

WEEKLY OUTLOOK

A calm course in global markets in the last week of 2017...

During the previous week, a calm and optimistic atmosphere prevailed in the markets due to the holiday season. The developments in energy prices, the course of US Treasury bills, and the expectations about the monetary policy of the central banks in developed countries were dominant on global markets, where trading volumes were generally low. The most important domestic development of the week was the resolution of the visa issue between Turkey and the USA. The recent unrest in Iran was also followed closely by the markets.

Mixed economic data for US economy...

In the US, the consumer confidence index, which touched the highest level of 17 years in November, came in below expectations at 122.1 in December. Thus, upward trend of consumer confidence for the last 5 months came to a halt. On the other hand, the performance of the Chicago PMI in December was well above the consensus at 67.6, indicating that production activity in the region has maintained its strong momentum. Weekly jobless claims slightly exceeded expectations in the week ended December 23.

Japan's unemployment rate is at its lowest level in 24 years.

In Japan, where optimism about economic activity has strengthened recently, the unemployment rate receded to 2.7% in November, the lowest reading in 24 years. For the same period, household expenditures posted an annual rise of 1.7%, well above the market expectations of 0.5%. This development indicated a positive signal in terms of domestic demand. Industrial production and retail sales also surpassed expectations in November. Annual rate of core CPI inflation reached 0.9% in November, rising for the eleventh consecutive month. Despite the positive outlook in the economy, inflation remains at low levels. The minutes of the Bank of Japan meeting in October indicate that the members are in favor of maintaining the current monetary easing.

Turkey's foreign trade deficit kept widening.

In November, export volume increased by 11.2% yoy while import volume picked up by 21.3% yoy. Thus, foreign trade deficit rose by 52.4% to USD 6.3 billion. In January-November period, exports went up by 10.4% yoy while imports surged by 16.9%. As a result, the annual expansion in foreign trade deficit was 33.8%. Import coverage ratio, which stood at 72% in the first eleven months of 2016, declined to 68% in the same period of 2017.

According to preliminary data published by the Ministry of Customs and Trade, exports and imports surged by 8.6% and 27.7% yoy in December, respectively, indicating that expansion in trade deficit has persisted. For the full year of 2017, exports rose by 10.2% whereas the growth in imports was 17.9%. In 2017, rise in energy prices, course of the gold trade and the strong domestic demand played an important role in the rapid increase in imports. The recovery in economic activity in Europe has positively affected the export performance.

WEEKLY DATA

	22 Dec	29 Dec	Change		22 Dec	29 Dec	Change
BIST-100 Index	111,099	115,333	3.8 % ▲	EUR/USD	1.1857	1.1996	1.2 % ▲
TRY 2 Year Benchmark Rate	13.40%	13.40%	0 bp ●	USD/TRY	3.8130	3.7890	-0.6 % ▼
US 10 Year Bond Rate	2.49%	2.41%	-8 bp ▼	EUR/TRY	4.5155	4.5478	0.7 % ▲
EMBI+ (bps)	331	329	-2 bp ▼	Gold (USD/ounce)	1,275	1,302	2.2 % ▲
EMBI+ Turkey (bps)	287	288	1 bp ▲	Brent Oil (USD/barrel)	64.9	67.0	3.2 % ▲

bp: basis point

Annual increase in housing prices is hovering in a range of 11% -12%.

According to CBRT's house price index, housing prices rose by 0.9% monthly and 11.7% annually in October. However, housing prices were down by 0.2% annually when adjusted for inflation. In İstanbul, monthly increase in housing prices was 1%, while annual increase was realized at 7.8%. Accordingly, in real terms, housing prices in İstanbul declined by 3.8% annually.

Leading indicators...

Capacity utilization rate in Turkey reached 79% in December, increasing by 0.9 point compared to same month of the previous year. In December, capacity utilization rate in manufacture of computer, electronic and optical products increased significantly to 90%. On the other hand, rapid decline in capacity utilization in manufacture of coke and refined petroleum products was noteworthy.

Maintaining its trend above the threshold level, real sector confidence index also rose by 5.7 points year-on-year in December to 103.3. However, according to seasonally adjusted figures, real sector confidence declined in December, indicating that economic activity lost some momentum in the last quarter of the year. Sectoral confidence indices confirmed that confidence fell in service and construction sectors.

Oil and gold prices...

Brent crude oil price per barrel has reached its highest level for the past three years exceeding 67 USD during the week, following Energy Information Administration's data that shows oil inventories in the US are declining. It is suggested that ongoing rise in oil prices may allow more oil rigs to become active in the US.

Gold prices have risen to the highest levels in a month in last week as a result of the weak US dollar and safe-haven buying triggered by political uncertainties at a global scale. Thus, gold prices went up by 13.1% year-on-year in 2017, marking the highest annual increase since 2010.

EUR/USD parity exceeded the 1.20 mark.

