	16/Feb	23/Feb	Change			16/Feb	23/Feb	Change	
BIST-100 Index	116,511	117,522	0.9 %	▲	EUR/USD	1.2404	1.2293	-0.9 %	▼
TRY 2 Year Benchmark Rate	13.01%	12.97%	-4 bp	▼	USD/TRY	3.7464	3.7880	1.1 %	▲
US 10 Year Bond Rate	2.88%	2.87%	-1 bp	▼	EUR/TRY	4.6470	4.6603	0.3 %	▲
EMBI+ (spread)	331	331	0 bp	●	Gold (USD/ounce)	1,348	1,329	-1.4 %	▼
EMBI+ Turkey (spread)	295	297	2 bp	▲	Brent Oil (USD/barrel)	64.2	67.4	5.0 %	▲

Global markets followed the Fed and ECB's minutes of January meetings last week. Hawkish Fed minutes weighed on stock markets while bond issuances in the US pushed the country's 2 year bond yields up to its highest level since 2008. Economic data released in the Euro Area last week remained mostly below market expectations. Credit rating agency S&P kept Turkey's credit rating and outlook stable as expected.

Fed's January minutes...

Minutes of Fed's January FOMC meeting were released last week. According to the minutes, majority of the Fed governors' expected a stronger economic activity and a continued rise in inflation. This, in turn, increased the expectations for a much faster rate hike path in 2018. For the moment, the probability of a rate hike in the Fed's next meeting in March stands above 95%.

Besides, the markets also focused on the speeches given by a number of Fed officials. Despite the "hawkish" tone sensed in the minutes, Fed officials' relatively "dovish" remarks helped ease the worries. Mr. Bullard, President of Fed of St. Louis, in his speech on Friday pointed out that raising interest rates too fast might slow down economic activity and would not create a big change in the inflation which is currently below the Fed's target. Bullard's statement reduced the selling pressure in the stock market which was fueled by the minutes. This week, markets will focus on Fed Chairman Mr. Powell's testimony before the House Financial Services Committee on Tuesday and his announcement of the central bank's semi-annual report on monetary policy in the US Senate Banking Committee on Thursday.

Global markets...

As the US and Chinese markets were closed, global stock markets followed a flat course at the beginning of the last week. In the following days, on the other hand, the global sell-off in equity markets intensified. The US stock market, which was under pressure in the first half of the week due to the deterioration in global risk perception, erased its losses on Friday.

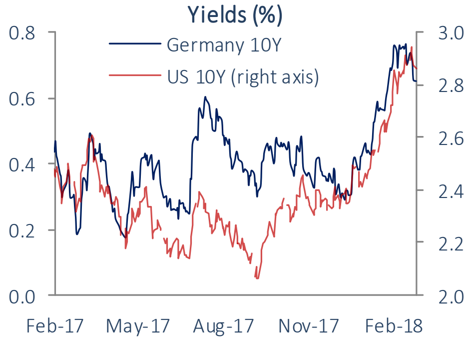
The interest rate of the 10-year US Treasury bond rose to 2.9570%, the highest level in the last four years, while the Treasury's heavy bond issuance program was followed in the country. In line with the Treasury's bond auction amounting to 258 billion USD, the yield of 2-year bond hit the highest level since September 2008 with 2.28%. The reform package, which includes various tax cuts and proposes increases in federal budget expenditures, portrayed a bleak outlook for US fiscal discipline. This development points to the increase in borrowing needs and effects borrowing costs in a similar fashion.

Gold prices were under pressure due to the appreciation in dollar, while statements from OPEC supported the oil prices. OPEC told that the supply surplus in oil is rapidly disappearing and that the market is very close to the balance. Besides, the decline in US crude oil inventories and the closure of an oil field in Libya pushed the oil prices over 67 USD/barrel. In January, OPEC oil cut compliance rose to 133%.

