WEEKLY OUTLOOK

Fed raised its policy rate by 25 basis points.

US Federal Reserve (Fed) raised its policy rate in line with expectations by 25 basis points to 1.25%-1.50% percent range. Thus, Fed raised its policy rate three times, 75 basis points in total, over this year, as predicted at the beginning of 2017. According to the projections published following the meeting, Fed members predicts 3 more rate hikes in 2018. Fed members revised up their growth forecast for US economy to 2.5% in 2017 and 2018. While there was no change in inflation expectations, Fed members expect that unemployment rate will continue to decline in the coming year. Despite improved expectations about growth and employment, Fed members' 3 rate hike expectation suggests that Fed's cautious stance will remain in 2018.

Tax reform package in US has been approved separately by House of Representatives and Senate. According to the package, corporate tax rate will be reduced from 35% to 21% as of 2018 and compulsory health insurance, known as Obamacare, is proposed to be carried out on a voluntary basis as of 2019. Reform package is expected to be submitted to Trump in this week and its effects on economic activity and Fed's stance will be closely watched in the upcoming period.

Data releases in US suggest that economic activity remain strong in the last quarter of the year. While PMI data for December pointed out to the biggest expansion in manufacturing industry since September 2014, retail sales for November indicated that demand outlook kept supporting the economic activity. Consumer inflation in November, which has been volatile recently due to increasing energy prices, was realized at 2.2%, in line with expectations. Annual core inflation that excludes energy and food prices decreased by 10 basis points compared to October and was realized at 1.7%.

ECB left its policy stance unchanged.

The European Central Bank (ECB) kept its monetary policy intact at the meeting held last week. Maintaining the deposit facility interest rate at -0.4%, ECB did not make a change in the asset purchases which will be reduced to 30 billion euros from January. On the other hand, ECB revised its growth and inflation forecasts for Euro Area. ECB has raised its growth forecasts to 2.4% from 2.2% for 2017 and to 2.3% from 1.8% for 2018. The Central Bank left the inflation forecast for 2017 unchanged at 1.5%, while increasing its 2018 forecast to 1.4%. In its statement after the meeting, ECB President Draghi suggested that risks to the growth outlook are broadly balanced. Having said that, he added that there might even be upside surprises. Draghi stressed that the deflation danger is no longer an issue for the region even though inflation outlook remains weak. According to preliminary figures, annual inflation in the region was 1.5% in November.

Economic upturn in Euro Area continued.

Macroeconomic data for the Euro Area have showed that the region has continued to recover steadily. Defying expectations for a flat reading, industrial production increased by 0.2% mom in October thanks to non-durable goods production. Moreover, higher-than-expected flash PMI figures for December in both services and manufacturing sectors confirmed that economic activity in the region remained strong during the last quarter of

WEEKLY DATA

	8 Dec	15 Dec	Change		8 Dec	15 Dec	Change
BIST-100 Index	107,921	109,330	1.3 % ▲	EUR/USD	1.1764	1.1752	-0.1 % ▼
TRY 2 Year Benchmark Rate	13.35%	13.47%	12 bp ▲	USD/TRY	3.8360	3.8590	0.6 % ▲
US 10 Year Bond Rate	2.38%	2.36%	-3 bp ▼	EUR/TRY	4.5153	4.5448	0.7 % ▲
EMBI+ (bps)	338	339	1 bp ▲	Gold (USD/ounce)	1,248	1,255	0.6 % ▲
EMBI+ Turkey (bps)	303	300	-3 bp ▼	Brent Oil (USD/barrel)	64.1	63.7	-0.6 % ▼

bp: basis point

the year. Manufacturing and services PMI's rose to 60.6 and 56.5, respectively, hitting a seven-year high.

CBRT hiked LLW interest rate.

CBRT raised its Late Liquidity Window (LLW) interest rate by 50 basis points to 12.75% at its meeting held last week. The decision was made due to the upsurge in inflation, as well as the recent cost-side outlook which posed increasing risks to expectations and pricing behavior for the period ahead. In its statement released after the meeting, CBRT emphasized that it will continue to use all of its instruments to ensure price stability adding that tight monetary policy stance will be preserved until inflation outlook offers a considerable improvement and aligns with the targets.

Improvement in growth expectations...

According to CBRT's survey of expectations, as of December, market's growth forecast for 2017 was realized as 5.7%. The expectations regarding inflation, exchange rate and current account balance worsened slightly in the last month of the year. Accordingly, the year-end inflation forecast of the market increased to 11.74%. USD/TRY is expected to be 3.88 at the end of the year and the current account deficit will be at 40.5 billion dollar. In October, 12-month cumulative current account deficit was 41.9 billion USD.

Labor market continued to recover.

