

	22-Feb	1-Mar	Change		22-Feb	1-Mar	Change
BIST-100 Index	103,186	103,267	0.1 % ▲	EUR/USD	1.1341	1.1374	0.3 % ▲
TRY 2 Year Benchmark Rate	18.82%	18.89%	7 bp ▲	USD/TRY	5.3176	5.3732	1.0 % ▲
Turkey 5-Year CDS	320	309	-11 bp ▼	EUR/TRY	6.0312	6.1105	1.3 % ▲
MSCI EM Equity Index	1,059	1,052	-0.7 % ▼	Gold (USD/ounce)	1,328	1,293	-2.6 % ▼
US 10-Year Bond Rate	2.66%	2.76%	10 bp ▲	Brent Oil (USD/barrel)	66.8	63.7	-4.7 % ▼

bp: basis point

Last week US-China trade talks had been monitored closely. Global economic indicators and future monetary policies of major central banks were also high on the agenda. On the domestic front, foreign trade deficit continued to shrink due to the slowdown in the economic activity. Moreover, leading indicators kept on sending weak signals. Inflation indicators lost pace in February. This week eyes will be on CBRT's monetary policy meeting where clues regarding future policy actions might come out.

Positive expectations on trade wars...

Positive news implying that US and China are getting closer to an agreement regarding the ongoing trade talks has strengthened lately. Accordingly, providing that China would be more sensitive about the intellectual property rights as well as buying a considerable amount of the US products, an agreement which includes removing additional tariffs applied by the US to China seems possible by the end of this month.

US economy grew faster than expected.

In the last quarter of 2018, US economy grew more-than-expected by 2.6% thanks to robust private consumption and investment expenditures. Economic growth rate was realized as 2.9% in the entire year of 2018.

Powell said Fed will end balance sheet reduction this year.

In his speech given in the US Senate Committee on Banking last week, Fed Chair Powell said that they will be patient in deciding on further hikes due to contradictory signals taken by the economy and balance sheet roll-off will end this year. Citing the fiscal policy, Powell also stated that fiscal policy is on an unsustainable path as public debt is growing faster than the national income.

Euro Area PMI is at 6-year low...

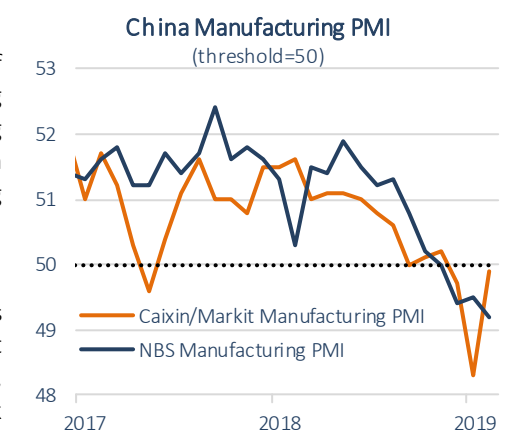
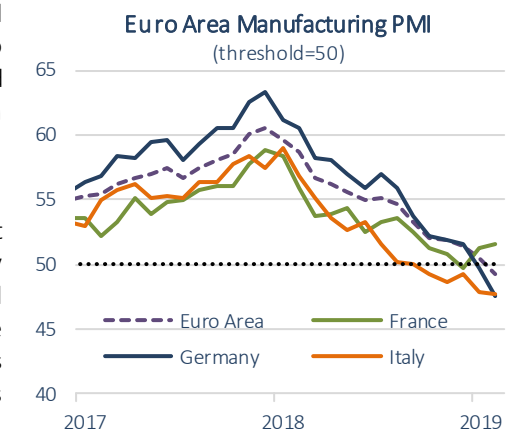
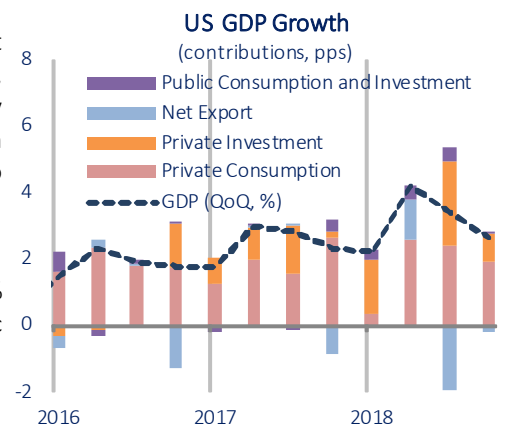
Euro Area purchasing managers index (PMI) declined to almost 6-year low at 49.3 due to worries on global trade and Brexit. In this period, especially Germany and Italy performed weakly. According to leading indicators, annual CPI remained below the ECB's target by rising 1.5% in February. Weak course of inflation along with slowdown in economic activity supported expectations of a possible delay in rate hikes which was previously scheduled for this summer.

