

## WEEKLY OUTLOOK

***Fed published the minutes of its September meeting.***

The minutes of FOMC meeting in September, which was published last week, confirmed the divergence between Fed members regarding the timing of Fed's interest rate hike. According to the minutes, some participants defended that Fed should wait for more evidence regarding the improvement in the labor market while others worried that low interest rates will move the inflation up and trigger more rapid interest rate hikes eventually. The minutes preserved the expectations that Fed might raise the interest rates in December. Additionally, Janet Yellen last Friday made an assessment of the US economy over the long-term. Yellen didn't regard the exact timing of the next interest rate hike as important in her speech and commented that Fed could bear if the inflation goes above the level of 2%.

The data announced last week in the US overall gave a positive signal over the country's economy. Weekly jobless claims came in well below the expectations with 246K. PPI increased by 0.3% in September while retail sales were in line with the expectations.

***Greece is on the European agenda again...***

As the 3<sup>rd</sup> Greek bailout plan is being considered, the disagreement between IMF and Germany continues. IMF insists that current Greek debt must be erased to make sure that the country regains its payment capabilities whereas Germany is against that proposal. European Central Bank (ECB) official, Benoit Coeure, asserted that Greece must remain within the IMF's bailout package for a healthy progress and there will be continuing efforts for an agreement between the related parties. Reviewing the last week's data agenda in Europe, industrial production rise was above the expectations in August. It grew by 1.6% mom and 1.8% yoy during the related period. Moreover, Germany ZEW Survey was considered favorably over the country's economy in October.

***Oil prices...***

Last week, oil prices continued to increase as Russia declared its support to OPEC's proposal to cut oil production in order to reverse the slump in global prices. At his speech on World Energy Congress in Istanbul, Russian Energy Minister Novak stated that both sides agreed to cut oil production as the details are anticipated to be worked out at OPEC's late October meeting. Novak also told that energy sector still needs investments while adding the low level of energy prices may hurt the investment appetite. Fatih Birol, the Executive Director of the International Energy Agency, acknowledged that oil prices at 60 dollar per barrel would probably trigger a strong increase in North American oil output. Last week, oil prices declined due the rise in US oil inventories and OPEC's report which told that global oil production rose to 8-years high. Brent oil prices decreased below 50 dollar per barrel at the end of the week.

## WEEKLY DATA

	7 Oct	14 Oct	Change		7 Oct	14 Oct	Change
BIST-100 Index	77,976	77,554	-0.5 % ▼	EUR/USD	1.1199	1.0969	-2.1 % ▼
TRY 2 Year Benchmark Rate	8.66%	9.00%	34 bp ▲	USD/TRY	3.0500	3.0890	1.3 % ▲
US 10 Year Bond Rate	1.74%	1.79%	6 bp ▲	EUR/TRY	3.4153	3.3891	-0.8 % ▼
EMBI+ (bps)	340	346	6 bp ▲	Gold (USD/ounce)	1,256	1,250	-0.5 % ▼
EMBI+ Turkey (bps)	304	310	6 bp ▲	Brent Oil (USD/barrel)	50.1	49.2	-1.8 % ▼

bp: basis point

***Exports fell in China while producer prices rose.***

In September, China's exports decreased by 10% yoy and recorded the greatest decline since February. Contrary to expectations imports also fell by 1.9%. On the other hand, in September consumer prices rose faster than the expectations by 1.9% yoy, while producer prices began to increase after about 5 years. Thus, adverse atmosphere caused by foreign trade data was somewhat offset by inflation data. In the meantime Singapore's economy, which recorded the slowest growth over the last 7 years in the third quarter of the year, has raised concerns about the performance of Asian economies.

***USD / TRY has reached record levels.***

The strengthening expectations of Fed's rate hike in December have created selling pressure in emerging markets. While USD appreciated against other major currencies, USD/TRY reached its historically high levels. Uncertainties in domestic agenda accelerated the depreciation of TRY. The exchange rate reached the level of 3.11 on Thursday and closed the week at 3.0890 with 1.3% increase. Stock market has also trended down with the negative atmosphere. The news that Dubai-based Oger Telecom, which owns 55% of Turk Telekom, experiences loan repayment problems has brought sales to banking stocks. Thus, BIST 100 closed the week at 77,5544 by 0.5% decrease. On Friday, the compound interest rate of the benchmark bond rose to 9% with sales pressure in TRY assets.

***Current account deficit widened in August.***

Current account balance was realized above expectations and posted a deficit of 1.8 billion USD in August, according to CBRT. In the first eight months of the year, the deficit contracted by 4.9% yoy to 23.5 billion USD. 12-month cumulative current account deficit, on the other hand, rose by 2 billion USD compared to July and reached 31 billion USD, highest since January. Deterioration in tourism revenues which became evident in summer months contributed the widening of the deficit.

On financing front, equity markets, which had witnessed outflows in July due to domestic developments, recorded a limited inflow in August. While government domestic debt securities transactions indicated an inflow of 1 billion USD, other investment recorded a net inflow of 2.1 billion USD in August.

