

	5-Oct	12-Oct	Change		5-Oct	12-Oct	Change
BIST-100 Index	94,883	96,657	1.9 % ▲	EUR/USD	1.1523	1.1562	0.3 % ▲
TRY 2 Year Benchmark Rate	26.38%	26.80%	42 bp ▲	USD/TRY	6.1323	5.8711	-4.3 % ▼
Turkey 5-Year CDS	416	394	-23 bp ▼	EUR/TRY	7.0648	6.7856	-4.0 % ▼
MSCI EM Equity Index	1,001	980	-2.1 % ▼	Gold (USD/ounce)	1,202	1,218	1.3 % ▲
US 10-Year Bond Rate	3.23%	3.14%	-9 bp ▼	Brent Oil (USD/barrel)	84.4	80.4	-4.7 % ▼

bp: basis point

Last week, IMF's "World Economic Outlook" report and US inflation data stood out in global markets. IMF's assessments on global growth, Trump's statements and high US 10-year Treasury bond yields put selling pressure on stock markets. Domestic markets focused on balance of payments data, "all-out fight against inflation" plan and pastor Brunson's trial.

### IMF revised down global growth forecasts.

IMF revised down 2018 and 2019 global growth forecasts from 3.9% to 3.7% in its latest "World Economic Outlook" report. Institution showed escalating protectionist trade measures, weakening economic activity in some developing countries due to the country specific reasons, tightened financial conditions, heightened geopolitical tensions and rising oil prices as reasons to downward revision in growth forecasts. In addition, global trade volume growth projections were lowered by 0.6 and 0.5 points for 2018 and 2019, respectively. IMF cut Euro Area's 2018 growth forecast by 0.2 points among advanced economies. Besides, among developing countries Brazil, South Africa and Turkey's growth forecasts were lowered significantly. IMF decreased growth forecast for Turkey to 3.5% from 4.2% in 2018 while it predicted 2019 growth as 0.4%.

### US consumer inflation was slightly below expectations.

Consumer prices in US increased by 0.1% mom and by 2.3% yoy in September, increasing slightly below anticipations. Besides, annual core inflation increased by 2.2%. During this period, producer prices increased by 0.2% compared to the previous month and by 2.6% yoy. Although the inflation figure was below forecasts, expectations for an interest rate hike in Fed's December meeting have remained unchanged.

### Selling pressure in global markets...

Last week, IMF's downward revision to global growth projections for the first time in more than two years as well as Trump's statements on Fed's policies and high US 10-year Treasury bond yields put pressure on global markets. While VIX index, which is an indicator of the volatility in the markets, reached almost 30 last week, US 10-year Treasury bond yield rose to 3.26%. US President Trump's criticism on the Fed's interest rate hikes and lower-than-expected CPI inflation were influential on the decline in DXY index.

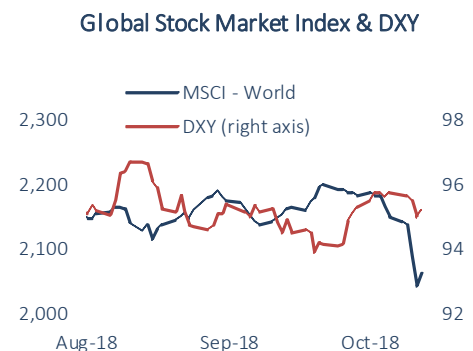
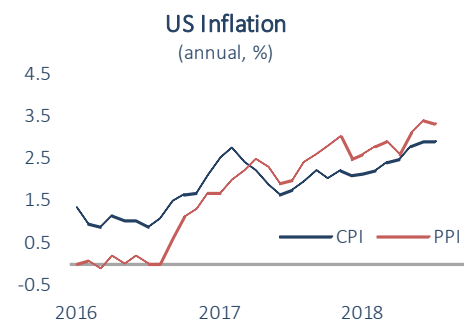
### Current account posted a surplus for the first time in almost 3 years.

Current account balance posted a surplus of 2.6 billion USD in August. The improvement in current account balance continued in the third consecutive month thanks to the rapid contraction in foreign trade deficit and recovery in tourism revenues. In this period, official reserves and net errors and omissions stood out on the financing side. 12-month cumulative current account deficit fell to 51.1 billion USD in August, the lowest level since December 2017. Excluding net energy trade, current account deficit declines to 13.1 billion USD ([Our Balance of Payment Report](#)).

### IMF's Forecasts for 2018

	%	Change* (% points)
<b>Growth</b>		
<b>World</b>	<b>3.7</b>	<b>-0.2</b>
Advanced Economies	2.4	0.0
US	2.9	0.0
Euro Area	2.0	-0.2
UK	1.4	0.0
Japan	1.1	0.1
Developing Economies	4.7	-0.2
China	6.6	0.0
Brazil	1.4	-0.4
<b>Turkey</b>	<b>3.5</b>	<b>-0.7</b>
<b>Inflation</b>		
Advanced Economies	2.0	-0.2
Developing Economies	5.0	0.3

(\*) Difference from July forecasts



### Rise in unemployment rate continues.

Having followed a rising trend recently, unemployment rate continued to rise in July period by reaching 10.8%, its third increase in line. Moreover, youth unemployment rate (19.9%) reached the highest level in 2018. Seasonally adjusted employment figures continued to deteriorate in July as it was the case since March and came in at 11% in this period.

