

## WEEKLY OUTLOOK

***Strong economic data from the USA...***

Due to the hurricanes in September, uncertainties about economic activity in the US had increased and the possible effects of this development on Fed's monetary policy were closely monitored. Data releases in the first half of last week pointed out that the slowdown in the US economy was temporary and set the stage for USD to appreciate in global markets. In September, durable goods orders and home sales surpassed expectations, signaling that consumption spending in the US is strengthening. Preliminary PMI composite index was realized as 55.7 in October. Thus, according to leading indicators, economic activity in the US recorded the fastest growth since January.

On the last trading day of the week, global markets focused on the US GDP growth data for the third quarter. It was announced that the US economy grew by 3% yoy, exceeding expectations. Increase in personal consumption expenditures and rise in inventories were effective in better-than-expected growth figure. On the other hand, net exports' contribution to growth was negative.

Along with the strong data from the US, recent developments on Trump administration's tax reform package are lifting interest rates upwards. Last week, US 10-year Treasury bond yields tested the highest levels in the last 7 months, with 2.47%. DXY index, which shows the value of US dollar against other major developed country currencies, was realized as 95, reaching its highest level since July.

***Euro depreciated following the ECB meeting.***

ECB meeting was the most important agenda of last week. ECB kept its policy interest rate unchanged while it decided to decrease its monthly asset purchases from the current level of EUR 60 billion to EUR 30 billion as of the beginning of 2018. President Mario Draghi asserted that the related step ECB has taken is not "monetary tightening". Draghi emphasized that Euro Area has shown robust and broad-based economic expansion and the recalibration of ECB's asset purchases reflects growing confidence in the economy which now needs less support. ECB President detailed that Asset Purchase Programme has been planned to carry on until September 2018, or beyond, in case the Governing Council sees a sustained adjustment in economic developments.

Market views suggesting that ECB will keep pursuing relatively loose monetary stance in a period Fed will commence its balance sheet reduction, were effective on euro's depreciation last week. EUR/USD, which followed a flat course at the first half of the week, went down following the ECB meeting. EUR/USD declined to 1.16, the lowest level of last three months.

***Oil prices are on rise...***

Oil prices continued to rise last week. This was mainly stemmed from the news claiming OPEC members actually support an extended production-cut. Brent oil prices exceeded 60 dollars per barrel, thus approaching to the highest level during the year. In connection with the rise in US 10-year Treasury bonds' yield, gold prices dropped by 0.6% w/w and closed the week at 1,273 USD/ounce.

## WEEKLY DATA

	20 Oct	27 Oct	Change		20 Oct	27 Oct	Change
BIST-100 Index	108,489	107,884	-0.6 % ▼	EUR/USD	1.1783	1.1608	-1.5 % ▼
TRY 2 Year Benchmark Rate	12.31%	12.80%	49 bp ▲	USD/TRY	3.6704	3.7875	3.2 % ▲
US 10 Year Bond Rate	2.38%	2.43%	5 bp ▲	EUR/TRY	4.3229	4.3960	1.7 % ▲
EMBI+ (bps)	316	319	3 bp ▲	Gold (USD/ounce)	1,280	1,273	-0.6 % ▼
EMBI+ Turkey (bps)	281	301	20 bp ▲	Brent Oil (USD/barrel)	58.1	60.4	3.8 % ▲

bp: basis point

***CBRT stated that tight stance will be maintained decisively.***

Following rapid depreciation of TRY along with recent rise in consumer inflation, markets were wondering about CBRT's assessments after its Monetary Policy Committee meeting. CBRT did not change its policy interest rate, interest rate corridor and late liquidity window interest rate at the meeting on last Thursday. Emphasizing that current elevated levels of inflation and the developments on core inflation outlook continue to pose risk on the pricing behavior, CBRT stated that tight stance in monetary policy will be maintained decisively until inflation outlook displays a significant improvement. CBRT also said that recently released data indicate a strong economic activity and demand from the European Union economies continues to contribute positively to exports.

