

|                           | 20-Sep  | 27-Sep  | Change   |                        | 20-Sep | 27-Sep | Change   |
|---------------------------|---------|---------|----------|------------------------|--------|--------|----------|
| BIST-100 Index            | 100,237 | 105,152 | 4.9 % ▲  | EUR/USD                | 1.1017 | 1.0938 | -0.7 % ▼ |
| TRY 2 Year Benchmark Rate | 14.96%  | 14.13%  | -83 bp ▼ | USD/TRY                | 5.7429 | 5.6698 | -1.3 % ▼ |
| Turkey 5-Year CDS         | 379     | 359     | -20 bp ▼ | EUR/TRY                | 6.3268 | 6.2034 | -2.0 % ▼ |
| MSCI EM Equity Index      | 1,021   | 1,001   | -1.9 % ▼ | Gold (USD/ounce)       | 1,517  | 1,497  | -1.3 % ▼ |
| US 10-Year Bond Rate      | 1.75%   | 1.67%   | -8 bp ▼  | Brent Oil (USD/barrel) | 64.6   | 62.1   | -3.9 % ▼ |

bp: basis point

Developments regarding the course of trade negotiations were influential in the course of global markets last week. While the data released for the US economy caused the US dollar to appreciate, data released in the Euro Area were interpreted that slowdown could be deeper and longer lasting than previously anticipated. In Turkey, optimism for Turkey-US relations and CBRT's statements supported the markets. New Economic Program is announced on the first day of the new week, which will follow a relatively intensive data agenda.

### ECB drew attention to the risks related to growth.

Last week, European Central Bank (ECB) President Draghi pointed out the necessity of a policy stance that supports the economy. Remarking that the loss of momentum in economic activity can last more than the forecasts, Draghi indicated that he believes inflation will approach the target and that the labor market will improve gradually. Christine Lagarde, who is expected to lead ECB after Draghi, has stated that trade threats are the biggest hurdle to the global economy. Lagarde said that the US and Chinese tariffs are expected to reduce global economic growth by 0.8% in 2020, while the US economy remains in good condition.

### PMI data in the Euro Area confirmed the weak course of economic activity.

Manufacturing and services PMI values for the Euro Area, which were released last week, failed to meet the expectations. In Germany, the composite PMI index, which is calculated by evaluating the PMI data on manufacturing and service sectors together, was below the threshold level for the first time in six and a half years in September. This was mainly due to the weak performance of the manufacturing industry (weakest since 2009) and the loss of momentum in the services sector. The present outlook increased concerns about global economic growth.

### Data released in the US were above expectations.

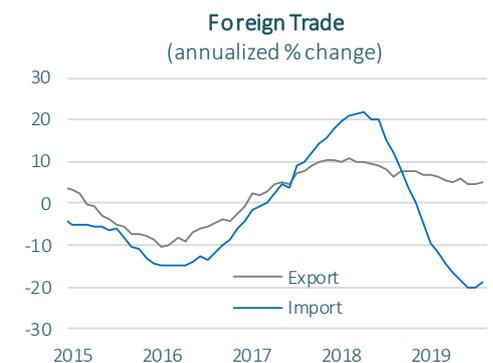
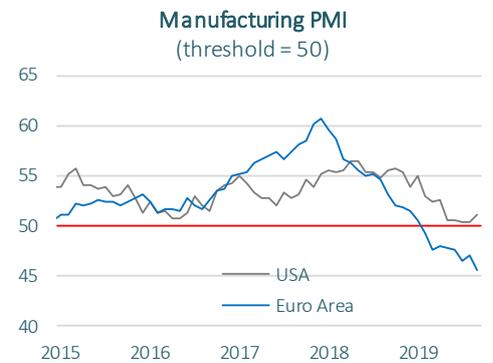
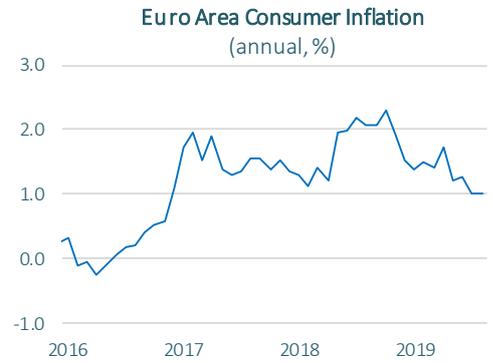
The US economy grew by 2% in the second quarter, according to final data. In this period, investment expenditures decreased by 1% and recorded the fastest decline since the last quarter of 2015. On the other hand, the data on the housing market in the country continues to give positive signals for the sector. Following the announcement of new home sales data above the forecasts, pending home sales rose by 1.6% mom in August, also well above the expectations. In addition, core PCE inflation remained close to the Fed's 2% target at 1.8%.

