

WEEKLY OUTLOOK

Markets discuss who the next Fed chair will be.

Uncertainty about the next Fed chair was on the agenda of the global markets last week. After the meetings in the White House, economist John Taylor made a favorable impression on Trump. Since Taylor stands for tighter monetary policy, market expectations on an accelerated rate-hike process strengthened notably. Moreover, another favorite candidate Kevin Warsh's "hawkish" stance regarding Fed's monetary policy also supported the perception for an upcoming tightening. As well as the discussions on the next Fed chair, current Fed governors' statements were also watched closely in the markets. Fed Chair Yellen spoke in Washington last Friday and said low inflation in 2017 has been an unexplainable surprise and the reasons for that were unclear. Yellen also mentioned that removal of the quantitative easing has been working well and stimulus programmes might be undertaken again if necessary.

In its Beige Book report in which regional economic developments have been analyzed, Fed pointed out that the recent hurricanes caused disruptions in the economic activity in certain districts. Yet, according to Fed's assessments, the US economy in general has performed modest to moderate. On the other hand, the report said labour market shortages and relatively weak consumption expenditures in some regions have put pressure on economic growth.

US industrial production grew slightly higher than expected by 0.3% mom, capacity utilization rate announced in parallel to forecasts as 76% in September. In the same month, new home sales surpassed market expectations. Furthermore, decline in new house construction activity in the regions where hurricane effects were seen the most, was also noteworthy. Besides, fiscal plan for 2018 which contains potential tax cuts was approved by the US Senate.

Political uncertainties continued in Europe.

In Euro Area, final CPI inflation remained unchanged as 1.5% yoy in September. In this period, consumer price index in the UK increased by 3% yoy, which is the highest level in almost 5.5 years. Carney, the chair of Bank of England, signaled that interest rate hikes might be appropriate in the coming months. Carney underlined that the developments related with the Brexit negotiations are also crucial in policy decisions. Recently Brexit negotiations lost some momentum, as both sides have not reached a consensus on the payments the UK is committed to do to the European Union.

The Spanish government had given the Catalan government the deadline until Thursday to withdraw their request for independence. While no progress has been made on the declaration of independence at the end of this period, it is stated that the Spanish government will resort to legal mechanisms to suspend the autonomy of the Catalonia region.

WEEKLY DATA

	13 Oct	20 Oct	Change		13 Oct	20 Oct	Change
BIST-100 Index	106,226	108,489	2.1 % ▲	EUR/USD	1.1822	1.1783	-0.3 % ▼
TRY 2 Year Benchmark Rate	12.15%	12.31%	16 bp ▲	USD/TRY	3.6339	3.6704	1.0 % ▲
US 10 Year Bond Rate	2.28%	2.38%	10 bp ▲	EUR/TRY	4.2939	4.3229	0.7 % ▲
EMBI+ (bps)	320	316	-4 bp ▼	Gold (USD/ounce)	1,304	1,280	-1.9 % ▼
EMBI+ Turkey (bps)	287	281	-6 bp ▼	Brent Oil (USD/barrel)	56.9	58.1	2.1 % ▲

bp: basis point

Economic growth in China was in line with expectations.

In the third quarter of 2017 Chinese economy grew by 6.8% yoy in line with expectations. Besides, Q2 growth rate was revised to 6.9%. In September, industrial production increased by 6.6% yoy, above the expectations. Retail sales also surpassed the expectations. In the same period, consumer inflation fell to 1.6% yoy, in line with expectations. The producer price index, on the other hand, recorded a rapid increase. In China, government's efforts to cool down the economic activity will be closely watched by the markets in the last quarter of the year.

On the other hand, National Congress of Communist Party of China, which takes place every 5 years and is important for economic policy of the country, has begun last week in Beijing. President Xi Jinping, who made the opening speech, stressed that they will move on to become an increasingly open and more modern socialist country. In this framework, it is expected that China will continue its reforms for free market economy.

World Bank also revised its growth forecasts for Turkey.

World Bank revised its 2017 growth forecast for Turkey upward by 0.4 percentage points to 4%. In 2018, World Bank estimates that the growth rate will fall to 3.5%. World Bank emphasized that the relatively strong growth in emerging markets, including Turkey, continues to affect global economic activity positively.

CBRT's Survey of Expectations has been released.

According to the Survey of Expectations, in October, year-end growth expectation rose to 5.2% from 4.6%. In this period year-end current account deficit expectation increased to 38 billion USD, while USD/TRY rate is expected to be 3.7165 at the end of the year due to recent increase in exchange rates. Furthermore, in parallel with the increasing inflationary pressures, year-end consumer inflation expectation rose to 9.89%. 12-month and 24-month ahead inflation expectations also deteriorated.

