WEEKLY OUTLOOK

Financial markets followed Fed officials' speeches closely last week.

Investors focused on speeches made by the Fed officials last week when the global data agenda was not heavy. Kaplan, a voting member at FOMC this year, pointed to the strong performance of the labor market and stated that two more rate hikes till 2017-end would be appropriate. Kaplan also suggested that the Fed needs to trim its balance sheet in the medium term and before that happens the already conducted rate hikes would create some room for maneuver for the monetary policy. Hawkish Fed officials George and Rosengren sounded similar to Kaplan at their speeches last week. George said that the lower-than-expected first quarter GDP data was mostly driven by transitionary factors and therefore to delay the rate hikes bear risks for the financial markets. Rosengren, on the other hand, drew attention to the declining US unemployment rate and emphasized that a strong labor market might create inflationary pressures through wage increases.

Statements made by US policymakers in favor of interest rate hikes were effective on the rise in US 10-year benchmark yields, particularly during the first half of the week. The appreciation trend in the US dollar against the currencies of other advanced economies was also noteworthy. However, data released on the last trading day showed that retail sales came in below the expectations in April and signaled that private consumption has got off to a weak start in the second quarter. Moreover, dovish statements of Evans, another FOMC member, were influential on the outlook of the financial markets last week as well. Evans, reminding the ongoing uncertainties about the inflation, stated that he could be okay with only one more rate hike in this year. Thus, US Treasury yields headed down and gave up its earlier gains. US stock market indices, on the contrary, kept their rising trend last week thanks to strong company balance sheets.

Optimism is rising in Euro Area.

Positive atmosphere in the Euro Area thanks to Macron's triumph at the French election was accompanied by the good news coming from Greece last week. Greece, still unable to overcome the effects of the global financial crisis and considered fragile due to its high public debt stocks, announced last week that they are about to sign a deal with the international creditors in order to restructure the debt. It is expected that Greece's new reform package will require the country to take new measures to cut its public expenditures and European countries will decide on the option of debt relief. The details on the package will be clarified on the meeting, which will be held on May 22nd, with the participations of Finance Ministers of the Euro Area. Thanks to recent good news, Greece's CDS premiums have been declining and recovery in the country's risk perception has set the ground to lower its interest rates. Likewise, the yield on the benchmark 10-year Treasury note went down to 5.61% last week, the lowest since 2014.

Last week, ECB President Mario Draghi's speech was also high on the agenda. Draghi stated that downside risks related to economic activity in the Euro Area (EA) were weakened and upward trend in inflation is temporary. In this context, Draghi pointed out that the current policy stance will be maintained; emphasizing the necessary conditions hasn't been met in order to adopt "tighter monetary policy actions" as German and Dutch officials offered recently.

WEEKLY DATA

	5 May	12 May	Change		5 May	12 May	Change
BIST-100 Index	93,928	94,996	1.1 % ▲	EUR/USD	1.0995	1.0928	-0.6 % ▼
TRY 2 Year Benchmark Rate	11.28%	11.47%	19 bp ▲	USD/TRY	3.5431	3.5721	0.8 % ▲
US 10 Year Bond Rate	2.36%	2.33%	-2 bp ▼	EUR/TRY	3.8957	3.9026	0.2 % ▲
EMBI+ (bps)	324	320	-4 bp ▼	Gold (USD/ounce)	1,228	1,228	0.1 % ▲
EMBI+ Turkey (bps)	283	289	6 bp ▲	Brent Oil (USD/barrel)	46.9	49.3	5.2 % ▲

bp: basis point

Stock market went on rising thanks to positive expectations regarding the EA economies. Euro Stoxx 50 index, composed of the first 50 equities with the highest trading volumes in the European stocks, approached to almost 2-year high. On the other hand, €/$ parity declined to 1.09 at the closing in line with the rising dollar in the global markets.

Oil prices rose.

