

	2/Feb	9/Feb	Change		2/Feb	9/Feb	Change
BIST-100 Index	118,119	113,590	-3.8 % ▼	EUR/USD	1.2460	1.2233	-1.8 % ▼
TRY 2 Year Benchmark Rate	12.91%	13.15%	24 bp ▲	USD/TRY	3.7705	3.8216	1.4 % ▲
US 10 Year Bond Rate	2.85%	2.83%	-2 bp ▼	EUR/TRY	4.7011	4.6763	-0.5 % ▼
EMBI+ (spread)	310	343	33 bp ▲	Gold (USD/ounce)	1,333	1,317	-1.2 % ▼
EMBI+ Turkey (spread)	273	296	23 bp ▲	Brent Oil (USD/barrel)	67.9	62.5	-7.9 % ▼

bp: basis point

Last week, global stock exchanges had sharp falls following the sales in US markets. US 10-year Treasury bond yields rose to its highest level since January 2014 and dollar appreciated against other currencies. Following the data announcements in China and measures taken by the government, yuan depreciated against dollar. In Euro Area, markets followed the coalition talks in Germany. Bank of England kept its policy rate and asset purchase program on hold as expected. In Turkey, calendar adjusted industrial production index increased by 8.7% yoy in December.

US stocks plunged last week.

Previous week, non-farm payrolls and annual rise in average hourly earnings in the US had beaten the market expectations. Growing expectations for a much faster rate hike process from Fed due to the robust employment data caused US stock indices to fall sharply last week. Accordingly, Dow Jones index dropped more than 1,000 points on Monday. The indicator for near-term volatility expectations, VIX, which had been hovering around 10 for a while, fluctuated significantly and tested above the level of 50 during the trading session on Tuesday.

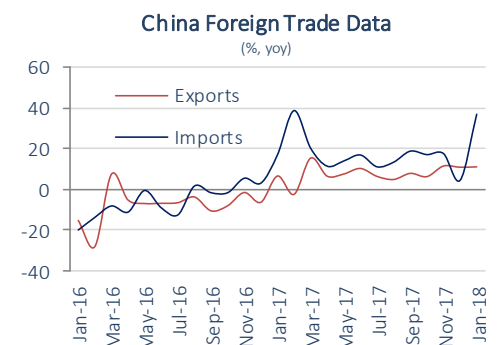
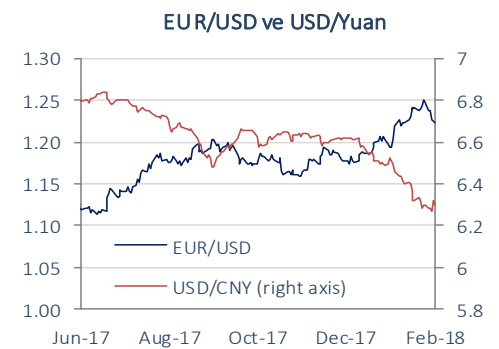
Statements of Fed officials last week revealed that the Fed thinks the recovery of the labor market does not necessarily cause inflation to rise rapidly. Fed officials also described the recent turbulence is nothing more than a healthy adjustment taking place in the stock markets where indices were increasing remarkably for quite a long time. These comments were perceived by the financial markets as Fed does not consider the recent volatility important. Besides, two-year budget deal was unveiled on Wednesday in the US senate. The budget deal, which increases the Federal expenditures by 300 billion USD, was approved after midnight due to the critics over the deal. The delay actually led to a technical shutdown of the government for a short period of time. As a result, the US government experienced a second shutdown after the one on January 20th under Trump's presidency.

Data releases in China economy...

According to foreign trade statistics, in January China's imports in USD terms grew by 36.9% yoy where exports rose moderately by 11.1%. Annual consumer inflation slipped down to 1.5% in January from 1.8% in December. Nevertheless, foreign fund managers were allowed once again to raise money in China for overseas investment under the Qualified Domestic Limited Partnership (QDLP) plan which had been suspended earlier in 2015. This development, which means the weakening of the Chinese government's control over the outflow of investment funds and acceleration of the capital outflows, was considered as a factor that would dampen economic growth. Besides, yuan recorded the most severe depreciation (1.41%) within the week since its devaluation in August 2015.

In Germany, new government is being established.

Last week, Christian Democratic Union and Social Democratic Party said that an agreement was reached for the establishment of the government. Political uncertainties, which surged after the general elections held on late September in Euro Area's largest economy, diminished last week and cushioned the decline in the European stock markets.



Source: Datastream

Bank of England kept its monetary stance.

Bank of England (BoE), which increased policy interest rate for the first time in 10 years at its November meeting, kept the policy interest rate at 0.5% and the asset purchase program at 435 billion pounds in line with expectations at its meeting held on last week. BoE has raised its GDP growth forecast to 1.8% for both 2018 and 2019. After the meeting, the pound appreciated against the dollar as BoE underlined that it could raise interest rates sooner and higher than expectations. Consumer inflation in the UK is over 3%, above BoE's target of 2%.

Economic data in domestic market...

