

## WEEKLY OUTLOOK

***Fed's September meeting minutes were released.***

Minutes of the US Central Bank's (Fed) meeting hold on September 19th and 20th were released last week. It was recorded that Fed officials had long discussions over the inflation trend and its possible response to interest rate hikes. Officials were concerned about the persistence of low inflation this year while it might result in the federal funds rate staying close to its lower bound. It is important to add that several Fed officials claimed that they would monitor inflation developments closely. According to the minutes, it is expected that recent hurricanes would create a little change in the outlook of the economic growth in the medium term. Chicago Fed president Charles Evans also asserted that the state of the US economy is quite strong and gradual approach to monetary normalization is essential as inflation is moving forward to the 2% target.

Moreover, last week September inflation rates were announced in the US. Annual producer inflation came in 2.6% as expected while rise in consumer prices by 2.2% yoy missed the expectations although it showed the fastest monthly increase of the last 8 months. Inflation figures are not expected to create a change in Fed's monetary policy.

Yellen, at her speech last week, claimed that economic activity in the US has been growing moderately this year and strengthening of the labor market will warrant gradual rate hikes despite the recent soft inflation readings. She added that softness in inflation is expected to be temporary while economic growth will be exceeding its long-term potential in the second half of the year. USD, which depreciated following the release of US inflation data, regained its momentum right after Yellen's speech.

***IMF published its World Economic Outlook report.***

IMF, at its World Economic Outlook report, revised its global economic growth forecasts up by 0.1 bps compared to the previous report to 3.6% and 3.7% for 2017 and 2018. The report indicated that notable pickups in investment, trade and industrial production together with business and consumer confidence are supporting the global economic recovery. IMF foresees that short-term risks for the global economy are broadly balanced while medium-term risks are headed to the downside. IMF also revised Turkey's 2017 economic growth rate up to 5.1% from its April projection of 2.5% while increasing its growth projection by 0.2 bps to 3.5% for 2018. IMF estimates that consumer price inflation and unemployment rates will be 10.02% and 11.2% respectively at 2017 year-end while they will be down to 9.5% and 10.7% in 2018.

## WEEKLY DATA

	6 Oct	13 Oct	Change		6 Oct	13 Oct	Change
BIST-100 Index	104,137	106,226	2.0 % ▲	EUR/USD	1.1733	1.1822	0.8 % ▲
TRY 2 Year Benchmark Rate	12.00%	12.15%	15 bp ▲	USD/TRY	3.6139	3.6339	0.6 % ▲
US 10 Year Bond Rate	2.37%	2.28%	-9 bp ▼	EUR/TRY	4.2400	4.2939	1.3 % ▲
EMBI+ (bps)	317	320	3 bp ▲	Gold (USD/ounce)	1,275	1,304	2.3 % ▲
EMBI+ Turkey (bps)	281	287	6 bp ▲	Brent Oil (USD/barrel)	55.8	56.9	2.0 % ▲

bp: basis point

***Current account deficit slightly below market expectations...***

Current account deficit came in slightly below market expectations with 1.2 billion USD in August. Consequently, current account deficit was realized as 27.2 billion USD in January-August period and 12-month cumulative deficit became 37 billion USD. According to the projections of Medium Term Programme which was published at the end of September, current account deficit and its ratio over GDP are forecasted as 39.2 billion USD and 4.6%, respectively. On the financing side, portfolio investments kept their weight. In August, portfolio investments posted a net capital inflow of 2.2 billion USD thanks to the positive outlook in global markets. Foreign direct investments on the other hand, lost momentum in August and realized as 657 million USD ([Our Balance of Payments Report](#)).

***Unemployment rate at 10.7%...***

In the period of July which composes June to August period, unemployment rate increased by 0.5% compared to the previous period and was realized as 10.7%. After reaching its peak since 2010 by climbing to 13% in January 2017, unemployment rate has declined in the following period thanks to the positive effects of employment incentive package and seasonal factors. The number of employed persons increased more than 1 million compared to the same period of last year and labour force participation rate rose up to 53.7%. Seasonally adjusted unemployment rate also accelerated but only gradually to 11.2%. According to these figures, employment in agriculture increased by 129K persons, while employment in services and industry decreased compared to the previous month. Employment in construction sector however, rose by 24K persons during the same period.

***Budget continued to run a deficit.***

Central government budget continued to run a deficit worth of 6.4 billion TRY in September this year, which was actually less than the amount of 16.9 billion TRY in the same month of last year. In September, 32.9% increase in budget revenues was actually helpful in limiting the rise in budget deficit. In the first 9 months budget deficit became 31.6 billion TRY, surpassing the previous year's September realization of 12 billion TRY.

***Financial markets...***

Organization of the Petroleum Exporting Countries (OPEC) announced that a new meeting was scheduled with the USA, regarding the discussions on production-cut. The statements pointed out that shale oil production in the US also needs a cut and extraordinary measures might be taken next year in order to balance the markets in medium to long term periods. OPEC, while evaluating the previous measures as successful, estimates a pickup in oil demand. After following a quite volatile course, Brent oil's spot price increased by 2.0% wow.