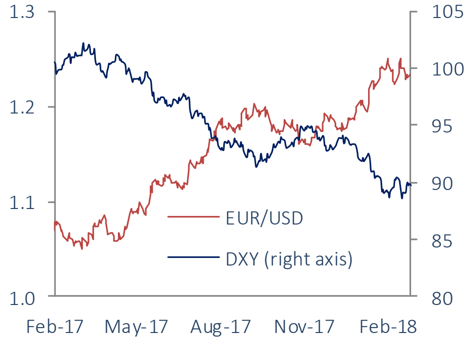
Major developments in the Euro Area...

The minutes of European Central Bank's (ECB) monetary policy meeting, which was held on January 24-25th were released. In the minutes, officials' gave their positive comments on strong economic activity in the Euro Area and also highlighted that it will be too early to make a change in the forward guidance regarding the Bank's

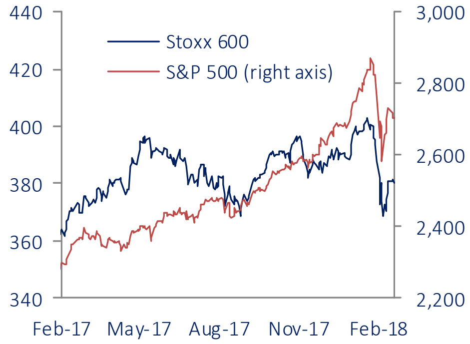
US and Germany Treasury Bond Yields (%)



DXY and EUR/USD

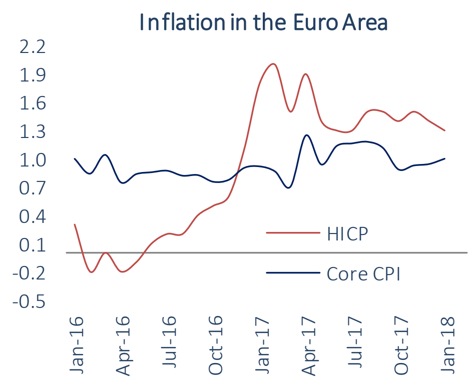


Global Stock Markets



Source: Datastream

monetary policy stance. On the other hand, while the preliminary manufacturing and services PMI indices of February were below the expectations with 58.5 and 56.7, respectively, January consumer inflation came in parallel with the market expectations with 1.3%. Investors in the Euro Area will focus on general elections which will take place in Italy on March 4th and the ongoing coalition talks in Germany.



Economic data in the domestic markets...

The manufacturing industry capacity utilization rate (CUR) decreased by 40 bps to 77.8% in February. CUR, which has been declining for the last three months mom recorded a decline in February for all industrial groups apart from intermediate goods. In this period, while CUR in manufacture of beverages displayed the most rapid decline with 99 bps mom, CUR in manufacture of basic metals and fabricated metal products exhibited a modest increase. In February, the consumer confidence index had a stable outlook with 72.3. Considering the sub-division of the index, a significant increase was noted in assessing the suitability of purchasing durable goods in the current period.

S&P did not change the credit rating and outlook of Turkey in its assessment made on Friday. The agency affirmed Turkey's foreign currency credit rating as "BB", two level below investment grade and rating outlook as "negative". S&P expressed that its decision took into account that foreign financial conditions may put a pressure on Turkey's external debt turnover ability in financial and corporate sectors. Stating that the credit rating of the country could be downgraded if the Central Bank fails to curb the inflation and currency pressures, S&P added that they could revise the outlook to "stable" if the public debt/GDP ratio was reduced and inflationary pressures abated. Reviews on Turkey are expected to be made in July and December by Fitch and in August by S&P. Moody's did not announce any timetable for Turkey for 2018 as in 2017.

