

WEEKLY OUTLOOK

Expectations on US economy have been reshaped.

After Donald Trump's victory in the presidential elections, it is almost certain that Fed will raise interest rates in December as expectations on US economy have been reshaped. As a matter of fact, last week Fed's Chair Yellen stated that interest rates may be raised in the near term if employment indicators continue to improve and if data indicates a rise in inflation. This statement is perceived as the clearest sign of an interest rate hike. Philadelphia Fed president Patrick Harker and Boston Fed president Eric Rosengren also supported Yellen in their speeches, stressing the necessity of a more aggressive rate hike period in line with the new policy approach under Trump's governance. In fact, while it is expected that Trump will increase public spending to increase GDP growth to 4% and give tax incentives to raise disposable income, all these developments is likely to push inflation higher in the coming period. Therefore, rising expectations of an aggressive rate hike process have triggered the surge in both US treasury yields and USD against major currencies. DXY index which demonstrates the value of USD against other major currencies rose by 1.9% last week. US 10-year treasury yield, in the meantime, closed at 2.29% on Friday after climbing to 2.36% which is the highest level since July 2015.

US data supported the expectations of an approaching rate hike.

Last week US data releases supported the expectations of an interest rate hike in December. Weekly jobless claims declined to 235 thousand persons in the week ended November 12th, hitting 43-year low. NY Fed manufacturing index indicated a rise in economic activity in November. Retail sales and housing starts data have been realized both above the expectations in October. Moreover, CPI increased by 0.4% in October, recording the fastest rise in the last 6 months.

Euro Area grew in line with the expectations.

Last week, data flow from Euro Area was followed closely. According to the preliminary figures, Euro Area grew by 1.6% yoy, in line with the expectations. Germany, the biggest economy of the region, grew by 1.7%. Euro Area inflation, which has been on the positive territory since June, was realized as 0.5% in October, helping to offset the deflation concerns to some extent. On the other hand, ECB President Mario Draghi, who pointed uncertainties regarding economic activity, hinted the extension of the bond purchase program. Draghi emphasized that; ECB would continue to intervene with all the means available, as long as concerns regarding price stability fade out.

Domestic markets...

The acceleration of capital outflows from developing markets after Trump's win and the domestic developments have continued to cause an upward trend in USD/TRY parity last week. USD/TRY parity which rose till 3.40 during the week decreased somewhat following the announcement of the Economic Coordination Board meeting and completed the week at 3.3743. BIST 100, which also followed a volatile course, last week, rose by 0.6% wow, while 2 year benchmark interest rate increased by 40bps.

WEEKLY DATA

	11 Nov	18 Nov	Change		11 Nov	18 Nov	Change
BIST-100 Index	75,174	75,639	0.6 % ▲	EUR/USD	1.0850	1.0585	-2.4 % ▼
TRY 2 Year Benchmark Rate	9.89%	10.29%	40 bp ▲	USD/TRY	3.2512	3.3743	3.8 % ▲
US 10 Year Bond Rate	2.12% *	2.34%	22 bp ▲	EUR/TRY	3.5255	3.5640	1.1 % ▲
EMBI+ (bps)	369 *	381	12 bp ▲	Gold (USD/ounce)	1,226	1,208	-1.4 % ▼
EMBI+ Turkey (bps)	352 *	369	17 bp ▲	Brent Oil (USD/barrel)	42.0	45.0	7.0 % ▲

bp: basis point

* November 10th

Economic Coordination Board gathered.

In order to monitor and evaluate developments related to economic stability, Economy Coordination Board (EKK) meeting was organized last week. In the announcement made after the meeting, which assessed the recent depreciation of TRY, it was stated that “the current market volatility is mostly affected by the global markets and all measures were reviewed to limit its impact on the country”. Within this framework, it was stated that CBRT will take necessary steps in line with its price stability target and will monitor the economic developments very closely. Additionally, it was noted that reforms will be accelerated and strong support to real sector will continue in order to increase the economy’s resilience. After the EKK’s statements, eyes turned to the CBRT’s MPC meeting that will be held this week. Latest polls indicate that CBRT may hike the one week repo rate by a “technical” 25 basis points targeting weighted average funding rate. Therefore, it is considered that CBRT will end the ongoing simplification process by this rate hike.

