

	11-Dec	18-Dec	Change		11-Dec	18-Dec	Change
BIST-100 Index	1,371	1,408	2.7% ▲	EUR/USD	1.2111	1.2255	1.2 % ▲
TRY 2 Year Benchmark Rate	14.69%	14.69%	0 bp ●	USD/TRY	7.8562	7.6239	-3.0 % ▼
Turkey 5-Year CDS	376	321	-56 bp ▼	EUR/TRY	9.5200	9.3447	-1.8 % ▼
MSCI EM Equity Index	1,258	1,268	0.9 % ▲	Gold (USD/ounce)	1,839	1,881	2.3 % ▲
US 10-Year Bond Rate	0.89%	0.95%	6 bp ▲	Brent Oil (USD/barrel)	50.0	52.3	4.6 % ▲

bp: basis point

Last week, Fed decided not to change its current monetary policy implementation, while the Fed officials revised up their GDP growth projections. US Congress agreed on a stimulus package worth of approximately 900 billion USD at the weekend. On the other hand, the new variant of coronavirus has been detected in UK, which is believed to be 70% more contagious, had created new concerns about the course of the pandemic. In domestic markets, the impact of US sanctions imposed on Turkey was monitored last week. The CBRT announced its Monetary Policy and Exchange Rate Policy for 2021. The emphasis on price stability in the presentation of CBRT President Ağbal has drawn attention. The central government budget posted a surplus of 13.4 billion TRY in November. This week, the effects of the new coronavirus mutation on the course of the pandemic will be followed in global markets, where a relatively calm data agenda will be followed due to the Christmas holiday. In domestic markets interest rate decision to be taken by the CBRT on Thursday will be closely monitored.

Data releases in the US...

A busy data agenda was followed in the US last week. Industrial production increased by 0.4% mom, slightly above the expectations, while the capacity utilization rate rose to 73.3% in November. Fed did not change the policy rate at its meeting ended on Wednesday and announced that asset purchases will continue until "substantial further progress" has been made toward its goals in inflation and unemployment rates. In the projections announced after the meeting, it was seen that the Fed members revised their growth forecasts upwards for the period 2020-2022. Preliminary manufacturing PMI was realized at 56.5, exceeding the market expectations of 55.7 in December. On the other hand, retail sales contracted by 1.1% mom in November. US Congress agreed on a coronavirus relief package on Sunday. The stimulus plan was announced to be approximately 900 billion USD and the package is expected to be voted today.

Deflationary pressure continues in the Euro Area.

While CPI inflation in the Euro Area was confirmed at -0.3% yoy in November, core inflation became 0.2%. The CPI inflation was negative for the fourth time in a row on an annual basis in November. This situation, which indicates deflation in the region, was due to weak demand conditions as well as the course of energy prices being below last year's levels. Industrial production index in the Euro Area increased by 2.1% mom and decreased by 3.8% yoy in October. According to preliminary data, manufacturing PMI rose to 55.5 in December, while services PMI continued to be below the 50 threshold level, despite a rapid rise to 47.3. It was announced that a mutation of the Covid-19 virus, which is 70% more contagious, was encountered in the UK. While restrictions were tightened in the country, many countries, especially European countries, started to set travel restrictions with the UK. Turkey also took the decision to stop flights temporarily with UK, Denmark, the Netherlands and South Africa.

Latest developments in Turkey...

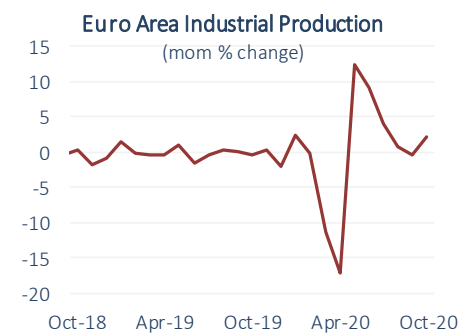
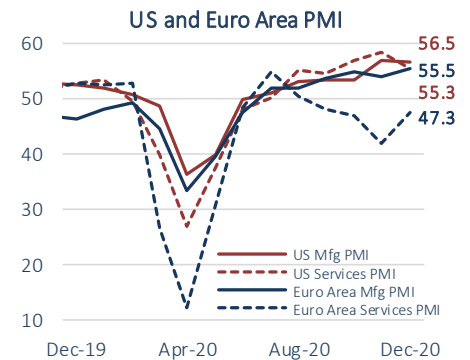
The US announced the sanctions against Turkey last week, due to the purchase of S-400 air defense systems. Within the scope of CAATSA sanctions, it is stated that the Presidency of Defense Industry (SSB) will not be able to obtain an export license from the US and its loan purchases from US financial institutions will be limited, while the assets of Defense Industry President Demir and three SSB managers will be frozen and visa restrictions will be imposed on these persons.

