

WEEKLY OUTLOOK

The last Inflation Report of the year was published.

CBRT published the last Inflation Report of the year. Accordingly, CBRT kept its inflation forecast for 2016 unchanged at 7.5%, while increasing that of 2017 from 6% to 6.5%. CBRT Governor Murat Çetinkaya told that indicators for 3Q of 2016 show a deceleration in economic activity, however domestic demand and economic activity are expected to recover starting from the last quarter of the year.

Çetinkaya also made some statements on CBRT's simplification strategy. He told that CBRT is close to finalize the monetary policy simplification within a reasonable schedule. Çetinkaya's recent speech indicated that CBRT might continue to cut interest rates in the coming period. CBRT left the rates on hold at its meeting in October, after lowering the upper band of the interest rate corridor 250 bps in seven consecutive months. Currently, CBRT set the upper and lower band of the interest corridor at 8.25% and 7.25% respectively, while keeping policy rate as 7.5%. We anticipate that CBRT would likely finalize its simplification process by the end of this year.

Two new regulations from the CBRT on reserve requirements...

At the beginning of this week, CBRT released two new regulations on reserve requirements. Firstly, reserve option coefficients have been changed to provide additional FX liquidity to the financial system. Accordingly, the coefficients for the second, third and fourth tranches of the FX facility of Reserve Option Mechanism have been decreased by 0.2 points. Should the reserve option utilization rates remain unchanged, approximately 620 million dollars of liquidity will be provided to the financial system with these changes. Besides, upper limit of FX reserve requirements that can be maintained as average has been increased to 4 points from 3 points in order to facilitate FX liquidity management of banks. With this amendment, banks will be able to freely use an additional amount of approximately 2.9 billion US dollars to meet their FX liquidity needs within the maintenance period.

Early warning system on food prices...

It has been announced that infrastructure studies related to early warning system to reduce the pressure on inflation stemming from food prices have started. Main topics of the meeting between CBRT and the Food Committee, were establishing an early warning system to facilitate close monitoring of supply and demand developments in food products and taking timely actions; enforcing foreign trade mechanisms when necessary taking also into account of the sectoral balances; introducing arrangements to improve competition conditions in the wholesale and retail food market; taking logistic measures to diminish losses and developing efficient agricultural financing models. Governor Çetinkaya emphasized that the measures, which will be taken by Food Committee, were taken into consideration while making the inflation forecasts.

WEEKLY DATA

	21 Oct	28 Oct	Change		21 Oct	28 Oct	Change
BIST-100 Index	78,844	78,333	-0.6 % ▼	EUR/USD	1.0882	1.0983	0.9 % ▲
TRY 2 Year Benchmark Rate	9.05%	9.28%	23 bp ▲	USD/TRY	3.0798	3.1054	0.8 % ▲
US 10 Year Bond Rate	1.74%	1.85%	11 bp ▲	EUR/TRY	3.3510	3.4135	1.9 % ▲
EMBI+ (bps)	346	350	4 bp ▲	Gold (USD/ounce)	1,266	1,276	0.8 % ▲
EMBI+ Turkey (bps)	316	318	2 bp ▲	Brent Oil (USD/barrel)	50.5	47.2	-6.6 % ▼

bp: basis point

Capacity utilization rate and real sector confidence index declined.

Capacity Utilization Rate (CUR) was realized as 76.4% in October. Seasonally adjusted CUR decreased by 0.6% mom. Regarding the sub-indexes, CUR in durable consumer goods, intermediate goods and investment goods increased yoy whereas there was a decline in non-durable consumer goods, food and beverages and consumer goods. As an important indicator, Real Sector Confidence Index also fell in October. Seasonally adjusted index decreased by 3.3 points mom to 103.8. Nonetheless, index level staying above 100-threshold demonstrates that economic activity in real sector is growing.

Fed related worries are on the rise in both domestic and global markets...

After making a positive start to the week, domestic markets fluctuated last week due to rising expectations on Fed's potential rate hike in December. On a weekly basis, TRY depreciated against USD and Euro by 0.8% and 1.9% respectively. Stock exchange market was also under pressure and BIST-100 index fell by 0.6% due to the sell-off. In the meantime, USD continued to appreciate against major currencies in the global market due to Fed related speculations and US 10-year treasury rate exceeded 1.87% last week.

GDP growth in the US is above the expectations in the third quarter.

According to data released on Friday, the US economy grew by 2.9% yoy in the third quarter, which is beyond the expectations of 2.5%. After growing by 1.4% in the second quarter, the US economy showed the most positive performance for the last two years thanks to exports and consumer spending. This data also confirmed the views that Fed would increase the interest rate in December meeting.

ECB's December meeting is next on the agenda...

European Central Bank's governing council member Ewald Nowotny stated that ECB will discuss the future of asset purchase programme of €80 billion per month in its December meeting. Mr. Nowotny said that they will discuss about a potential extension of asset purchases which are currently due March 2017. He also added that there will be a debate about the possible type of assets to be included in case of an extension in the programme.

