

| | 9-Nov | 16-Nov | Change | | 9-Nov | 16-Nov | Change |
|---------------------------|--------|--------|-----------|------------------------|--------|--------|----------|
| BIST-100 Index | 92,839 | 93,616 | 0.8 % ▲ | EUR/USD | 1.1334 | 1.1418 | 0.7 % ▲ |
| TRY 2 Year Benchmark Rate | 21.71% | 20.19% | -152 bp ▼ | USD/TRY | 5.4596 | 5.3308 | -2.4 % ▼ |
| Turkey 5-Year CDS | 364 | 367 | 3 bp ▲ | EUR/TRY | 6.1892 | 6.0870 | -1.7 % ▼ |
| MSCI EM Equity Index | 976 | 986 | 1.0 % ▲ | Gold (USD/ounce) | 1,209 | 1,221 | 1.0 % ▲ |
| US 10-Year Bond Rate | 3.19% | 3.07% | -12 bp ▼ | Brent Oil (USD/barrel) | 69.1 | 64.9 | -6.1 % ▼ |

bp: basis point

Last week, the news on the Brexit process and the decline in oil prices were high on the agenda of global markets. Although the draft Brexit deal agreed after the negotiations between the UK and the EU was approved by the cabinet in the UK, the resignation of some of the cabinet members fueled uncertainties regarding the next phase of Brexit. Oil prices fell due to the expectations that global demand will decline and Trump's calling on OPEC not to cut supply. USD/TRY tested the 5.30 levels again thanks to positive mood in the markets. In September, calendar adjusted industrial production contracted by 2.7% yoy, confirming the deceleration in economic activity.

Downward trend in oil prices...

The downward trend in oil prices continued during the last week due to the increase in oil inventories in the US and the growing signs that the global economic activity has lost momentum. Saudi Arabia's announcement that they may consider cutting production in December caused upward pressure in oil prices during the week. On the other hand, Trump's comments that prices should continue to fall weighed on prices.

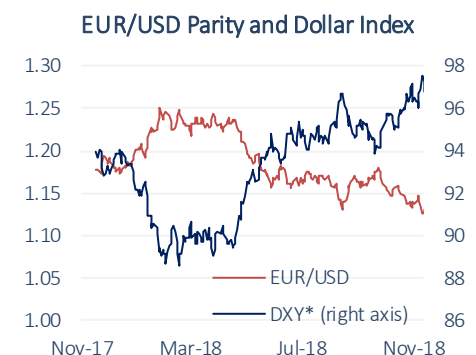
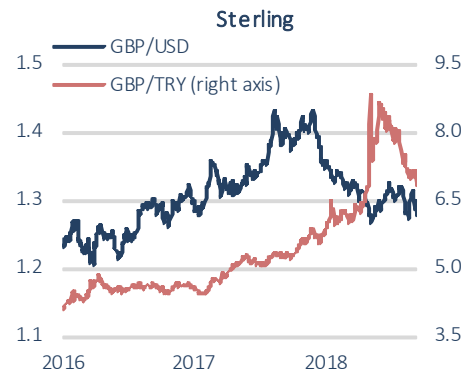
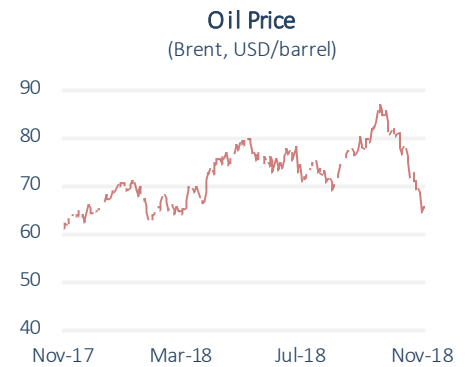
OPEC revised the oil demand for 2019 downwards in its monthly report published last week. The Organization thus reduced its forecast for oil consumption for the fourth consecutive month. OPEC President Al Mazrouei's announcement that production could be reduced in order to reduce the volatility in oil prices slightly limited the downward trend in oil prices. Brent crude oil price declined by 6.1% last week and ended the week at 64.9 USD.

Ongoing uncertainties on Brexit process...

The draft Brexit deal, which the EU and Britain agreed on, was approved by the UK cabinet last week. At the next stage, the draft text will be submitted to the approval of the parliament. However, the resignation of some cabinet members, including the Minister responsible for Brexit, raised concerns for the coming period. Following this split, sterling followed a volatile course and GBP/USD went down as low as to 1.27. The views that the draft could not be approved in the parliament unless UK's Prime Minister May finds support from the opposition party came to the forefront. All these developments indicated to a further painful process. The draft Brexit deal will be discussed at the EU summit on November 25.

Developments regarding the trade war...

Director of the United States National Economic Council Kudlow stated that the trade negotiations between the US and China have been continuing. The news reporting that China will issue a written response to the US' trade reform demands alleviated concerns in global markets regarding the trade wars. On the other hand, selling pressure on energy sector stocks due to declining oil prices and growing concerns about Brexit negatively affected the risk appetite in markets. While stock market indices followed a volatile course during last week, EUR/USD parity tested 1.12 levels.



Source: Datastream

Treasury borrowed less than planned.

As a part of November borrowing program, Treasury re-opened a fixed coupon bond auction with 2-year maturity. Average compounded interest rate of the bond was realized below the expectations at 18.79%. According to the borrowing program, Treasury had announced that they would borrow 22.4 billion TRY for 21.8 billion TRY worth of redemptions. However, Treasury cancelled 3 out of 6 planned auctions, hence borrowing a total amount of 3.1 billion TRY. Therefore, borrowed amount remained considerably below the one previously planned.