Last week, it was announced that a new support package worth 5 billion TRY was prepared to limit the negative effects of the pandemic. In addition, it was announced that the withholding tax reduction on deposit accounts will remain in effect until the end of March 2021, while the VAT reduction has been extended until 1 June 2021.

The BRSA changed the installment periods of credit cards and maturity limits of loans on Friday. Accordingly, it was decided to reduce the installment periods for credit cards from 8 months to 6 months for jewelry-related expenditures, from 6 months to 4 months for

Fed Projections

	2020	2021	2022	2023
GDP Growth				
December 2020	-2.4	4.2	3.2	2.4
September 2020	-3.7	4.0	3.0	2.5
Unemployment				
December 2020	6.7	5.0	4.2	3.7
September 2020	7.6	5.5	4.6	4.0
PCE Inflation				
December 2020	1.2	1.8	1.9	2.0
September 2020	1.2	1.7	1.8	2.0



Source: FED, BRSA, Datastream

electronic goods purchases, and from 18 months to 12 months for furniture and electrical goods purchases, and a reduction was made on the maturity limits of vehicle loans.

Central government budget posted a surplus of 13.4 billion TRY in November.

The central government budget, which had a deficit of 4.9 billion TRY in October, posted a surplus of 13.4 billion TRY in November, while the primary surplus was realized as 22.9 billion TRY. In November, budget revenues increased by 31.8% yoy to 109.7 billion TRY thanks to the increase in tax revenues, while budget expenditures increased by 27.5% yoy to 96.3 billion TRY due to the rising current transfers as a result of Treasury incentives to reduce the economic impact of pandemic. In the January-November period, budget deficit widened by 42.1% yoy to 132.1 billion TRY ([Our Budget Balance Report](#)).

House sales decreased by 18.7% yoy in November.

According to the data published by TURKSTAT, house sales in Turkey decreased by 18.7% yoy in November. In this period, the number of houses sold for the first time decreased by 25% yoy, while second hand house sales decreased by 15.2%. The mortgaged house sales, which have a share of 21.7% in total sales, decreased by 44.3% yoy due to the increase in interest rates.

CBRT announced the "Monetary and Exchange Rate Policy for 2021".

Last week, the CBRT announced the "Monetary and Exchange Rate Policy for 2021". CBRT Governor Naci Ağbal noted that price stability plays an important role in ensuring sustainable growth, employment and prosperity, while monetary policy decisions will be taken by giving priority to price stability. Ağbal stated that the CBRT's main policy instrument will continue to be the one-week repo auction rate and the interest rate corridor and the late liquidity window will not be utilized as monetary policy instruments except for their functions. Ağbal underlined that the CBRT's foreign exchange reserves will be strengthened and relevant tools will be used under appropriate conditions in a transparent way and within a specific framework, while noting that strong capital inflows as well as the return of rediscount credits and reverse-dollarization will have positive effects.

According to the results of the Survey of Expectations released by the CBRT, the year-end inflation and interest rate expectations increased, while the year-end exchange rate expectations decreased. Accordingly, market expectation of the year-end CPI inflation rose from 12.47% to 14.18%. In the December survey, the 1-week CBRT repo auction interest rate expectation for the current month came in at 16.18%, while the year-end USD/TRY expectation became 7.77. On Saturday, the CBRT announced that the discount rate to be applied in rediscount transactions to be made against bills that are due for a maximum of 3 months to maturity was determined as 15.75% annually with an increase of 675 bps and the interest rate to be applied in advance transactions is 16.75% per year.

