

## WEEKLY OUTLOOK

**Strong inflation figure in the US...**

Easing of the effects of Irma and Harvey hurricanes in the US as well as missing a potential missile attack from North Korea on the day of the country's foundation anniversary both reduced the worries over the US economy at the beginning of last week. On the other hand, North Korea's missile attack to Japan over the Pacific Ocean after United Nation's (UN) tightening sanctions was high on the agenda for the rest of the week.

Last week, economic data released in the US gave mixed signals. While jobless claims declined despite the hurricane effects, retail sales and industrial production data went down unexpectedly in August as a result of bad weather conditions. On the other hand, in August, consumer prices increased higher-than-expected by 0.4% mom and 1.9% yoy, thanks to the acceleration in house rentals and energy prices. US dollar which started the week relatively weak has actually picked up after robust inflation figures. Accordingly, market expectations on Fed's potential rate hike at its December meeting have risen above 50%. DXY index, which measures the value of USD against major developed countries' currencies, also increased by 52 basis points wow. S&P 500 index hit historic high levels, while US 10-year Treasury bond yields grew by 14 basis points compared to the previous week. Global markets will focus on upcoming meetings of Fed on September 19-20th and Bank of Japan (BoJ) on September 20-21th.

**Bank of England kept its policy rate unchanged.**

Bank of England (BoE) kept its policy rate unchanged at 0.25% and did not make any changes regarding the Asset Purchase Facility which is worth of 435 billion sterling. After a long period of time, BoE's announcements which hint a possible rate hike in the coming months have actually pushed the expectations of rising interest rates before the end of 2017 up above 50%. This also led GBP/USD parity to hit more than 1-year high. In August, higher-than-expected consumer inflation which was realized as 2.9% as well as the unemployment rate which was at 42-year low, gave positive signs over the economic outlook in the UK where Brexit talks have still been going on.

**Data releases in China fell short of expectations.**

Following better-than-expected growth rate of 6.9% in the second quarter of 2017, data releases for August failed to meet expectations in China. Year-to-date urban investments, as an important indicator of economic activity, recorded the slowest growth in August since January 1999 with 7.8%. Industrial production and retail sales increases also failed to meet expectations with 6.0% and 10.1%, respectively. Stock markets in Asia have been volatile following such data releases, while USD/CNY, which dropped to 6.44 last week, has been trading at 6.56 on the first working day of this week.

**Oil prices are rising.**

Oil prices started the week with an increasing trend following the statements from Saudi Arabia and Venezuela suggesting that they are ready to extend the production cut deal for 3 months further after March 2018. Robust oil

## WEEKLY DATA

|                           | 8 Sep   | 15 Sep  | Change   |                        | 8 Sep  | 15 Sep | Change   |
|---------------------------|---------|---------|----------|------------------------|--------|--------|----------|
| BIST-100 Index            | 109,743 | 107,742 | -1.8 % ▼ | EUR/USD                | 1.2033 | 1.1941 | -0.8 % ▼ |
| TRY 2 Year Benchmark Rate | 11.65%  | 11.62%  | -3 bp ▼  | USD/TRY                | 3.4107 | 3.4366 | 0.8 % ▲  |
| US 10 Year Bond Rate      | 2.06%   | 2.20%   | 14 bp ▲  | EUR/TRY                | 4.1038 | 4.1057 | 0.0 % ▲  |
| EMBI+ (bps)               | 324     | 317     | -7 bp ▼  | Gold (USD/ounce)       | 1,346  | 1,319  | -2.0 % ▼ |
| EMBI+ Turkey (bps)        | 277     | 274     | -3 bp ▼  | Brent Oil (USD/barrel) | 54.2   | 56.1   | 3.3 % ▲  |

bp: basis point

demand after the hurricanes in North America as well as OPEC's monthly report released in the week forecasting a better demand outlook for the rest of 2017 and 2018 supported the oil prices upward. Price of Brent crude oil rose by 3.4% last week. Compliance with production cut deal ahead of upcoming OPEC meeting in November and US shale production level will be closely monitored in the coming weeks.