Industrial production declined in September.

Industrial production fell by 2.7% in September compared to the same month of the last year, according to calendar adjusted data. In this period, production in mining industry increased, while that of manufacturing and electricity industry declined. A weak increase in industrial production with a growth rate of 1.5% in the third quarter pointed out that economic growth has been losing momentum.

Budget data released last week showed that tax revenues recorded a weak performance which was in line with the slowdown in economic activity ([Our Budget Report](#)).

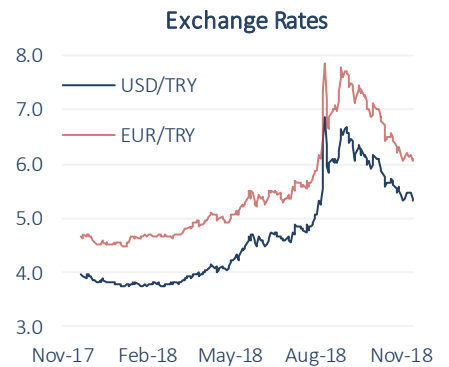
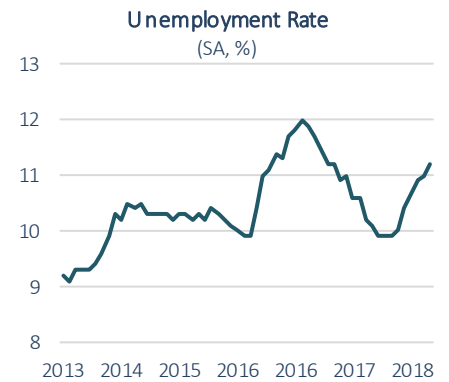
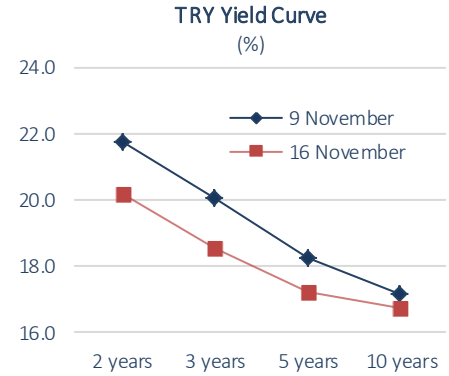
Increase in unemployment rate...

In August, unemployment rate increased to 11.1%, surging by 0.5 point from a year earlier. On a monthly basis, according to seasonally adjusted figures, the unemployment rate also rose by 0.2 point to 11.2%.

Positive mood in domestic markets...

The positive sentiment in emerging markets as well as the decline in yields at Treasury auctions supported domestic markets. While USD/TRY has been moving lower and has tested the level of 5.30 during the week, BIST-100 index increased slightly, led by banking stocks. The yield of the 2-year benchmark bond fell below 20% for the first time since July.

This week, the market focus will likely be on Brexit process and news about the trade wars.



Data Releases

| | | Period | Consensus | Prior |
|--------------------|----------------------------------|------------|----------------------|-------------------|
| 19 November | EA Current Account Balance | September | 24.1 billion EUR (A) | 20.5 billion EUR |
| 20 November | US Housing Starts Number | October | 1,235 mln | 1,201 mln |
| | TR Central Government Debt Stock | October | - | 1,121 billion TRY |
| 21 November | US Durable Goods | October | -%1.8 | %0.7 |
| | US Initial Jobless Claims | 12-17 Nov. | - | 216k person |
| | US Existing Home Sales | October | 5.23 mln | 5.15 mln |
| | US Michigan Sentiment Index | November | 98.5 | 98.3 |
| 22 November | TR Consumer Confidence Index | November | - | 57.30 |
| | EA Consumer Confidence (flash) | November | -3.0 | -2.7 |
| | EA Manufacturing PMI (flash) | November | 52.0 | 52.0 |
| 23 November | US Manufacturing PMI (flash) | November | 55.7 | 55.7 |

(A) Actual

Source: Datastream

Sectoral Developments

Cuts in SCT and VAT to support the automotive sector...

According to the data released by Automotive Industry Association (AIA), total production in the automotive sector decreased by 16% yoy in October, while the fall in the domestic sales stood at 76.4%. The contraction in the domestic market since the second quarter of the year stemming from the depreciation in TRY led to a decline in production throughout the year. During the January-October period, total production in the sector dropped by 5.9% yoy. In this period, the annual contraction in the domestic sales was realized as 32.3%, while total exports on quantity basis recorded a limited fall of 0.4%. Sector officials stated that the cuts in SCT and VAT have a positive impact on the sector. The officials anticipated that domestic sales in November and December will be around 60,000 units.

Rise in scrap paper production led to new investments in the sector.

The rise in paper prices owing to the rise in exchange rates and the upsurge in Chinese demand due to shutdowns of the factories in the country as a result of antipollution measures has supported the production of scrap paper. Sector officials stated that the production of scrap paper in the last five years has doubled and reached 4 million tons on an annual basis while predicting that the annual production capacity will be 5 million by 2020 thanks to the new investments. Officials of the corrugated paperboard sector, where the input costs rose in line with the increase in paper prices, mentioned that that 80% of the raw material demand was obtained from recycling and thus there is need for increase the rate of paper recycling further.

Housing prices continue to decline in real terms.

According to the Hedonic House Price Index published by the CBRT, housing prices in Turkey decreased by 0.36% in September compared to the previous month. On an annual basis, housing prices have increased by 7.17%. Accordingly, the 13.93% decline in housing prices in real terms indicated that demand in the housing sector remained weak.

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