

## WEEKLY OUTLOOK

***Possibility of a rate hike in December is increasing.***

Speaking last week, Fed Chairman Yellen pointed out that the factors leading to low inflation would be lifted in the short term and inflation would stabilize at around 2% in the medium term. Emphasizing that recovery in labor market is ongoing, Yellen said that inflation would converge to “normal” levels as rise in wages is imminent. Yellen also added that it would not be prudent for Fed to halt interest rate hikes until inflation reaches its 2% target. Following Fed Chairman’s hawkish statements, market expectation of a rate hike before the end of 2017 reached over 70%.

Data releases last week in US were closely followed. 2<sup>nd</sup> quarter growth data has been revised to 3.1% from 3.0%, thanks to robust consumption expenditures. In August, personal income and consumer spending data were released in line with expectations. Durable goods orders increased better than previously forecasted by 1.7% mom in August, while housing data showed a weak performance in the housing market. While The Conference Board consumer confidence index came in line with expectations in September with 119.8, University of Michigan consumer confidence index declined as a result of the hurricanes.

Details of the tax reform scheme, which was an important part of US President Trump's election campaign, are disclosed. Accordingly, corporate tax rate will be cut to 20% from 35% in order to enable companies to invest more. In addition, income tax brackets will be reduced to 3 from 7. If the bill is enacted, increase in investment and consumption expenditures will positively affect the economic activity.

***Outlook in Euro Area remains positive.***

In Euro Area, September preliminary inflation data was released at 1.5% annually, slightly below expectations. On the other hand, consumer confidence index in September, which surged to its highest levels for the last 10 years, gave a positive signal about consumption expenditures. In the UK, the second quarter GDP growth rate was 0.3% quarter-on-quarter.

Christian Democratic Party (CDU) under Merkel’s leadership was the winner of the election in Germany held on September 24<sup>th</sup>. While Merkel has secured a fourth term as a German chancellor, it was noteworthy that CDU lost a considerable share of votes (8.5%). Social Democratic Party (SPD), second largest political party in terms of number of seats occupied in the parliament, also lost some share of votes in the election. On the other hand, Alternative for Germany (AfD), right wing party with its radical rhetoric, became the third party in the parliament. While the structure of the new coalition government to be established in the forthcoming period is important regarding the policies to be followed, anti-immigration policies in Germany are expected to be more on the agenda in the coming period.

On the other hand, independence referendum was held in Catalonia. As 90.1% of the voters voted for independence, the president of the Catalan regional government indicated that the region was determined to leave Spain. While this situation increases uncertainties in Euro Area, euro slightly depreciated after the referendum.

## WEEKLY DATA

|                           | 22 Sep  | 29 Sep  | Change   |                        | 22 Sep | 29 Sep | Change   |
|---------------------------|---------|---------|----------|------------------------|--------|--------|----------|
| BIST-100 Index            | 104,123 | 102,908 | -1.2 % ▼ | EUR/USD                | 1.1952 | 1.1812 | -1.2 % ▼ |
| TRY 2 Year Benchmark Rate | 11.80%  | 11.89%  | 9 bp ▲   | USD/TRY                | 3.4952 | 3.5627 | 1.9 % ▲  |
| US 10 Year Bond Rate      | 2.26%   | 2.33%   | 6 bp ▲   | EUR/TRY                | 4.1759 | 4.2085 | 0.8 % ▲  |
| EMBI+ (bps)               | 320     | 317     | -3 bp ▼  | Gold (USD/ounce)       | 1,297  | 1,279  | -1.4 % ▼ |
| EMBI+ Turkey (bps)        | 283     | 282     | -1 bp ▼  | Brent Oil (USD/barrel) | 58.2   | 57.0   | -2.1 % ▼ |

bp: basis point

***Medium Term Program was announced.***

Medium Term Program (MTP) covering the 2018-2020 period was announced on Wednesday. Accordingly, it is estimated that Turkish economy will grow by 5.5% every year during the period of 2017-2020. Consumer inflation, which is expected to be realized at 9.5% at the end of 2017, is forecasted to decline gradually and settle at 5% levels by 2020. In 2017, current account deficit is expected to be 39.2 billion USD and current account deficit to GDP ratio should be realized at 4.6%. Said ratio is expected to decline to 4.3% level in 2018. On the public finance front, budget deficit to GDP ratio is estimated to be at 2% in 2017 and to remain flat in 2018 and 2019. In 2020, however, the ratio is expected to decline to 1.6%. Furthermore, unemployment rate, which is expected to be 10.8% in 2017, is forecasted to gradually decrease during the MTP period and to reach 9.6% by the end of 2020.