### ***CBRT has not changed its monetary policy stance.***

At its Monetary Policy Committee meeting last week, CBRT didn't change its interest rate. Press release following the meeting suggested that current elevated levels of inflation and developments in core inflation indicators pose risks on the pricing behaviour. Accordingly, the Committee decided to maintain the tight stance of monetary policy. Following robust economic growth of 5.1% in the second quarter of 2017 and double digit inflation figures in August, CBRT was expected to maintain its tight monetary stance. Following the decision, TRY decoupled positively from its peers mostly because central banks of Brazil and Russia cut interest rates. CBRT's weighted average funding cost has been hovering around 12%. USD/TRY, which had fallen below the level of 3.40 at the beginning of the week for the first time in 2017, jumped to 3.47 in following days parallel to the appreciation of USD in global markets.

### ***Current account deficit expanded in July.***

In July, the current account deficit reached the highest level of the year with \$ 5.1 billion. According to 12-month cumulative figures, the current account deficit picked up to USD 37.1 billion, the highest level of the last 22 months. While the expansion of foreign trade deficit as a result of the increase in gold imports was effective in the widening of current account deficit, the rise in tourism income limited the expansion. On the other hand, portfolio investments which showed a strong performance since the beginning of the year, recorded the lowest monthly net capital inflow of the year at \$ 570 million in July. According to the provisional foreign trade data, the fact that the foreign trade deficit was realized close to \$ 6 billion in August indicates that the current account deficit will continue to expand. On the other hand, we anticipate that the gold exports recorded in August and the recovery in tourism revenues will limit the expansion ([Our Balance of Payments Report](#)).

### ***The budget gave deficit in August.***

According to the Ministry of Finance Central Government Budget statistics, budget gave a deficit of 874 million TRY in August, while budget deficit was 25.2 billion TRY in January-August period. Last year, budget had a surplus of 3.6 billion TRY in August and 4.9 billion TRY in January-August period. In the second quarter of 2017, budget deficit/GDP ratio rose to 2% for the first time since the third quarter of 2012. Finance Minister Naci Ağbal stated that they expect an increase in budget revenues until the end of the year with the revival in the economy. He added that in 2018, the saving measures would be increased with some restrictions on public expenditures under the Medium Term Program, which will be announced at the end of September. ([Our Budget Balance Report](#)).

### ***Unemployment rate was realized as 10.2%.***

Unemployment rate in June period which covers May to July 2017 was realized as 10.2% by staying flat compared to the same period of last year. Labour force participation rate and employment rate grew yoy by realizing at 53.4% and 48% respectively. In June period, the share of the services sector in total employment rose by 54 basis points to 53.6%, while the ratio of industry decreased by 52 basis points to 18.8%. In this period, agriculture and constructions sectors' share in employment were realized as 20.1% and 7.6%, respectively.

## INDUSTRY NEWS

***Automotive market is growing thanks to exports.***

Statistics released by Automotive Manufacturers Association indicated that total production at the automotive sector increased by 19% yoy to 1.09 million in January-August period. Automobile and heavy truck production climbed by 33% and 6% yoy respectively during the same period, while production of light commercial vehicles declined by 4% yoy. Rising special consumption tax at the end of 2016 resulted in narrowing of the domestic market by 3% yoy this year. The sector's exports, on the other hand, surged by 26% yoy thanks to 42% yoy sharp rise in automobile exports at the same period.

***Construction Material Producers convened last week.***

Last week, members of Association of Turkish Construction Material Producers (İMSAD) discussed the recent developments at the construction and property sectors. Compared to the annual growth of the construction sector, which grew by 6.4% at the first half of 2017, the growth of property sector during the same period was limited by 1.7%. In comparison to construction permits, which increased by 7.6% yoy at the first half of 2017, home sales rose only by 3.7% yoy during the same period. It is considered that this situation is having a downward pressure on house prices. Sector officials emphasized that the expire of VAT discount period on house sales at the end of September and the new Zoning Law, to be announced in October, are expected to increase the costs in the sector. Aside from the mounting house stocks and recent sales campaigns, the fact that rising costs aren't reflected in prices is pushing down the sector's profitability and leading to a collection problem. İMSAD members are also concerned that project values in Russia, Iraq and Gulf countries except Qatar are falling since external risks are creating concerns with construction business abroad.

