

WEEKLY OUTLOOK

Turkish economy grew by 11.1% in third quarter.

In the third quarter of the year, the growth in Turkish economy surpassed the 10% market expectations and came in at 11.1%. In this period, total consumption expenditures contributed to the growth rate by 7.4 points. Besides, the contributions of private consumption, net exports and investments were 7.0, 0.3 and 3.6, respectively. Change in stocks, on the other hand, pulled the growth down by 0.2 points. Low base effect from last year was effective in double digit growth in this quarter. While losing some momentum, it is expected that economic activity will remain strong in the last quarter of the year. Hence, we expect that GDP growth rate in 2017 will be over 6.5% ([Our GDP Growth report](#)).

Current account deficit widened.

In October, current account deficit was recorded below expectations at 3.8 billion USD. Foreign trade deficit doubled in this period yoy, which was the main driver of the widening in the current account deficit. Recovery in tourism revenues was still ongoing. Therefore, January-October current account deficit reached 35.3 billion USD, while 12-months rolling deficit surged to 41.9 billion USD. On financing front, portfolio investments remained strong. We expect that current account deficit will face mostly upside risks in the period ahead due to strong economic activity and relatively high oil prices.

CBRT released Monetary and Exchange Rate Policy Report for 2018.

Last week CBRT released its Monetary and Exchange Rate Policy report for 2018. In the report, it is said that CBRT will maintain its tight monetary stance until a remarkable improvement was witnessed in inflation outlook and targets were achieved. Besides, CBRT emphasized that additional monetary tightening would be the case if needed. The report pointed out that one-week repo transactions will continue to be the main funding instrument of the CBRT. However, it is mentioned that one-week repo auctions will only be held when necessary. In the meantime, CBRT has been providing liquidity to the market only on Late Liquidity Window since November 22nd.

In the report, it is also said that CBRT does not have a nominal or real exchange rate target under the current exchange rate regime. Nevertheless, if the exchange rate movements permanently affect price stability, the CBRT is said to give the necessary reaction with its instruments. Moreover, FX Deposits against TRY Deposits and Turkish Lira-settled forward FX sale auctions may be continued in 2018. The report added that the CBRT may also intervene directly or through flexible auctions in the market, in case excessive volatility and unhealthy price formations occur due to speculative behavior stemming from a loss in the market depth. Central Bank also said that it will go on cooperating with other institutions to remove structural impediments so as to reduce inflation. In 2018-2020 period, inflation is expected to converge gradually to the 5% target in line with the Medium Term Program.

WEEKLY DATA

	1 Dec	8 Dec	Change		1 Dec	8 Dec	Change
BIST-100 Index	103,559	107,921	4.2 % ▲	EUR/USD	1.1889	1.1764	-1.1 % ▼
TRY 2 Year Benchmark Rate	13.51%	13.35%	-16 bp ▼	USD/TRY	3.9123	3.8360	-2.0 % ▼
US 10 Year Bond Rate	2.36%	2.38%	2 bp ▲	EUR/TRY	4.6541	4.5153	-3.0 % ▼
EMBI+ (bps)	339	338	-1 bp ▼	Gold (USD/ounce)	1,280	1,248	-2.5 % ▼
EMBI+ Turkey (bps)	310	303	-7 bp ▼	Brent Oil (USD/barrel)	64.3	64.1	-0.4 % ▼

bp: basis point

Industrial production index increased by 7.3% yoy.

In October, the calendar adjusted industrial production index increased by 7.3% yoy, above the expectations. It is seen that the low base effect continues to be substantial in the course of industrial production. Since industrial production rose below its historical average throughout 2016, low base effect played an important role in 7.3% increase recorded in the index. However, seasonal and calendar adjusted industrial production increase was realized as 0.7% mom. The outlook of sectoral breakdown of industrial production throughout the year was also kept its course in October. While the food products manufacturing made the highest contribution to the industrial production increase, motor vehicles and fabricated metal products were the other main sectors that drive the index up.

Fitch: Stable outlook for Turkish banking sector

Fitch says that the outlook for Turkish banking sector in 2018 is stable. Pointing out that the current economic conditions and capital buffers enable banks to absorb moderate shocks, Fitch forecasts the profitability to weaken but still to remain reasonable in 2018. It is mentioned that ongoing US investigations has not affected banks in the current situation, but consequently "bank ratings can be affected if banks face fines" in the coming period.

US labor market...

According to ADP National Employment Report, employment in the US increased by 190K in November and came in above expectations. In this period, 40K new jobs were created in manufacturing sector. This was the fastest monthly increase in this year and considered as a positive development in terms of the course of economic activity. According to non-farm employment figures, economy also added 228K new jobs, beating the expectations of 195K. In this period, the unemployment rate held steady at 4.1%. On the other hand, the increase in average hourly earnings came in below anticipations with 2.5% yoy. In recent period, interest rate expectations have become more sensitive to inflation data than monthly job statistics.

Upward revision to Japan's growth rate....

