Politics & Economics Bulletin

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Turkey's inflation hits 11.92 percent in December 2017

Anadolu Agency, *03.01.2018*

The December 2017 figure was down from 12.98 percent in November 2017.

Consumer prices saw monthly change of 0.69 percent in December 2017. The highest monthly and annual increase were in transportation with 1.69 percent and 18.24 percent respectively, the report noted. December 2016 inflation rate was 8.53 percent, according to TurkStat. Turkey's inflation rate for 2017 was expected to reach 11.73 percent, according to a group of 20 experts who gave their forecast to Anadolu Agency on Tuesday.

Economy Minister: Turkey aims for $170 bln exports in 2018 after hitting $157 bln in 2017

Hurriyet Daily News, *03.01.2018*

Turkey is aiming to hit $170 billion of exports in 2018 after reaching $157.1 billion in 2017, a top official has announced.

Last year saw the second-highest export volume in the Turkish republic's history with $157.1 billion, Economy Minister Nihat Zeybekci said on Jan. 3. Speaking at a news conference in Ankara, Zeybekci said exports surged 10.2 percent in 2017. He also said Turkey's imports rose by 17.9 percent to reach $234.2 billion in 2017. The rate of exports meeting imports fell by 4.7 percentage points to 67.1 percent in 2017 compared with 2016.

"Our 2018 export target is $169 billion, though we would like to climb over $170 billion," Zeybekci said, as quoted by Anadolu Agency. In December 2017, the country's exports also rose 10.1 percent to reach $13.6 billion, according to the Turkish Exporters Assembly (TIM). Turkey's total exports in November were $14.2 billion, according to the Turkish Statistical Institute (TÜIK). Incentive certificates drafted by the Economy Ministry have jumped 81 percent, Zeybekci said.

Zeybekci said Turkey's exports rose nine percent in quantity and 1.5 percent in unit value. "The unit value of our exports has increased for the first time since 2013," he added. He said Turkey would exceed the $157.6 billion export volume, which marks a historical high, in a few weeks. The last time the country's exports rose with a double-digit percentage was in 2012, he added. By way of comparison, he said U.S., EU and Chinese exports were up 6.2 percent, 7.4 percent and 7.5 percent respectively, on a year-on-year basis in 2017. Turkey's increased foreign trade volume, which includes all exports and imports of merchandise and services, is expected to reach $468 billion, Zeybekci said. "Turkey's enlarged exports were $211.6 billion and enlarged imports were $256.3 billion in 2017," he said.

The percentage of imports covered by exports was 82.6 percent in 2017, he noted. Stressing a rise in Turkey's share of global trade, from 0.55 percent in 2002 to 0.97 percent in 2017, Zeybekci said Turkey's goal was "to raise this share to 1.5 percent." The automotive sector accounted for 15.3 percent of the country's total exports in 2017, up from 9.2 percent in 2002, he said.

Turkey posts second-highest export volume

Anadolu Agency, *03.01.2018*

In 2107 Turkey saw the second-highest export volume in the republic's history with $157.1 billion, according to provisional data released by the Customs and Trade Ministry on Tuesday.

Turkey's exports reached $157.1 billion in January-December 2017, up 10.22 percent, the ministry's data bulletin showed. The yearly total was second only to 2014, when Turkey saw $157.6 billion in exports, according to official data. The new export figure follows Turkey's sky-high growth during 2017. The country's growth beat forecasts in the first and second quarters of the year (5.3 and 5.4 percent, respectively).

Turkey became the fastest-growing economy among G20 countries with its unexpectedly high 11.1 percent growth in the third quarter of 2017. The report said Turkey's imports also rose in the period 17.92 percent to $234.2 billion. Turkey's foreign trade volume accounted for $391.3 billion, rising 14.70 percent in January-December 2017. Its foreign trade deficit annually climbed by 37.5 percent in the same period to $77.06 billion. In 2017, Turkey exported $15.1 billion worth of items to Germany, followed by Britain with $9.6 billion and Iraq with $9.1 billion.

The largest exporter to Turkey was China, with $23.4 billion, followed by Germany with $21.3 billion and Russia third with $19.6 billion. Turkey also exceeded its export target of $156.5 billion, aimed under the Medium-Term Economic Program by year's end, according to the ministry data. In December 2017, Turkey's exports rose 8.59 percent to $13.9 billion, while imports climbed 27.7 percent to $23.5 billion, the official data showed. Turkey's foreign trade volume hit $37.3 billion, rising 19.85 percent over the month. The country's foreign trade deficit also jumped by 71.36 percent to $9.6 billion in December 2017. In December 2017, Turkey exported the most to Germany with $1.3 billion, the U.K came in second with $832 million and Italy was third with $775 million. The country imported most from Germany in the month with $2.2 billion. China followed with $2.1 billion and Russia with $1.9 billion.

