

WEEKLY OUTLOOK

Fed did not change its monetary policy.

Fed did not change its monetary policy in line with expectations at its FOMC meeting held on October 31st – November 1st, and kept the policy rate at 1-1.25%. The statement published after the meeting showed that the economic activity remained strong despite the hurricanes that occurred in September, raising the markets expectations of an interest rate hike by up to 90% probability for December. It was told that recent rise in crude oil prices put a pressure on inflation, while the inflation for items other than food and energy remained soft.

US President Trump's decision to replace Fed Chair Yellen, whose term expires on February 3rd 2018, is followed closely last week. Trump nominated Federal Reserve board member Jerome Powell in line with expectations. Powell, a Republican with a real sector experience and having a similar monetary stance with Yellen is considered to be influential on his nomination. Another important development of the last week was tax reform plan, especially tax reductions in the US. The long-awaited tax reform package include details such as corporation tax cuts from 35% to 20% and the reductions in the number of personal income brackets.

On the last trading day last week, global markets focused on October non-farm payrolls data. Non-farm payrolls, which declined by 33k persons due to the hurricanes in September, increased below the market expectation with 261k persons in October. The labor force participation rate declined to 62.7% while the unemployment rate fell to 4.1% in the same period, the lowest level for the last 17 years. The annual rise in hourly earnings did not meet expectations with 2.4%, as this development raised concerns that consumer inflation, which has been on the rise for the last three months, may undershoot the Fed's 2% target in the coming period.

Unemployment rate in Euro Area declined.

The economic data released in Euro Area last week pointed out that economic activity in the region generally remained strong. In September, unemployment rate in the region fell to its lowest level since January 2009 with 8.9%, while the manufacturing PMI in October reached its highest level for the last 80 months. October consumer inflation fell from 1.5% to 1.4%, remaining below expectations, while core inflation excluding energy, food, alcohol and tobacco products declined to 0.9%. At the previous week's meeting, ECB told that it is approaching its' inflation target and pointed out the changes to be made in the asset purchasing program from the beginning of the next year was due to the growing confidence to price stability.

While Brexit process has still been going on, Bank of England (BoE) raised interest rates for the first time since July 2007. BoE raised benchmark rate by 25 basis points to 0.50% in line with the market expectations and kept its asset purchase programme which worth 435 billion sterling unchanged. Right after the rate hike decision which was actually taken upon the announcement of CPI data, sterling depreciated against euro by 1.7%. BoE also pointed out that further rate hikes would probably be gradual and limited.

WEEKLY DATA

	27 Oct	3 Nov	Change		27 Oct	3 Nov	Change
BIST-100 Index	107,884	111,293	3.2 % ▲	EUR/USD	1.1608	1.1607	0.0 % ▼
TRY 2 Year Benchmark Rate	12.80%	13.29%	49 bp ▲	USD/TRY	3.7875	3.8854	2.6 % ▲
US 10 Year Bond Rate	2.43%	2.34%	-9 bp ▼	EUR/TRY	4.3960	4.5136	2.7 % ▲
EMBI+ (bps)	319	341	22 bp ▲	Gold (USD/ounce)	1,273	1,269	-0.2 % ▼
EMBI+ Turkey (bps)	301	320	19 bp ▲	Brent Oil (USD/barrel)	60.4	62.3	3.2 % ▲

bp: basis point

Global markets...

DXY index which went up rapidly in the previous week was under pressure last week, due to the expectations on Mr. Powell's becoming the next Fed Chair as being one of the dovish candidates among all. Nevertheless, Friday's data flow that supports the expectations on Fed would not only raise interest rates in its December meeting but also accelerate the normalization of monetary policy in 2018, led dollar to rise. Global stock indices increased throughout the week thanks to improved risk appetite.

Last week, crude oil prices rose by 3.2% and surpassed 62 USD/barrel. Comments made by OPEC and Russia at the meeting held in 30th of November, revealed that production-cut commitment which currently due March 2018 might be extended another 9 months. This development along with rising demand in the market supported the increase in crude oil prices. However, the fact that crude export had reached record high in the US put some pressure on oil prices. Markets will watch potential effects of probe in Saudi Arabia on the course of oil prices this week.

Foreign trade deficit has been widening.