Although OPEC (Organization of the Petroleum Exporting Countries) members cut their production, growing news on increasing oil supply especially in the US resulted in huge declines in oil prices during the previous weeks. Last week, however, oil prices have rebounded from nearly 6-month lows after the US oil stock data. Hence, oil prices went up to 49.3 USD per barrel at the closing on Friday, rising 5.2% wow. Gold prices have been volatile last week. Prices came down to 2-month lows with 1.213 USD/ons due to rising US treasury rates during the first half of the week. On the following days, on the other hand, prices went up again and recovered their losses as investors rushed to buy from relatively low levels.

Current account deficit was realized in line with the expectations.

In March, current account deficit (CAD) decreased by 17.9% yoy to 3.1 billion USD. This development was led by the fall in foreign trade deficit. In this period, the recovery in net tourism revenues was noteworthy. As for the financing of CAD, foreign direct investments (FDI) have picked up. In March, net inflow of FDI grew by 25.5% reaching 1.2 billion USD. Moreover, along with the Eurobond issuances of the banking sector as well as non-residents' rising appetite towards government securities, debt securities, with an inflow of 2.3 billion USD in March, recorded their highest increase for the last 11 months. Besides, other investments posted net outflow of 1.4 billion USD and this was mainly because banks and other sectors were net credit payers. Therefore, CBRT reserves were down by 2.5 billion USD in March (Our Balance of Payments Report).

Critics in IMF's report…

IMF said in its report published last week that the economic activity in Turkey has been rebounding thanks to net exports and consumption. IMF pointed out that Turkey's competitiveness in foreign markets has increased as a result of the depreciation of TRY in the previous period. Yet the Fund added that this situation has also raised concerns about inflation. In this context, IMF criticized CBRT's monetary policy and argued that the CBRT should go further tightening to fight inflation. IMF has lowered the growth expectation for Turkey to 2.5% for 2017 and predicted that Turkey will grow by 3.3% in 2018.

BIST 100 index hit record high.

As risk appetite in global markets increased, investors' tendency towards high-yield instruments supports developing countries' stock exchanges, including Turkey. BİST-100 index, which maintained its upward trend during the past week, hit its historical high with 96,491 points. However, due to increased geopolitical risks in neighboring countries, the risk premiums of Turkish Eurobonds rose slightly. While the yield curve shifted upwards in all maturities, TRY depreciated against the currency basket. USD/TRY parity, which tested 3.63 in the first half of the week, significantly recovered thanks to the US data announced in the following days. Thus, USD/TRY parity increased by 0.8% on a weekly basis and reached 3.57.

Increase in retail sales volume...

Following the promising industrial production data, retail sales data released last week confirmed that the Turkish economy has recovered in the first quarter of the year. Seasonal and calendar adjusted retail sales index increased by 2.1% in March compared to the previous month. During this period, sales volume in the food group declined slightly, while sales in durable consumer goods rose rapidly with the steps taken by the government to support the domestic demand. Sales of white goods and furniture increased by 5.3% mom thanks to temporary tax reductions. In addition, sales in the textile and apparel sectors increased by 4.6% due to seasonal factors.

Unemployment rate is 12.6%.

In February period, unemployment rate in Turkey decreased by 0.4 percentage points to 12.6% compared to the previous period. Incentives aimed to boost domestic employment and seasonal factors were effective in this development. As of the February period, domestic employment increased by 500,000 on an annual basis to 27 million persons. In the period, employment in agriculture and services sectors increased by 332,000 and 160,000 persons, respectively. While the employment in the construction sector increased by 30,000, it was worthy of attention that the labor force in the manufacturing industry contracted by the similar amount.

INDUSTRY NEWS

Details of the Industry Reform Package are set.

The details of the Industrial Reform Package, which aims to improve the operating conditions of the manufacturing sector in Turkey, were announced by the Minister of Science, Industry and Technology. With the new reform package, 2% TRT share will not be collected from electricity consumption of enterprises with "industrial registry certificate". Enterprises with such certificates will also be exempted from real estate tax. In addition, industrial sites in the cities are planned to move out of town in the coming period. In this context, it is estimated that the investment amount required for the relocation of 64 thousand enterprises will be around 19 billion TRY. The package is expected to pass the Parliament in May.