Turkey looks to enhance cooperation with Qatar

Hurriyet Daily News, *01.01.2018*

STurkey expects enhanced cooperation with Qatar, Turkish minister for transport, maritime affairs and communications said.

Speaking via FaceTime from Turkey during a promotional event in the Qatari capital Doha for the www.turkishsouq.qa website, Ahmet Arslan said: "Our cooperation with Qatar will not be limited to e-commerce. "It will become widespread in other fields and will pave the way for the two countries to work together elsewhere." The e-commerce platform opened through cooperation between Turkey's General Directorate of Post and Telegraph Organization (PTT) and Qatar Post.

PTT Chairman Kemal Bozgeyik said the project would be an example to the world and contribute to the bilateral ties. "Qataris will reach many products in Turkey thanks to the website being promoted… Trade between our countries will develop," Bozgeyik said. Qatari Transport Minister Jassim Saif Al Sulaiti said the products will reach the customer in seven days, and they are working on shortening the waiting time.

Turkey’s Borsa Istanbul goes up in opening session

Anadolu Agency, *03.01.2018*

Turkey’s stock exchange started Wednesday up 0.18 percent to open at 117,738.99 points.

Borsa Istanbul’s BIST 100 rose 214.79 points while the banking and holding sectors increased 0.16 and 0.32 percent, respectively. Among all sector indices, the sports sector index was the best performer, rising 1.17 percent; the transportation sector index was the sole loser, falling 0.11 percent. On Tuesday, the BIST 100 came to its highest-ever close with an increase of 1.90 percent or 2,191.19 points, reaching 117,524.20 points with 8 billion Turkish liras (approximately $2.12 billion) trade volume.

The U.S. dollar rose to 3.7780 Turkish liras at 9.30 a.m. local time (0630GMT), compared with Tuesday’s closing rate of 3.7590. The euro-lira rate also increased to 4.5540 from previous day’s close at 4.5320. The price of Brent oil climbed to $66.55 per barrel as of 9 a.m. local time (0600GMT) Wednesday, compared with $66.44 Tuesday evening. Turkey’s inflation rate increased 0.69 percent in December 2017 and annual consumer inflation rate reached 11.92 percent, Turkish Statistical Institute said on Wednesday. The country’s export statistics will be released later Wednesday by the Turkish Economy Minister Nihat Zeybekci.

Turkey’s trade deficit widens 38 percent to $77 billion in 2017: Ministry

Hurriyet Daily News, *02.01.2018*

Turkey’s trade deficit widened by 37.5 percent last year to $77.1 billion, data from the Customs and Trade Ministry showed on Jan. 2.

The country’s foreign trade volume accounted for $391.3 billion, rising 14.7 percent in the January-December 2017 period, according to ministry data. In the month of December 2017, the trade deficit rose 71.4 percent year-on-year to $9.6 billion, with exports rising 8.6 percent to $13.9 billion but imports up 27.7 percent to $23.45 billion. Over the course of 2017, exports rose 10.2 percent to $157.1 billion.

Turkey’s highest export figure was recorded in 2014 at $157.6 billion. Turkey exceeded its export target of $156.5 billion cited in the Medium-Term Economic Program by year’s end. The automotive sector again became the country’s top exporter with exports worth $23.9 billion, followed by the machinery sector and the clothing sector with exports worth $13.8 billion and $8.8 billion respectively. The Turkish economy expanded beyond forecasts in the first quarter (5.3 percent), second quarter (5.4 percent), and third quarter (11.1 percent) of 2017, according to the Turkish Statistics Institute. Imports, meanwhile, climbed by 17.9 percent to $234.2 billion in 2017. Turkey most imported item was mineral fuels and oil, worth $37.2 billion in 2017. In 2017, Turkey’s exports to Germany were worth $15.1 billion in total, followed by exports to the United Kingdom worth $9.6 billion and to Iraq worth $9.1 billion.

The largest exporter to Turkey was China with exports worth $23.4 billion, followed by Germany with exports worth $21.3 billion and Russia with exports worth $19.6 billion. In the month of December 2017 Turkey made most exports to Germany, worth $1.3 billion, followed by exports to the U.K. worth $832 million and to Italy worth $775 million. Turkey imported most from Germany in December 2017, worth $2.2 billion, followed by imports from China worth $2.1 billion and from Russia worth $1.9 billion.

Greek Cyprus looking to bolster cooperation with Saudi Arabia

Cyprus Mail, *02.01.2018*

Saudi Arabia could play a role in the reunification of Greek Cyprus, Foreign Minister Ioannis Kasoulides said.

In an interview to Arabic international newspaper Asharq al-Awsat, published on Monday, Kasoulides said Cyprus looks forward to “bolstering cooperation with Saudi Arabia in order to achieve security and stability in the region”. Kasoulides, who is to escort President Nicos Anastasiades on his official visit to Saudi Arabia this week, at the invitation of King Salman, said that bilateral ties between the two countries “have taken an important step forward after Riyadh appointed its Athens ambassador as the Charge d’Affaires in Nicosia”.