Financial markets...

Hawkish stance of the potential candidates for Fed's Chair, approval of the budget bill and in this framework, probable tax cuts in the near future led to the appreciation of US dollar in global markets last week. Uncertainty about the future of Catalonia in Spain caused euro to remain under pressure. Hence, EUR/USD parity was down by 0.3% last week. Decreasing stock levels in the US and ongoing geopolitical risks in the Middle East lifted oil prices. Gold price decreased 2% due to appreciation of USD.

Sales pressures on developing country assets were also influential in the Turkish market. TRY depreciated against dollar and euro by 1.0% and 0.7% wow, respectively. BIST-100 index, which erased its early losses thanks to the improvement in the risk appetite, closed the week with a gain of 2.1%.

INDUSTRY NEWS

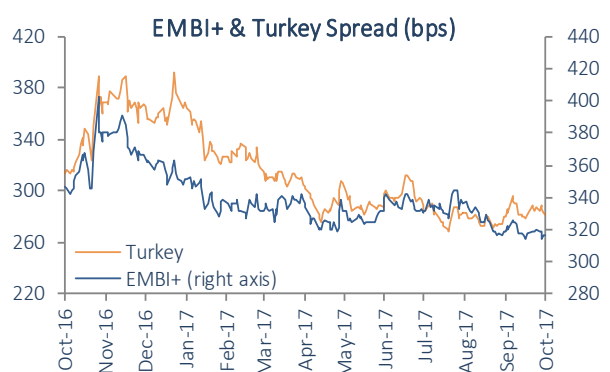
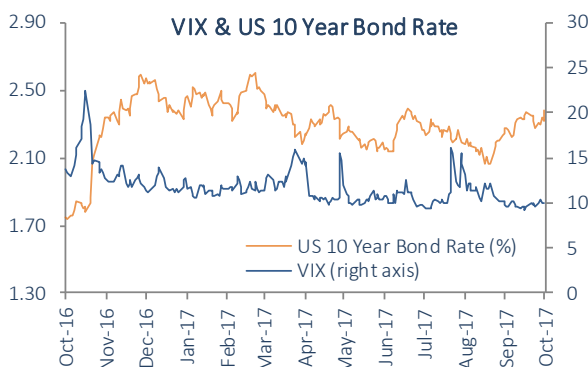
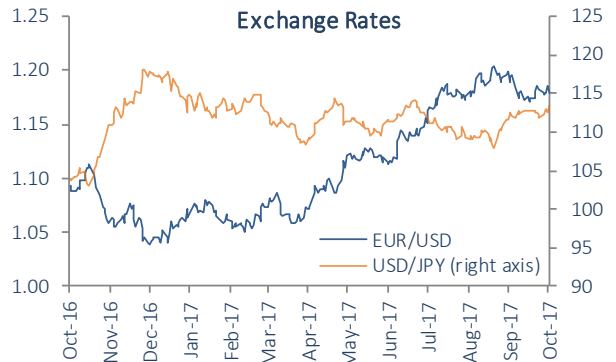
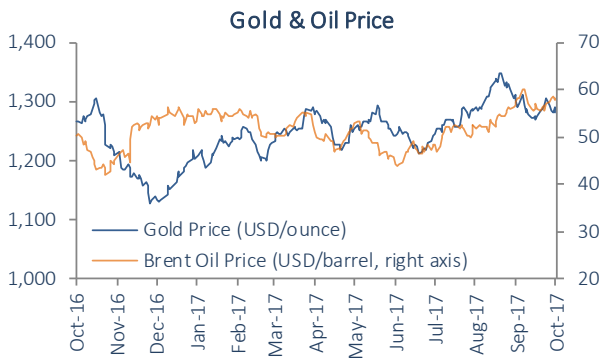
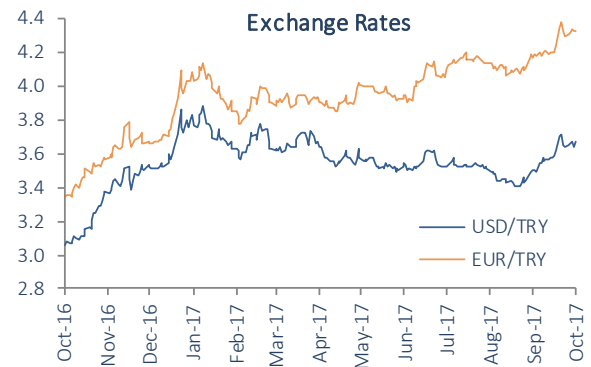
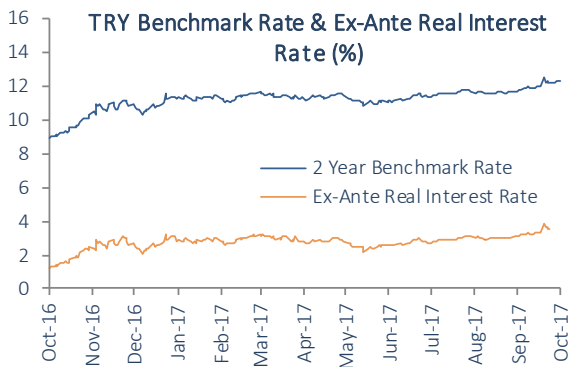
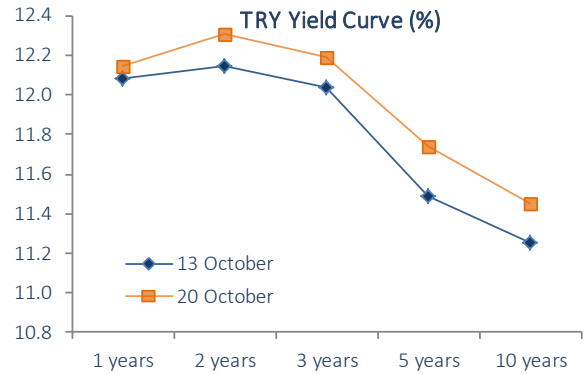
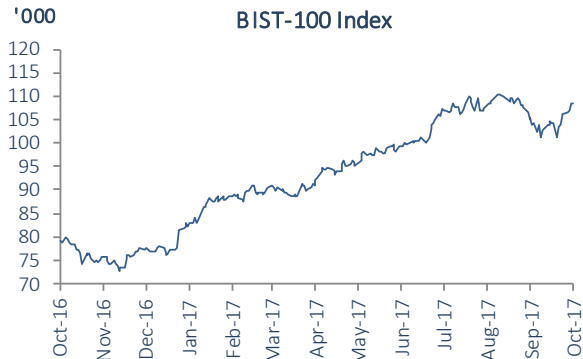
Furniture industry targets to grow by exports ...

