

	23-Nov	30-Nov	Change		23-Nov	30-Nov	Change
BIST-100 Index	93,003	95,416	2.6 % ▲	EUR/USD	1.1340	1.1315	-0.2 % ▼
TRY 2 Year Benchmark Rate	20.87%	20.26%	-61 bp ▼	USD/TRY	5.2865	5.2118	-1.4 % ▼
Turkey 5-Year CDS	393	387	-5 bp ▼	EUR/TRY	5.9980	5.8994	-1.6 % ▼
MSCI EM Equity Index	969	995	2.6 % ▲	Gold (USD/ounce)	1,222	1,222	0.0 % ▼
US 10-Year Bond Rate	3.05%	3.01%	-4 bp ▼	Brent Oil (USD/barrel)	58.0	57.5	-0.9 % ▼

bp: basis point

Last week, Fed Chair Jerome Powell's "dovish tone" had a positive impact on the global risk appetite. In US, stock markets rebounded while Treasury bond yields declined. This weekend US and China agreed on a 90-day ceasefire in trade war. The rising optimism in global markets reflected also to domestic markets and Turkish lira gained strength. Recent leading indicators confirmed the rebalancing in economic activity. In November, inflation declined in line with the easing cost pressures and campaigns. This week's agenda is quite heavy. The OPEC meeting, in which the roadmap of oil supply will be reshaped, developments in US labor markets and the Brexit deal vote in British parliament are high on the agenda.

### Dovish remarks from Fed...

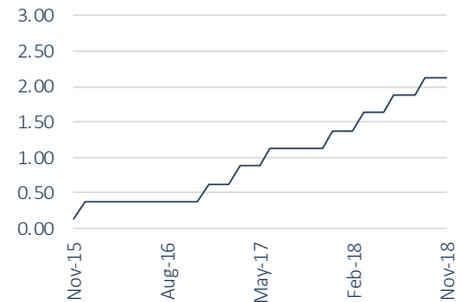
At the beginning of last week, repeated critics from US President Donald Trump towards Fed's monetary policy led USD to depreciate against other developed currencies. In his speech on Wednesday, Fed Chair Jerome Powell stated that current policy rate is 'just below' the neutral level and the effects of gradual rate hikes on US economy is uncertain. After Powell's 'dovish' remarks, in search for any signs of Fed's future monetary policy roadmap, global investors turned their eye on to November issue of the FOMC statements. Related statements demonstrated that FOMC members agreed on rising policy rate in the near future and cited the recent slowdown in the sectors that are sensitive to growing global risks as well as interest rate changes. Highlighting the convergence to the neutral interest rate level, the members' stance to remove the remark of "gradual rate hikes would continue" from the FOMC statement raised the expectations that Fed's rate hikes would continue at a more gradual pace in 2019.

In the coming period, growing expectations that US borrowing costs would rise rather slowly made a positive impact on investors' risk appetite. While stock indices turned upwards, US 10-year Treasury yields approached to 10-week lows, declining to 3.01%. USD depreciated against other developed currencies due to easing uncertainties stemming from Brexit and Italy as well as Fed's dovish statements.

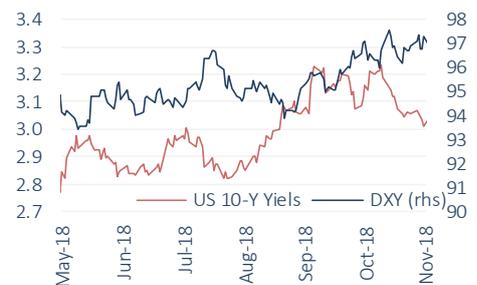
### Decline in oil prices continues.

Strengthening views on a possible slowdown in the future global economic activity and trade war-related risks led a rise in uncertainty about the future of the oil demand lately. Besides, during this period, both Saudi Arabia and USA's raising oil production to record levels and so increasing global oil stocks bolsters the idea that there is supply and demand imbalance in the oil market. Oil prices which maintained its downward move in the first half of the week, regained its losses partially in the following days. Oil prices recovered thanks to the news that implies a potential production cut which might be concluded in this week's OPEC meeting would probably be backed by non-member countries such as Russia. Brent oil prices per barrel fell by 0.9% wow to 57.5 USD. Gold prices on the other hand were flat, closing at 1,222 USD/ounce.

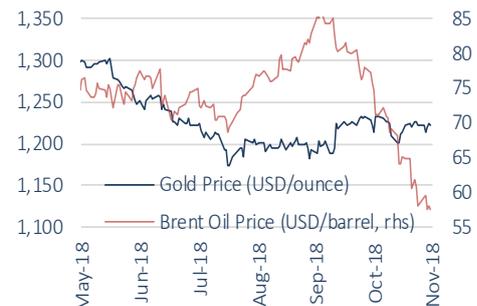
US Policy Rate (%)



US 10-Y Yields and Dollar Index



Gold & Oil Price



Source: Datastream

### Economic activity continues to slow down.

Although the improvement in financial markets in the recent weeks was reflected in the confidence indices, it is noteworthy that the real sector maintained its careful attitude in the same period. In November, capacity utilization rate (CUR) decreased by 1.3 points mom to 74.1%. Thus, CUR of the Turkish manufacturing industry the was realized at its lowest level in the last 44 months. The sharp slowdown in the production of chemical products that has high dependence on imported raw material is noteworthy, while the weakening demand for housing and automobiles has suppressed the production of mineral products and motor vehicles.

