

WEEKLY OUTLOOK

Heavy economic calendar in the US...

US data last week painted a positive outlook about the country's economy. Manufacturing PMI (55.1) and ISM manufacturing (59.7) data were above market forecasts in December. Also new orders index rose rapidly. The ADP private sector employment surged up by 250,000 people in December which supported positive views on the labor market. However, non-farm payrolls on Friday increased by 148,000, below forecasts of 191,000. Average hourly earnings rose in line with expectations, 0.3% monthly and 2.5% yoy, while the unemployment rate was 4.1%, same as market expectations. Thus, in 2017, the increase in non-farm payrolls was 2.1 million. While the markets do not expect Fed to hike interest rate in January, the probability of increasing interest rate in March is around 70%.

Fed minutes...

Minutes of Fed's last Open Market Committee meeting of 2017, which was held on December 12-13, were released. Minutes showed that Fed governors had different opinions regarding rate hikes and monetary policy to be followed in 2018. While some of the members were concerned about low inflation and found three interest rate hikes in 2018 to be aggressive, some supported three rate hikes emphasizing strong growth performance. Minutes included some remarks regarding tax reforms which were recently enacted. It is stated that tax cuts will increase consumption and investment expenditures in the economy while their net effects on the economy are still unclear.

Robust economic data in Euro Area...

Data releases last week in Euro Area depicted a positive outlook for the economy. Manufacturing PMI edged up to 60.6 in December from 60.1 in November. It was another notable development that factory orders in Euro Area hit 17-year high in December. Recent data releases supported that the Euro Area economies are on a stable growth path. Consumer inflation data was released on the last trading day of the week. Annual consumer inflation, which was 1.5% in November, was recorded in line with expectations as 1.4% in December. Core inflation was realized at 1.1%. Consumer inflation in Euro Area continues to remain well below the ECB's goal of just below 2%.

Oil and gold prices are on the rise.

Commodity prices, especially gold and oil, started the New Year with an upward trend. Protests in Iran and decline in US oil inventories caused supply side concerns for oil, hence increased the oil prices. Brent oil price tested 69 USD/barrel levels last week. Gold price increased as geopolitical risks have surfaced and US dollar weakened.

CPI rose above expectations in Turkey.

Last week, inflation data was high on the agenda in Turkey. Consumer price index (CPI) recorded a monthly increase of 0.69% and an annual increase of 11.92% in December. This higher-than-expected CPI inflation was driven mostly by food and transportation prices. Clothing and footwear prices, on the other hand, limited the rise in inflation. Domestic Producer Price Index (D-PPI), which rose by 1.37% on a monthly basis, surged by 15.47% annually. While all sub-groups that are listed under the index pushed the index up on an annual basis, the increases in input costs in the manufacture of food products and commodity prices were noteworthy ([Our Inflation Report](#)).

WEEKLY DATA

	29 Dec	5 Jan	Change		29 Dec	5 Jan	Change
BIST-100 Index	115,333	116,638	1.1 % ▲	EUR/USD	1.1996	1.2028	0.3 % ▲
TRY 2 Year Benchmark Rate	13.40%	13.33%	-7 bp ▼	USD/TRY	3.7890	3.7340	-1.5 % ▼
US 10 Year Bond Rate	2.41%	2.48%	7 bp ▲	EUR/TRY	4.5478	4.4959	-1.1 % ▼
EMBI+ (bps)	329	321	-8 bp ▼	Gold (USD/ounce)	1,302	1,320	1.3 % ▲
EMBI+ Turkey (bps)	288	274	-14 bp ▼	Brent Oil (USD/barrel)	67.0	68.1	1.6 % ▲

bp: basis point

Industrial production sustained its strong performance.

Industrial production rose more than anticipated by 7% year-over-year in November, according to calendar adjusted figures. Seasonally and calendar adjusted index, on the other hand, increased by 0.3% on a monthly basis. Looking at sectoral developments, it is seen that the manufacture of motor vehicles made the biggest contribution to the rise in industrial production in November, by adding 1.3 points. In addition, the rises in fabricated metal products and wearing apparels were noteworthy. Production of mining and quarrying recovered somewhat with the help of 22.3% yoy rise recorded in the "other mining and quarrying" category.

Manufacturing PMI increased to 54.9 in December.

Turkey's manufacturing PMI, which was 52.9 in November, rose to 54.9 in December, showing that the sector has continued to expand for 10 consecutive months. New orders, climbing to the highest level since February 2011, provided an upward boost to the index. Production sub-index also surged to 55.7 and marked the fastest expansion in the last three months. Employment sub-index, which reached its highest level since March 2011, helped the manufacturing industry to remain strong during the last month of the year.