Turkey's exports increased by 8.7% yoy to 11.8 billion USD and imports rose by 30.6% yoy to 20 billion USD in September. Hence, foreign trade deficit went up by 85% to 8.1 billion USD. In addition to the strong pace of gold imports, recent recovery in global economic activity as well as rising oil prices have all contributed to the continuing and robust increase in imports in September. According to the preliminary data which was announced by Ministry of Customs and Trade, foreign trade deficit went on widening in October as well. Moreover, import coverage ratio declined to 65.4% in October this year from 75.2% a year ago. Negative outlook in foreign trade deficit is likely to add more to the expansionary pressures on the current account deficit in the period ahead ([Our Foreign Trade Report](#)).

Consumer inflation continued to rise in October.

Consumer price index rose by 2.08% monthly, while annual inflation reached its highest levels since October 2008 with 11.9%. Producer price index recorded a sharp increase of 9.94% monthly, increasing annual inflation to 17.28%. Clothing and footwear was the main contributor to consumer inflation due to seasonal factors, followed by food and non-alcoholic beverages and transport. CBRT's favorite core indicators are at the highest levels since 2003-2004. We think that possibility of a single digit inflation figure at the end of the year is very low should energy prices and exchange rates remain elevated ([Our Inflation Report](#)).

Last week, the CBRT released the fourth and the final Inflation Report of 2017. CBRT revised the consumer inflation forecast for 2017 upwards by 1.1 percentage points. Inflation is expected to be between 9.3% and 10.3% (with a mid-point of 9.8%). In the report, it is projected that inflation will be down to 7% in 2018, 6% in 2019 and 5% target in the medium term. Report says that base effect in food, tax incentives that ended in September in home appliances and furniture and methodology change in apparel prices will have a negative effect on inflation; however, it is expected that a gradual recovery in inflation figure is underway starting in the last month of the year. On the other hand, higher-than-expected inflation figure in October suggests that year-end inflation will be higher than what CBRT estimated in its latest inflation report.

Treasury announced its borrowing strategy.

Last week Treasury announced its borrowing strategy for 2018. In the scope of Treasury Finance Program, Treasury's domestic borrowing will reach 128.5 billion TRY to finance domestic debt repayments of 100.1 billion TRY in 2017. Similarly, for the year 2018, 134.3 billion TRY borrowing is planned for domestic debt repayments, which will be realized as 122.4 billion TRY. Thus, the domestic debt rollover ratio, which is expected to be realized as 128.4% in 2017, is estimated to be 109.7% in 2018. We think that the level of domestic debt rollover ratio above 100% will probably create upward pressure on inflation and interest rates.

Domestic markets...

Manufacturing PMI in October; however slightly declined, remained above 50 pointing out the ongoing growth in manufacturing industry in the last 8 months. On the other hand, Standard&Poor's announced on Friday that they didn't change Turkey's credit rating BB, which is two notches below investment grade. Outlook remained unchanged at "negative" on grounds that government will use fiscal policy tools to support the economy.

BIST-100 index surpasses the 114,000 levels led by banking stocks following Prime Minister Yıldırım's statement that Credit Guarantee Fund will be revolving. However, it declined at the last trading day due to higher-than-expected inflation figures. USD/TRY parity increased by 2.6% weekly and reached 3.89 at the end of the week. 2-year benchmark yield surpassed 13%.



INDUSTRY NEWS

The number of arriving foreigners to Turkey is increasing.

According to border statistics data released by Ministry of Culture and Tourism, the number of arriving foreigners to Turkey surged by 42.8% yoy in September. The number of foreign visitors to Turkey climbed by 28.7% to 26 million at January-September period. Russia had the highest number of foreign visitors during the first nine months of the year by the share of 15.8% while Germany and Iran followed it by 11.2% and 7.3%, respectively. On the other hand, tourism revenues, which was 22.1 billion USD in 2016, increased by 16.4% yoy to 20.2 billion USD at the first nine months of 2017. Minister of Culture and Tourism Numan Kurtulmuş, who made a speech at Turkey's 3rd National Tourism Council held on November 1-3rd, detailed that Far East countries will be the focus to boost the tourism sector and there will be plenty of activities having been planned in China since China declared 2018 as "Turkey Tourism Year." It is projected that arriving foreigners to Turkey will reach to 30 million until the year-end and tourism revenues will go up to 50 billion USD till 2023.

Indigenous car production...