Domestic markets started the week with sales in TRY denominated instruments as a result of rising tensions over US-Turkey relations which led to mutual visa suspensions. BIST-100 index that fell by 2.7% on Monday, recovered in the following days thanks to signs of compromise and closed higher by 2.0% wow. 2-year benchmark rate which rose significantly at the beginning of the week, followed a decreasing course for the rest of the week due to the recovery in risk appetite. In line with the developments, TRY depreciated against dollar and euro by 0.6% and 1.3% respectively.

## INDUSTRY NEWS

***Automotive production continues to increase thanks to robust exports.***

Production in the automotive sector increased by 13% yoy in September, due to the continued impact of new models being introduced in 2016. Production growth was 18% in the first 9 months of the year. In this period, total production exceeded 1.2 million units, while exports increased by 24%. Growth in exports has slowed somewhat in September, as low base effect disappeared. Export growth at the end of the year is estimated to be around 23%. On the other hand, increase in motor vehicles tax rate, which was previously planned to be 40%, was revised to different rates regarding the engine volume. Accordingly, for the vehicles purchased before 2018, tax rate increase will be 25% for ones with engine volume more than 1,300 CC and 15% for those with engine volume below.

Fast-growing automotive sector affects the performance of the automotive suppliers sector also positively. As the sector operates at almost full capacity, its export target for 2017 is around 10 billion USD. In the sector international companies are quite active as well as domestic producers. Although it is known that there is an investment desire in the sector, concerns regarding the demand in the domestic market and slowing investments in main automotive industry may negatively affect investment decisions in automotive supplier sector.

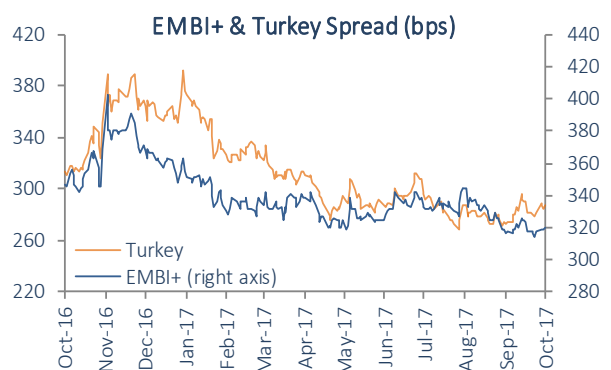
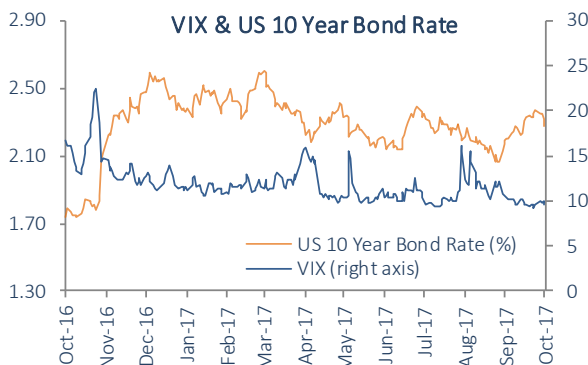
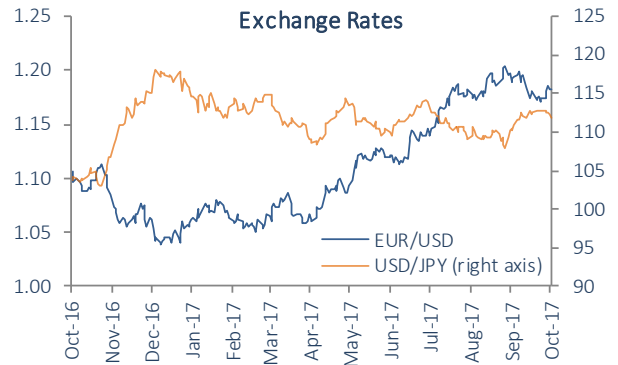
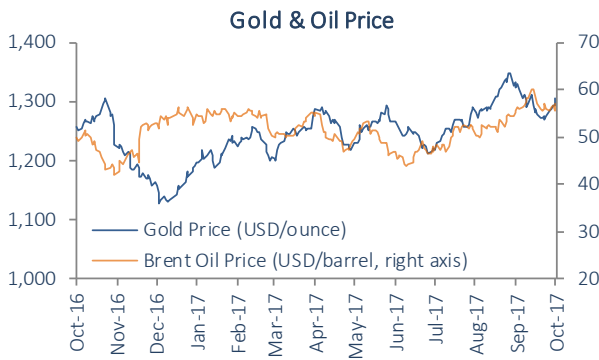
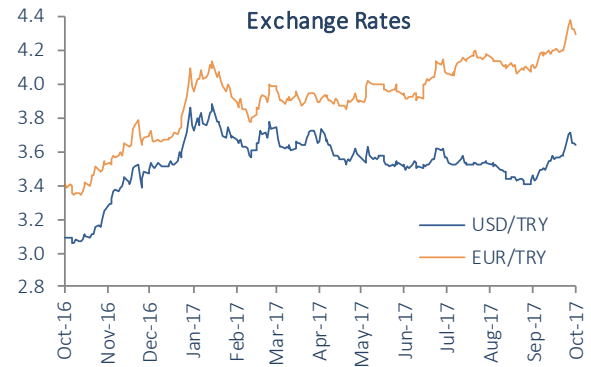
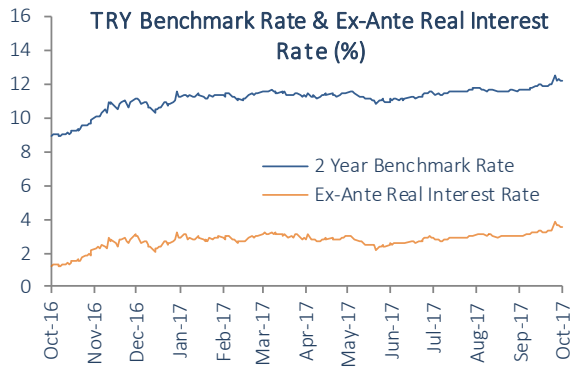
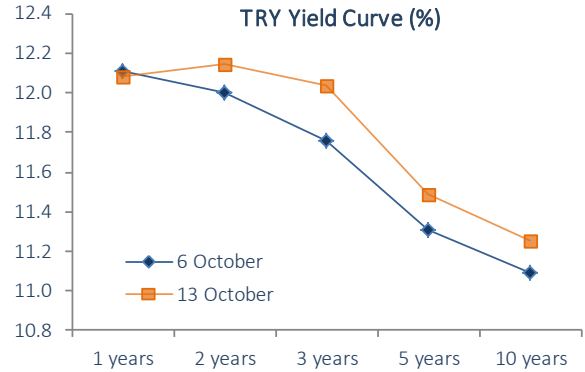
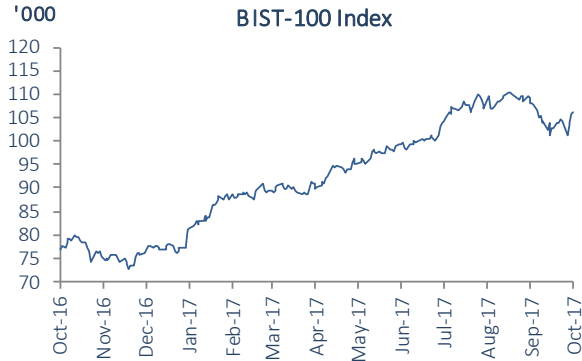
***Communiqué permitting the import of boneless meat was published.***

