

	21-Sep	28-Sep	Change		21-Sep	28-Sep	Change
BIST-100 Index	97,988	99,957	2.0 % ▲	EUR/USD	1.1749	1.1608	-1.2 % ▼
TRY 2 Year Benchmark Rate	25.40%	25.82%	42 bp ▲	USD/TRY	6.2917	6.0550	-3.8 % ▼
Turkey 5-Year CDS	399	371	-28 bp ▼	EUR/TRY	7.3954	7.0251	-5.0 % ▼
MSCI EM Equity Index	1,051	1,048	-0.3 % ▼	Gold (USD/ounce)	1,199	1,192	-0.6 % ▼
US 10-Year Bond Rate	3.07%	3.06%	-1 bp ▼	Brent Oil (USD/barrel)	78.8	82.7	4.9 % ▲

bp: basis point

As there were quite a few data releases last week in US, global markets focused on Fed's FOMC meeting. While Fed hiked interest rates for the third time this year in line with market expectations, its signals for the coming period were effective in the course of the markets. Increasing oil prices was also one of the important developments of the week. Growing optimism for the relationship between Turkey and USA had a positive impact on domestic financial markets.

### Global trade policies...

At the beginning of last week USA and China had both implemented new protectionist measures which put downward pressure on global stock market indices. At the United Nations General Assembly meeting, US President Trump stated that USA would stand up against globalization and used aggressive rhetoric against Iran and Venezuela. Trump's statements, which suggest that protectionist trade policies will be implemented, negatively affected risk perception in global markets. On the other hand, USA and Canada have reached an agreement to revise the NAFTA. According to the announcement, limits will be placed on Canada's automobile exports to USA, while mechanism to resolve commercial disputes between the two countries remained as Canada insisted.

### Upward trend in oil prices...

In addition to US sanctions against Iran that will come into force in November, OPEC's unwillingness to increase supply despite the US call caused oil prices to surge. While Brent crude oil prices rose by close to 5% weekly, exceeding 80 USD/barrel, increase in oil prices positively affected the stock prices of energy companies. Should the upward pressure on oil prices continues, oil prices are projected to reach 100 USD/barrel at the beginning of 2019. On the global scale, inflationary pressures from increasing oil prices is of great importance in terms of the pace of normalization of monetary policies in developed countries. As a matter of fact, European Central Bank (ECB) President Draghi, in his speech, gave a green light to a possible interest rate hike in 2019 by noting price pressures across Euro Area.

### Fed raised rates in line with expectations.

At the meeting that ended on September 26<sup>th</sup>, the Fed increased policy interest rates by 25 basis points to 2.0-2.25% in line with market expectations. In the statement released after the meeting, while it was stressed that the conditions in the US economy have improved significantly, the Fed removed the word "accommodative" from its description of its monetary policy. This development supported the views that the Fed will continue to raise interest rates in the coming periods. According to the published projections, Fed members revised their growth forecasts for 2018 and 2019 up to 3.1% and 2.5%, respectively, while maintaining core inflation forecast at 2% and 2.1% for the same period. The median interest rate projections of the members for the next two years were unchanged, remaining at 3.1% and 3.4%. This indicated that the members project three rate increases next year and one more in 2020. After Fed's decision, the DXY index, which shows the value of the US dollar against other major currencies, followed an upward trend. US 10-year Treasury bond yield rose close to the highest level of the last 7 years with 3.10%.

Global Stock Markets



US 10 Year Bond Rate and DXY



Fed's Federal Funds Rate Projections (median, %)



Although the US economic growth in the second quarter came in below the expectations at 4.2%, the reading indicated that economic activity sustained its strong performance.

#### Weak outlook in domestic leading indicators...

According to seasonally adjusted data, capacity utilization rate of the manufacturing industry decreased by 1.8 points mom to 75.8% in September. In this period, real sector confidence index decreased by 5.9 points and was realized as 90.4. In the manufacturing industry while the total amount of orders taken in the last 3 months and the decline in fixed capital investments were noteworthy, assessments regarding the continuation of the contraction in the domestic market were prominent. The sectoral confidence index released by TURKSTAT also decreased in September. The economic confidence index as well as the manufacturing purchasing managers' index (PMI), which fell to its lowest level since March 2009, pointed out that domestic economic activity slowed down significantly in the third quarter.