This was followed by Greek Cyprus opening an embassy in the Saudi capital. He expressed hope that the Kingdom would soon open a mission in Nicosia. “I believe there are great opportunities for cooperation between us in many fields, such as economy, business and tourism,” Kasoulides told Asharq Al-Awsat. He added that the Cypriot president’s visit to Saudi Arabia is a continuation of the country’s foreign policy in the region. “Saudi Arabia is an important country and a leader in the Arab and Muslim worlds and King Salman is Custodian of the Two Holy Mosques,” he said.

In addition, Kasoulides said that Riyadh could play a role in reuniting Greek Cyprus. “Many people believe that the problem lies between the Cypriot people. We are prepared to share the country with the Turkish-Cypriot population within a Cypriot union,” he said. This would pave the way for reconciliation between the Christian Greek Cypriots and Muslim Turkish Cypriots, he explained. “The main problem that will remain is Turkey, which is still following a strange policy towards the Arab world,” he said. Kasoulides reiterated that the withdrawal of Turkish troops from the island is essential to resolving the problem. “This is where Saudi Arabia can play a role seeing as Ankara is trying to bolster its friendship with Riyadh,” he said. “There is a role that Saudi Arabia must play,” he stressed.

He added that Cyprus has succeeded in forming excellent ties with all of its neighbours including the Arab world. Anastasiades departs for Riyadh later on Tuesday. On Wednesday he will be received by the King during an official ceremony and will attend an official banquet, that the King will host in his honour. After that, the delegations of the two sides will have official consultations and will sign agreements. Later in the afternoon, Anastasiades is to meet with the Crown Prince of Saudi Arabia. While in Riyadh, President Anastasiades will also meet with the Secretary General of the Gulf Cooperation Council and will pay an on-site visit to the facilities of J&P, a Cypriot-owned company. The president be accompanied by the Ministers of Foreign Affairs, Defence, Transport and Energy, as well as by the Government Spokesman. The delegation will return to Cyprus on Wednesday night.

Greek Cyprus exposed after failure to meet EU energy plan

Cyprus Mail, *31.12.2017*

Greek Cyprus government has repeatedly stated that it has a national energy plan that guides the development of its energy sector. However, so far this is shrouded in mystery as it has not gone through any public consultation, despite the EC expected such draft plans to be submitted by January 1.

Even Greece is catching up with this. It has been preparing a long-term energy plan to 2030, which will present the policy and basic strategic directions of national energy planning. Italy’s plan is already complete, following an extensive, two-year, public consultation.

This includes reduction of energy prices, costs and spending, achievement of environmental goals in line with EU targets, improvement of security of supply and system flexibility and development of Italy’s energy sector, including natural gas. These are objectives Cyprus should also aim to achieve. Given the importance of energy to Cyprus and its economy, and EU’s demanding energy and climate targets, binding until 2030, with a major impact on Cyprus, this merits further serious discussion.

The EC has requested that each member state produces a draft integrated ‘National Plan for Energy and Climate’ by January 1, 2018, covering the period 2021-2030, with binding commitments on carbon emissions reduction, adoption of renewables and energy efficiency. Following review and inclusion of additional measures that may be requested by the EC, the binding plan should be submitted by January 1, 2019. In order to meet the goals of the EU energy roadmaps for 2030 and 2050, national plans are to be updated every five years, with the first update by January 1, 2024, with integrated national energy and climate progress reports to be submitted every two years. The requirement to prepare such plans is not new. Guidance on their preparation was issued in November 2015, available on EU websites, including a timetable as follows:

2016: Develop overarching strategy, main objectives and overview of policies of National Energy and Climate Plans and start national stakeholder consultations. 2017: Finalise stakeholder, public and regional consultations, provide integrated projections to the Commission and at the end of this process submit draft national plans to the Commission. 2018: Finalise and submit National Plans, taking into account Member States’ peer review and Commission recommendations. Sadly it would appear that preparation of Cyprus’ first national plan is yet to start. A recent article suggested that the aim is to prepare a brief, high level, plan by the end of 2019. Not only this is outside the EU timetable, but it is not likely to allow consultation to take place.

As part of Energy Union governance, the EU has set-up ambitious collective targets on renewables and energy efficiency by 2030. Member states are asked to provide early and effective opportunities for public consultation in preparing their draft plans, and attach a summary of public views to their submissions. This should then allow time for the EC to make recommendations and propose adjustments to meet overall EU targets for 2030. It is difficult to see how Cyprus will comply with this if the target date for preparation of its national plan remains the end of 2019. In fact the EC proposes strengthening the provisions on public consultation and access to data, including the establishment of a permanent energy dialogue to support active engagement of local authorities, civil society, business, other stakeholders and the general public, something which at present is completely lacking in Cyprus.