***Capacity utilization rate increased in October.***

In October, capacity utilization rate (CUR) in manufacturing industry rose by 1.8 bps to 79.7%. Hence, economic activity of the manufacturing industry showed its best performance in the last 9 years. CUR in motor vehicles sector, which came forward with brand new models offered to foreign markets, reached up to 86.2%, while strong demand from the industry and construction sector supported basic metals manufacturing. CUR of textiles and wearing apparel, which had previously showed a flat trend, surged in October. Thus, positive outlook in the activity was spread among all sectors.

***Selling pressure in the domestic market...***

Last week, US dollar's appreciation in global markets as well as the deterioration in risk appetite towards Turkey gave rise to the selling pressure in the domestic markets. Risk premiums of Turkish Eurobonds surged by 20 basis points (bp) and reached 301 bp, performing negatively compared to other developing country eurobonds (EMBI+). Yield curve moved upwards significantly for all maturities as a result of decreasing demand in TRY denominated assets. 2-year benchmark Treasury bonds compound rate increased 49 bp wow. Hence, benchmark bond rate closed Friday at 12.80%, reaching its highest level since May 2009. BIST-100 index fell by 0.6% where selling pressure on banking stocks became more visible.

Depreciation in TRY has speeded up recently. From Monday to Thursday, TRY depreciated against the currency basket (0.5\*USD+0.5\*EUR). Yet, news on Jerome Powell's name has come forward for the next Fed presidency eased the pressures on TRY right before Friday's closing. Powell is known as being more cautious towards rate hikes compared to the other prominent candidate, John Taylor. On Friday, currency basket fell by nearly 1% upon reaching its historical high with 4.16 the day before. USD/TRY rose by 3.2% wow and realized as 3.79. Decline in EUR/USD somewhat limited the depreciation of TRY against euro. Thus, EUR/TRY went up by 1.7% wow and closed the week at 4.40.

This week, monetary policy meetings of the Fed, BoJ and BoE will be closely monitored in global markets. On Friday, Trump is expected to announce the new Fed presidential candidate. In Turkey, foreign trade balance and inflation figures will be announced. On Wednesday, CBRT will release the latest inflation report of the year.

## INDUSTRY NEWS

***Rapid increase in house sales...***

In September, house sales in Turkey increased by 28.8% yoy and reached 140k units. In this period, house sales displayed its best September performance since 2013, when monthly data started to be released. The campaigns that took place in residential sector and the temporary reductions in title fees were crucial in this development. Mortgaged home sales, which is sensitive to the changes in borrowing costs, declined by 3.7% yoy, as other home sales increased by half and reached 100k units. In September, new house sales increased by 37.4% to 70k units.

