices	April	0.2% mom
12 May	Bank of England (BoE) Meeting	May	-
	US Consumer Prices	April	0.2% mom
	US Michigan Consumer Sentiment	May	97.3
	US Retail Sales	April	0.6% mom
	Euro Area Industrial Production	March	0.3% mom
	Germany GDP Growth (Preliminary)	Q1	0.7% qoq

(A) Actual

İŞBANK - Economic Research Division

İzlem Erdem - Division Head

izlem.erdem@isbank.com.tr

Aslı Göksun Şat Sezgin - Economist

goksun.sat@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Bora Çevik - Economist

bora.cevik@isbank.com.tr

H. Erhan Gül - Asst. Manager

erhan.gul@isbank.com.tr

Ahmet Aşarkaya - Economist

ahmet.asarkaya@isbank.com.tr

Dilek Sarsın Kaya - Asst. Manager

dilek.kaya@isbank.com.tr

Ayşe Betül Öztürk - Asst. Economist

betul.ozturk@isbank.com.tr

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