The improvement in labor market indicators, which started at the beginning of the year, continued in September. Accordingly, in September period, the unemployment rate declined by 0.7 percentage points yoy to 10.6%. The seasonally adjusted rate of unemployment declined by 0.1 percentage points mom and was realized as 10.7%. Besides, the labor force participation rate continued to rise, reaching a historic high of 53.1%. In this period, the number of employed persons increased by 137k, while the number of unemployed persons decreased by 10k.

The government posted a budget surplus in November.

Budget expenditures climbed by 11.8% yoy in November while budget revenues showed a relatively limited increase by 7.3% yoy. Thus, budget surplus which was 10 billion TRY in November 2016 was realized as 8.5 billion TRY in the same month of this year (Our Budget Balance Report).

Financial markets...

Despite last week's heavy agenda, financial markets remained calm thanks to central bank decisions which were mostly as expected. However, no change in Fed officials' projections regarding the number of rate hikes in 2018 was effective on the USD's depreciation against other currencies. US stock markets hit record highs last week as demand for the stock market remained strong.

Domestic markets maintained its calm outlook till CBRT meeting last week. However, TL-denominated assets were under pressure following CBRT's less-than-expected interest rate hike.TL depreciated by 0.6% wow against the currency basket while 2 year benchmark bond yield rose to 13.47%. BIST-100 index completed the week at 109,330, up by 1.3% wow.

INDUSTRY NEWS

New employment incentives…

Ministry of Labour and Social Security announced the details of new employment incentives. Accordingly, it is envisaged that the all insurance premiums and taxes of new employment to be provided in the manufacturing and IT sectors will be covered on the gross earnings, while in the other sectors, the insurance premiums and taxes on each new employee will continue to be paid over the minimum wage. It is targeted that all expenditures of youth employment to be created in the manufacturing industry firms, which has 3 or fewer employees, will be covered for one month by the employer and one month by government.

Decrease in the number of closing companies…

According to the figures announced by Union of Chambers and Commodity Exchanges of Turkey, the number of established and closed companies decreased by 0.6% and 11.7%, respectively in November compared to the previous month. Thus, while 6,887 companies were established in November, 1,131 companies were closed. It is seen that the companies were mainly established in trade and service sectors. According to the January-November figures, the number of established companies increased by 13.7% and the number of closed companies rose by 23.6% yoy.

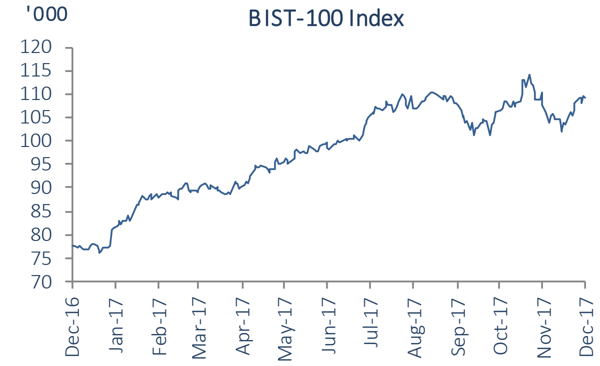
Outstanding loans received from abroad by private sector continued rising.

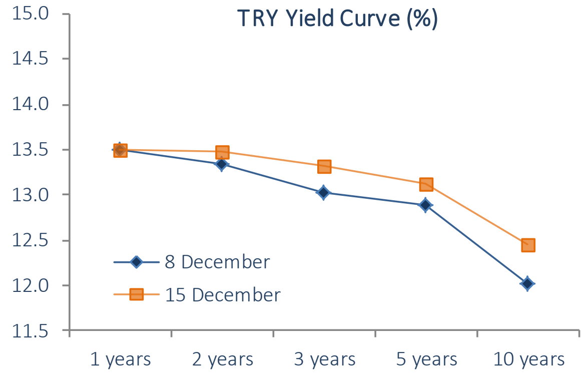
According to the data published last week by CBRT, as of October, private sector's long-term loans from abroad increased by 14.3 billion USD to 217.1 billion USD, whereas short-term loans increased by 3.8 billion USD to 18.2 billion USD. The share of financial institutions in long-term loans was realized as 51.2% and the share in short-term loans was realized as 78.5% as of October. It is seen that the amount of the principal repayments of the loans to be made for the next 12 months by the private sector is 70.9 billion USD.

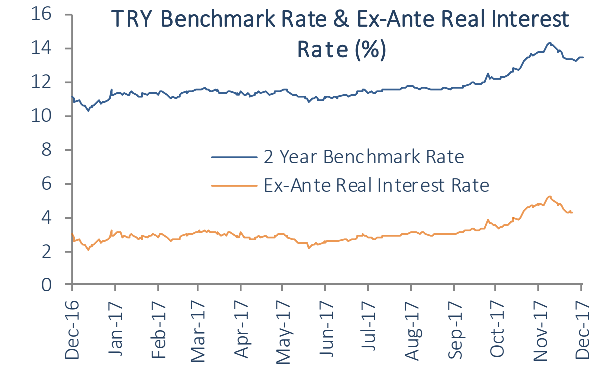
Automobile production exceeded 1 million for the first time.