### Budget deficit was 6 billion TRY in September.

Central government budget deficit, which was 6.4 billion TRY in September of last year, became 6.0 billion TRY in the same month of this year. Budget revenues rose by 27.4% yoy to 61.1 billion TRY, while expenditures increased by 23.3% yoy to 67 billion TRY. The primary surplus increased by 2.3 billion TRY from a year ago to 4.3 billion TRY in September ([Our Budget Balance report](#)).

### Plan against inflation was announced.

Minister of Treasury and Finance Berat Albayrak announced that participants of “all-out fight against inflation” plan will make 10% discount on certain products which are included in the inflation basket, adding that there will be no additional rise in the prices of natural gas and electricity in the rest of this year. Albayrak also mentioned that the proposed regulatory change regarding the functioning of fresh fruits and vegetables wholesale market, which is known as “Hall Law”, will be completed till the end of this month.

### Remarks from S&P...

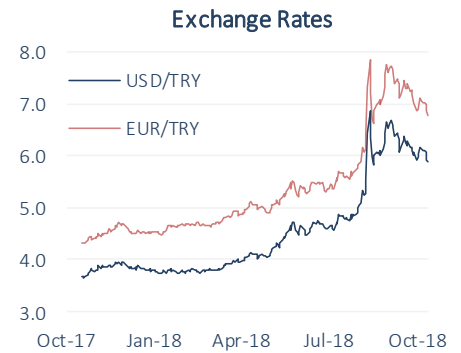
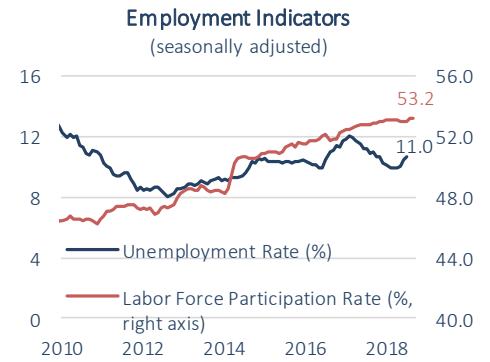
In its report published last week, S&P drew attention to the recession risk in the Turkish economy, citing that the slowdown in the economic activity became evident. S&P stated that TL’s depreciation and the tightening financial conditions accordingly, put more pressure on the private sector. In its report, S&P predicted that Turkish economy might have entered a recession by the second half of 2018 and forecasted a contraction in GDP by 0.5% in 2019.

### Domestic markets...

Last week, balance of payments data and US pastor Brunson’s trial were the main drivers of the domestic markets. While expectations of a normalization in Turkey-US relations supported Turkish lira, BIST-100 index increased by 1.9% wov to 96,657.

### This week’s agenda...

September retail sales and industrial production data in the US and Euro Area consumer price index will be followed closely in the global markets this week. Domestic markets will focus on August’s industrial production data.



### Data Releases

		Period	Consensus	Prior
15 October	US Retail Sales, montly	September	0.6%	0.1%
	TR Unemployment Rate	July	-	10.8% (A)
	TR Budget Balance	September	- -6.0 billion TRY (A)	
16 October	US Industrial Production, mom	September	0.2%	0.4%
	TR Industrial Production	August	1.25%	5.6%
17 October	Euro Area HICP, yoy, final	September	2.1%	2.1%
	US Housing Starts Number	September	1.23 million	1.28 million
18 October	England Retail Sales, yearly	September	3.7%	3.3%
19 October	US Existing Home Sales	September	5.30 million	5.34 million

(A) Actual

Source: Datastream

## Sectoral Developments

### Changes in the limits and structure of CGF loans...

Maturities of Credit Guarantee Fund (CGF) loans within the scope of restructuring were extended. According to the regulation, lender will be able to restructure the loans by extending maturities. However, extension cannot be more than 96 months for “working capital loans” and 156 months for “investment loans”. In addition, banks will not be able to request repayment of loans without offering restructuring to customers under CGF. On the other hand, guarantee limit for SMEs was increased to 25 million TRY. Besides, in case of a restructuring of a FX loan into TL denominated loan, CBRT’s FX buying rate at that time will be taken into the consideration.

### Automotive industry production fell by 1% yoy in September.

According to the data released by the Automotive Manufacturers Association, automotive production decreased by 1% to 132,931 units in September. Exports increased by 21% to 115,039 units during this period. In the first nine months of the year, automotive production and exports fell by 5% and 1% compared to the same period of the previous year, respectively.

### Shopping center retail sales index increased by 30.2% yoy in August.

In August, rising demand before the feast holiday and product prices supported the turnover in the Turkish retail sector. During this period, shopping center retail index increased by 30.2% compared to the same period of the previous year. In this period, average turnover in shopping malls across Istanbul was 1,430 TRY/m<sup>2</sup>, while the turnover per square meter in the provinces of Anatolia was 1,072 TRY.

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