Having expanded in August according to 12-month cumulative figures, current account deficit is expected to widen in the coming period. Furthermore, we think that it will take some time for the tourism revenues to recover and therefore the adverse impact on the current account balance will persist for a while. The negative outlook for energy imports due to the rising trend in oil prices; led by the potential deal among oil producing countries to freeze production, also constitutes another risk factor for the current account deficit ([Our Balance of Payments report](#)).

## INDUSTRY NEWS

***“Turkish Stream” agreement has been signed.***

Russia’s president Vladimir Putin who visited Istanbul last week to attend World Energy Congress has made negotiations with the Turkish government officials in order to normalize the relationship between two countries. In this regard, an intergovernmental agreement has finally been signed on “Turkish Stream” project which is designed to transport Russian natural gas to Europe via Turkish territory. Both sides also agreed upon a discount in the price of natural gas that Russia sells to Turkey. Moreover, Russia lifted the ban on Turkey’s export of certain agricultural products including citrus, fresh fruits and vegetables.

***Tourism sector is pessimistic about 2017.***

Weak activity in the tourism sector is expected to continue in 2017. According to officials, reservations for 2017 have been very low so far and this is likely to affect revenues of cruises and hotels in Turkey considerably. Officials stated that tourist around the world, especially the Europeans, has a very bad image of Turkey due to recent developments and they call for an urgent plan to change this image for the sake of the entire sector’s future.

***Agricultural Reform has been announced.***

Prime Minister Binali Yıldırım announced the “National Agricultural Reform” last Friday. The reform package, to be implemented from the beginning of next year, includes practices like basin model and livestock subsidies. The government aims to increase the productivity in agriculture by using the basin model which imposes production of the goods that is appropriate for that specific basin. As for the livestock subsidies, each city is set to get funding depending upon the performing livestock activities proper for the region. With this policy, it is targeted to reduce import dependency and increase domestic animal stock in the sector. In addition, government is set to cover 50% of fuel costs for farmers and also provide funding twice a year.