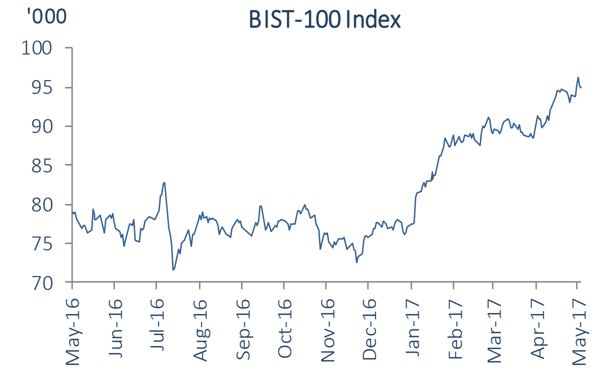
Recovery in base metal industry continues.

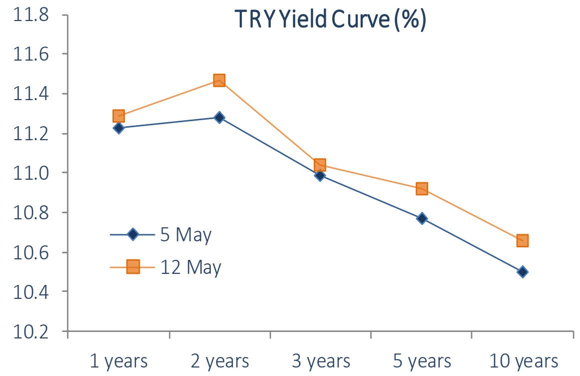
Recently, production activity gets stronger in the Turkish iron and steel sector that uses its cost advantage effectively, as a result of the weakening of China's impact in foreign markets as well as the rising raw material prices. As of March 2017, domestic crude steel production increased by 14% yoy, to 3.1 million tons. Thus, domestic iron and steel production rose by 8.2% to 34.2 million tons in the last 12-months. On a product basis, the rapid increase in slab steel production was noteworthy in the first quarter of the year. The strong performance in the automotive and white goods sectors was at the forefront in this development. Billet steel products, which mainly provide input to the construction sector, performed relatively weak though.

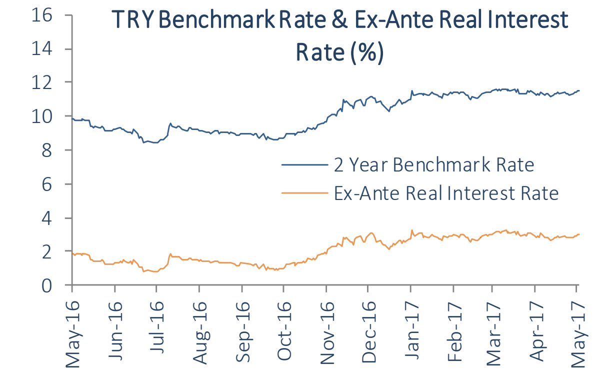
The rapprochement in trade relations with Russia continues.

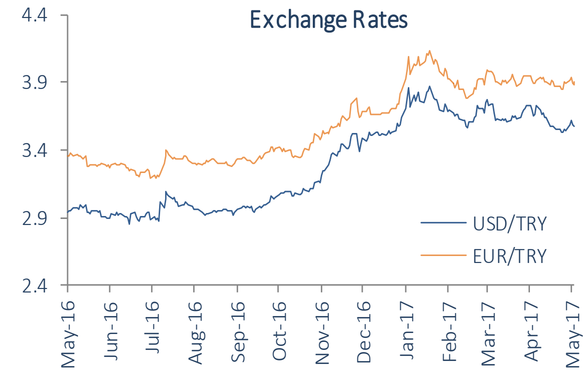
Decisions made by the Turkish and Russian leaders, who came together on the agenda of improving trade relations in early May, continue to be clear. Minister of Transport Ahmet Aslan said that the problems in transportation with Russia were left behind and stated that the quotas of transit documents determined between the two countries entered into force as agreed in 2012. Turkey's resume of wheat imports from Russia was another important development last week. Turkey had put new sanctions on Russia for 6 products, including wheat, since mid March. Russia, whose wheat differs from other countries with its quality, is among the leading wheat exporters in the world. In the period before the current political crisis (in 2014-2015), Turkey had imported a total of USD 1.8 billion worth of wheat from Russia.