Financial markets...

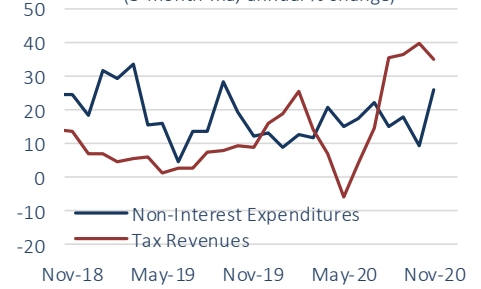
Last week, global stock markets followed a volatile course due to the increasing Covid-19 cases, as well as continuing uncertainty regarding the stimulus package in the US. Throughout the week, MSCI World stock market index and MSCI emerging markets index increased by 1.69% and 0.8% wow, respectively. A positive trend followed in the Turkish stock markets during the week despite the announcement of US sanctions against Turkey. As CBRT's Monetary and Exchange Rate Policy for 2021 presentation welcomed by the Turkish stock markets, Turkey's 5-year CDS risk premium decreased by 56 bps wow to 321 bps. BIST-100 index increased by 2.7% and reached new record levels with 1,408 points. USD/TRY declined by 1.8% wow ended the week at 7.62, while EUR/TRY also decreased by 1.8% wow to 9.35.

This week's agenda...

In global markets this week, when a relatively quiet data agenda is expected due to the Christmas break, November housing sales data and personal consumption expenditure data in the US comes to the fore. In Turkey, CBRT's Monetary Policy Committee meeting on Thursday will be monitored.

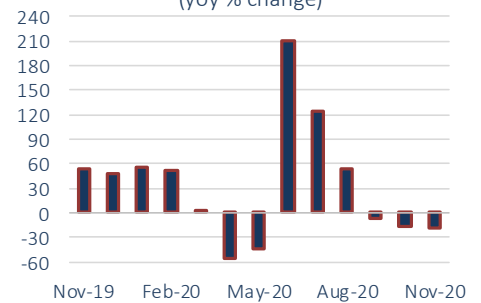
Non-interest Expenditures and Tax Revenues

(3-month ma, annual % change)



TR Home Sales

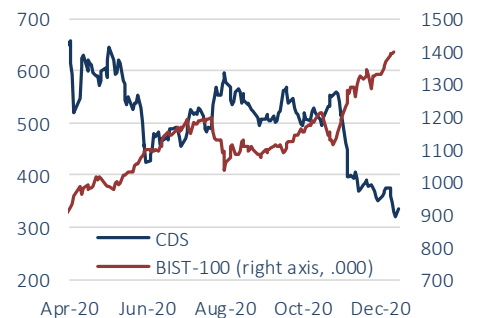
(yoy % change)



Global Stock Markets



CDS and BIST-100



Source: TURKSTAT, CBRT, Datastream

Data Releases

		Period	Consensus	Prior
21 December	TR Consumer Confidence Index	December	80.1 (A)	80.1
	TR Central Government Debt Stock	November	-	1.94 billion TRY
22 December	Euro Area Consumer Confidence Index, prelim	December	-16.8	-17.6
	US GDP, final	Q3	33.1%	33.1%
23 December	US Existing Home Sales, unit	November	6.70 million	6.85 million
	US Personal Consumption Expenditures, mom	November	-0.2%	0.5%
23 December	US Durable Goods Orders, mom	November	0.6%	1.3%
	US Initial Jobless Claims, person	14-18 December	900k	885k
23 December	US Michigan Consumer Sentiment Index, final	December	81.4	81.4
	US New Home Sales, unit	November	990k	999k
24 December	CBRT MPC Meeting and Policy Rate Decision	December	16.5%	15.0%
25 December	TR Capacity Utilization	December	-	75.8%
	TR Manufacturing Confidence Index	December	-	103.9
	TR Foreign Arrivals, yoy	November	-	-59.4%

(A) Actual

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

İrem Turan Taş
Asst. Economist
irem.turan@isbank.com.tr

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

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