Economic activity in Europe proves stronger than expectations.

According to preliminary data, Germany's manufacturing PMI was realized as 55.1, exceeding the market expectations in October. PMI data which recorded its second highest realization after February 2014 revealed that Europe's largest economy made a good start to the last quarter of 2016. Services PMI also realized far above expectations by 54.1, confirming this view.

Moreover, UK economy grew faster than expected in Q3 with a rate of 2.3% yoy. That robust growth confirmed the expectations that negative effects of Brexit on the UK economy would be limited over the short term.

Sharp drop in oil prices...

Brent crude oil prices fell sharply after the oil producers' meeting in Vienna as the expected decision has not been taken. Together with the decline on Friday, oil prices dropped by 6.6% wow. The decision of how much each country would cut its oil production is expected to be taken in the meeting to be held on November 30th, in Vienna again.

Central bank meetings will be followed this week.

MPC meetings of major central banks and US nonfarm payroll data which will be announced on Friday are at the top of the global agenda this week. Bank of Japan (BoJ) is not expected to make a significant change in its meeting tomorrow while Fed is not projected to increase rates before the presidential election. BoE will also have a MPC meeting on Thursday.

INDUSTRY NEWS

Automotive supplier industry...

Automotive supplier industry, which has been expanding with the help of sales and exports, is planning to establish a production facility abroad to keep its growing trend. Association of Automotive Parts & Components Manufacturers (TAYSAD) President explained that they met the purchasing managers of automobile producers (PSA and Renault) in previous weeks and Renault invited the suppliers to invest in Iran. Renault owns a production capacity of 200,000 vehicles in Iran and has been planning to open a new factory in Iran where Symbol and Dacia Duster will be produced as of 2018 with the capacity of 150,000 vehicles. TAYSAD's estimates that overall automotive industry will reach the record-high export value of 23 billion USD year-end while 9.1 billion USD of it will belong to the automotive supplier industry.

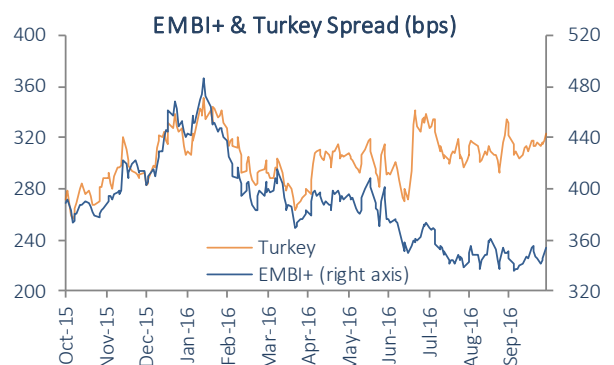
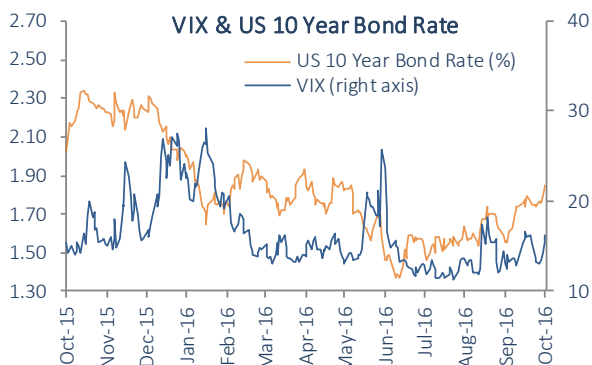
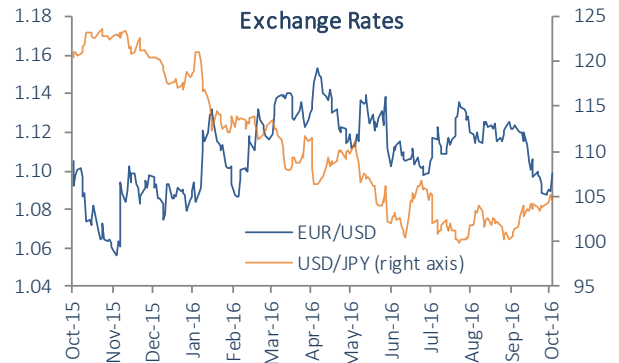
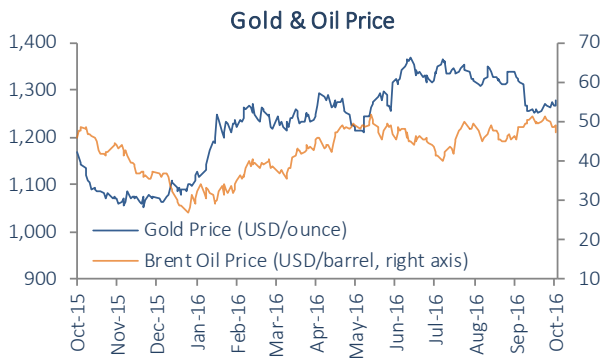
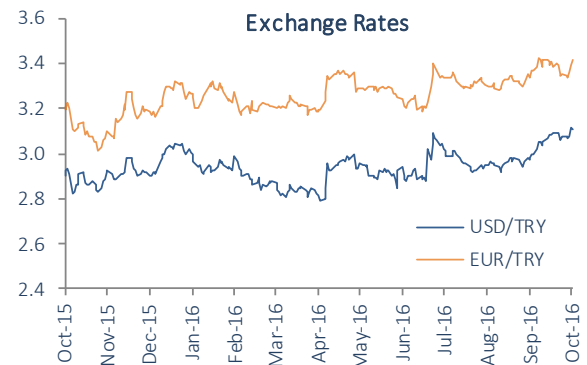
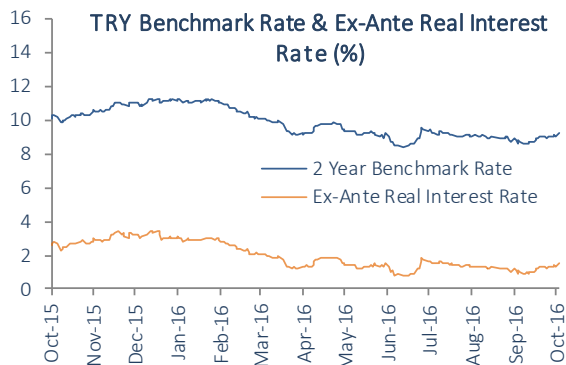
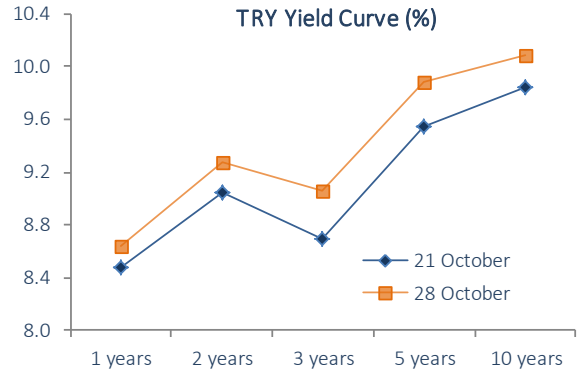
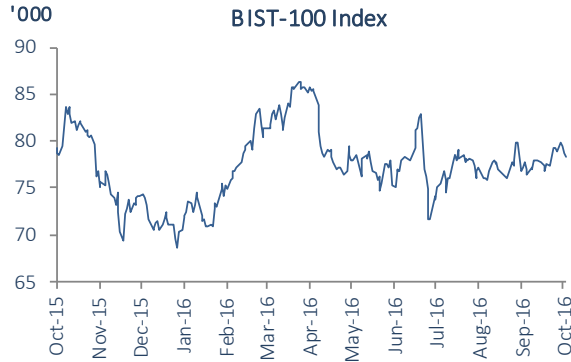
Wearing apparel industry...