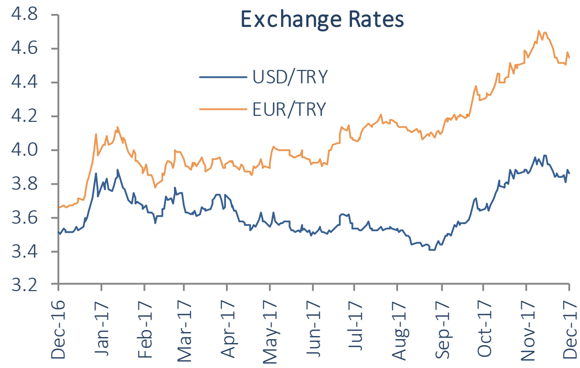
According to the November figures released by the Automotive Manufacturers Association, automotive production in the first 11 months of 2017 increased by 16% compared to the same period of the previous year and reached 1,544 thousand units. During this period, automobile production increased by 24% to 1,048 thousand units, exceeding 1 million for the first time.

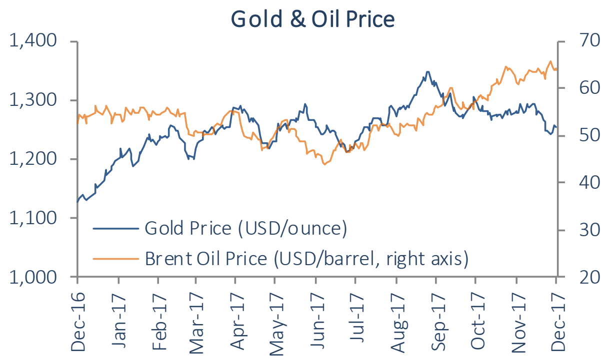
FINANCIAL MARKETS

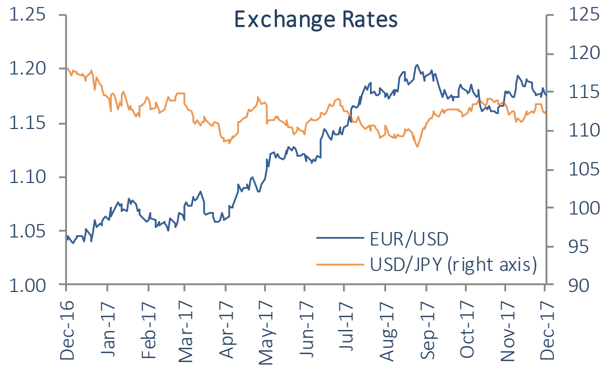


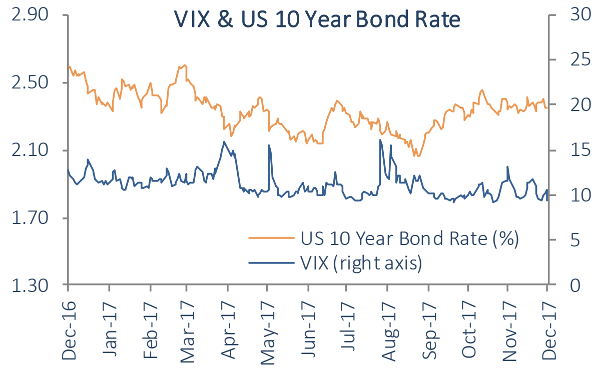


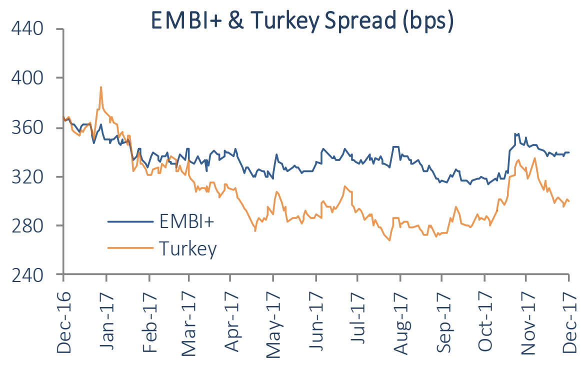












WEEKLY DATA RELEASES

		Period	Consensus
18 December	Eurozone CPI, final	November	1.5% (A)
19 December	USA Housing Starts	November	1.23 million
	USA Housing Permits	November	1.28 million
20 December	Treasury Debt Redemptions (570 million TRY)	December	
	Central Governmet Debt Stock	November	
21 December	Consumer Confidence Index	December	
	USA GDP, final	2017 Q3	3.3%
22 December	UK GDP, final	2017 Q3	0.4%
	USA Personal Income	November	0.4%
	USA Consumer Spending	November	0.3%
	USA Durable Goods Order	November	1.6%
	USA Michigan Consumer Sentiment	December	97.0
	USA New Home Sales	November	649 thousand

(A) Actual