	1-Feb	8-Feb	Change		1-Feb	8-Feb	Change
BIST-100 Index	102,937	102,452	-0.5 % ▼	EUR/USD	1.1454	1.1328	-1.1 % ▼
TRY 2 Year Benchmark Rate	18.34%	18.37%	3 bp ▲	USD/TRY	5.2074	5.2464	0.7 % ▲
Turkey 5-Year CDS	306	314	8 bp ▲	EUR/TRY	5.9658	5.9380	-0.5 % ▼
MSCI EM Equity Index	1,050	1,036	-1.3 % ▼	Gold (USD/ounce)	1,318	1,314	-0.3 % ▼
US 10-Year Bond Rate	2.69%	2.63%	-6 bp ▼	Brent Oil (USD/barrel)	62.6	61.7	-1.4 % ▼

bp: basis point

Expectations for the ongoing trade negotiations between the US and China drove global risk perception last week. After the statements signaling positive progress in trade talks at the beginning of the week, the news that Trump would not be able to meet Xi until March caused pessimism to thrive again in the last days of the week. Thus, the solid performance of global equity markets since the beginning of the year was hampered in the last two days of the week. European Commission's downward revisions in its growth forecasts for the Euro Area weighed further on sentiment. Domestic markets followed a volatile trend during last week when data agenda was weak.

Global risk perception is shaped by expectations on trade negotiations.

The statements regarding US-China trade negotiations were followed closely last week. As opposed to the positive assessments of US Treasury Secretary Mnuchin, the news that Trump could not meet China's President Xi until March suppressed risk appetite in the last days of the week. If trade negotiations do not produce an agreement within this month, US will be able to impose additional tariffs on 200 billion USD worth of goods imported from China. US President Trump's State of the Union speech was also on the agenda last week. Trump's emphasis on the Mexican border wall has fostered concerns that the government could shut down again on February 15th. Trump's announcement that he will meet the North Korean President at the end of February was seen as a positive development.

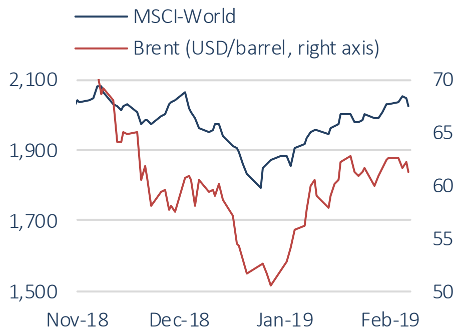
Stock market indexes declined in the last two days of the week due to increasing concerns on global growth as a result of trade tensions and expectations that the US government could shut down. The fall in oil prices despite the production cuts by OPEC and the US sanctions against Venezuela was also influential in this decline.

European economies present a negative picture for global economic activity.

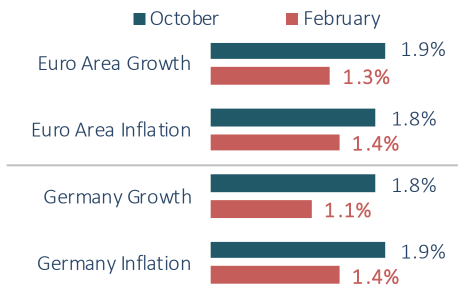
The momentum loss in Euro Area economy continues. According to data released last week, industrial orders and output in Germany, the largest economy in Euro Area, declined on a monthly basis despite an expectation of an increase. In its report released on Thursday, European Commission revised down its growth and inflation forecasts for the Euro Area in line with the weak economic outlook in the region recently. The Commission foresees that the Euro Area will exhibit its weakest performance since 2013 by growing 1.3% in 2019.

While UK Prime Minister May was trying to reach a new agreement on Irish border with EU leaders, Bank of England, in its meeting last week, warned that a no-deal Brexit could cause a sharp recession. On the other hand, the recent data releases in UK displayed a negative outlook. After the manufacturing PMI declined to the lowest level of three months, services PMI decreased to the lowest level since July 2016. Along with this outlook, GDP/USD parity fell below 1.30 for the first time in two weeks and completed the week with a weak performance despite the news that talks will continue between May and EU.

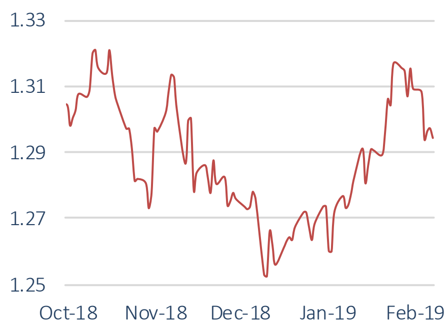
Global Stock Market and Oil Prices



European Commission 2019 Forecasts



GBP/USD



Source: Datastream, European Commission

Foreign trade deficit continued to contract in the first month of the year.

According to provisionary foreign trade data based on General Trade System released by the Ministry of Trade, foreign trade deficit continued to narrow in January. Exports increased by 6.3% yoy while imports fell by 26.9%. Thus, foreign trade deficit contracted by 74.6%. During this period, decline in consumption goods imports lost momentum while decrease in investment goods imports slightly accelerated.

