

	27-Sep	4-Oct	Change		27-Sep	4-Oct	Change
BIST-100 Index	105,152	103,464	-1.6 % ▼	EUR/USD	1.0938	1.0976	0.3 % ▲
TRY 2 Year Benchmark Rate	14.13%	13.58%	-55 bp ▼	USD/TRY	5.6698	5.6952	0.4 % ▲
Turkey 5-Year CDS	359	361	3 bp ▲	EUR/TRY	6.2034	6.2521	0.8 % ▲
MSCI EM Equity Index	1,001	997	-0.5 % ▼	Gold (USD/ounce)	1,497	1,504	0.5 % ▲
US 10-Year Bond Rate	1.67%	1.51%	-16 bp ▼	Brent Oil (USD/barrel)	62.1	59.1	-4.8 % ▼

bp: basis point

Last week, the weak manufacturing data in the US and Euro Area raised concerns about economic growth. World Trade Organization revised its global trade volume forecasts down, citing the trade war. Also, Fitch stated that global economic growth would be under downward pressure in the upcoming years. The deceleration in economic activity had a negative impact on global markets. On domestic front, better-than-expected inflation data and geopolitical developments drove the markets.

The loss of momentum in US ISM manufacturing data...

Having realized below the threshold level of 50 for the first time in August since 2016, manufacturing data came in at 47.8 in September, indicating the sharpest contraction since 2009. It was noteworthy that new export orders, one of the sub-items of the index, decreased to 41, the lowest level since 2009. The slowdown in the manufacturing sector reflected the negative impacts of the trade war on the US economy. The deepening concerns over global economic growth, driven by recent data releases, caused selling pressure in global markets.

Non-farm payrolls in the US fell short of expectations with an increase of 136 thousand people in September. Average hourly earnings, which rose by 0.4% mom in August, remained flat in September. Thus, the earnings increased by 2.9% on an annual basis, the slowest pace since July 2018. The unemployment rate dropped to 3.5%, the lowest level in nearly 50 years, alleviated concerns about the slowdown in the economic growth. Markets expect the Fed to cut rates at least one more time by the end of this year.

Manufacturing sector in Euro Area remained weak.

Manufacturing PMI fell to 45.7 in September, pointing to an eighth consecutive month of contraction in the sector. In particular, the deepening deterioration in the sub-indices of production and demand drove the decline in the index, which dropped to the lowest level since October 2012. In addition to the sluggish economic data, the news that the US would impose additional tariffs on certain EU products had a negative impact on the European markets last week. The EUR/USD parity tested below 1.09 for the first time since 2017 during the week.

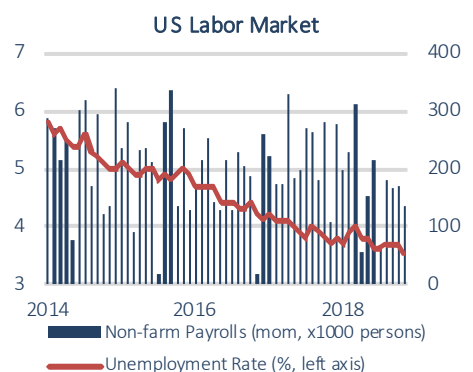
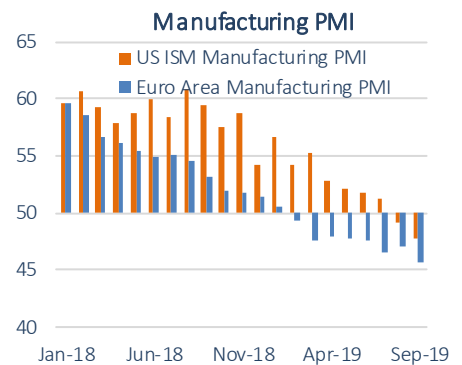
Fitch: "Global growth will decline to the lowest level of 8 years in 2020."

Stressing the negative impact of trade war on global economic outlook, Fitch expected global growth to be realized at 2.6% in 2019 and to decline to the lowest since 2012 with 2.5% in 2020. The rating agency shared the expectation that Fed would keep interest rates unchanged during 2020 by stating that recent interest rate cuts from the Fed did not mark the beginning of a protracted series of rate cuts.