CBRT revised the coefficients of the reserve option mechanism.

Last week, CBRT revised the coefficients of the reserve option mechanism in order to provide additional FX liquidity to the financial system. Should the reserve option utilization rates remain unchanged, approximately 700 million dollars of liquidity will be provided to the financial system with these changes.

Unemployment rate continued to increase.

The unemployment rate in Turkey during August period, which covers July, August and September, rose by 1.2 points yoy and came in at 11.3%, confirming the weak course of economic activity in the third quarter of the year. In the same period, non-agricultural unemployment rate was 13.7% with 1.3 points increase. During the last one year period, labor force increased over 750k persons as the number of the employed rose by 323k persons.

Budget revenues increased by 12.5% during January-October period.

In October, budget expenditures increased by 18.9% yoy, while budget revenues decreased by 1%. Thus, central government budget, which gave a surplus of 7.2 billion TRY in October 2015, posted a deficit of 104 million TRY in the same month of this year. As of January-October period budget expenditures and budget revenues increased by 13.8% and 12.5% yoy, respectively. Compared to the same period of previous year, budget deficit almost doubled and became 12.1 billion TRY. It is anticipated that the budget deficit will continue to expand as the government begins to use the policy space to support growth. Furthermore, the expectations of tax reductions to stimulate domestic demand also signal that the budget revenues may be under pressure in the period ahead ([Our Budget Balance report](#)).

INDUSTRY NEWS

SCT rates in the automotive industry are being redefined.

The law passed in the parliament last week authorized the Council of Ministers to revise special consumption tax (SCT) on both passenger cars and commercial vehicles not only based on their engine volume but also on the new categories such as price. The law also allows for the reduction of the SCT. According to the current regulation, SCT rate is applied as 45% for the vehicles with an engine volume less than 1600 cc, 90% for those between 1600 cc and 2000 cc, and 145% for those exceeding 2000 cc. While it is not yet clear how the Council of Ministers will regulate the SCT rates, we expect that automotive demand will be pulled forward and high sales may continue for the remainder of the year in case of an SCT increase to support public revenues. However, we anticipate that this situation together with the recent depreciation of the TL may negatively affect the domestic automotive sales in the medium term. On commercial vehicles, we think that the possibility of an upward revision in the SCT rates is quite low considering the weak economic activity in the second half of the year.

Fluctuations on meat prices are ongoing.

President of Union of Turkish Chambers of Agriculture (TZOB) Şemsi Bayraktar stated that there was an increase in red meat production in the second and third quarters of the year and added that Turkey does not need to import meat. Bayraktar stated that the decrease in meat prices heavily depends on the livestock and feed costs which contribute to 85%-90% of the overall productions costs. Following a 0.9% decline in the first quarter of the year, meat production surged by 3.1% and 3.8% in the second and third quarters of the year, respectively.

We believe that the stability in meat prices can only be achieved through implementing a long-term plan that takes into account the supply/demand balance in dairy farming, feed and livestock sectors. In this context, regulation on dairy farming and milk prices will determine the long course of meat prices. Thus, we think that the most important reason of the fluctuations in the meat market in 2008 and afterwards is the maximum price determined in milk prices without considering supply/demand balance.

Furniture sector expects VAT support.