In December MEPs voted in favour of a proposal that would put pressure on EU member states to raise their ambitions for renewables and energy efficiency targets for 2030. They also voted to oblige states to submit national energy and climate plans to the EC in time for review, with the aim to strengthen the regulatory framework and compliance and avoid ‘freeriding’. National plans must demonstrate how they will contribute to achieving the EU targets, which are: 40 per cent reduction in greenhouse gas (GHG) emissions by 2030 in comparison to 1990, 27 per cent renewable energy, 27 per cent energy efficiency, These targets have been agreed to by all member states, including Cyprus, and will be reviewed in 2020 having in mind to increase the target for energy efficiency to 30 per cent.

National plans should also include national energy policy strategies and funding programmes for research and innovation in the areas of renewable energy, energy efficiency, and other low-carbon technologies including in the transport sector, as well as their market uptake, including strategies to support research and technology institutions. If achieved, which is very likely at EU level, these targets are expected to reduce primary energy consumption and fossil fuel utilisation in Europe, including gas. These targets are likely to pose challenges for Cyprus. They are far deeper than the targets in the period to 2020, which were:

20 per cent reduction in greenhouse gas emissions by 2020 in comparison to 1990, 20 per cent renewable energy, 20 per cent energy efficiency, Cyprus 2020 contribution was very modest and lacked any form of public consultation. It committed to reduce GHG emissions by a modest five per cent by 2020, compared to 2005 levels, and it is on the way to achieve it by 2020. But this is one of the lowest targets in Europe. It is interesting to note that while Europe set its targets in comparison to 1990 levels, Cyprus chose 2005, a year at which such emissions were near their peak and 60 per cent higher in comparison to 1990 levels. By 2015 Cyprus GHG emissions reached a plateau but were still 44 per cent higher in comparison to 1990. In contrast, by 2015 EU emissions were 21 per cent lower than in 1990, already exceeding the 2020 target of achieving a 20 per cent reduction.

In terms of renewables Cyprus' target is to achieve 13 per cent contribution to its energy mix by 2020. It reached 9.4 per cent by 2015 and should achieve this target by 2020. But, again, this is one of the lowest targets in Europe. EU's target is to achieve 20 per cent renewables penetration by 2020, with 16.7 per cent achieved by 2015. It is not yet clear how Cyprus will respond to and achieve the much-increased targets for GHG emissions, renewables and energy efficiency set by the EU for the period 2020-2030, let alone achieve EU's carbon neutrality goal by 2050. Adopting EU's 2030 targets would require emissions to be reduced from 44 per cent above to 40 per cent below 1990 levels and adoption of renewables to be trebled. It would also require the rudimentary levels of energy efficiency achieved so far to be increased to 27 per cent. These are daunting tasks! In his last visit to Cyprus, the EU Energy Commissioner Maros Sefcovic said: "If you're looking for Cyprus' natural resources, no need to dive deep; look up! It's solar energy". But this has some way to go before it makes a marked contribution to Cyprus energy mix.

A drastic change in Cyprus' energy mix will be needed after 2020, away from oil-based products into natural gas and a much wider use of renewables for power generation. But implementation of such measures has been left so late that choices may be costly, including import of LNG, with the likelihood that they may lead to higher energy costs rather than lower. So what is the status of Cyprus National Energy Plan (CNEP) to 2030? Had the EC guidelines been followed, by now stakeholder, regional and public consultation should have taken place and preparation of the draft CNEP should have been completed.

But given that no such consultation has taken place yet it can only be assumed that the process has not yet started, if indeed Cyprus plans to follow EC guidelines. Given that such the CNEP is expected to detail Cyprus energy plans and include binding climate target commitments, it will have serious implications for Cyprus' future energy developments, prices and economy. It will bind the next three governments and will have significant economic implications and penalties if they are not achieved. These alone should have been strong reasons to undertake as wide a consultation and buy-in as possible from all stakeholders as many other member states in Europe have done. In fact, in a report in November 2017 the EU stated that "Cyprus is at an initial preparatory stage regarding the development of an integrated national energy and climate plan for the years 2021 to 2030…No targets are set yet beyond 2020." I can only repeat that the inertia that exists and the lack of any serious energy planning and public consultation, leave Cyprus unprepared and exposed.

Bulgaria takes over rotating presidency of EU council

Anadolu Agency, *01.01.2018*

Bulgaria took over the rotating presidency of the European Union Council from Estonia on Monday.

“Bulgarian Presidency will continue to build on Estonian achievements with dedication and ambition in the interest of all EU citizens,” the Bulgarian presidency of the Council of the EU said on its Twitter account. Under the motto of ‘United we stand strong’, Bulgaria, is expected to focus on four key areas: future of Europe and young people, Western Balkans, security and stability, and digital economy. The presidency will also work on connecting the Western Balkans to the EU by focusing on roads, railways, communication, and energy.