Chinese economy continues to lose momentum.

The data releases in China continue to raise questions over the performance of the economy. PMI data pointed out that contraction in the manufacturing industry has persisted in February. According to official data, manufacturing PMI was realized at 49.2, below expectations. Caixin manufacturing PMI which measures the performance of SMEs increased to 49.9 in February after falling to 48.3 in January.

Moody's predicts that weakness in economic activity will continue through 2020.

In its recently published 2019-2020 Global Macro Outlook report, Moody's stated that weakness in global economic activity, which started in the last quarter of 2018, will continue through the beginning of 2020. As a result, normalization process in monetary policies will slow down and growth outlook



Source: Datastream

in emerging economies will deteriorate. Moody's expects that China will experience slowest growth rate for the last several decades and predicts that Turkish economy will contract by 2% in 2019.

Turkey's foreign trade deficit continues to decline.

Due to the weakness in TRY, the decline in gold imports and the loss of momentum in domestic demand, contraction in foreign trade deficit continued in the first month of 2019. Export volume rose by 5.9% yoy to 13.2 billion USD, while import volume was realized as 15.7 billion USD, decreasing by 27.2% yoy. Thus, foreign trade deficit came in at 2.5 billion USD, decreasing by 72.5% yoy. It is understood that the course of foreign trade deficit will depend on the recovery in economic activity in the coming period. In terms of export performance, recent slowdown signals from the EU countries will be crucial in the forthcoming period ([Our Foreign Trade Balance Report](#)).

Mixed outlook in leading indicators...

Economic confidence index in Turkey rose by 1.2% mom to 79.4 in February. This was driven by the recovery in the confidence of real and services sector. On the other hand, the confidence of the consumer and retail trade sector continued to deteriorate, while construction sector confidence index fell sharply. Despite reaching the highest reading in February with 46.4 for the last 6 months, manufacturing PMI confirmed the deceleration in economic activity. The Index, indicating a contraction in manufacturing industry in the last 11 months, increased for the first time since November. This shows that contraction started to loose momentum.

In February, annual CPI fell below 20%.

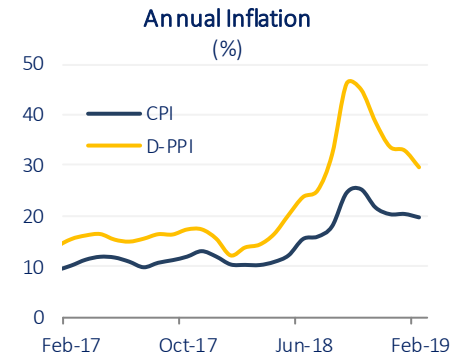
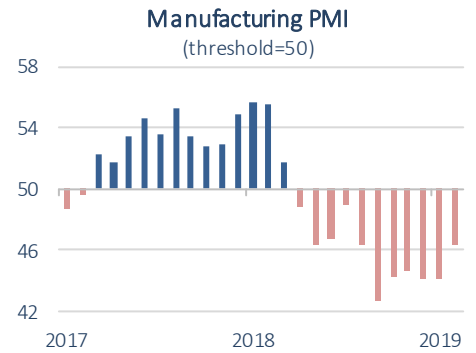
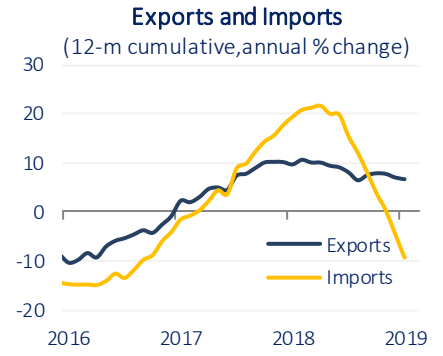
In February, inflation came in below expectations. In this period, annual rises for CPI and D-PPI declined to 19.67% and 29.59%, respectively. Following the February inflation readings, CBRT's message to markets about future path of interest rates is very important ([Our Inflation Report](#)).