In general, it is understood that economic growth will remain a priority thanks to the supportive fiscal policies during the period of 2018-2019. Besides, exit from the expansionary fiscal policies seems to be realized in 2020. However, it is noteworthy that the relationship between growth and some other indicators like inflation and current account deficit is weak in the plan which forecasts a stable growth outlook with 5.5%.

***Foreign trade deficit kept widening.***

According to Turkstat figures, in August, exports and imports increased by 12.3% and 15.3% yoy, respectively. Thus, foreign trade deficit reached 5.9 billion USD expanding by 22.8% yoy. During January-August period foreign trade deficit rose by 21.1% compared to the same period of the previous year. In the said period, motor vehicles continued to be the most significant export item. While 35.9% annual surge in iron and steel exports was remarkable, strong imports in energy and precious metals attracted the attention. Foreign trade deficit is anticipated to continue to widen in parallel with the revival in economic activity and the upward pressure of energy prices. Moreover, geopolitical risks related to Iraq, which is important for food exports and has 20% share in oil imports, will be monitored closely (our [Foreign Trade Balance Report](#)).

***Economic confidence is decreasing.***

Capacity utilization rate in manufacturing industry increased by 0.2 percentage points mom to 79.0%, in September. In the same period, real sector confidence index also increased by 0.9 points to 111.6. All the sub-items except the export orders for the next three months and fixed capital investment expenditures supported the increase of the index. On the other hand, the economic confidence index fell by 3% mom to 102.8 in September due to the decline in the construction industry, retail trade and service sector confidence indices as well as consumer confidence. During this period, the improvement in the manufacturing industry confidence limited the decline in the general index.

***Financial markets...***

Last week's referendum in Northern Iraq and ongoing tensions between North Korea and the US put a downward pressure on the global markets at the beginning of the week. Positive impact of US President Trump's tax reform proposal which contains pro-growth measures along with rising rate hike expectations in Fed's upcoming December meeting both helped US dollar to appreciate. Uncertainties regarding the potential outcomes of the referendum in Northern Iraq and so rising supply worries led oil prices to increase. Nevertheless, gold prices which were moving higher at the start of the week due to safe-haven demand remained under pressure for the following days thanks to dollar's appreciation. Domestic market reacted mainly to domestic developments such as the announcement of Medium Term Programme and the new bill which proposes new tax rises as well as developments in the global markets. BIST-100 index, which fell sharply midweek due to the slide in banking stocks as result of the newly proposed rise in corporate tax subject to the sector, recovered partially afterwards. BIST-100 closed lower at 102,908 by declining 1.2% wow while benchmark rate realized as 11.89% on Friday. Both foreign and domestic developments put TRY under pressure and the local currency depreciated by 1.9% and 0.8% against USD and EUR wow respectively.

## INDUSTRY NEWS

***New tax measures were announced.***

New bill consisting of 130 articles was announced by Finance Minister Naci Ağbal in a press conference upon its submission to the Turkish Parliament last week. The bill contains regulations such as raising the corporate tax for financial institutions from 20% to 22% and increasing the income tax for those who stand in the 3<sup>rd</sup> bracket from 27% to 30%. Moreover, the proposal of raising motor vehicles tax by 40% in 2018 for the new passenger cars is said to be reviewed in the following days. The bill also permits tourism sector companies to extend the duration of the land tenure regarding the areas which were allocated to them to 49 years and/or purchase the land itself. Besides, special communication tax on telecommunication services that are being imposed in the form of 3 different ratios at the moment is proposed to be united in a single ratio as 7.5%.