### New Economic Program was announced in Turkey.

The New Economic Program (NEP) which includes government's medium-term objectives, was released on September 30th. 2019 and 2020 were called the balancing period in the Program, which covers the years between 2020-2022. According to the NEP, economic growth in 2019 will be 0.5% while it is predicted to be 5% in 2020. Consumer inflation is expected to decline to 12% by the end of this year and 8.5% by the end of 2020.

### August foreign trade figures were announced.

In August, export volume increased by 1.6% yoy to 12.5 billion USD, while import volume rose by 1.5% to 15 billion USD. Thus, foreign trade deficit increased by 1.2% in August and reached 2.5 billion USD. According to 12-month cumulative data, foreign trade deficit remained flat.



Source: Datastream

**IMF revised its forecast regarding Turkey’s growth upwards.**

Following its visit to Turkey under Article IV, IMF stated that Turkey remains susceptible to external and domestic risks; adding that strong and sustainable growth would be challenging without further reforms. IMF sharply raised its forecast for Turkey’s economic growth this year from -2.5% to 0.25%

**CBRT’s Governor Uysal’s statements supported TRY.**

In his speech at the Ankara Chamber of Industry, Governor of the CBRT Murat Uysal stated that they utilized a significant part of the room for maneuver in monetary policy as front loaded in July and September. Uysal’s speech stating that “monetary policy stance at this point supported the disinflation process” encouraged the expectations that interest rate cuts will be more gradual in the coming period and this has been perceived positively in the markets. On the other hand, Uysal mentioned that inflation is still at a high level, and underlined the necessity of the cautious stance in monetary policy in order to make the decline in inflation permanent. CBRT had lowered the policy rate by 750 bps to 16.5% in July and September meetings.

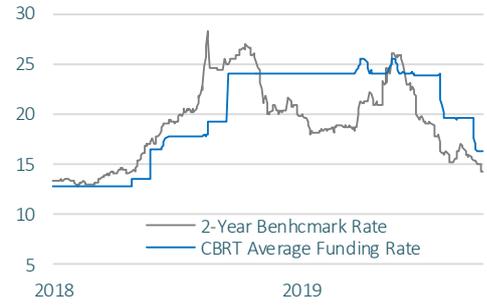
Following the interest rate cuts, CBRT also lowered interest rates for TRY reserve requirements last week. The Central Bank reduced the interest rate on TRY reserve requirements from 13% to 8% valid from October 4th. Aforementioned interest rate will be applied as 10% for the banks whose TRY credit growth is between 10-20%, and as 0% for the others. On August 19th, the related rates were announced as 15% and 5%, respectively.