Furniture sector which increased its domestic sales significantly in the first 9 months of this year thanks to VAT incentive that was ended at the end of September, aims to grow by diversifying its export markets. Exports are estimated to rise by 8% yoy and reach 2.7 billion USD by the end of 2017. While developments in Iraq which is the largest export market of the sector increases the risks on the sector's growth projections, USA, Iran and Russia are said to be the major alternative markets. Sector executives point out that they invest in R&D in order to increase their shares in existing export markets by improving quality and design of the products. It's also observed that tax cuts created a boost in especially branded products and so led to higher revenues in the domestic markets. Nevertheless, considering the furniture demand that has been brought forward as a result of the incentive, domestic sales are expected to slow down a bit in the following period.

Domestic white goods sales increased by 23% yoy in the first 9 months.

According to TÜRKBEESD, domestic sales of white goods in January-September period increased by 23% to 6.94 million units; while exports increased by 6% to 14.9 million. Sales in the Turkish white goods sector, which is the second largest producer in the world and exports 75% of its products, remained strong during the first nine months of the year due to the special consumption tax stimulus package. In coming period, due to the expiry of tax incentive, domestic sales are expected to somewhat slow down, while exports are expected to remain strong.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
23 October	Consumer Confidence Index	October	67.3 (A)
	Euro Area Consumer Confidence Index (Preliminary)	October	-1.1
24 October	US Markit Manufacturing PMI (Preliminary)	October	53.6
	US Markit Services PMI (Preliminary)	October	55.6
	Euro Area Markit Manufacturing PMI (Preliminary)	October	57.8
	Euro Area Markit Services PMI (Preliminary)	October	55.7
25 October	Treasury Domestic Debt Redemption	October	12.7 billion TL
	Business Tendency Statistics and Real Sector Confidence Index	October	-
	Capacity Utilization Rate of the Manufacturing Industry	October	-
	US Durable Goods Orders	September	1.0% mom
	US New Home Sales	September	555K unit
	Germany IFO Business Climate Index	October	115.1
	UK GDP Growth	2017Q3	0.3%
26 October	CBRT Monetary Policy Meeting	October	-
	US Pending Home Sales	September	0.5% mom
	European Central Bank (ECB) Monetary Policy Meeting	October	-
27 October	CBRT House Price Index	August	-
	US GDP Growth (Preliminary)	2017Q3	2.5%
	US Michigan Consumer Sentiment	October	101.1

(A) Actual

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