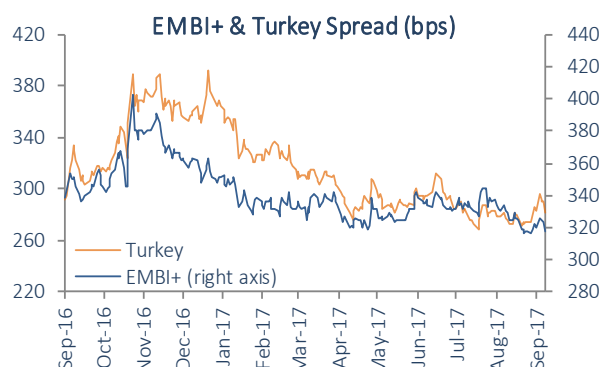
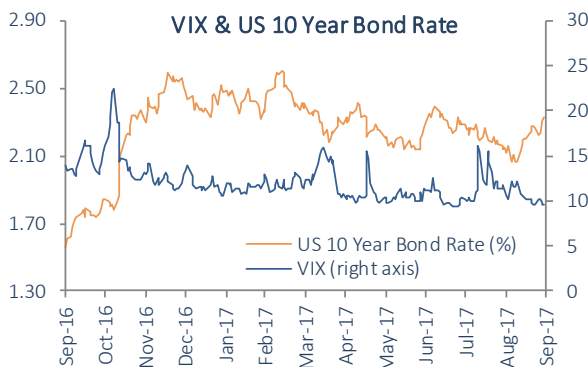
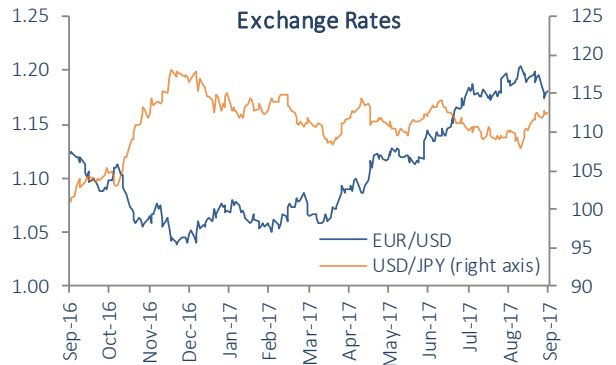
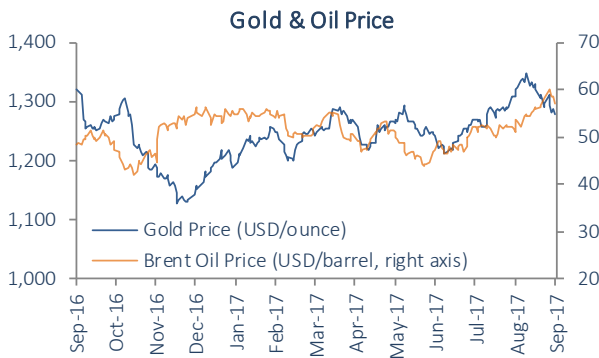
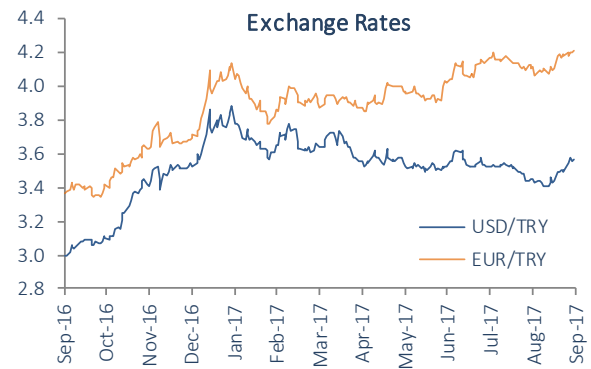
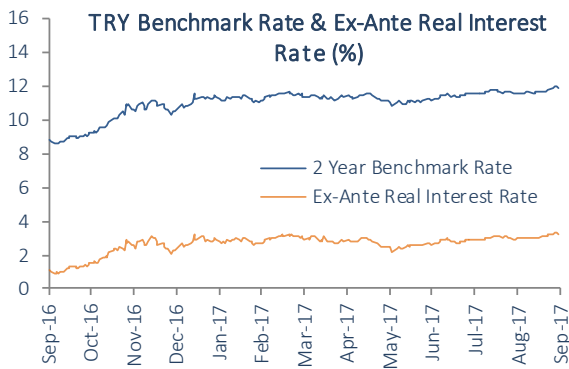
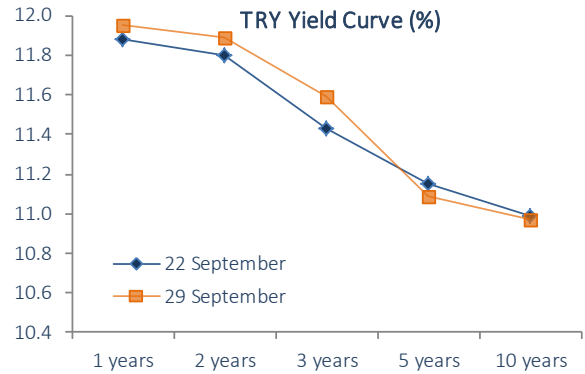
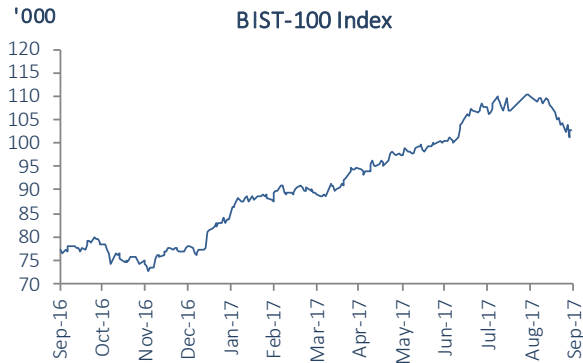
***House sales went up by 4.7% yoy.***