***Domestic steel production is increasing.***

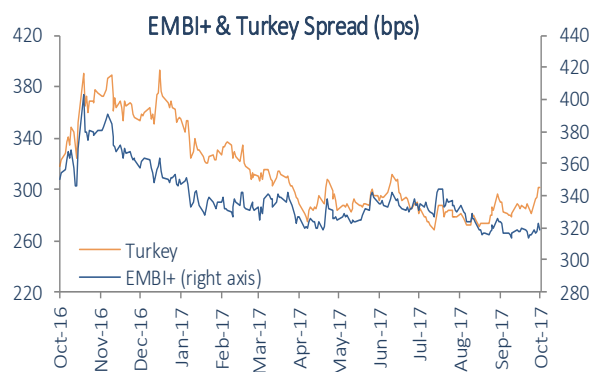
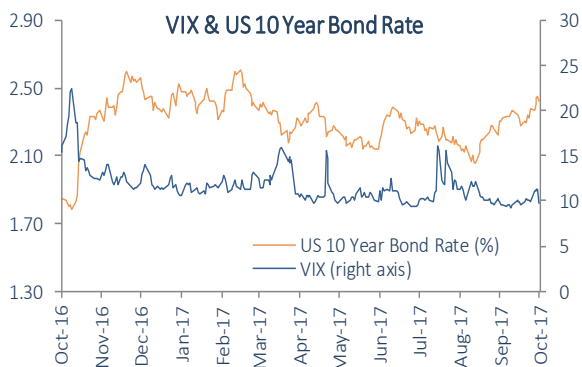
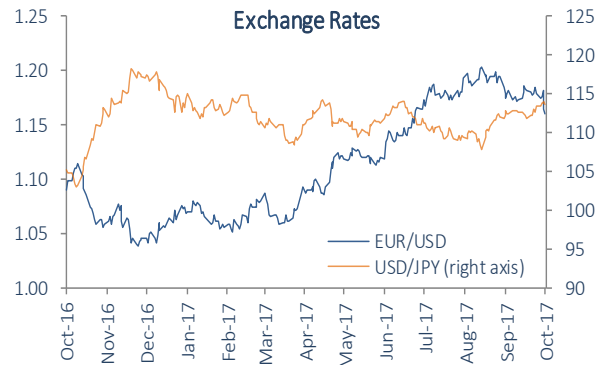
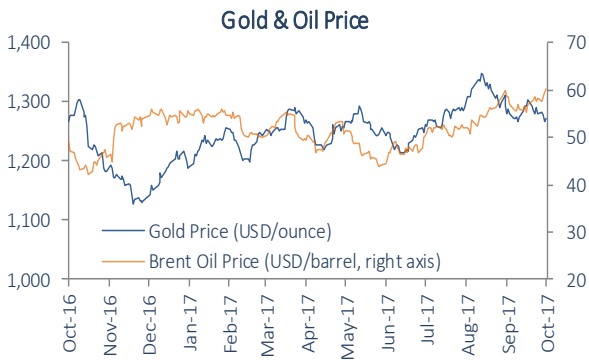
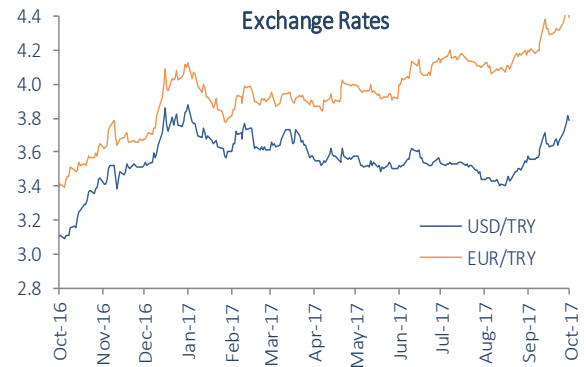
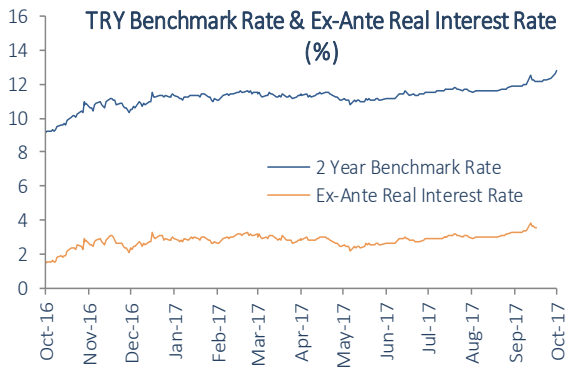
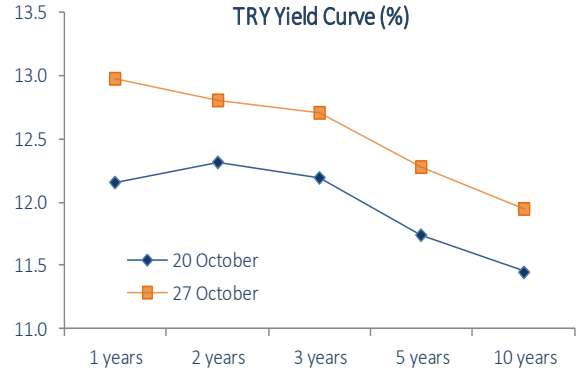
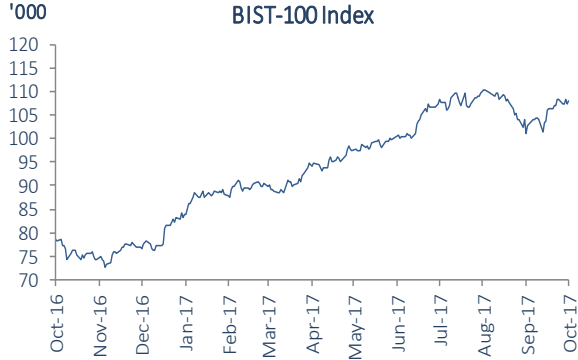
The strong performance in Turkish economy supports steel demand. In January-September period, steel production in Turkey increased by 13.5% yoy and came in at 27.7 million ton. Billet steel, generally used in construction sector, has increased by 9.9%; while slab steel production, which is a crucial input to the industrial sector, rose by 22.1%.