Communiqué permitting the import of boneless red meat was published last week in order to prevent the surge in red meat prices and bring stability to the market. Import of livestock and carcass has already been permitted. Communiqué implies that meat imports can be carried out by the Meat and Milk Board and private entities. Private entities need to obtain a certificate from the Ministry of Food, Agriculture and Livestock in order to import meat; however, it was learned from the Ministry officials that no certificate would be issued at this stage. Private sector's ability to import meat directly, will put a pressure on domestic animal production.

***Private sector's outstanding loans received from abroad have been increasing.***

Private sector's outstanding loans received from abroad were recorded 233.5 billion USD as of August, increasing by 16.5 billion USD compared to the end of 2016. While 216 billion USD of the outstanding is long-term loans, 17.5 billion USD is short-term. As for the sectoral breakdown of total long-term loans, 51.3% belongs to financial institutions, whereas 48.7% belongs to non-financial institutions. For the total short-term loans, these ratios are 76.5% and 23.5%, respectively. Regarding long-term loans, non-financial institutions' loan liabilities recorded an increase of 7.1 billion USD in comparison to the end of 2016; while bond liabilities amounted to 5.7 billion USD. Non-financial institutions' short-term loan liabilities were realized as 3.9 billion USD, increasing by 1.8 billion USD in comparison to the end of 2016. Private sector's total outstanding loans received from abroad based on the remaining maturity basis; point out to principal repayments in the amount of 70.5 billion USD for the next 12 months as of the end of August.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>16 October</b>	CBRT Survey of Expectations	October	
	TURKSTAT Employment Statistics	July	
	Ministry of Finance Budget Realizations	September	
<b>17 October</b>	5-Year CPI Indexed Lease Certificate Direct Sale	October	
	USA Industrial Production	September	mom 0.1%
	USA Capacity Utilization Rate	September	76.2%
	Euro Area Consumer Price Inflation	September	yoy 1.5%
<b>18 October</b>	USA Housing Starts	September	1.17 million unit
	USA Beige Book	September	
<b>19 October</b>	China GDP Growth	2017Q3	yoy 6.8%
<b>20 October</b>	USA Existing Home Sales	September	5.3 million unit

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