A joint venture of five local firms was launched last week for the production of Turkey's first indigenous car. The consortium of the related five suppliers, BMC, Anadolu Isuzu and Japanese Itochu, Zorlu Holding, Turkcell and Kiraça Holding, is expected to create the prototype of the first domestically-produced car till 2019 and be ready to start sales in 2021. Anadolu Group, BMC and Karsan, which have a previous experience in production of truck, van, bus or light commercial vehicles, will be accompanied by Turkcell and Vestel. It signals that the first indigenous car might be electric or hybrid. According to data published by Automotive Distributors' Association, automobile and light commercial vehicle sales grew by 10.5% yoy in October to 91,752. Total automotive sales were mostly flat at Jan-Oct. period considering that light commercial vehicle market accelerated by 3.4% yoy and automobile market narrowed by 1.1% yoy. Up to September, total automotive market was expected to be between 875 - 925 thousands in 2017 while it was revised up to 950-1,000 thousands in October.

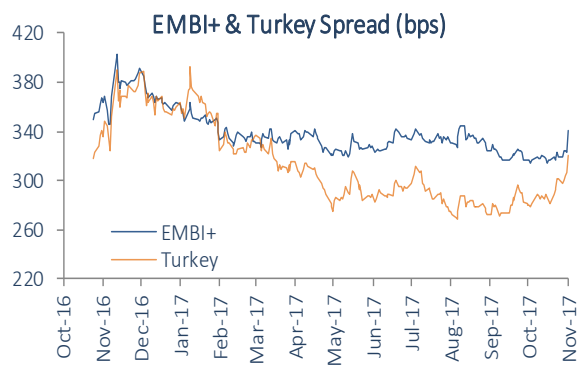
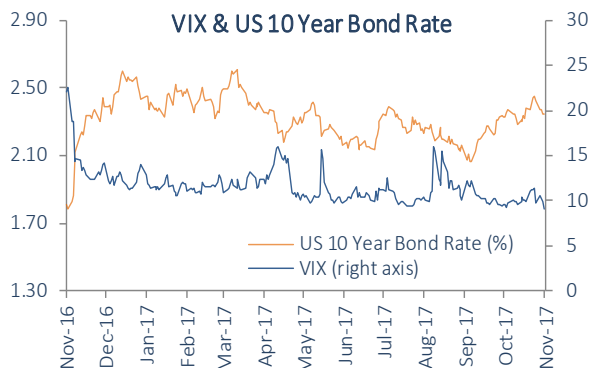
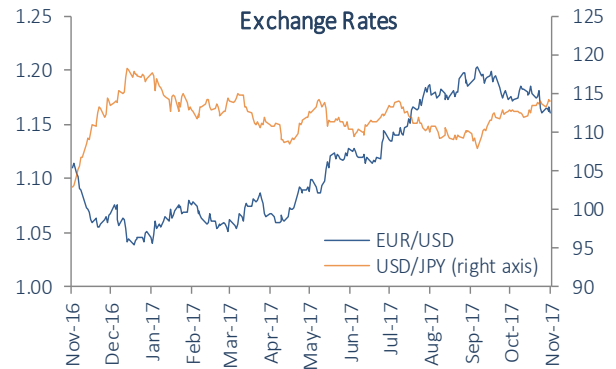
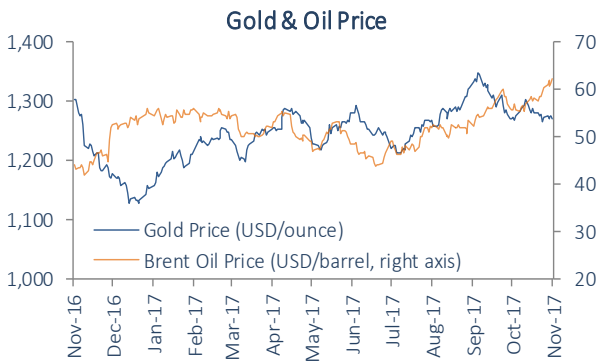
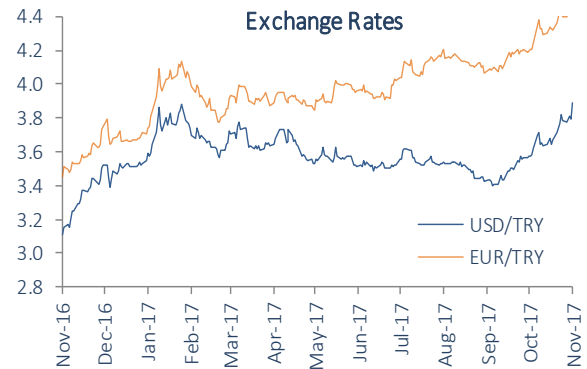
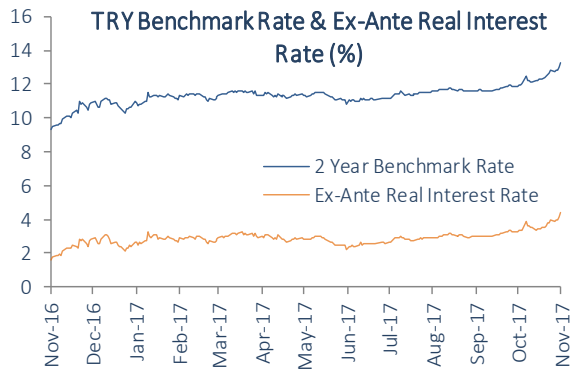
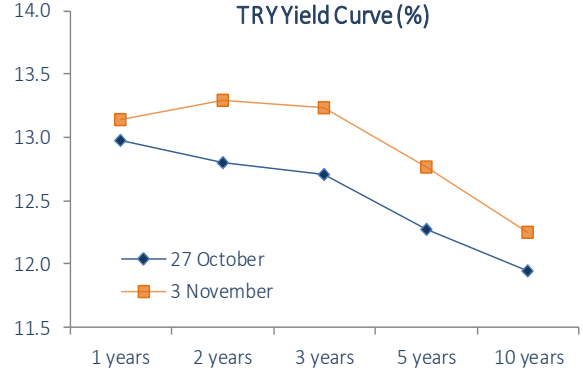
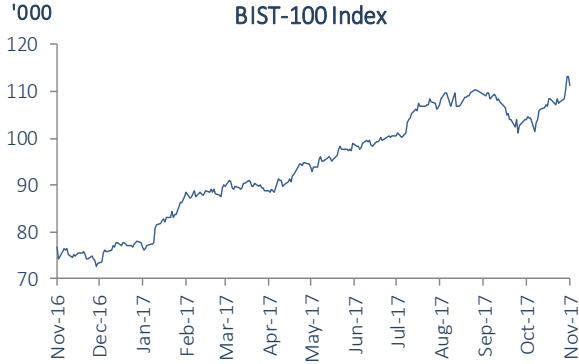
Rise in house prices are losing momentum.