CPI based real effective exchange rate, which was announced by the CBRT last week, rose slightly and was realized as 84.7 in December. The index had seen its lowest level in November according to 2003-based series.

Financial markets...

Last week, global stock markets have shown a positive trend. Global stock markets rose due to the strong data on the US and European economies and the rising demand for energy stocks. With the support of better-than-expected Chinese PMI data, Asian stock market was at its highest level in 10 years. DXY index, which gauges the value of the US dollar against other leading currencies, continued to decline during the last week. Euro, on the other hand, sustained its strength owing to upbeat macroeconomic data as well as the continued weakness in the US dollar in global markets. EUR/USD parity has hovered around 1.20 during the week.

Domestic markets followed a similar pattern to international markets. BIST-100 index completed the first trading day of the year by rising 1.9% and reaching its new historic high level of 117,738. This was mainly due to the downward trend of USD/TRY and the support of the decision about the Credit Guarantee Fund. Banking sector stocks led the rise in the index. Recording small declines in some of the days, BIST-100 maintained its strength last week, rising by 1.1% on a weekly basis. USD/TRY tested below 3.73 last week. EUR/TRY, however, remained in the band of 4.51 to 4.55. As of January 5th, the 2-year benchmark bond yield declined by 7 basis points to 13.33% compared to the previous week.

INDUSTRY NEWS

Domestic automotive market contracted by 2.8% in 2017.

Automotive sales, which decreased by %4 yoy to 136,240 units in December, declined by 2.8% throughout the year. In this period, automobile sales went down by 4.5% yoy to 722,759 units while light commercial vehicle sales increased by 2.9% to 233,435.

Investments to reduce energy consumption...

Within the scope of the National Energy Efficiency Plan of the High Planning Council, 10.9 billion USD is planned to be invested in order to save 23.9 MTEO (Million Ton Equivalent Oil) by 2023. In parallel with the measures taken, during 2000-2015, manufacturing, housing and transportation sectors saved 1.8%, 1.9% and 2.7%, respectively and total saving became 2.1% annually. Energy Efficiency Action Plan which is valid until 2023 aims to reduce 14% of Turkey's primary energy consumption.