In Turkey, house sales rose by 4.7% yoy in August to 120,198 units. In this period, the rise in mortgaged and other house sales became 6.3% and 4% yoy, respectively. New house sales which have a share of 47% in all house sales also increased by 5% where second hand sales went up by 4.5% yoy. Furthermore, house prices index in July increased by 0.7% mom and 11.6% yoy. Figures actually pointed out a slowdown in the house prices both monthly and annually compared to June.

***Rise in foreign visitors...***

Ministry of Culture and Tourism figures showed that, foreign arrivals to Turkey increased by 46.3% yoy in August. In this period, most visitors came from Russia, Germany and Iran, respectively. In January-August period, rise in the number of visitors was 26.4% yoy. During this 8-month period, the leading country was Russia having a share of 15.2% in total tourists. This country was followed by Germany with a share of 11.4%. According to the Cabinet decision published in the Official Gazette, A-group tourism operators of cruise ships with the capacity of 750 passengers or more will be provided 30 USD per tourist until 31 December 2017.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

|                  |                                       | Period    | Consensus       |
|------------------|---------------------------------------|-----------|-----------------|
| <b>2 October</b> | US ISM Manufacturing PMI              | September | 60.8 (A)        |
|                  | US Markit Manufacturing PMI           | September | 53.1 (A)        |
|                  | Euro Area Markit Manufacturing PMI    | September | 58.1 (A)        |
| <b>3 October</b> | Euro Area Unemployment Rate           | August    | 9.1% (A)        |
|                  | Consumer Price Index (CPI)            | September | -               |
|                  | Domestic Producer Price Index (D-PPI) | September | -               |
| <b>4 October</b> | Euro Area Producer Price Index (PPI)  | August    | 0.1% mom        |
|                  | Treasury Domestic Debt Redemption     | September | 843 million TRY |
|                  | US ADP Employment Report              | September | 150K persons    |
| <b>5 October</b> | US ISM Non-Manufacturing PMI          | September | 55.4            |
|                  | Euro Area Markit Services PMI         | September | 55.6            |
|                  | Euro Area Retail Sales                | August    | 0.3% mom        |
| <b>6 October</b> | US Factory Orders                     | September | 0.9% mom        |
|                  | ECB Monetary Policy Accounts          | September | -               |
| <b>6 October</b> | US Non-Farm Payrolls                  | September | 95K persons     |
|                  | US Unemployment Rate                  | September | 4.4%            |

(A) Actual

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