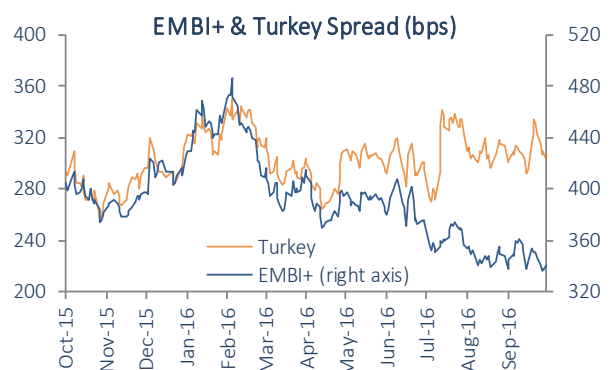
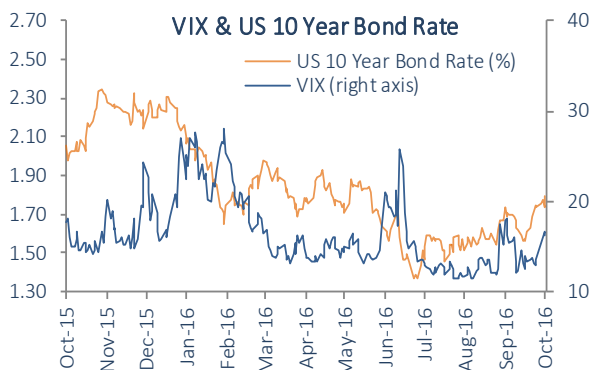
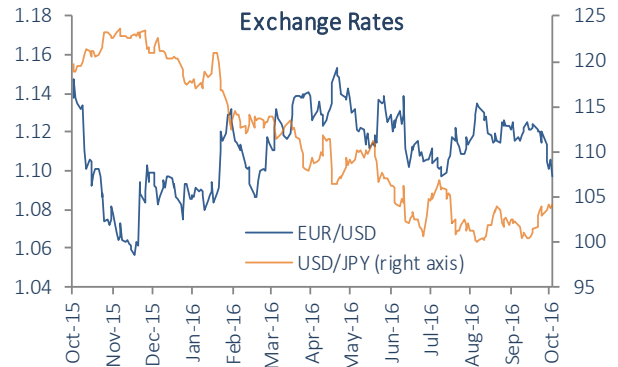
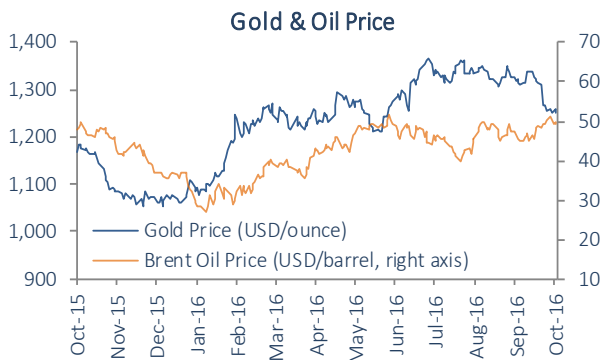
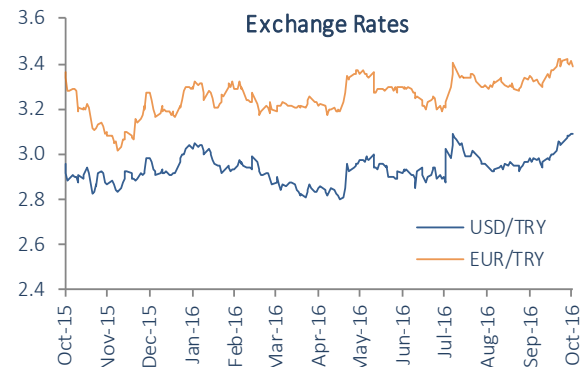
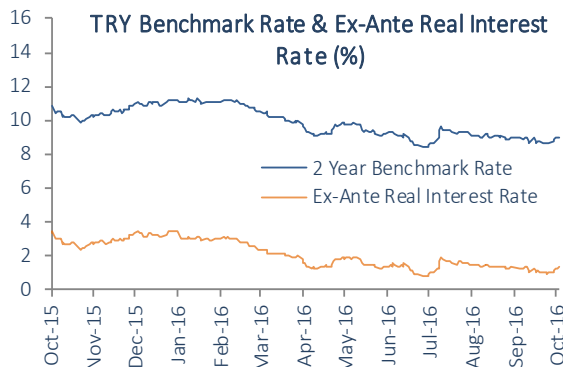
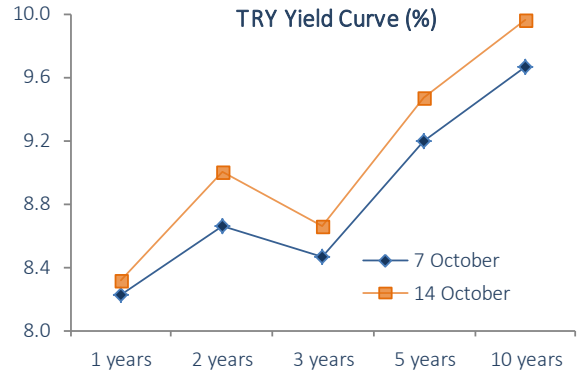
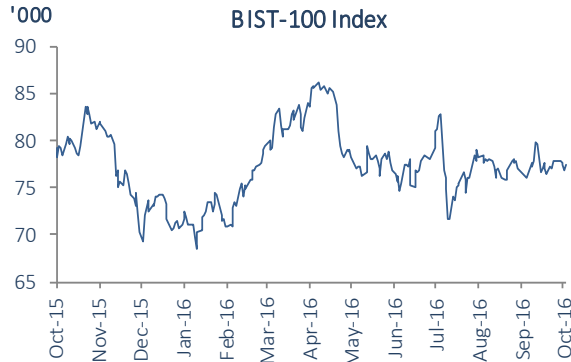
***Regulations on “Rent-A-Worker” have been published.***

According to the related legislation, companies are allowed to employ rental workers in the following type of situations: part time jobs offered to moms giving birth, seasonal jobs in agriculture, housework, temporary jobs that are not counted as daily work and jobs reviewed as urgent in terms of occupational health and safety. Likewise, in the case of an unexpected rise in the capacity of average production and/or acceleration in seasonal production, companies are permitted to employ rental workers. Besides, duration of the employment of rental workers cannot be more than 8 months and employers are not allowed to hire a new worker for the same job again unless 6 months have passed.

***Strong exports continue to boost automotive production...***

According to the data released by Automotive Manufacturers Association, production during the first 9 months of the year has increased to 1.07 billion by rising 6% yoy. During the same period, number of exports also rose to 12.4% yoy. Growth in the export markets and launching of new models helped the industry to expand production. Nevertheless from January to September, domestic market has shrunk. By the end of 2016, number of production is expected to rise by 7% yoy and reach to 1.45 billion, surpassing last year’s record high production of 1.36 billion. Likewise, in 2016 exports are estimated to rise by a minimum of 11% and exceed 1.1 billion.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>17 October</b>	Turkstat Labour Force Statistics	July	10.7% (A)
	CBRT Survey of Expectations	October	-
	Ministry of Finance Central Government Budget Realizations	September	-
	Euro Area CPI Inflation	September	0.4% yoy
	US Industrial Production Index	September	0.2% mom
	US Capacity Utilization Rate	September	75.6%
<b>18 October</b>	US CPI Inflation	September	1.5% yoy
<b>19 October</b>	China GDP Growth	2016Q3	6.7% yoy
	US Housing Starts	September	1.175 thousand
<b>20 October</b>	CBRT MPC Meeting and Interest Rate Decision	October	-
	US Existing Home Sales	September	5.34 billion
	ECB Policy Meeting and Interest Rate Decision	October	-
<b>21 October</b>	Turkstat Consumer Confidence Index	October	-

(A) Actual

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