According to the Bulgarian presidency website, the EU council under the Bulgarian presidency “will work towards continuing dialogue and cooperation with Turkey”. “It is of key importance to focus on counter-terrorism within the framework of the EU’s immediate neighborhood, including the Western Balkans region and Turkey.” Sofia’s term which started on Jan. 1 will end on June 30. Austria will take over the presidency as of July 1, for the third time after 1998 and 2006. The presidency of the Council rotates among the EU member states every six months.

Russia, Uzbekistan sign nuclear energy deal

Anadolu Agency, *29.12.2017*

Nuclear agreement includes construction of nuclear power plants, mining of uraniumUzbekistan and Russia’s state-run atomic energy company signed a nuclear cooperation agreement Friday.

The deal between Rosatom State Atomic Energy Corporation and the Uzbekistan government will allow for the construction of power plants in the central Asian country and the mining of its uranium reserves. Rosatom Director General Alexey Likhachev said the deal also provided for infrastructure development and the training of Uzbek experts.

China introduces online visa service for Turkish citizens

Hurriyet Daily News, *02.01.2018*

Turkish citizens will now be able to apply for Chinese visas online, Ankara's ambassador to Beijing stated on Jan. 3. "Chinese visa applications for citizens of Turkey have been changed to an appointment system via the internet as of Jan. 1. The obligation to obtain an invitation from the Chinese authorities for business and commercial trips will be removed," Abdulkadir Emin Önen said in a statement.

He said the change came as a result of several months of negotiations with the Chinese authorities on easing visa restrictions for Turkish citizens.

Önen welcomed the change and said more "positive steps" are expected in the future. "We are also aiming for visa-free travel between both countries," he added.

China's solar power development gains momentum

XinHua Net, *01.01.2018*

China's solar power generation has picked up amid the government's efforts to expand clean energy to curb pollution.

Solar power generation totaled 106.9 billion kilowatt hours in the first 11 months of 2017, up 72 percent from one year earlier, according to data released by the National Energy Administration Tuesday. This was equivalent to 33 million tonnes of standard coal, and helped cut carbon dioxide emissions by 93 million tonnes, the administration said. By the end of November.

The country's installed solar power generation capacity surged 67 percent year-on-year to 125.79 gigawatts, and accounted for 7.5 percent of the total, up from 4.8 percent one year earlier. China has been promoting green resources such as wind and solar in recent years to cope with pollution and to boost the quality of its growth. Pollution control will be kept as a priority, as the government has made it one of the "three tough battles" for the next three years, together with major risk prevention and poverty reduction. The country aims to cap its coal-fired power capacity at 1,000 gigawatts in 2020, and non-fossil fuel will account for half of the country's total power generation by 2030.

North Korea accidentally hit one of its own cities with a ballistic missile last year

CNBC, *04.01.2018*

One of North Korea's test ballistic missiles last year crashed in a city not far from Pyongyang, according to new findings by online news magazine The Diplomat.

In April, Pyongyang launched a Hwasong-12 intermediate-range ballistic missile that failed shortly after launch and ended up hitting the city of Tokchon, roughly two hours from the capital, The Diplomat reported on Wednesday. The missile's failure was widely reported at the time but it was not previously known that the Hwasong-12 crashed in a populated area.

From a location near North Korea's Pukchang Airfield, the missile flew approximately 39 kilometers (24 miles) to the northeast where it struck a complex of industrial or agricultural facilities in Tokchon, The Diplomat said, citing satellite imagery. That complex, located near residential and commercial buildings, likely experienced a large explosion but The Diplomat said it was impossible to determine whether there were casualties. The prospect of nuclear war breaking out on the Korean Peninsula dominated global headlines for the last year, but many analysts believe the risk of a nuclear accident could be an even greater threat amid Pyongyang's lax safety regulations.

South Korea appears to be alienating Japan right as they face the same nuclear threat

CNBC, *02.01.2018*

South Korea appears to be alienating Japan right as they face the same nuclear threat South Korea appears to be alienating Japan right as they face the same nuclear threat. South Korean President Moon Jae-In has stirred up a decades-old dispute with Japan, a move that risks disrupting the international effort to contain North Korea.

For years, Seoul and Tokyo have been at loggerheads over the matter of comfort women — the thousands of girls and women, many of them Korean, who were forced to work in Japan's military brothels during World War II.

The two countries reached an agreement in 2015, in which Tokyo shelled out $8.8 million to a fund for victims, but Moon on Thursday criticized that deal, saying it "cannot solve the comfort women issue." His comments came after a South Korean panel concluded that the 2015 treaty failed to meet victims' demands for compensation. In response to the panel's findings, Japanese Foreign Minister Taro Kono warned that any attempt to revise the agreement "would make Japan's ties with South Korea unmanageable." The matter is a topic of national importance in South Korea, where protesters last week called on the government to nullify the deal, and considered crucial to Moon's populist base.

