

	12-Oct	19-Oct	Change		12-Oct	19-Oct	Change
BIST-100 Index	96,657	96,455	-0.2 % ▼	EUR/USD	1.1562	1.1513	-0.4 % ▼
TRY 2 Year Benchmark Rate	26.80%	25.80%	-100 bp ▼	USD/TRY	5.8711	5.6415	-3.9 % ▼
Turkey 5-Year CDS	394	390	-4 bp ▼	EUR/TRY	6.7856	6.4924	-4.3 % ▼
MSCI EM Equity Index	980	971	-0.9 % ▼	Gold (USD/ounce)	1,218	1,226	0.7 % ▲
US 10-Year Bond Rate	3.14%	3.20%	6 bp ▲	Brent Oil (USD/barrel)	80.4	80.1	-0.3 % ▼

bp: basis point

The minutes of Fed's September meeting and China's growth data were high on the agenda of global markets last week. Consensus among the Fed members on the interest rate hike drove the US dollar up. China recorded its weakest economic growth since the global crisis. In Turkey, industrial production confirmed the slowdown in the economic activity while the Eurobond issuance of the Treasury boosted confidence in the ability to roll-over debts in the coming period. Despite the strong performance of the US dollar in global markets, Turkish lira appreciated against euro and dollar last week due to the improvement in relations with the US.

Minutes of the Fed's September meeting...

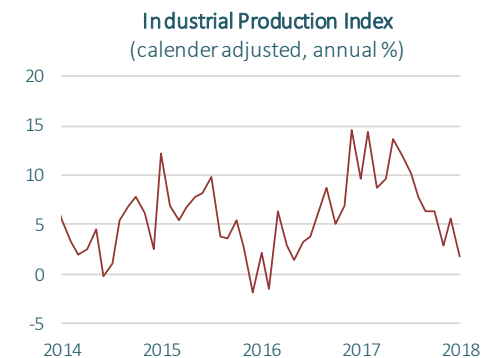
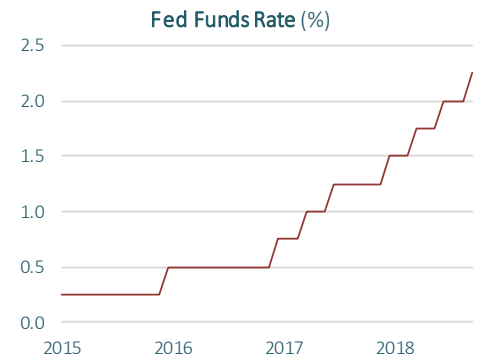
The minutes of Fed meeting which was held on 25-26 September and resulted in a 25 bps rate hike was published last Wednesday. Accordingly, it was seen that all members agreed on the interest rate hike in September and increasing the interest rates in the coming period. The minutes showed that Fed members were less worried about the possible slowdown in the US economy in the coming period, while some members emphasized the strong performance of the economy. On the other hand, St. Louis Fed Chairman James Bullard, who is currently not a voting member in the Fed's Open Market Committee but will vote in 2019, pointed out that recent increases in interest rates brought monetary policy to where it should stand. Bullard suggested that when the weak inflation indicators and other factors are taken into consideration, there is no need to raise rates further. The Fed members expects interest rates to rise to 3.1% next year and to 3.4% in 2020.

Chinese economy is losing momentum.

In the third quarter of this year, Chinese economic growth slowed more than expected to the weakest pace since the global crisis as the growth rate came in at 6.5% on annual basis. The loss of momentum in Chinese economy, which grew by 6.7% yoy in the second quarter, mainly stemmed from the risk from China's rising debt burden and the ongoing trade war with the US. Considering that the impacts of the trade war will be felt severely in the coming period, there are growing expectations that policymakers in China are likely to step up to support the economy.

In August, growth in Turkey's industrial production lost momentum.

According to calendar adjusted figures, industrial production expanded above expectations in August by 1.7% yoy. In this period, 13.4% annual growth rate in manufacture of food products stood out. Production of leather and related products, which has great exposure to foreign exchange fluctuations, decreased by 13.4% yoy. Having been contracted on an annual basis since February, manufacture of furniture shrank by 10.7% in the same period. In addition, 1.1% monthly decline in seasonal and calendar adjusted industrial production also stood out. The industrial production data reinforced the views that slowdown in economic activity has gained pace.



Source: Datastream

The Treasury raised 2 billion USD from a USD-denominated eurobond.

The Turkish Treasury issued USD-denominated eurobond due December 2023 with a nominal amount of 2 billion USD as part of the 2018 Eurobond Issuance Program. Eurobond issued by Turkey's Treasury received more than 6 billion USD demand, with a coupon rate of 7.25% and a yield to the investor of 7.50%. With this issuance, Treasury's borrowing cost increased compared to the beginning of the year. So, the spread over US bonds reached 447.5 bps at the auction from 266.7 bps at the issuance of 10-year bond in the first month of 2018.