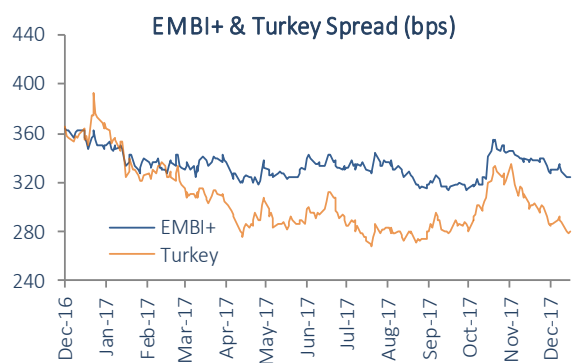
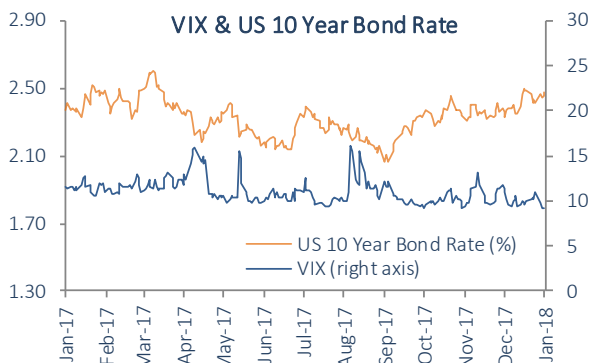
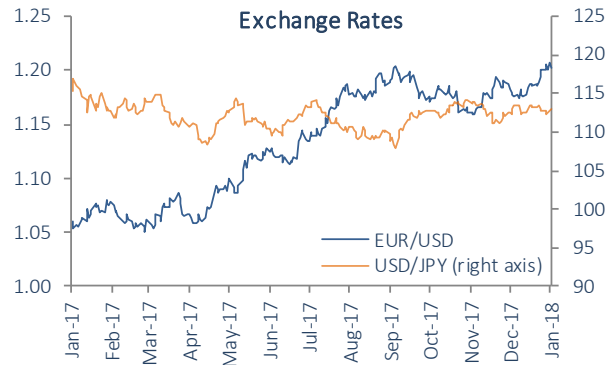
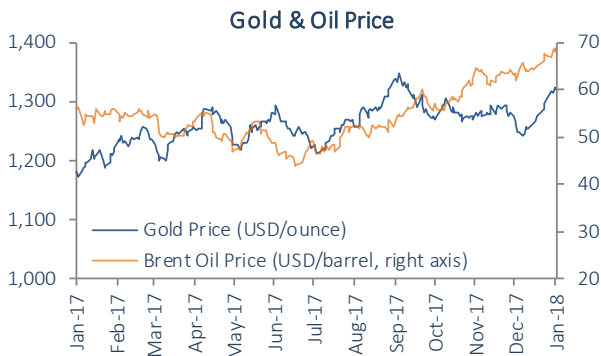
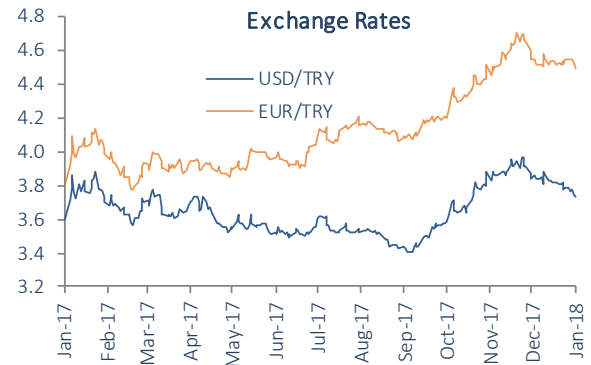
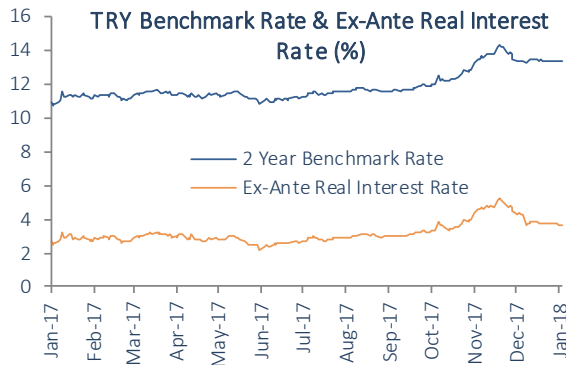
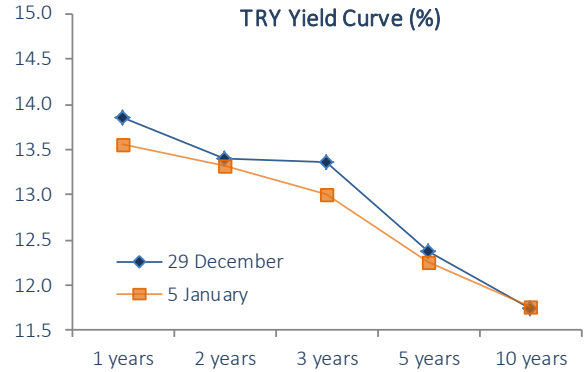
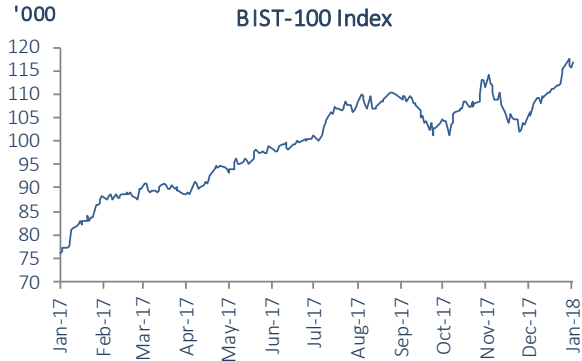
Tariff cut on some of the food imports...

The upper limit on tariff in some of subgroups of meat (carcass, half carcass etc.) imports decreased from 100% to 40%. The tariff upper limit of wheat, durum wheat and red wheat imports were reduced from 130% to 45%. In white barley, malt barley and others groups, the limit was determined to be zero percent.

The new regulation on loans backed by the CGF...

Last week, the decision that repayment of credits granted under the Credit Guarantee Fund (CGF) scheme can be extended as a new loan was issued in the Official Gazette. In addition, it was stated that, under the "Decision on the Amendment of the Treasury Support to the Credit Guarantee Institutions", the loans provided by the CGF can be rescheduled and maximum of 36 months can be added to the due date.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
January 8	Euro Area Consumer Confidence Index, final	December	0.5 (R)
	Euro Area Retail Sales, monthly	November	1.5% (R)
	Turkstat Industrial Production Index	November	7.0% (R)
January 9	Euro Area Unemployment Rate	November	8.7%
January 12	US CPI, monthly	December	0.2%
	US Retail Sales, monthly	December	0.4%
	CBRT Balance of Payments Statistics	November	

(R) Realization



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