Seoul and Tokyo are both important U.S. allies and play critical roles in containing Pyongyang's nuclear and missile program. If Moon allows the comfort women issue to dominate his relationship with Japanese Prime Minister Shinzo Abe, that could hamper international efforts to rein in the nuclear belligerence of North Korean leader Kim Jong Un**.** "We will see a fracture develop in terms of U.S.-South Korea-Japanese cooperation in dealing with the North," explained Stephen Nagy, a senior associate professor at Tokyo's International Christian University and distinguished fellow at Canadian think-tank The Asia Pacific Foundation.

Moon's tough stance toward Tokyo contrasts with his conciliatory tone toward Pyongyang. His administration on Tuesday offered high-level talks to its northern neighbor after Kim said that he was open to sending a North Korean delegation to the upcoming Winter Olympics "Pressing Tokyo on the comfort women issue while attempting to engage Pyongyang has the risks of alienating Tokyo from Seoul," Nagy warned. Kim's missile tests, which violate U.N. resolutions, remain a global worry, especially in light of recent hostile rhetoric between the dictator and President Donald Trump.

Tensions between Moon and Abe could also boost Seoul's relationship with Beijing, which is currently on shaky footing amid tensions over Seoul's decision to install an American-made missile defense system on its soil. China has its own issues with Japan over the latter's wartime atrocities, so "by antagonizing Tokyo, Seoul pleases Beijing," said Leonid Petrov, a Korea expert at The Australian National University. That, in turn, could bother Washington: "This will inevitably undermine the regional security posture of the United States that traditionally dwells on the anti-communist unity of South Korea, Japan and Taiwan," Petrov continued. In sum, Moon's action "creates serious problems for the U.S. security architecture in northeast Asia," he added. Nagy, on the other hand, doesn't expect Beijing will support tensions between Moon and Abe. China will be wary of South Korean efforts to alienate Japan as it could push Tokyo closer to the White House, he said. That would be an undesirable scenarios for Chinese President Xi Jinping, who doesn't want increased U.S. influence in Asia.

Britain's open to foreign investment, trade minister Fox tells China

Reuters, *03.01.2018*

British trade Minister Liam Fox said that London would continue to welcome foreign investment, after a U.S. panel rejected a Chinese acquisition of a U.S. money transfer company on national security concerns.

The latest installment in long-running economic talks between China and Britain, which has taken on new importance for Britain as it looks to re-invent itself as a global trading nation after leaving the European Union in 2019. The U.S. rejection of China's Ant Financial's acquisition of MoneyGram International Inc is the most high-profile Chinese deal to be torpedoed.

Asked whether Britain would serve as an alternative destination for such Chinese investment, Fox told Reuters in an interview that he hoped the investment relationship would "work in two directions", but that Britain would remain open. "Of course, we would look, as other countries would do, at our security issues in terms of investment. But the UK has traditionally been an open country, welcoming of foreign direct investment. And we'll continue to do that," Fox said.

He did not comment specifically on the U.S. panel decision. China is one of the countries with which Britain hopes to sign a free trade pact once it leaves the EU, and London and Beijing have been keen to show that Britain's withdrawal from the bloc will not affect ties. Fox said that the issue of China's service sector openness was a "big issue" for Britain, but that there were more options than a post-Brexit free trade agreement (FTA) to get Beijing to open, including specific service sector agreements and mutual recognition deals. "There are a whole range of tools in the box. And people tend to talk as though an FTA is the only tool we have available in terms of trade liberalization. It's not," he said. The focus on a "Golden Era" of relations, trumpeted by China and Britain in 2015 when then-prime minister David Cameron hosted a state visit by Chinese President Xi Jinping, has cooled under Cameron's successor, Theresa May.

In 2016, May caused a diplomatic spat by unexpectedly deciding to delay approval of a partly-Chinese funded nuclear power project. She later granted it, but not before drawing criticism from Beijing. May is expected to visit China later this month accompanied by a business delegation, diplomatic and business sources have told Reuters, though the trip has not been formally confirmed.

Tax cuts pushed Fed to raise economic forecast, meeting minutes show,

CNBC, *03.01.2018*

Federal Reserve officials expect reductions in corporate and personal taxes to boost consumer and business spending, though they remain unsure of the impact of the new tax law, according to minutes released.

Members of the Federal Open Market Committee increased their expectations for 2018 GDP growth from 2.1 percent, or about trend since the post-financial crisis recovery, to 2.5 percent. "Most participants indicated that prospective changes in federal tax policy were a factor that led them to boost their projections of real GDP growth over the next couple of years," the minutes stated.

The FOMC is the Fed's monetary policymaking arm. The committee at the meeting voted to increase its benchmark interest rate a quarter point to 1.25 percent to 1.5 percent. The rate is tied to most consumer credit rates. Much of the discussion as reflected in the minutes show strong observations on the economy. The meeting summary points to significant improvements in payrolls as the unemployment rate dipped to 4.1 percent, and noted that industrial production "increased briskly."