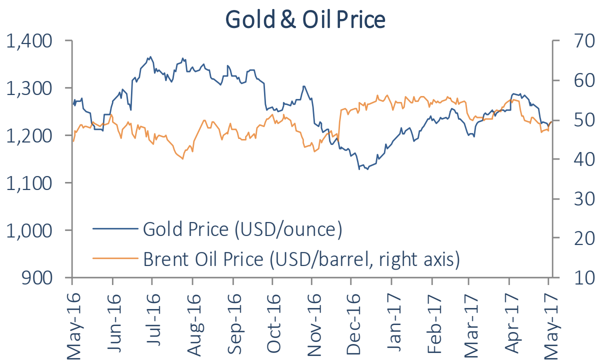
FINANCIAL MARKETS

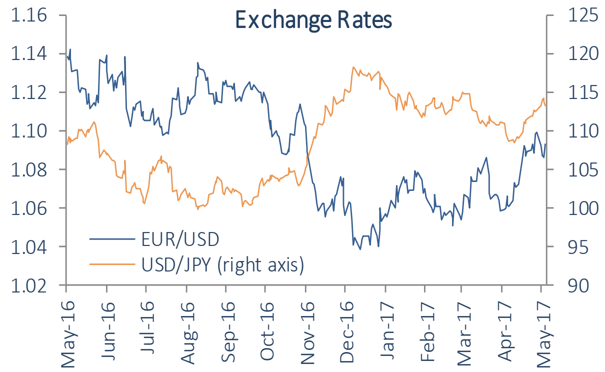


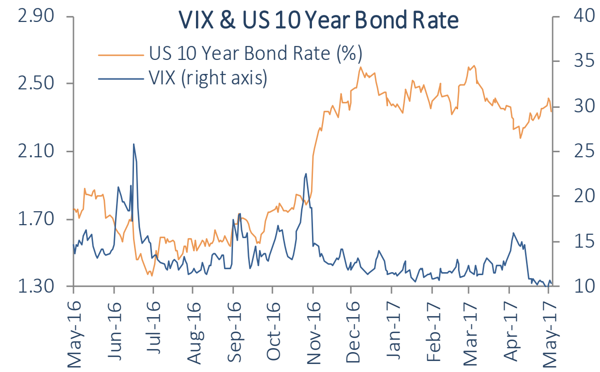


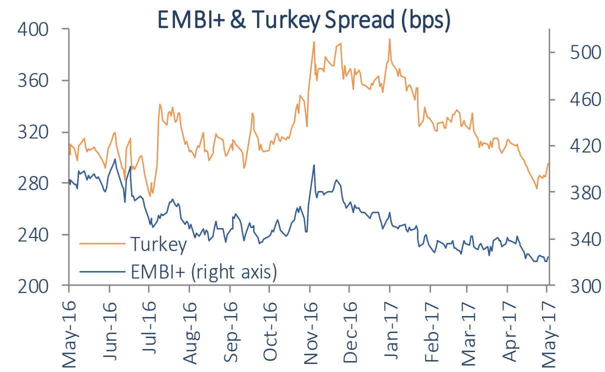












WEEKLY DATA RELEASES

		Period	Consensus
15 May	TURKSTAT Labor Force Statistics	February	12.6% (A)
	Ministry of Finance Central Government Budget Realization	April	3 billion TL deficit (A)
	CBRT Survey Of Expectations	May	
16 May	Issuance of Treasury Bill with 2 year maturity	May	
	Reissuance of Treasury Bill with 5 year maturity	May	
	US Housing Starts	April	
	US Industrial Production Data	April	
17 May	Treasury Domestic Debt Redemption (3.6 billion TL)	May	
	Eurozone Consumer Price Inflation	April	
18 May	TURKSTAT Consumer Confidence Index	May	
	US Weekly Jobless Claims	May II	

(A) Actual

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