Turkish Clothing Manufacturers' Association (TGSD) President expressed that they have been working on an action plan with the Ministry of Development and they plan to achieve a standardized production system at organized industrial zones (OSB) in Anatolia. TGSD President asserted that this kind of clustering will be an advantage for the industry's production and will ease the auditing of the firms in the sector. Turkish wearing apparel industry employs 1 million people and has an export value of 17-18 billion USD, 75% of which was made to the Europe.

Installed electricity capacity rose by 5,000 MW.

According to the data released by Turkish Electricity Transmission Company (TEİAŞ) last week, Turkey's installed electricity capacity rose to 78,072 MW on September 30th, 2016 from 73,146 MW in 2015 year-end. 60% of the increase in the capacity was derived from the power plants fired by natural gas and imported coal during this period. Hydroelectric power plants have a share of 33.7% in Turkey's installed electricity capacity while natural gas combined cycle plants have 28.9% share as of September 2016.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
31 October	Turkstat Foreign Trade Statistics	September	4.4 billion USD deficit (A)
	Eurozone Consumer Price Inflation (Preliminar	October	0.5% (A)
	USA Consumer Spending	September	
	USA Personal Income	September	
1 November	BOJ Meeting and Interest Rate Decision	November	
	China Caixin Manufacturing PMI	October	
	USA Manufacturing PMI	October	53.2
	USA ISM Manufacturing Index	October	51.7
2 November	FED FOMC Meeting and Interest Rate Decision	November	
	Eurozone Manufacturing PMI	October	53.3
	Germany Manufacturing PMI	October	55.1
	USA ADP Employment Report	October	
3 November	Turkstat Domestic Producer Price Index	October	2.53%
	Turkstat Consumer Price Index	October	7.40%
	Eurozone Unemployment Rate	September	10.00%
	USA Factory Orders	September	0.20%
4 November	Eurozone Producer Price Index	September	-1.80%
	USA Nonfarm Payrolls	October	175,000
	USA Unemployment Rate	October	4.90%
	USA International Trade Statistics	September	

(A): Actual

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