Holiday spending was “strong” in several Fed districts, as “many participants expected the proposed cuts in personal taxes to provide some boost to consumer spending.” In addition, officials observed that stock market prices improved as well, part of a year in which the S&P 500 rose about 20 percent. At least some of the credit, particularly for the market gains, went to anticipation of the Republican tax overhaul. Congress had not yet passed the measure when the FOMC met Dec. 12-13. The plan, now law, slashes the corporate tax rate from 35 percent to 21 percent and lowered income tax brackets for most payers. “Broad equity price indexes rose over the intermeeting period, likely reflecting in part investors’ perceptions of increased odds for the passage of federal tax legislation and an associated potential boost to corporate earnings,” the minutes stated. Looking at conditions more broadly, the document said: “Real economic activity appeared to be growing at a solid pace, buttressed by gains in consumer and business spending, supportive financial conditions, and an improving global economy.”

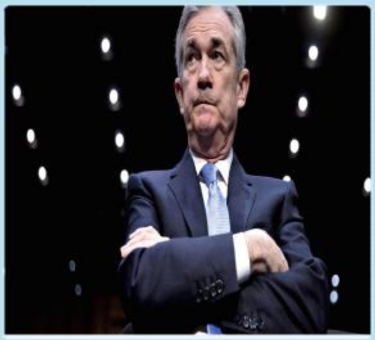
However, the minutes on multiple occasions noted that officials remained unsure over just how much a boost in activity would come from the tax plan. For instance, members were “quite uncertain” about the impact the tax cuts would have on labor supply. There also was concern, as relayed from business contacts, that the windfall corporations would get from tax cuts would be spent on dividends and share buybacks. Officials also remained somewhat at loggerheads when it came to inflation. The Fed has consistently missed its 2 percent target for price rises, and members discussed at length the reasons why the reading has remained so low. Fed officials collectively see inflation likely to meet the target over the medium term, but two members — Neel Kashkari and Charles Evans — voted against the rate hike because they’d like to see more progress on the target.

Most officials “judged that much of the softness in core inflation this year reflected transitory factors and that inflation would begin to rise as the influence of these factors waned.” However, there was some concern “that inflation might stay below the objective for longer than they currently expected.” On other matters, committee members also were largely dismissive about concerns over the yield curve, or the difference in bond yields across various maturities. While an inverted curve — when short-term rates are higher than longer-term rates — often signals a recession, Fed officials said other factors were likely at play that are less ominous. “They generally agreed that the current degree of flatness of the yield curve was not unusual by historical standards. However, several participants thought that it would be important to continue to monitor the slope of the yield curve,” the minutes said.

There again were some concerns about market valuations. While generally looking favorably on the rising stock market indexes, some officials have expressed concern that keeping policy overly accommodative could inflate bubbles. “In light of elevated asset valuations and low financial market volatility, a couple of participants expressed concern that the persistence of highly accommodative financial conditions could, over time, pose risks to financial stability,” the minutes said.

The Fed may be only thing that can stand in the way of a rally that has been impossible to stop

CNBC, *03.01.2018*



No dynamic could be more important in 2018 for investors than how the Federal Reserve manages what should be an accelerating economy.

The question essentially becomes whether growth gets too strong. In that case, where GDP shows sustained gains above 3 percent and the Fed finally starts hitting its 2 percent inflation target, the central bank may go from tapping the brakes to slamming them. That may be the only thing that can stand in the way of a market rally that has been impossible to stop.

“What’s going to be more difficult for the market is if inflation does in fact kick in,” said Quincy Krosby, chief market strategist at Prudential Financial. “The question is then, is the Fed behind the curve?” Markets will get a better look inside the mind of the central bank when the Federal Open Market Committee on Wednesday releases the minutes from its mid-December meeting. The Fed hiked its benchmark interest rate a quarter point at the session and raised its economic outlook for 2018.

However, the post-meeting statement provided little in the way of insight into what drove the decision. Was the committee moved by tax reform? Growth prospects? A little bit of both? The minutes will provide more perspective both on why the Fed did what it did — and what moves are likely ahead. “This is not strictly a science,” Krosby said. Indeed, much will be left to interpretation. The market soon will have to deal with a new Fed chair, when current Governor Jerome Powell likely takes over in mid-February. In addition, there is one new governor, Randal Quarles, and another appointment looming in Marvin Goodfriend. Current Chair Janet Yellen is leaving when her term expires next month, and the New York Fed is in the process of picking a new president to take over for William Dudley.

