

## WEEKLY OUTLOOK

***Data releases in the US were followed closely.***

US economic growth in Q2, which had earlier been released as 2.6%, was revised up to 3% last week. On the other hand, labor market data in the last two weeks have sent mixed signals. Nonfarm payrolls increased by 156K while unemployment rate rose to 4.4% in August. Employment data, which has not met the market expectations, has supported the views that Fed will decide to wait for a new rate hike. Moreover, Fed officials' were in a cautious stance in their speeches last week. Fed official Lael Brainard, a voting member in FOMC, explained last week that US has experienced a prolonged period of inflation below Fed's objective and Fed should be cautious about tightening policy further until being confident inflation is on track to achieve the target level.

***ECB kept its monetary policy unchanged.***

European Central Bank (ECB) made no changes in its expansionary monetary policy despite the Euro Area's strongest economic performance since the global financial crisis and kept its promises that ECB is likely to extend its bond-buying program in terms of size and/or duration as opposed to the expectations. President of the ECB, Mario Draghi, speaking at the press conference said that volatility in the euro has recently been a source of uncertainty and that's why should be monitored closely. Draghi expressed that they focused on three main topics, inflation, growth and the exchange rate, at their meeting. He emphasized that there was a general recognition of the broad-based progress towards the growth and measures of underlying inflation have yet to show convincing signs of a sustained upward trend but they believe that inflation will eventually converge. Draghi also added that this autumn they will decide on their policy instruments beyond the end of the year.

ECB also revised the projections for the Euro Area economy. ECB increased its growth projection for 2017 up to 2.2% from 1.9% while keeping its projections at 1.7% for 2018 and 1.8% for 2019. ECB estimates that the inflation will be 1.5% this year whereas revising its inflation projection down to 1.2% from 1.3% for 2018 and 1.5% from 1.6% for 2019. Euro Area economy grew by 2.3% at 2017 Q2.

***Turkish economy grew by 5.1% in the second quarter of the year.***

Turkish economy grew by 5.1% in the second quarter of 2017 yoy, slightly below the market's 5.3% expectation. In this period, services sector contributed to growth by 2.7 points, while the contribution of manufacturing industry and construction were 1.3 points and 0.5 points, respectively. The contribution of investment expenditures to the growth was quite high while the contribution of net exports had a positive effect. GDP growth is expected to strengthen in the third quarter of 2017 in line with the recent industrial production and manufacturing PMI readings while the low base effect in the third quarter of 2016 would also be crucial.

## WEEKLY DATA

	1 Sep	8 Sep	Change		1 Sep	8 Sep	Change
BIST-100 Index	110,010 *	108,452	-1.4 % ▼	EUR/USD	1.1857	1.2033	1.5 % ▲
TRY 2 Year Benchmark Rate	11.59% *	11.63%	4 bp ▲	USD/TRY	3.4274	3.4107	-0.5 % ▼
US 10 Year Bond Rate	2.16%	2.06%	-10 bp ▼	EUR/TRY	4.0645	4.1038	1.0 % ▲
EMBI+ (bps)	324	324	0 bp ●	Gold (USD/ounce)	1,325	1,346	1.6 % ▲
EMBI+ Turkey (bps)	272	277	5 bp ▲	Brent Oil (USD/barrel)	53.2	54.2	2.0 % ▲

bp: basis point

\* as of August 31st.

***Industrial production increased rapidly in July.***

In July, calendar adjusted industrial production index increased by 14.5% yoy, recording its fastest rise since January 2011. Low base effect stemming from the failed coup attempt of July 2016 has played a major role in this rise. However, seasonally and calendar adjusted series also supported the strong outlook in production. Accordingly, industrial production went up by 2.3% mom in July. As for the sub-indices for seasonally and calendar adjusted data, highest monthly increase was realized in manufacture of computer, electronic and optical products (17.3%) which was followed by manufacture of tobacco products (13.9%) and manufacture of furniture (11.9%), respectively. On the contrary, the largest decline in production was realized in manufacture of coke and refined petroleum products (-6.6%). Other sub-sectors posting a considerable decline in production were repair and installation of machinery and equipment (-5.4%) and manufacture of leather and related products (-3.4%). Leading indicators pointed out that production growth recorded in July is likely to continue in August. In fact, manufacturing PMI surged to 55.3 in August, posting the strongest rise since March 2011. Index level above 50-threshold indicates an expansion in the manufacturing activity.