In November, manufacturing PMI increased by 0.4 points mom and realized at 44.7. The index, which remained below the threshold value of 50, indicated that the production conditions in the manufacturing industry deteriorated in the eighth consecutive month. While the improvement in the cost items of the manufacturing sector came to the forefront in the limited increase recorded in November, the decline in production activities and new orders of the sector drew attention.

### Inflation declined in November.

In November, inflation fell sharply due to the decline in oil prices, tax cuts and the appreciation in TRY as well as discount campaigns. CPI and D-PPI decreased by 1.44% and 2.53%, respectively. The decline in inflation was well above the market expectations. 1.17 percentage point decrease in the transportation group was at the forefront in the decline of CPI. Moreover, the decline in core inflation, which is important in terms of the development of general pricing behavior, was noted as a positive development.

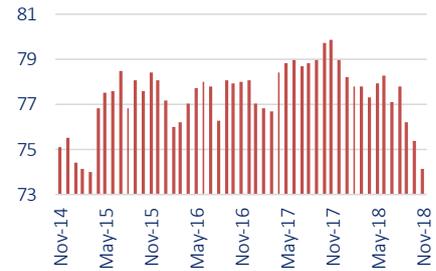
### Foreign trade deficit is shrinking.

The weakening trend of private consumption in Turkey shows itself in foreign trade data. In October, exports increased by 13% yoy to 15.7 billion dollar; imports decreased by 23.8% to 16.2 billion dollar. Thus, the imports coverage ratio reached its highest level since July 1994 with 97.2%. While motor vehicles and boilers/machines were the sectors with the most exports, the iron and steel sector which developed its price competitiveness lately has followed these sectors. The downward trend in domestic automobile and white goods markets in recent months, has reflected as a decline in the imports of these goods ([Our Foreign Trade Balance report](#)). The preliminary data released by the Ministry of Commerce indicate that the foreign trade deficit narrowed rapidly in November as well.

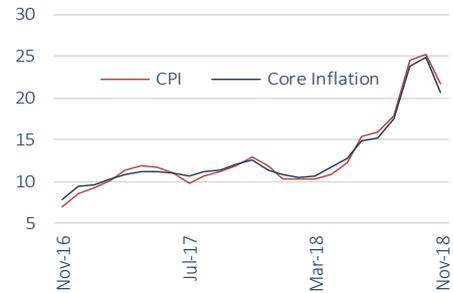
### TRY continues to strengthen.

Last week, the recovery in global investors' risk appetite increased the capital flows to the emerging markets, including Turkey. With the increasing demand for TRY assets, the yield curve moved downwards, while the 2-year benchmark bond's compound interest rate decreased by 61 basis points to 20.26%. BIST-100 index increased by 2.6% wow. Parallel to these developments, TRY appreciated by 1.5% against the currency basket (0.5\*dollar + 0.5\*euro).

#### Capacity Utilization Ratio (%)



#### Annual Increase (%)



#### TRY vs Currency Basket



### Data Releases

		Period	Consensus	Prior
3 December	TR CPI (yoy)	November	21.6% (A)	25.2%
	TR D-PPI (yoy)	November	38.5% (A)	45.0%
	TR Manufacturing PMI	November	44.7 (A)	44.3
	Euro Area Manufacturing PMI	November	51.5	51.5
	US Manufacturing PMI	November	55.4	55.7
4 December	Euro Area PPI (mom)	October	0.4%	0.5%
	Euro Area GDP	Q3		0.2%
7 December	US Nonfarm Payrolls	November	200k persons	250k persons
	US Unemployment Rate	November	3.7%	3.7%
	US Average Hourly Earnings	November	3.1%	3.1%

(A) Actual

## Sectoral Developments

### **The number of instalments for some electronic products has been increased.**

Following the fluctuations in the financial markets during the summer months, new measures are taken in order to stimulate the spending of consumers who show cautious attitude. Last week, BRSA's regulation in this regard has been published in the Official Gazette. In this context, the number of instalments for mobile phones with a price less than 3,500 TRY is increased to 12, while the number of instalments for the products over 3,500 TRY is set as 6. In addition, it was announced that the number of instalments for domestic tourism expenditures increased from 6 to 9.

### **The recovery in automotive market is expected to be gradual.**

Due to the depreciation in Turkish lira and the rise in financing costs, the contraction in the Turkish automotive market became more evident recently and the recovery is expected to be only gradual. Sector officials say that domestic automotive market could continue to shrink in 2019, as the market could enter a gradual growth trend starting from 2020 and it is difficult for sales to exceed 1 million threshold before 2023.

### **The buoyancy in tourism sector...**

Last week data released by Hotel Association of Turkey confirmed the strong activity in the tourism sector. In October, the hotel occupancy rate increased by 7.7 points yoy to 69.4%. Thus, Turkey's hotel occupancy rate recorded the fastest increase among European countries in 2018. Besides strong demand conditions led to a rise in room rates. The revenue per available room, which was 39 euro in October 2017 rose to 51 euro this year.

The buoyancy in tourism sector is expected to continue in the coming year. In line with the strong external demand, accommodation prices in TRY terms is expected to increase by 40% in 2019, as sector official underlined that some businesses are considering reducing their quota for local tourists from 20% to 15%.

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