Japan's third quarter GDP growth rate, previously announced as 1.4%, was revised up to 2.5%. Rise in fixed capital expenditures and robust export growth played a significant role in this revision. In his speech last week, Chair of the Bank of Japan (BoJ) emphasized that the Bank's future communication would focus on how to remove quantitative easing. This statement supported the expectations for an upcoming normalization in the monetary policy next year.

Financial Markets...

The upbeat sentiment over tax reform bill passing the Senate and the increase in risk appetite supported the dollar. Closing the week with a 1.1% wow gain against euro; DXY index, which measures dollar's relative value against a basket of other currencies, also increased by 1.1% wow. Gold has retreated 2.5% wow as the market participants headed for risky asset classes.

In Turkish markets, growing expectations that CBRT will hike interest rates in its meeting on December 14 have bolstered TRY-denominated assets. BIST-100 index rose by 4.2% wow and the compound yield of the 2-year benchmark bond decreased by 16 basis points. In line with the rate hike expectations, Turkish lira diverged from its peers and appreciated against dollar and euro by 2% and 3%, respectively.

Meetings of central banks in focus...

This week, meetings of Fed, ECB, BoE and CBRT will be followed closely. While the Fed is expected to hike interest rates at its meeting on 12-13 December, any clues for the future path of interest rate policy will be of great importance. The meeting of CBRT will take place on 14th of December. Markets have largely priced a rate hike by CBRT. ECB and BoE are expected to hold the interest rates steady.

INDUSTRY NEWS

Domestic automotive market contracted in November.

According to Automotive Distributors' Association data, domestic automotive market contracted by 17.5% in November. In January-November period, sales decreased by 2.6% yoy. In this period, automobile market shrank by 4% while light commercial vehicle sales increased by 2.1%. In the last months of last year, sales were quite high in automotive industry due to pulled forward demand because of the introduction of new tax rates from the beginning of 2017. Base effect arising from this situation is affecting the year-on-year decline in sales this year.

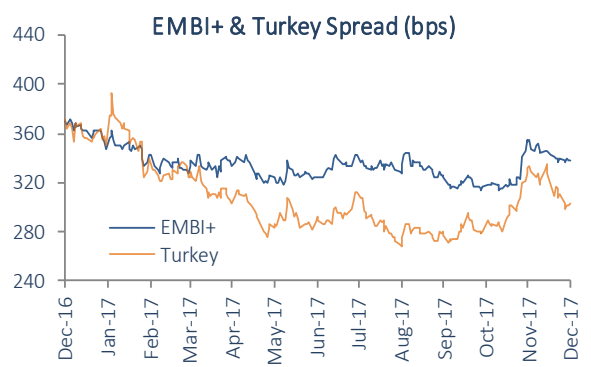
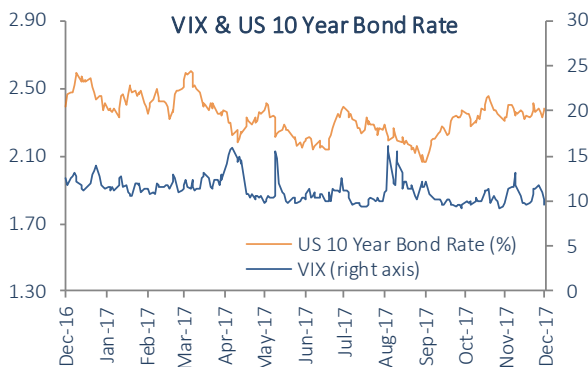
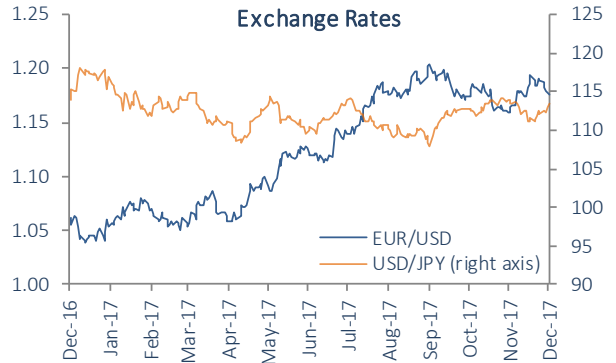
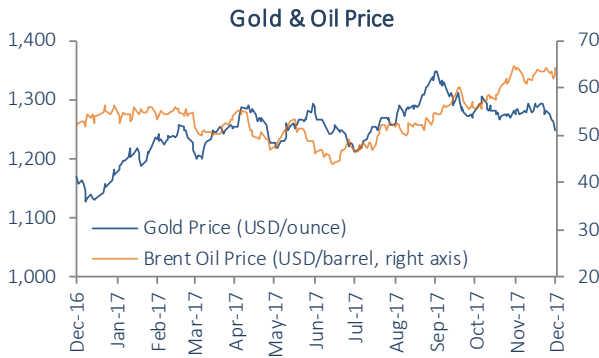
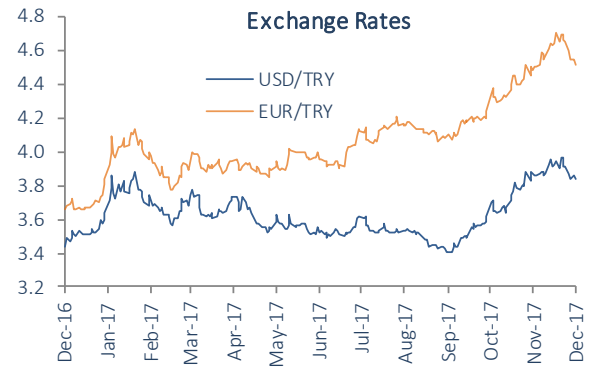
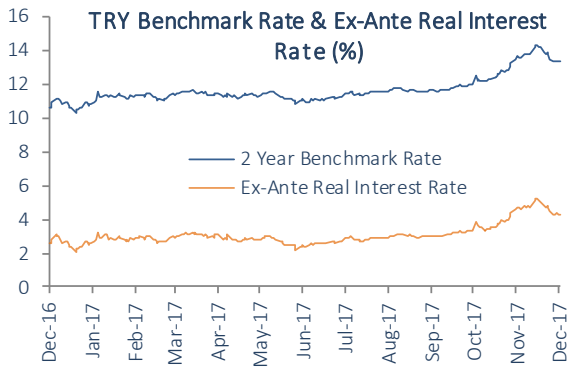
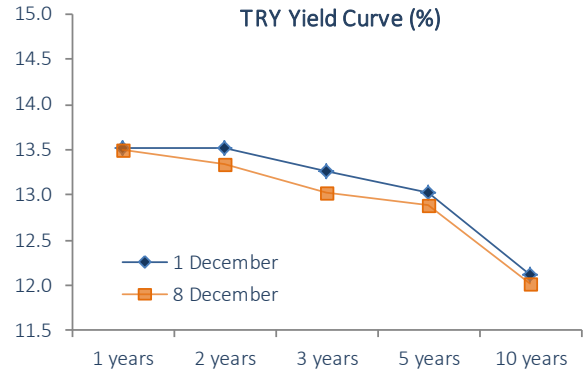
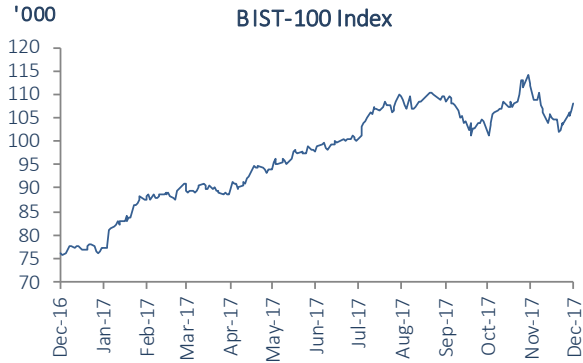
Catering sector eyes 10% growth in 2018.