On the other hand, last week US launched a dumping investigation into steel wire rod imports from seven countries, including Turkey. The US Department of Commerce, which will announce its final decision at the beginning of 2018, is expected to apply additional import tariffs to Turkish producers at varying rates of 2.8-8.0%. In 2016, Turkey sold 512 million dollars' worth of steel wire rod to the US.

***Agricultural subsidies for 2018 were outlined.***

Subsidies to be paid to agriculture sector for 2018 were outlined. Finance Minister Naci Ağbal said that the total supports for agriculture would be 29.6 billion TRY. Accordingly, 14.8 billion TRY for agricultural support programs, 10.1 billion TRY for agricultural sector investment allowances and 4.7 billion TRY for agricultural credit and export subsidies will be allocated from the agricultural support budget. Within the agricultural support programs, the animal husbandry ranks first with 4 billion TRY. Fuel supports for next year will be increased by approximately 2 folds to 1.9 billion TRY, while the fertilizer support will be pulled down to 553 million TRY. Besides, subsidies given to cotton producers will also be increased in 2018. In fact, 1.5 billion TRY premium support will be given to cotton producers next year. However, the supports allocated for cereal and pulse producers were kept constant.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
30 October	US Personal Income	October	0.4%
	US Core PCE	October	0.2%
	Germany CPI (preliminary)	October	-
31 October	Foreign Trade Balance	September	-
	Euro Area Unemployment Rate	September	-
	US Consumer Confidence Index	October	120.3
1 November	Treasury's Domestic Debt Redemption (156 million TRY)		-
	CBRT's Inflation Report		-
	Fed's FOMC Meeting		
2 November	Euro Area Manufacturing PMI	October	-
3 November	CPI	October	-
	PPI	October	-
	US Non-farm Payrolls	October	323k persons
	US Unemployment Rate	October	4.3%

## İŞBANK - Economic Research Division

**İzlem Erdem - Division Head**  
izlem.erdem@isbank.com.tr

**Alper Gürler - Unit Manager**  
alper.gurler@isbank.com.tr

**H. Erhan Gül - Asst. Manager**  
erhan.gul@isbank.com.tr

**Dilek Sarsın Kaya - Asst. Manager**  
dilek.kaya@isbank.com.tr

**Aslı Şat Sezgin - Economist**  
asli.sat@isbank.com.tr

**Bora Çevik - Economist**  
bora.cevik@isbank.com.tr

**Ahmet Aşarkaya - Economist**  
ahmet.asarkaya@isbank.com.tr

**Ayşe Betül Öztürk - Asst. Economist**  
betul.ozturk@isbank.com.tr

Our reports are available on our website <http://research.isbank.com.tr>

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.