Last week, amid thin trading volumes in markets euro gained value against the US dollar due to the anticipations regarding the ECB's monetary policy normalization. On the last trading day of the year, the EUR/USD parity tested 1.20, the highest level of more than 3 months. In 2017, EUR/USD posted an annual rise of 14.1%.

Financial markets...

During the last week, trading volumes and volatility remained at low levels due to holidays in global stock markets. Nevertheless, global stock markets displayed a favorable course especially thanks to the increasing demand for energy stocks. US Treasury bond yields, which rose in the previous week, eased slightly in the last week of the year. DXY index, which measures the value of the US dollar against major developed countries' currencies, fell by 1.3% week on week due to the movement in EUR/USD parity. Thus, in 2017, the index declined almost 10% year on year.

Domestic markets moved in line with global markets. Visa crisis, which has been a significant dispute between Turkey and the US since October, was resolved after both parties have lifted the visa restrictions. This has supported the domestic markets. Thanks to the improvement in risk perception, BIST-100 index increased nearly by 4% on a weekly basis and tested record levels. BIST-100 index completed 2017 with an annual rise of approximately 50%. USD/TRY, which generally hovers above 3.80 since November, tested below 3.76 during the past week. EUR/TRY, on the other hand, was realized higher than the previous week due to the rise in EUR/USD parity. In 2017, USD/TRY and EUR/TRY increased by 7.4% and 22.5% yoy, respectively. Having being unchanged in the previous week, the 2-year benchmark bond yield was realized as 13.4% as of 29 December, going up by 277 bps compared to the previous year.

INDUSTRY NEWS

Uncertainty over the reference price of raw milk...

In the meeting of National Milk Council held in the last week, industrialists and producers agreed to raise the reference price of raw milk per liter from 1.40 TRY to 1.50 TRY. However, the announcement was not made on the ground that the price increase in raw milk would lead inflation to rise. The council is expected to hold a meeting on January 16, 2018 to set a raw milk reference price. Sector representatives expressed that the price of raw milk per liter may increase to 1.60 TRY on the market up to that date.