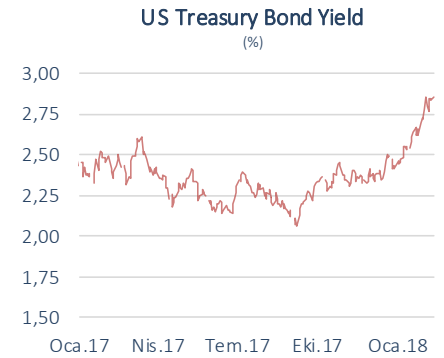
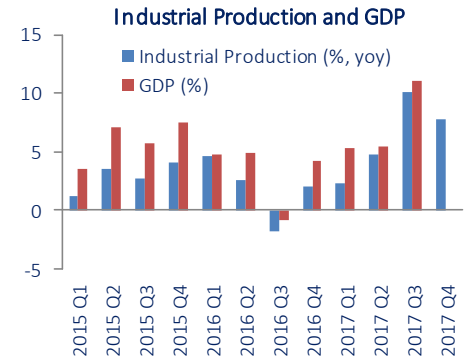
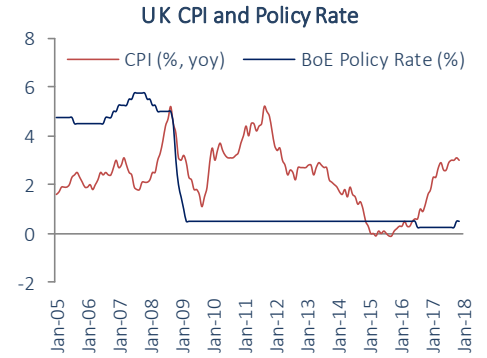
Calendar adjusted industrial production expanded by 8.7% yoy in December. Thus, industrial production growth was 7.8% in the last quarter of 2017 and 6.3% throughout the year. While the capital goods' and durable consumer goods' production increased by more than 10% in 2017, the production of motor vehicles surged up by 14% yoy, making the highest contribution to industrial production. With the strong outlook for industrial production, we estimate that Turkish economy grew by around 7% in 2017.

Financial markets...

After the sound US payroll data and the view that increase in budget spending would catalyze the US inflation, US benchmark bond yield rose to 2.88%, the highest level since January 2014. Brent crude oil prices declined to 62 dollar/barrel in line with the weak demand due to the seasonal factors. Last week, BIST-100 index fell by 3.8% parallel to the intensified selling pressure in global markets. USD/TRY tested 3.84 intraweek, as the dollar index increased and geopolitical risks elevated.

This week's agenda...

GDP growth in Euro Area and consumer price index in US will be closely monitored this week in global markets. In domestic market, Treasury's bond issue program will be followed. Also, balance of payments, budget balance and unemployment rate will be announced this week.

**This Week's Data Releases**

		Period	Consensus	Prior
12 February	TR Treasury Issuance of 10 Month-Zero Coupon T-Bill	February	-	-
	TR Treasury Reissuance of 5 Year-Fixed Coupon Bond	February	-	-
	TR Treasury Reissuance of 10 Year-CPI-Indexed Bond	February	-	-
13 February	UK CPI (yoy)	January	-	3.0%
	TR Treasury Direct Sale of 2 Year-Lease Certificate	February		
	TR Treasury Reissuance of 2 and 10 Year-Fixed Coupon Bond	February		
14 February	Japan GDP	2017 Q4	-	2.1%
	Germany GDP (flash)	2017 Q4	-	2.8%
	Germany CPI (yoy)	January	-	1.6%
	Euro Area GDP (flash)	2017 Q4	-	2.5%
	Euro Area Industrial Production (yoy)	December	-	3.2%
	US CPI (yoy)	January	2.1%	2.0%
	US Retail Sales (mom)	January	0.3%	0.4%
	TR Balance of Payments	December	-	-4,2 milyar USD
	TR Treasury's Domestic Debt Redemption	February	-	15,4 milyar TL
	15 February	US PPI (yoy)	January	-
US Industrial Production (mom)		January	0.2%	0.9%
TR Unemployment Rate		November	-	10.3%
TR Central Administration Budget Balance		January	-	-20.9 bn TRY
16 February	US Uni. of Michigan Consumer Sentiment (preliminary)	February	95.5	95.7
	US Housing Starts	January	1.215 million	1.192 million

Source: TUIK, Datastream

Sectoral Developments

Steel production at its highest levels...

According to data released by Turkish Steel Producers Association, domestic crude steel production increased by 13.1% yoy to 37.5 million tons in 2017 hitting its record-high level. Production at electric-arc furnaces grew by 18.8% yoy while annual rise of steel production at basic oxygen furnaces was only 2.2%. In a conjuncture where world crude steel production growth was 5.7% in 2017, Turkey is the world's 8th largest steel producer. Aside from China's decision to reduce steel production capacity in 2017, relatively more competitive prices offered by Turkish producers have contributed to the production figures.

Turkey's finished steel output climbed by 6.2% yoy to 39.2 million tons in 2017. Finished steel consumption accelerated by 5.7% yoy to 36.1 million tons, 50.9% of which was flat products, used mostly by the construction sector. Stronger growth in exports of finished steel products compared to the imports have moved the proportion of import coverage ratio to 108% from 99%. It is recorded that TL's depreciation against USD, rising global steel prices and increasing local and global demand have had a positive impact on financial indicators of local steel producers.

Automotive sector...

Based on the data published by Automotive Distributors' Association, Turkey's passenger car and light commercial vehicle sales were down by 0.7% yoy to 35,076 in January. It was mostly as a result of the fall in light commercial vehicles sales by 12.1% yoy despite the increase in passenger car sales by 3.6% yoy. Total automotive market, which narrowed by 2.8% yoy to 956,194 due to special consumption tax hike and depreciation in TRY, is projected to be around 925-957 thousands.

According to data released by Automotive Manufacturers Association, automotive manufacturers, which had a production of 1,696 thousands in 2017, will raise their total production capacity in 2018 by 2.7% yoy to 2,046 thousands. Automotive manufacturers, who increased their exports by 16.5% yoy, exported 78.6% of their production last year.

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