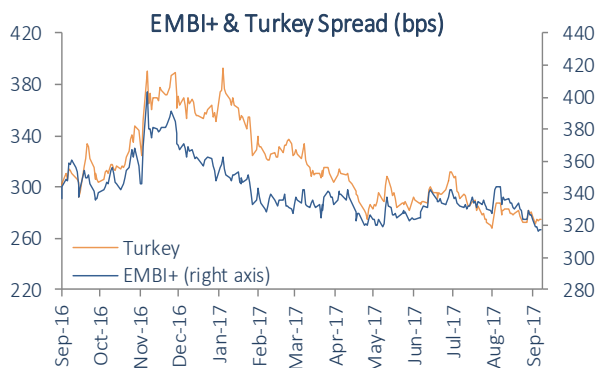
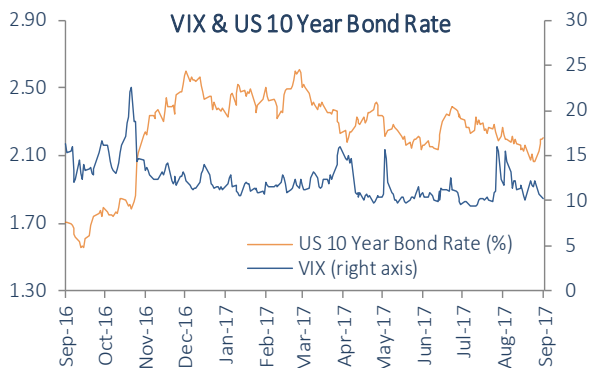
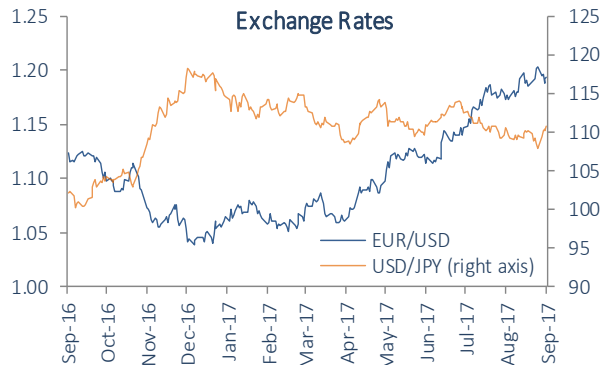
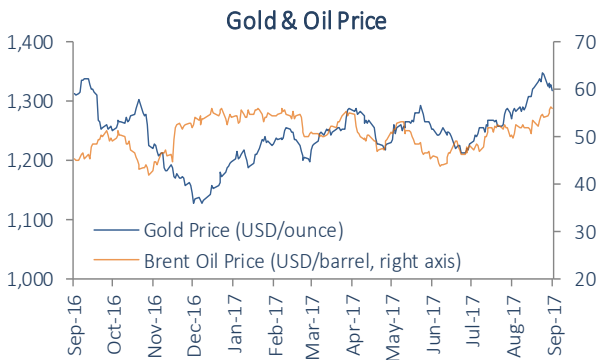
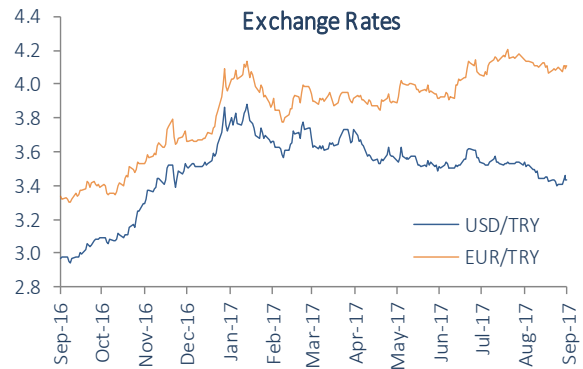
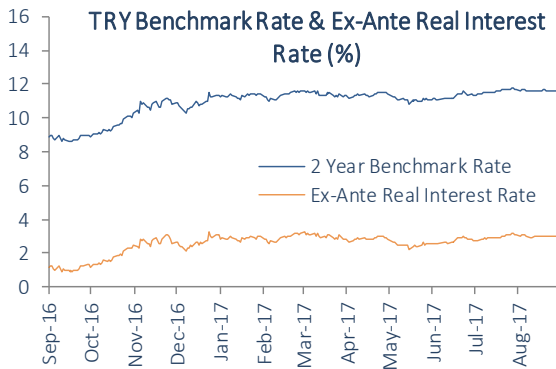
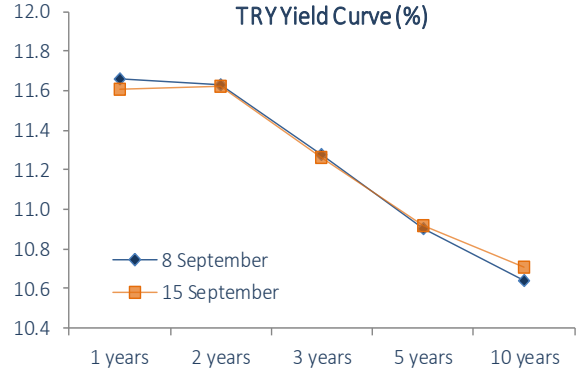
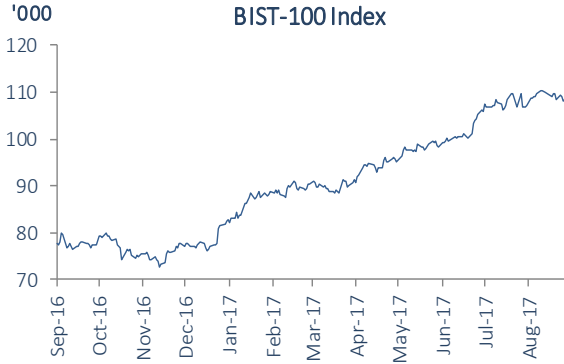
***Investments into the telecommunication sector keep rising.***