***Foreign trade deficit is widening.***

In July, exports and imports increased rapidly due to the base effect stemmed from the failed coup attempt and the Ramadan feast. Export volume increased by 28.3% yoy to 12.6 billion USD while import volume increased by 46.2% to 21.5 billion USD. Thus, foreign trade deficit increased by 82.5% to 8.8 billion USD. In the first seven months of the year, exports and imports increased by 10.6% and 13.5%, respectively. Foreign trade deficit increased by 20.7% to 39.7 billion USD in this period. According to the preliminary figures published by the Ministry of Customs and Trade, exports increased by 12.4% in August to 13.3 billion USD, while imports increased by 15.3% to 19.2 billion USD. Thus, foreign trade deficit increased by 22.6% in August compared to the same month of previous year and reached USD 5.9 billion ([Our Foreign Trade Balance Report](#)).

***Inflation is back to double digits...***

In August, monthly rise in CPI has been realized higher than the expectations as 0.52%, the strongest August increase since 2012. Annual rise in consumer prices accelerated to double-digit levels in August by 10.7%. In this period, C index, which has been tracked by CBRT closely among major core inflation indicators, recorded an annual rise of 10.16%; continuing to move upward as in July. Domestic Producer Price Index (D-PPI) also remained high posting a monthly rise of 0.85%. Energy, metals and furniture group prices led monthly D-PPI inflation upwards in August while textile products and food prices put a downward pressure on it. Moreover, it was noteworthy that energy prices recorded their fastest rise in August since January. Annual D-PPI inflation also surged to 16.3%. During the fall, annual inflation is expected to maintain high levels due to seasonal factors. Furthermore, movements in FX rates and oil prices will also preserve their importance to the overall course of price levels ([Our Inflation Report](#)). Deterioration in inflation outlook is not likely to alter CBRT's monetary policy in the short run. CBRT's Monetary Policy Committee will meet on September 14th.

***Markets...***

Last week, North Korea's hydrogen bomb test deteriorated risk appetite as gold prices rose by 1.6% on safe haven demand. Oil prices increased by 2% wow as the hurricanes in the US forced many oil producers to close down. In domestic markets, selling pressure intensified after the recent double digit inflation reading. Similarly, BIST-100 index declined by 1.4% on a weekly basis, as the yield curve moved upward especially in the medium-term. TRY appreciated against dollar by 0.5% , while depreciating 1.0% against euro.

## INDUSTRY NEWS

***Domestic automotive market expanded in August.***

According to the Automotive Distributors' Association (ODD), in August, sales of automobiles and light commercial vehicles rose by 1.4% to 72,536 yoy thanks to low base effect. However, total sales declined by 2.3% to 555,991 in the first 8 months of the year. ODD kept its year-end total market size estimate at 875,000-925,000 units. Light vehicle sales, which started the year with a sharp decline due to the increase in special consumption tax and the depreciation of TL, almost reached last year's same period sales in the first eight months of the year. However, it would be difficult to catch up last quarter of last year's demand-driven strong sales this year, which was brought forward with the expectation of tax increase.