#### Foreign trade deficit fell by 59% in August.

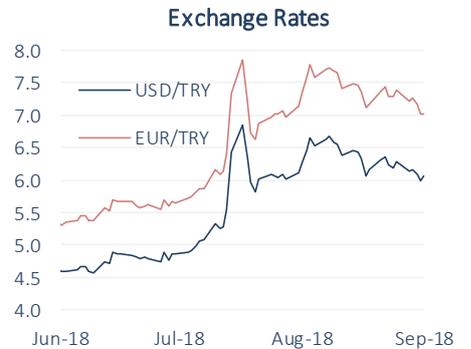
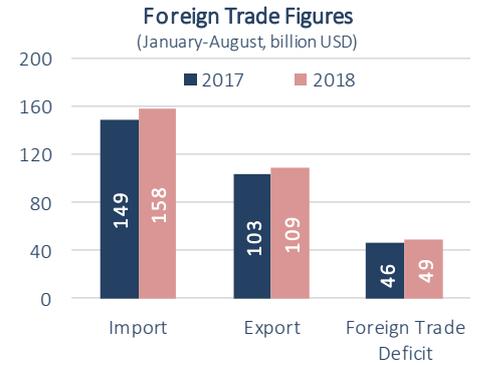
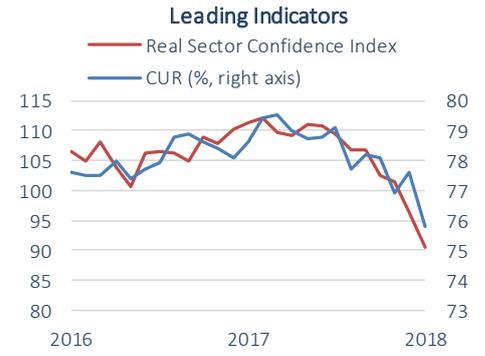
In August, foreign trade deficit contracted by 59% yoy to 2.4 billion USD due to the rapid decline in imports. The ongoing decline in non-monetary gold imports was a positive development in terms of foreign trade balance. Taking into account the contraction in the foreign trade deficit and the increase in tourism revenues, we expect a surplus in current account balance in August ([Our Foreign Trade Balance Report](#)).

#### Recovery in domestic markets...

Last week, the strengthening of expectations that the US-Turkey relations would normalize has supported domestic markets. BIST-100 index rose by 2% w/w. Despite appreciation of the US dollar in global markets, USD/TRY fell as low as to 5.93. The interest rate of 2-year benchmark bond rose by 42 bps from a week ago.

#### This week's agenda...

Global markets will have a busy data agenda this week. While PMI data will be at the forefront globally, inflation data will be on the focus of domestic markets. Markets expect September CPI inflation to be 3.6% monthly and to exceed 21% annually.



### Data Releases

		Period	Consensus	Prior
<b>1 October</b>	TR Manufacturing PMI	September	42,7 (A)	46,4
	Euro Area Manufacturing PMI	September	53,2 (A)	53,3
	US Manufacturing PMI	September	52.5	54.7
<b>2 October</b>	Euro Area PPI (annual % change)	August	3.9%	4.0%
	<b>3 October</b>	TR CPI (mom %)	September	3,6%
	TR D-PPI (mom %)	September	-	6,60%
	TR Treasury DDS Repayment	-	888 million TRY	-
	Euro Area Retail Sales (yoy %)	August	-	1,1%
<b>4 October</b>	US Jobless Claims	25-29 Sept	-	214k persons
	US Factory Orders (mom %)	August	0,9%	-0.8%
<b>5 October</b>	US Non-farm Payrolls	September	188k persons	201k persons
	US Average Earnings	September	3.0%	2.9%
	US Foreign Trade Deficit	August	50 billion USD	50.1 billion TRY

(A) Actual

Source: Datastream

## Sectoral Developments

### **The increase in the number of foreign tourists continues.**

According to data released by the Ministry of Tourism, the number of foreign visitors to Turkey increased by 15.6% yoy to 5.4 million persons in August. Thus, in the first eight months of the year, the number of tourists surged by 22.9% compared to the same period of the previous year and reached 27 million persons. Russia ranked first with a share of 15.5% and 4.2 million persons while Germany took second place with a share of 11% and 3 million persons. UK, Iran and Georgia followed Germany. In addition to the increase in the number of Russian tourists, the number of tourists from Europe picked up by 30% yoy to 11.7 million in the first eight months of the year, painting a positive picture for the tourism sector. According to the New Economic Program, tourism revenues, which were 22.5 billion USD in 2017, are expected to be 29 billion USD in 2018.

### **The contraction in the automotive market has led to a fall in production.**

The contraction in domestic market has adversely affected the production activities in the automotive sector. The domestic market, which narrowed by 53% yoy in August, is expected to shrink by 70% in the remainder of the year. In this context, TOFAŞ announced that they will suspend production in Bursa plant for 9 business days in October due to local market contraction. The sector officials stated that the developments in the sector might lead other companies to take similar measures in the coming period while the main loss in the sector will be experienced in 2019.

### **100% increase in premium incentives for wheat and barley...**

Ministry of Agriculture and Forest announced that the price of chemical fertilizer will have a discount rate up to 15% and the premium incentives for wheat and barley will be increased from 5 to 10 kuruş (kr). Industry experts suggested that the increase in premium incentives will support the sector's performance. However, the discount rate in fertilizer prices is regarded as inadequate. Experts underlined that the fertilizer prices increased by 117% compared to 2017. Therefore, a discount rate up to 15% is not expected to benefit farmers as much as desired. Moreover, the premium incentive of 10 kr per one kilogram of wheat and barley will be effective for 2019 products and the payment will be made in 2020. In this context, experts noted that current production conditions of the farmers should be improved in order to have a positive impact on the sector in the short term.

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