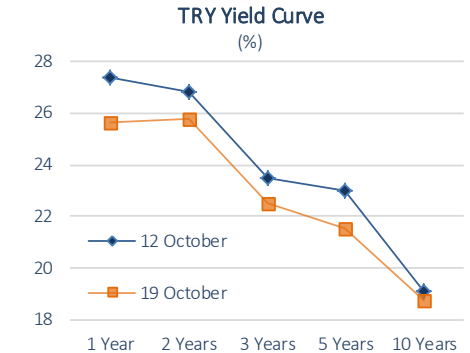
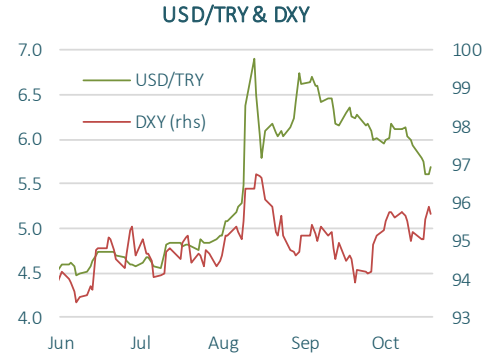
Inflation and growth expectations are worsening.

According to Survey of Expectations released by the CBRT last week, the inflation expectations of the market increased rapidly owing to high inflation reading in September. However, CBRT is not expected to increase its interest rate at its meeting on October 25th, due to the recovery in TL. Expectations on economic growth also showed a notable decline. The economic growth expectations of the market for 2019, which was at 4.5% in the beginning of the year, went down to 2.7% in the previous month and fell to 1.9% as of October.

USD/TRY is at two-month low.

USD strengthened in global markets following the release of the minutes of Fed's September meeting. In fact, the DXY index rose by 0.5% on a weekly basis. Despite the strong course of the USD, it was noteworthy that TRY had diverged positively from other emerging market currencies last week. Growing optimism regarding the improvement of relations with the USA following Pastor Brunson's trial played a big part in the appreciation of TRY. USD/TRY declined by 3.9% last week and traded at its lowest level in the last two months. Bond yields also declined thanks to the increase in risk appetite and a slight improvement in inflation expectations. The yield of 2-year benchmark bond fell by 100 basis points last week.

This week, European Central Bank's meeting and its signals for the upcoming period will be closely monitored along with US GDP growth data for the third quarter. In Turkey, CBRT meeting and the leading indicators will be followed.



Data Releases

		Period	Consensus	Prior
23 October	Consumer Confidence Index	October	-	59.3
	Re-opening of Fixed Coupon Bond with 2 Years Maturity	October	-	-
	New Issuance of Fixed Coupon Bond with 5 Years Maturity	October	-	-
24 October	Euro Area Consumer Confidence, preliminary	October	-3.2	-2.9
	Treasury Debt Redemption	October	2.150 million TRY	-
	USA New Home Sales	September	625K	629K
	USA Manufacturing PMI	October	55.4	55.6
	Euro Area Manufacturing PMI	October	52.9	53.2
25 October	Germany Manufacturing PMI	October	53.4	53.7
	CBRT MPC Meeting	October	-	-
	Capacity Utilization Rate	October	-	76.2%
	Real Sector Confidence Index	October	-	89.6
	Sectoral Confidence Indices	October	-	-
	USA Durable Goods Orders, monthly	September	-1.3%	4.5%
	ECB Meeting	October	-	-
26 October	USA GDP Growth, annual	2018Q3	3.3%	4.2%

Source: Datastream

Sectoral Developments

Domestic sales in automotive industry continue to decline.

According to the estimates published by the Automotive Distributors Association (ODD), automotive production is expected to decrease by 5% this year to about 1.6 million units, while exports will decrease by 2.5%. With the slowdown in the economy and the high volatility observed in exchange rate markets, contraction in the domestic automotive market is expected to reach 40% this year and thus sales are anticipated to decline to 600K units. Next year, sales are expected to fall to 450K units, the lowest level since 2003. Domestic sales in the automotive sector were realized around 1 million units in both 2016 and 2017.

Protectionist measures were introduced in steel industry.

As the USA and EU, the most important export markets of Turkey in steel sector, had begun to implement protectionist measures; Turkey set quotas on steel imports starting on October 17th in order to protect domestic producers, and introduced additional 25% custom duty on steel imports exceeding that quota. Steel industry, which is expected to contract this year due to the loss of momentum in construction sector and decreasing demand in manufacturing industry, is likely to be positively affected by this regulation.

House sales continue to decline.

In Turkey, house sales fell by 9.2% in September compared to the same period of the last year. Despite high base effect created by strong sales in September 2017, the decline in house sales remained limited indicating that sales are not as weak as expected. However, high interest rates continue to negatively affect housing demand. In September, mortgage sales contracted by 72% yoy. On the other hand, despite rising costs, housing prices continued to decline in August as well. According to the data released by the CBRT, hedonic housing prices in Turkey decreased by 0.5% month-on-month while increasing by 8.3% yoy. Istanbul was among the cities with the lowest annual housing price increase with an annual price increase of 3.7%. Thus, in real terms, house prices in Istanbul declined by 12.1% yoy.

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

Hatice Erkiletlioglu
Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Alper Grler
Unit Manager
alper.gurler@isbank.com.tr

Ahmet Aarkaya
Economist
ahmet.asarkaya@isbank.com.tr

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

LEGAL NOTICE

This report has been prepared by Trkiye İ Bankası A.. 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 Trkiye İ Bankası A.. 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, Trkiye İ Bankası A,, 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.