**Markets...**

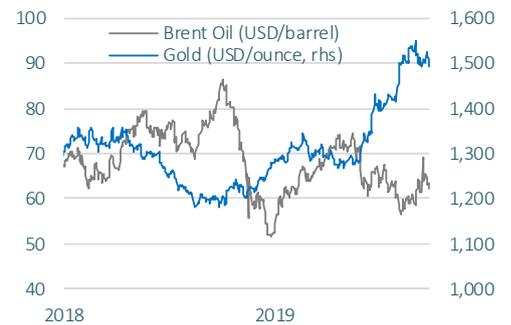
Oil prices came back down thanks to the announcement that production has returned to its previous level in Saudi Arabia, whose oil production facility was attacked on September 14th. Gold prices also declined slightly as a result of the relative recovery in risk perception.

Global stock markets followed a mixed outlook in line with the developments regarding the trade war, while domestic markets had a positive outlook. Positive expectations regarding Turkey-US relations were effective in this development. While BIST-100 index rose by 4.9% wow, the compound interest rate of the 2-year benchmark bond decreased by 83 basis points to 14.13%. TRY appreciated against the dollar and euro.

**Benchmark and CBRT Funding Rate (%)**



**Gold and Oil Prices**



**BIST-100**



**Data Releases**

|                     |                                   | Period    | Consensus            | Prior            |
|---------------------|-----------------------------------|-----------|----------------------|------------------|
| <b>30 September</b> | TR Trade Balance                  | August    | -2.5 billion USD (A) | -3.2 billion USD |
|                     | USA Chicago PMI                   | September | 50.4                 | 50.4             |
|                     | China Caixin PMI                  | September | 51.4 (A)             | 50.4             |
|                     | Euro Area Unemployment            | August    | 7.4% (A)             | 7.5%             |
|                     | Germany Retail Sales, mom         | August    | 0.5% (A)             | -2.2%            |
| <b>1 October</b>    | USA ISM Manufacturing             | September | 50.0                 | 49.1             |
|                     | Euro Area Consumer Inflation, yoy | September | 1.0%                 | 1.0%             |
| <b>2 October</b>    | Treasury Debt Redemption          | October   | 986 million TRY      | -                |
|                     | USA ADP Employment Report         | September | 152K                 | 195K             |
| <b>3 October</b>    | TR Consumer Inflation, yoy        | September | -                    | 15.0%            |
|                     | TR Producer Inflation, yoy        | September | -                    | 13.5%            |
|                     | USA Factory Orders, mom           | August    | -0.6%                | 1.4%             |
|                     | Euro Area Retail Sales, mom       | August    | 0.3%                 | -0.6%            |
| <b>4 October</b>    | USA Nonfarm Payrolls              | September | 145K                 | 130K             |

(A) Actual

Source: Datastream

## Sectoral Developments

### Real sector confidence declined in Turkey.

In Turkey, capacity utilization rate (CUR) and real sector confidence index data were followed last week. The seasonally adjusted CUR declined by 0.2 percentage points to 76% in September. In this period, the seasonally adjusted real sector confidence index, which decreased by 2.4 points on a monthly basis to 99.7, fell again below its 100 level in August. In terms of sub-indices, relative improvement in the volume of output expectations for the next 3 months draws attention, while the general business situation and total amount of orders are deteriorating.

### White goods production increased in August with the support of exports.

According to White Goods Manufacturers' Association (TÜRKBESE) data, decline in white goods domestic sales continued in August. 12-month cumulative data suggests an annual contraction of 17% in domestic sales in August. While increase in exports continued to reach 5.8% in this period, production increased by 0.4%. As it is expected that contraction in the domestic market will be around 15% throughout the year, the fact that costs which increased by 45%-50% in 2019 due to FX and commodity prices cannot be reflected to prices in the domestic market continues to affect the sector negatively.

### Thomas Cook's liquidation worries the tourism industry.

As the world's oldest travel company, Thomas Cook, went into the process of liquidation last week, it is expected that many Turkish businesses with receivables from the company will face difficulties. Ministry of Culture and Tourism said in a statement on the issue during the week that a credit support package will be brought to the affected enterprises. Liquidation of Thomas Cook which approximately carries around 700K visitors to Turkey each year also contains risks for Turkey to lose such visitors.

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