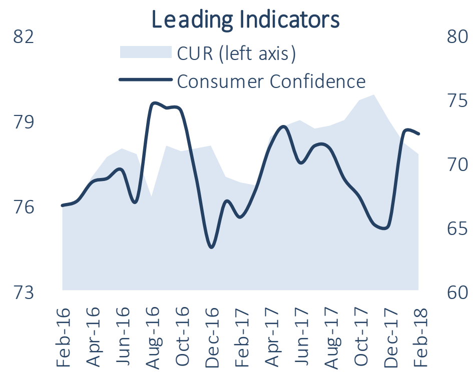
Calendar of Credit Rating Agencies for 2018

S&P	Fitch	Moody's
23 February	19 January	-
17 August	13 July	-
-	14 December	-

Financial markets...

Despite the upwards trend in USD/TRY, BİST-100 index, which followed a volatile course over the week, recorded a slight increase on a weekly basis thanks to the fading geopolitical uncertainties and risk perception towards Turkey in the last trading day of the week. In this context, USD/TRY parity closed the week at 3.7880 and the yield of 2-year Treasury bond declined slightly.

This week global markets will focus core PCE, manufacturing ISM and GDP data in the US. Domestic markets, on the other hand, will follow foreign trade statistics and manufacturing PMI readings together with the geopolitical developments.



This Week's Data Releases

		Period	Consensus	Prior
26 February	US New Home Sales	January	600K	625K
27 February	US Durable Goods Orders, mom	January	-2.0%	2.9%
	US The Conference Board Consumer Sentiment	February	126	125.4
28 February	US GDP, yoy	2017 Q4	2.5%	2.6%
	US Pending Home Sales Index, mom	January	0.5%	0.5%
	China Manufacturing PMI	February	51.2	51.3
	TurkStat Foreign Trade Statistics	January	-	9.21 bn USD
	Treasury's Domestic Debt Redemption (239 Million TL)	February	-	-
1 March	US PCE, yoy	January	1.7%	1.7%
	US PMI Manufacturing Index	February	55.7	55.5
	US ISM Manufacturing Index	February	58.6	59.1
	Euro Area Manufacturing PMI	February	58.5	58.5
	Euro Area Unemployment Rate	January	8.6%	8.7%
	Turkey Manufacturing PMI	February	-	55.7
2 March	US University of Michigan Consumer Sentiment	February	99.5	99.9

Source: Turkstat, CBRT, Datastream

Sectoral Developments

House sales…

In January, domestic house sales increased by 1.7% yoy to 97,019. Mortgaged house sales declined by 20.3% yoy due to recently rising mortgage rates. Hence, the share of mortgaged house sales in all sales fell by 8.2 points to 29.6%. House sales to foreigners surged by 25.7% yoy while sales to Russian citizens (+101.7%) and to all foreigners in Antalya (+61.7%) showed a significant increase thanks to the recovery in the tourism sector. Sector officials commented that the housing sector will be focused on destocking due to weak demand and 2018 will not be a shining year.

Slowdown in domestic white goods sales…

Production of white goods rose by 8.4% yoy in January. Domestic sales and imports, which climbed by 14.2% and 28.9% yoy, respectively, thanks to the government's SCT reduction from 6.7% to zero during February-September 2017 period, dropped by 15.9% and 37.9% yoy at the first month of 2018. It is claimed that the firms focused more on exports at the last quarter of 2017 due to weak domestic demand outlook and net profit ratios of the firms had an annual decline because of high operational costs of exports. On the other hand, rising global steel and plastic prices have been lately lifting the raw material costs of the sector.

Recent developments in energy sector…

In 2017, Turkey's natural gas imports grew by 19.2% yoy to 55.2 billion m3, all time high level. Decreasing share of hydropower plants in electricity production due to the decline in rainfalls led the domestic gas demand in 2017. On the other hand, Star Refinery, Turkey's first private-sector founded refinery will be in operation as of the third quarter of 2018. Star will add 10 million tons/year to the current oil processing capacity of 28 million tons/year operated by TÜPRAŞ, Turkey's first and sole oil refinery at the moment. Production of refined oil products such as diesel, jet fuel, naphtha and LPG at the new refinery is expected to narrow down Turkey's current account deficit.

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