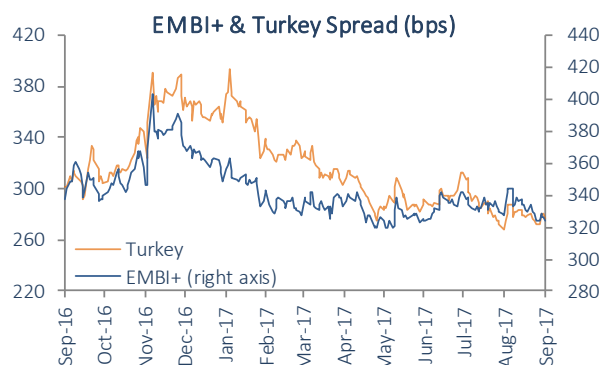
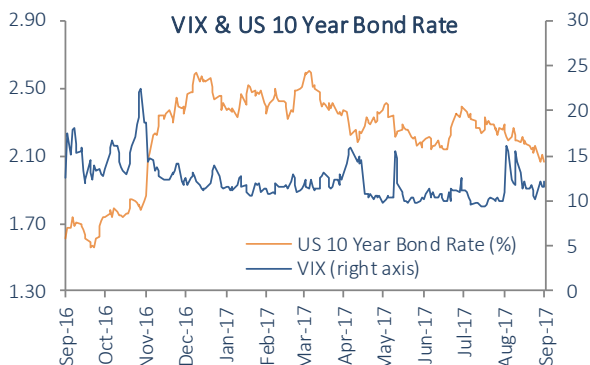
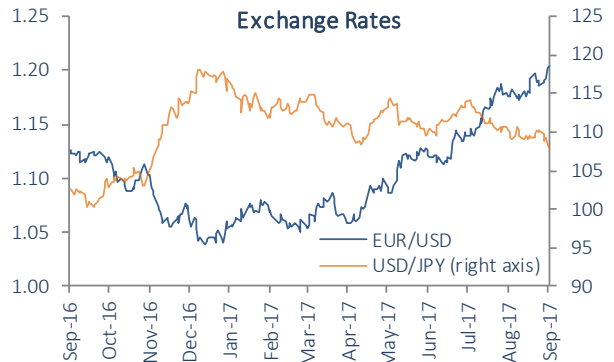
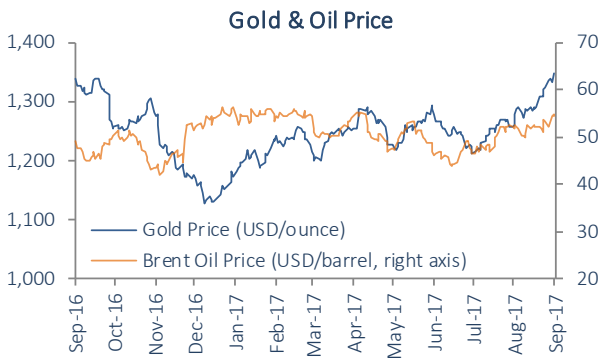
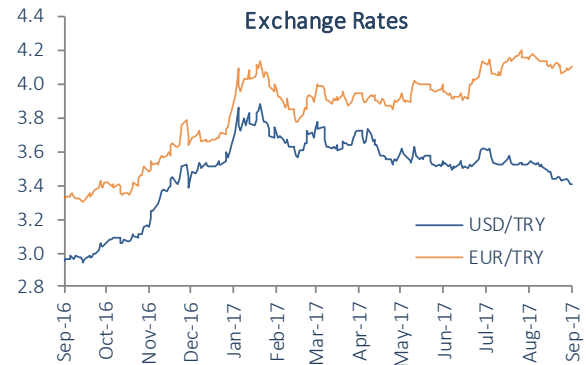
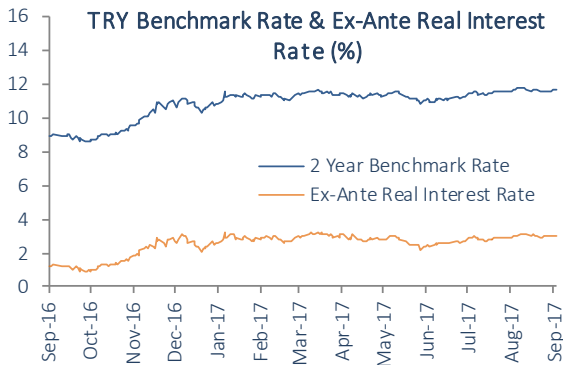
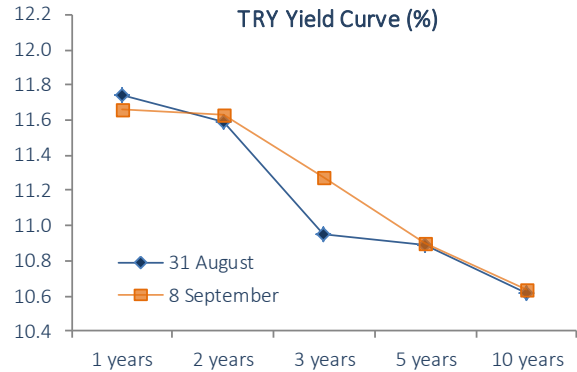
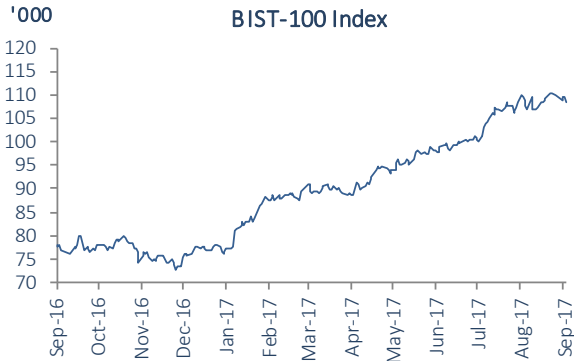
***Rapid growth in leasing of motor vehicles sector...***