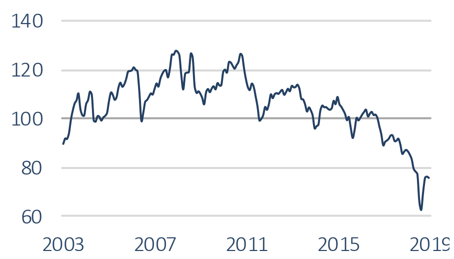
Provisionary Trade Data

	January		Δ
(billion USD)	2018	2019	(%)
Exports	13.1	13.9	6.3
Imports	22.2	16.2	-26.9
FTD	-9.1	-2.3	-74.6
Coverage Ratio	59.0%	85.7%	-

Real effective exchange rate fell slightly in January.

CPI-based real effective exchange rate index slid by 0.7% mom in January to 75.6. This indicates that Turkish lira, which appreciated in real terms in the previous three months, lost strength in January. The decline in the index is 13.2% on an annual basis.

Real Effective Exchange Rate
(2003=100)



CBRT's assessments on January inflation...

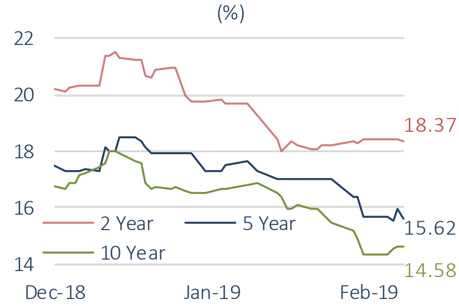
CBRT stated that strong rise in food prices in January brought inflation up. CBRT, which noted that the main trend of core indicators continued to improve, said that D-PPI remained high despite the exchange rate and commodity prices developments due to cumulative effects.

Turkstat updated its inflation basket and index weights. The weight of the food and non-alcoholic beverages group increased from 23.03% to 23.29% in the new basket, while the transport group's weight decreased from 17.47% to 16.78%.

Domestic markets and new week's agenda...

Last week, BIST-100 index decreased by 0.5% on a weekly basis. The 5-year CDS premium, which fell to its lowest level since July with 292 in Tuesday, closed the week at 314. Downward trend in yields of long-term bonds stalled last week. The compound interest rate of 10-year benchmark bond, which fell to 14.31% on Tuesday, was 14.58% on Friday. There was also a fluctuating course in exchange rates. USD/TRY started the week at 5.20 and closed at 5.25 on Friday.

Government Benchmark Bond Yields
(%)



This week, global markets have a heavy agenda. In Turkey, employment data for November period, industrial production and balance of payments figures for December and budget realizations for January will be followed. Also on Friday, the S&P is expected to give an assessment regarding Turkey's credit rating. No change is anticipated in credit rating and outlook.

Data Releases

		Period	Consensus	Prior
11 February	UK GDP (annual, flash)	Q4	1.4%	1.5%
12 February	11-month Treasury Zero Coupon Bond Issuance	February	-	-
	2-year Treasury Lease Certificate Issuance	February	-	-
13 February	UK CPI (annual change)	January	2.0%	2.1%
	Euro Area Industrial Production (monthly change)	December	-0.4%	-1.7%
	US CPI (annual change)	January	1.6%	1.9%
	US Core CPI (annual change)	January	2.1%	2.2%
	Treasury Debt Redemption (3,966 million TRY)	February	-	-
14 February	Euro Area GDP (annual, flash)	Q4	1.2%	1.2%
	US Weekly Jobless Claims	4-9 February	225 thousand	234 thousand
	Current Account Balance	December	-	986 million USD
	Industrial Production (cadj., annual change)	December	-7.5%	-6.5%
	CBRT Expectations Survey	February	-	-
15 February	US Industrial Production (monthly change)	January	0.1%	0.3%
	US Michigan Consumer Confidence (flash)	February	94.0	91.2
	Unemployment Rate	November	-	11.6%
	Central Government Budget Deficit	January	-	-18.1 billion TRY

Source: Datastream, Ministry of Trade, CBRT, Turkstat

Sectoral Developments

Automotive sales contracted in January.

According to data released by Automotive Distributors' Association, domestic sales of automobiles and light commercial vehicles declined by 59% yoy and became 14,373 units in January. Cuts in SCT and VAT in the sector are in place until April.

Total production in the automotive sector declined by 11.6% yoy in January, according to data released by Automotive Industry Association. Automotive exports increased by 2.1% yoy to 2.4 billion USD due to the rise in commercial vehicles exports as well as bus and minibus exports. Automobile exports, however, fell 14.7% yoy to 812 million USD. On quantity basis, automobile exports recorded a decline of an almost 20% annually while the slump in automobile imports exceeded 60%.

Measures to contain food inflation…

Treasury and Finance Minister Berat Albayrak announced that new measures will be taken to limit the rise in food prices. Albayrak announced that municipalities would start selling fruits and vegetables at affordable prices and public sector would become a strategic investor in greenhouse farming sector.

Pharmaceutical sector…

The euro exchange rate on which the drug prices are calculated is expected to be adjusted within February as it was the case every year. Currently, the euro is fixed with value of 2.6934 TRY. According to a news article published in Reuters, since the Turkish lira experienced a rapid fall last year, the pharmaceutical sector has difficulties in reaching raw materials and demand for an increase of 35% in euro exchange rate for 2019. Turkey, with a market size of 24.5 billion TRY in 2017, was the 17th largest pharmaceutical market in the world in 2017. In 2018, according to data from the General Directorate of Budget and Fiscal Control, 29.2 billion TRY was allocated for pharmaceutical expenditures.

Source: Datastream, ADA, AMA, Reuters

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

H. Erhan Gül
Asst. Manager
erhan.gul@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

Gamze Can
Economist
gamze.can@isbank.com.tr

Our reports are available on our website https://research.isbank.com.tr