In addition, President Donald Trump will still have two other vacancies to fill. “If you look at the background of the new Fed board members, you would have to put them on the bit more hawkish side of the equation,” Krosby said. “How much more hawkish, we don’t know.” Indeed, the voting complexion will be changing. Cleveland Fed President Loretta Mester, a reliably hawkish member — favoring higher interest rates — will return as a voter, and uber-dovish Minneapolis Fed President Neel Kashkari will not be voting. Charles Evans of Chicago, who joined Kashkari in voting against the December rate hike, also will be on the sidelines. Amid the changes, investors have become more acclimated toward a more aggressive rate hike pace.

Fed funds futures trading indicates the market currently is pricing in March and September and now have increased the chance for a third hike in December to about 41 percent, compared with less than 30 percent a month ago, according to the CME. The Fed currently is projecting three rate hikes in 2018, while some economists, like those at Goldman Sachs and Capital Economics, indicate a year with four hikes is not out of the question. Mohamed El-Erian, chief economic advisor at Allianz, has spoken of a “beautiful normalization” the Fed has achieved in raising rates off the near-zero level prevalent from the financial crisis until December 2015. The Fed has managed to guide the markets off crisis-era policies without causing inordinate disruptions, and in fact oversaw a market in 2017 that set historic new lows in volatility despite three rate increases.

The challenge will be doing it again in 2018 while the European Central Bank also is reversing its own high levels of policy accommodation. Powell “is going to have to navigate the way toward rate hikes in the U.S. against the backdrop of a European Central Bank that is beginning this process as well,” Krosby said. “He’s going to make sure the market accepts rate hikes. He’ll telegraph it well in advance so that the transition from normalization to tightening is a smooth one.” How that fits into market behavior is the bigger question mark. If the Fed’s schedule outpaces market expectations because of faster inflation, that’s one factor that could take the shine off another big year for stocks. “I think it’s time to prepare for a rough and rugged year,” said Jim Paulsen, chief investment strategist at The Leuthold Group. Paulsen envisions a 2018 where “the economy’s pretty good here and globally and it’s just too good from here for us to keep costs and rate structures in place. You’re going to have to adjust them up.”

Investors should consider taking up a cash position and shifting money from the U.S. to international stocks, he added. Sectorwise, U.S. positions in materials, energy, industrials, commodities and financials would outperform. “There might be a better buying opportunity down the road,” Paulsen said. “It’s just hard to stand in the way of a one-way train going north and say, ‘be cautious.’“

Announcements & Reports

► *Impact of Sequestration and the Drawdown on the Different Sectors of the Industrial Base*

Source : CSIS
Weblink : https://www.csis.org/analysis/impact-sequestration-and-drawdown-different-sectors-industrial-base

► *Yemen: National Chaos, Local Order*

Source : Chatham House
Weblink : https://www.chathamhouse.org/publication/yemen-national-chaos-local-order

► *The End of Liberal International Order?*

Source : Chatham House
Weblink : https://www.chathamhouse.org/publication/ia/end-liberal-international-order

Upcoming Events

► *Analysis of the Protests in Iran*

Date : 08 January 2018
Place : London – United Kingdom
Website : https://www.chathamhouse.org/event/analysis-protests-iran

► *Brexit and Regional Services Exports*

Date : 11 January 2018
Place : London – United Kingdom
Website : https://www.chathamhouse.org/event/brexit-and-regional-services-exports

► *India Rising? The Quest for Responsible Nuclear Status*

Date : 12 January 2018
Place : London – United Kingdom
Website : https://www.chathamhouse.org/event/india-rising-quest-responsible-nuclear-status

► ETIP-SNET Regional Workshop South-Eastern Region

Date : 12 February 2018
Place : Greek Cyprus
Website : https://www.entsoe.eu/news-events/events/Pages/Events/etip-snet-regional-workshop-southern-eastern-region.aspx?EventWorkshopId=327

► Project TERRE open stakeholder meeting

Date : 15 February 2018
Place : Brussels - Belgium
Website : https://www.entsoe.eu/news-events/events/Pages/Events/Project-TERRE-open-stakeholder-meeting.aspx?EventWorkshopId=345

► Connecting the Dots Annual Conference '17

Date : 17 February 2018
Place : Brussels
Website : https://conference.entsoe.eu/

► ENTSOG Workshop on the Supply Potentials and Renewable Gases for TYNDP 2018

Date : 19 February 2018
Place : Brussels
Website : https://www.entsog.eu/events/entsog-workshop-on-the-supply-potentials-and-renewable-gases-for-tyndp-2018#welcome

► Market EU Stakeholder Committee

Date : 22 February 2018
Place : Brussels - CEER
Website : https://www.entsoe.eu/news-events/events/Pages/Events/mesc-2017-12-11-aspx.aspx?EventWorkshopId=330

► Grid Connection EU Stakeholder Committee

Date : 24 February 2018
Place : Brussels – Martin's Brussels EU Hotel
Website : https://www.entsoe.eu/news-events/events/Pages/Events/GESC-2017-12-14-aspx.aspx?EventWorkshopId=331