Domestic markets...

The BIST-100 index, which started last week on a positive note, came under pressure starting from the midweek. Similar moves were observed for TRY. With a calm course in the first half of the week, the Turkish lira weakened on Friday due to geopolitical developments. USD/TRY completed the week with an increase of 1% to 5.37, while EUR/TL rose by 1.3% wow to 6.11.

This week's agenda...

CBRT's Monetary Policy Committee meeting will be the focus of domestic markets this week. In global markets, the ECB meeting as well as the trade negotiations between the US and China are among the most prominent items of the agenda.



Data Releases

		Period	Consensus	Prior
4 March	TR CPI, monthly	February	0.4%	(A) 0.16%
	TR D-PPI, monthly	February		(A) 0.09%
5 March	Euro Area Service PMI	February	52.3	
	Euro Area Retail Sales, yoy	January	2%	0.8%
6 March	Treasury Debt Redemption (1,812 million TRY)	March	-	-
	CBRT Meeting	March	24%	24%
7 March	ECB Meeting	March	-	-
	Euro Area GDP, revision, qoq	2018 4Q	0.2%	0.2%
8 March	USA Nonfarm Payrolls	February	180 thousand	304 thousand
	USA Unemployment Rate	February	3.9%	4.0%

(A) Actual

Source: Datastream

Sectoral Developments

In January, the number of foreign visitors increased by 5.3% yoy.

According to data published by Ministry of Culture and Tourism, the number of foreign visitors went up by 5.3% yoy to 1.5 million persons in January. Bulgaria ranked first among the countries from which Turkey attracted the most visitors in January and this country was followed by Georgia and Germany.

Timur Bayındır, the Chairman of Hotel Association of Turkey, stated that the number of arriving foreign visitors to Turkey increased in January, on the other hand, hotel occupancy rate declined by 3.5% yoy due to the fall in the number of accommodating foreigners. Bayındır also said that despite this decline, the increase in the hotel occupancy rate and revenues are expected to be 10-15% in 2019 thanks to the rise in early bookings and interest shown in the exhibitions. If this happens, the number of employed people in the sector, which is already 260 thousand persons, will exceed 300 thousand persons.

Cement industry targets 1 billion USD worth of export in 2019.

Nihat Özdemir, chairman of Turkey Cement Manufacturers Association, stated that construction sector is expected to recover in the third and fourth quarter of this year and, thus, construction sector is expected to post very low growth rate for the full year. Özdemir said that they target to increase export volume of cement industry, which amounted to 614 million USD in 2018, to more than 1 billion USD in 2019 as the sector is expected to grow by 2-3% this year.

New packages were announced to support economic activity.

A second Turkish loan package for SME's was launched with the participation of 17 banks. Accordingly, loans will be provided by Treasury-backed CGF guarantee. A total volume of 25 billion TRY is targeted for the new loan package. All SMEs with a turnover of less than 125 million TRY, can benefit from this facility without sector limitations. With a maximum amount of 1.5 million TRY per enterprise, the loans will have a maturity of 36 months and allow for six months without a principal repayment. Due to the slowdown in economic activity, a new incentive package for employment was also announced in order to prevent the decline in the job creation capacity of the real sector.

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