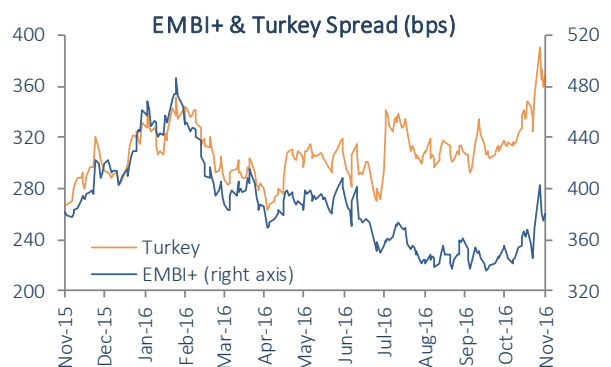
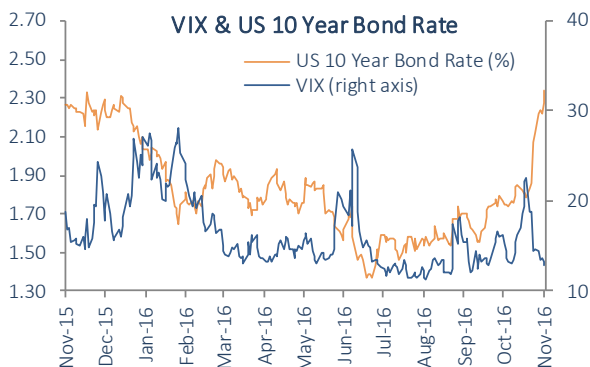
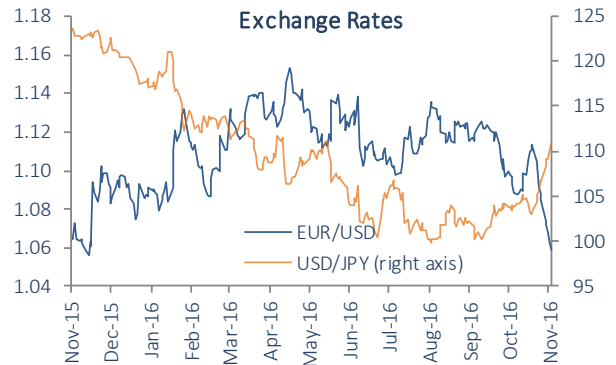
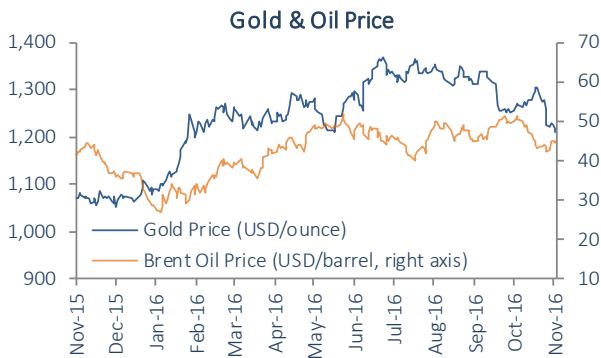
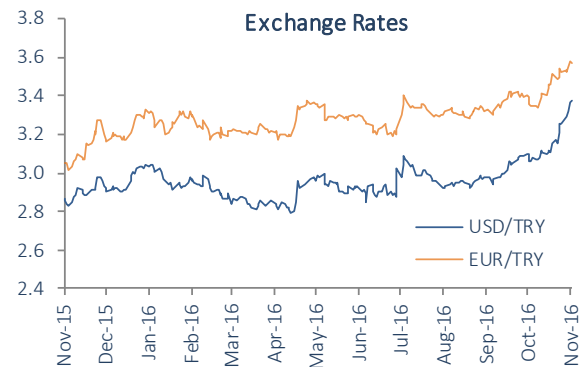
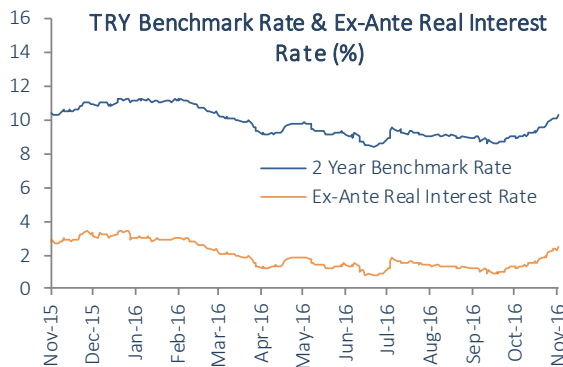
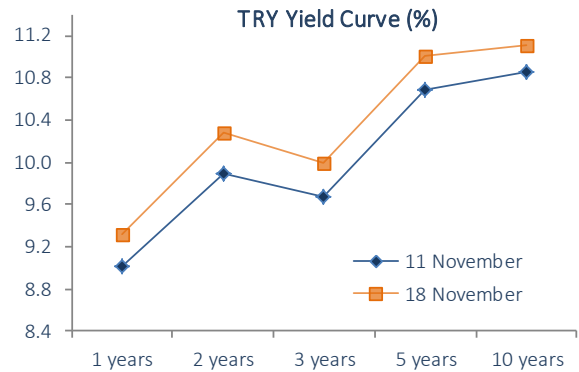
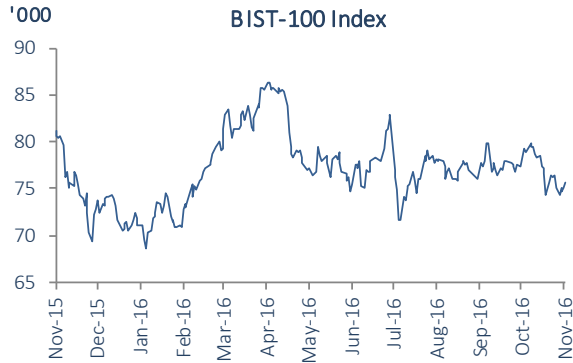
Domestic sales of the furniture sector, which is in the position of a net exporter sector, are reported to have contracted by 30-40% in October. It is estimated that this decrease in October, when demand in the sector tends to be lively in general, is due to the contraction in overall domestic demand and the stagnation in housing sales. Deputy Chairman of Furniture Industry Businessmen Association (MOBSAD) Cüneyt Yanıkçioğlu stated that they experienced the worst October for 20 years and a VAT discount like the one in 2008 could revive the sector. In 2008, the VAT rate in the furniture sector was temporarily reduced from 18% to 8%.