Leasing of motor vehicles sector in Turkey has grown considerably in the last 5 years. Number of customers tripled in that period reaching 56,701 by the end of 2016, while number vehicles used in the sector doubled. It was noteworthy that the sector purchased 20.5% of all passenger cars sold in the market. Total vehicle purchase of the sector in 2016 was recorded as 147K units up from 67k units recorded in 2012. While the number of vehicles in the sector together with the daily rentals has increased from 170K to 365K in the last five years, the sector's total asset size as of 2016 has been recorded as 24.6 billion TL.

***Retail sector grew by 9% in the first half of the year.***

The retail sector achieved a growth rate of 9% in the first half of 2017. However, uncertainties in exchange rates and rising costs have come to the forefront as factors that have affected the performance of the sector. Furniture and white goods sector representatives demanded that the period of the VAT and SCT incentives should be extended. In addition, there is a demand for import tax reduction for cosmetic and personal care products. While it is stated that the incentive given so far is favorable to the sector by pulling the demand forward, it is estimated that the sales will continue to be weak for a long time as the incentives expire by the end of September. On the other hand, retailers are intensely searching for ways to increase productivity in the face of rising taxes, as well as rising costs such as uncertainty in exchange rates and rising salaries. It is predicted that firms will focus on technology investments in order to increase productivity in this framework.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>11 September</b>	TURKSTAT GDP Growth	2017 Q2	5.1% (A)
	CBRT Survey of Expectations	September	
<b>12 September</b>	Re-opening of Fixed Coupon Bond with Maturity Date of 17.08.2022	September	
	Re-opening of CPI Indexed Bond with Maturity Date of 07.07.2027	September	
<b>13 September</b>	Treasury Debt Redemption (1,377 million TRY)	September	
	USA Producer Price Inflation	August	mom 0.3%
<b>14 September</b>	CBRT Monetary Policy Committee Meeting	September	
	USA Consumer Price Inflation	August	mom 0.4%
<b>15 September</b>	TURKSTAT Labor Force Statistics	June	
	CBRT Balance of Payments Statistics	July	
	USA Retail Sales	August	mom 0.1%
	USA Industrial Productions	August	mom 0.1%
	USA Capacity Utilization Rate	August	76.8%
	USA The University of Michigan's Consumer Sentiment Index (Preliminary)	September	96.0

(A) Actual

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