Data released by Information and Communication Technologies Authority regarding the second quarter of 2017 showed that number of fixed telephone subscribers kept its declining trend and decreased to 11 million persons while number of mobile phone subscribers reached up to 76.6 million. Hence, penetration rate for fixed subscribers got down to 13.7% whereas penetration rate for mobile subscribers was up to 96%. On the other hand, average monthly mobile usage boosted to 441 minutes at 2017 Q2 from its level of 426 minutes at 2017 Q1 being ranked as the first among European countries. Since monthly data usage of 4.5G (operational as of April 2016) mobile broadband users is 6.4Gbyte in average and it is 3Gbyte for 3G users, it explains the reason why service providers have recently focused on campaigns related to data. Thanks to the campaigns, number of data users increased by 20.1% yoy at 2017 Q2. It is expected that private sector will continue their investments, which reached to 2.6 billion TRY at 2017 H1, especially in R&D projects.

***Domestic nuclear power plants...***

Last week, Russian Rosatom firm announced that they might initiate the construction of Turkey's first nuclear power plant, which will be located in Mersin, Akkuyu, as of March 2018. It is expected that the firm will acquire the nuclear power plant operation license at the beginning of 2018 and start operation as of 2023. The project, whose 49% of stakes was sold to a consortium of Cengiz-Kolin-Kalyon in June 2017, will have a public purchase guarantee for the electricity produced in the next 15 years at the price of 123.5 USD/MWh. Apart from the second nuclear plant which is projected to be constructed in Sinop with Japan-France partnership, US Westinghouse, whose majority of shares belong to Japanese Toshiba firm, announced last week that they will most likely take a step in the nuclear plant process in the upcoming period. Westinghouse had signed an agreement with state electricity production firm EUAS and China's State Nuclear Power Technology Company (SNPTC) in 2014 for the construction of Turkey's third nuclear power plant.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

|                     |  | Period    | Consensus    |
|---------------------|--|-----------|--------------|
| <b>18 September</b> | Euro Area Consumer Price Inflation                                     | August    | 1.5% yoy (A) |
|                     | Germany Zew Economic Sentiment Index                                   | September |              |
| <b>19 September</b> | USA Housing Starts   | August    | 1.18 million |
|                     | Re-opening of Zero Coupon T-Bill with Maturity Date of 08.08.2018      | September |              |
|                     | Re-opening of Fixed Coupon Bond with Maturity Date of 11.08.2027       | September |              |
| <b>20 September</b> | Fed Federal Open Market Committee Meeting and Interest Rate Decision   | September |              |
|                     | Treasury's Domestic Debt Redemption (2,615 million TL)                 | September |              |
|                     | USA Existing Home Sales  | August    | 5.48 million |
| <b>21 September</b> | TURKSTAT Consumer Confidence Index                                     | September |              |
|                     | Bank of Japan (BoJ) Monetary Policy Meeting and Interest Rate Decision | September |              |
| <b>22 September</b> | USA Manufacturing PMI  | September |              |

(A) Actual

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