In the furniture sector, which has a relatively low dependency on imports in production compared to other sectors, the prices of imported and domestic products increased by an average of 36% with the additional customs duty imposed on imported products in mid-2015. Assuming that the rise in the exchange rates do not significantly increase the costs in the sector, it is thought that there is a certain range of action to stimulate domestic demand in the sector's profit margin, regardless of a VAT support.

Private sector's outstanding loans received from abroad are increasing.

According to CBRT data, private sector's long-term outstanding loans received from abroad rose by 12.2 billion USD compared to the 2015 year-end to 207.5 billion USD in September 2016. Short-term loans excluding trade credits during the same period were down by 3.7 billion USD to 16.8 billion USD while principal repayments for the next 12 months were realized as 68.4 billion USD.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
21 November	CBRT Survey of Expectations	November	
22 November	TUIK Consumer Confidence Index	November	
	New Issuance of Zero Coupon Bond with 22.11.2017 Maturity		
	Direct Sale of Lease Certificate with 21.11.2018 Maturity		
	USA Existing Home Sales	October	5.42 million units
23 November	Treasury Domestic Debt Redemption (690 million TRY)	November	
	Fed Open Market Committee Minutes	November	
	Eurozone Manufacturing PMI (Öncü)	November	
	USA New Home Sales	October	590k units
	USA The University of Michigan's Consumer Sentiment Index	November	91.6
	USA Manufacturing PMI (Öncü)	November	53.5
	USA Durable Goods Orders	October	1.5% mom
24 November	TURKSTAT Sectoral Confidence Indices	November	
	CBRT Monetary Policy Committee Meeting	November	
	CBRT Capacity Utilization Rate of Manufacturing Industry	November	
	CBRT Business Tendency Survey and Real Sector Confidence Index	November	
	Germany GDP Growth	2016Q3	1.7%

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