Catering sector grew by 7-8% this year, according to Hüseyin Bozdağ, member of Industrial Food Industry Committee operating under Istanbul Chamber of Industry. Noting that Meat and Milk Board's recent measures somewhat reduced meat prices, Bozdağ stated that this situation was effective in helping the industry to grow this year. It is estimated that the year-end sales of the sector will be 7 billion USD, while the increase in employment in the sector is well above the turnover increase. In 2018, it is expected that catering sector will grow by 10% if there is no high fluctuations in meat prices and tourism industry remains stable.

Construction costs are increasing, as housing prices are slowing down.

Along with difficulties in growth in construction sector due to rising production costs in recent months, low demand outlook for dwellings is raising eyebrows for the performance of the sector in upcoming period. High headline inflation and 60% annual increase in construction steel prices have considerably increased the total production cost of the sector. It is estimated that the increase in construction steel prices increased the total cost of the sector by 25%. Given a low demand outlook for dwellings, construction sector may experience a decline in the upcoming period. It is calculated that 10% contraction in the sector will result in 300K decline in total employment. As the incentives for home sales ended at the end of September, sales declined in October and it is also expected to remain weak in November. This trend will likely continue in the first half of 2018. Despite rising costs, rate of increase in housing prices has slowed down in recent months and fell below the inflation rate. In this context, price to rent ratio, especially in Istanbul, has remained flat for a while. However, it is expected that inflation-related increases in rents will bring this ratio down to some extent in the coming months.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
11 December	TURKSTAT GDP Growth	2017Q3	yoy 11.1% (A)
	CBRT Balance of Payments Statistics	October	3.8 billion USD (A)
	CBRT Survey of Expectations	December	
12 December	Re-opening of Fixed Coupon Bond with 2 Years Maturity	December	
	Re-opening of Fixed Coupon Bond with 5 Years Maturity	December	
13 December	USA Producer Price Inflation	November	mom 0.3%
	Treasury Debt Redemptions (1,989 million TRY)	December	
	USA Consumer Price Inflation	November	mom 0.4%
14 December	FOMC Meeting	December	25 bps rate hike
	CBRT Meeting	December	
	USA Retail Sales	November	mom 0.3%
	ECB Meeting	December	
15 December	BoE Meeting	December	
	TURKSTAT Employment Statistics	September	
	USA Industrial Production	November	mom 0.3%
	USA Capacity Utilization Rate	November	77.2%

(A) Actual



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