Hedonic house price index released by CBRT climbed by 9.4% yoy in August. Annual increase in domestic house prices has been declining since April while house prices in Istanbul rose less than the inflation rate in August. Surge in USD/TL lately, hiking imported raw material costs and relatively weak demand at the housing sector are making it difficult for homebuilders to reflect the costs to the final house prices. On the other hand, Ministry of Customs and Trade published a draft regarding the real estate trade last week. Draft includes that only people with a certificate of authority are able to implement real estate trade and the related people have to be at least high school graduates. So called real estate agents will not charge more than 3% of the value of real estate property. In case of an agreement termination without good cause, the agents will have the right claim 10% of the service fee for trading operations and one-month total rent for the leasing transactions. The new regulation is expected to stop the current procedure that agents charge different service fees for different clients and it is assumed that there are currently many real estate agents, who won't be able to comply with the new regulation in the sector.

Meat and Milk Board's red meat sales to markets...

Details of imported and relatively cheaper red meat sales to markets by Meat and Milk Board (MMB) were announced last week. Discount market chains, A101 and BIM, chosen among eight applicants to MMB, will initiate fresh red meat sales at half kg packages as of November 1st 2017. The price of minced meat and meat cubes will be 29 and 31 TL/kg (VAT included) while the market chains won't be selling any minced meat or meat cubes other than the related MMB meat. MMB's recent practices of selling red meat at a lower price than the average price of 42 TL/kg, which is the price followed at the consumer price index item basket, have a negative impact on domestic meat producers.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
6 November	Euro Area Producer Price Inflation	September	2.9% yoy (A)
7 November	Germany Industrial Production	September	
8 November	Domestic Debt Redemption (66 Million TL)		
	TURKSTAT Industrial Production	September	5.2% yoy
10 November	USA The University of Michigan's Consumer Sentiment Index (preliminary)	November	

(A) Actual

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>

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