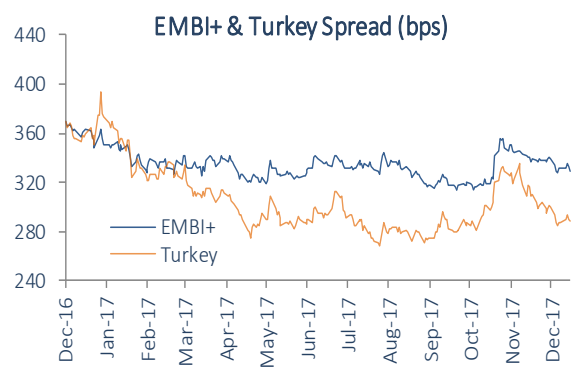
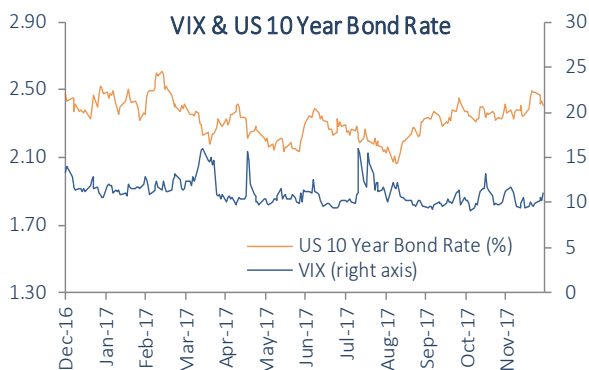
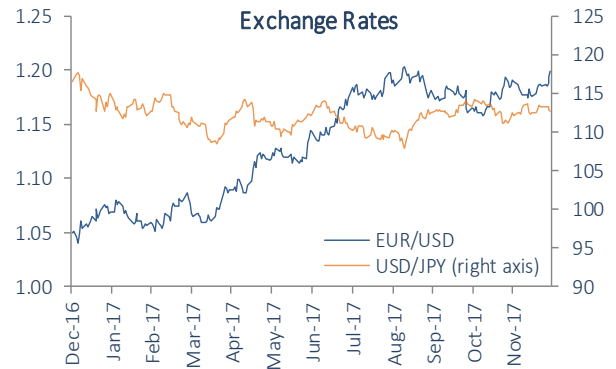
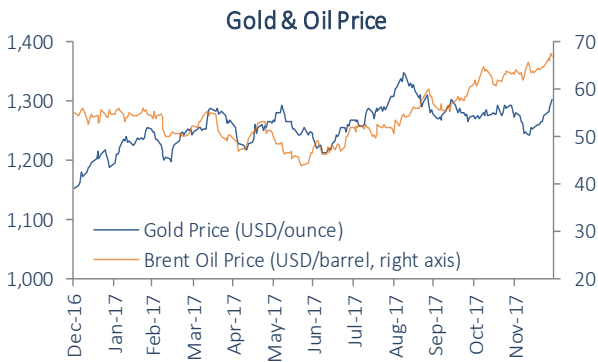
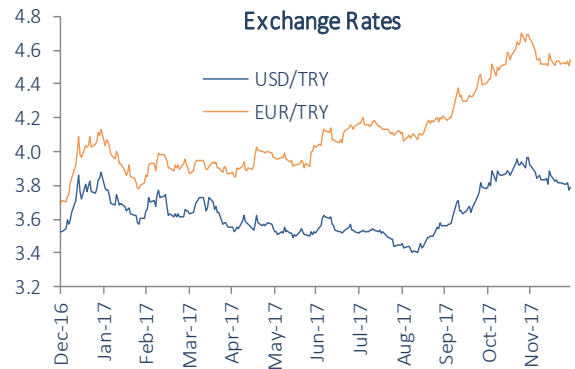
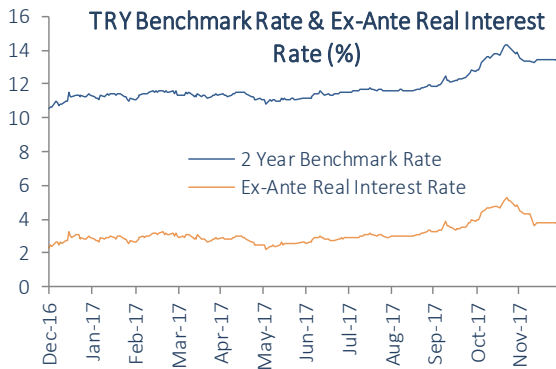
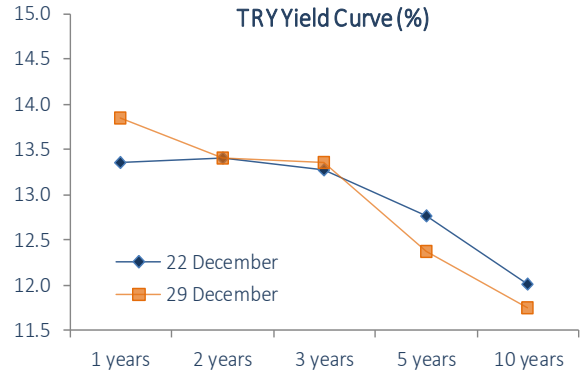
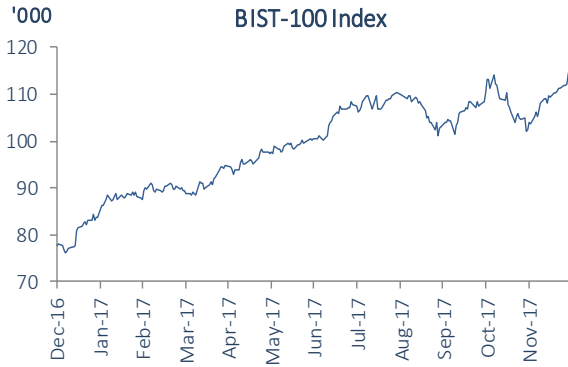
Electricity prices will be raised by 8.8% as of January 1, 2018.

It was announced that the electricity prices, which had not been increased for 2 years, have been raised by 8.8% as of January 1, 2018, depending on the tariff hike of BOTAŞ for natural gas-fired power plants by 8% on December 1, 2017. Accordingly, the price for natural gas-fired power plants was announced to be 763 TRY instead of 704 TRY per 1,000 cubic meter gas. The increase of the electricity price is estimated to drive monthly inflation in January up by at least 25 basis points.

REACH-like regulation came into the force.

The transition to the REACH regulation, which entered into force in 2007 to control the chemical production, import and export by EU, will be completed on June 1, 2018. After that date, non-registered chemical substances in accordance with the REACH regulation will not enter the EU countries. In Turkey, Registration, Evaluation, Authorisation, Restriction of Chemical (KKDIK, REACH-like) regulation came into force on December 23, 2017. The KKDIK regulation requires companies to register all substances manufactured in Turkey or imported into Turkey with volume of more than one tonne per year by December 31, 2023.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
January 2	Eurozone Manufacturing PMI	December	60.6
	US Manufacturing PMI	December	-
	TR Manufacturing PMI	December	54.9 (R)
January 3	Turkstat CPI (monthly change)	December	0.5%
	Turkstat D-PPI (monthly change)	December	-
	US ISM Manufacturing PMI	December	58.0
January 4	US Weekly Jobless Claims	25-30 Dec.	240k
	UK Nationwide House Price (annual change)	December	2.0%
January 5	Eurozone CPI (annual change, flash)	December	1.4%
	US Non-Farm Payrolls (monthly change)	December	190k
	US Unemployment Rate	December	4.1%
	US Factory Orders (monthly change)	November	1.4%
	US ISM Non-Manufacturing PMI	December	57.6
	US International Trade	November	-48 billion USD
	US Average Earnings (annual change)	December	2.5%

(R) Realization



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