Fitch cited that Turkish economy performed better-than-expected in the second quarter and revised GDP contraction forecast for 2019 to 0.3% from 1.1%. While the agency's growth expectation for 2020 remained at 3.1%, inflation forecasts for this year and next year are 14% and 12%, respectively.

Manufacturing PMI rose to 50 in Turkey.

Manufacturing PMI surged to the threshold level of 50 in September. The



Source: Datastream

increase in the index, which had come in below the threshold level for the 17 consecutive months, was mainly driven by the new orders, rising for the first time in 1.5 years. Despite the recovery in orders, it is noteworthy that production has not posted an increase yet. While employment sub-index increased after falling 14 months, the persistent decline in input costs was noted as a positive development for the inflation outlook.

Annual inflation fell to single digits in September for the first time .

Monthly CPI inflation came in at 0.99%, well the below market expectation of 1.3%. Thus, annual CPI inflation declined to 9.26% in September thanks largely to the base effect. While, Domestic PPI (D-PPI) which increased by 0.13% mom in this period, annual inflation in D-PPI decreased to 2.45%, the lowest level recorded since September 2016. In October, we expect that monthly CPI inflation will be higher than the September print due to both seasonal factors and the electricity price increase. On the other hand, we anticipate that the fall in annual CPI inflation will continue thanks to the favorable base effect. ([Inflation Report](#))

CPI-based real effective exchange rate rose by 22.7% yoy.

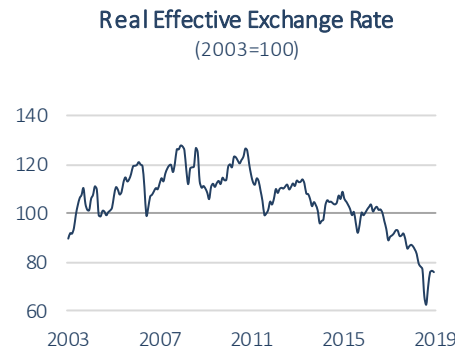
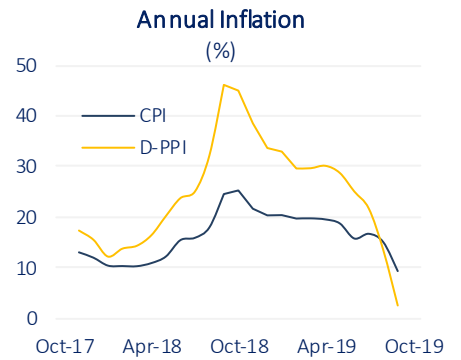
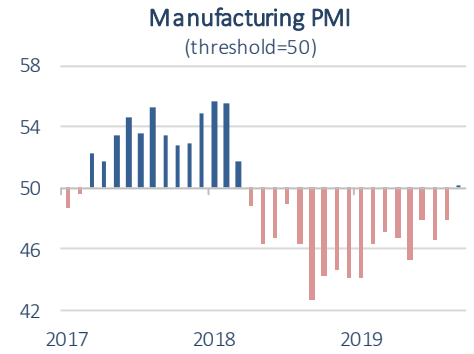
According to the data released by the CBRT, CPI-based real effective exchange rate index decreased by 0.3% mom in September, while increasing by 22.7% yoy to 76.7. The index, which decreased to its historical low level with 62.5 in September 2018, followed an upward trend generally since then, reaching 77.4 in February. The rise in the index shows that the TL appreciated in real terms, in other words, the value of Turkish goods in terms of foreign goods increased.

Financial markets...

Domestic markets have fluctuated during the last week. In the beginning of the week, a negative mood was observed due to the news on possible military operation in Syria as well as the selling pressure in global markets. On the other hand, comments that better-than-expected inflation data created space for a rate cut for the CBRT supported the BIST-100 index. The Turkish lira was volatile throughout the week. The interest rate of the 2-year benchmark bond fell by about 50 basis points on a weekly basis.

This week's agenda...

This week, a calm data agenda will be followed in both global and domestic markets. In global markets, trade negotiations that are expected to take place this week between the US and China will be watched closely. In domestic markets, balance of payments data will be monitored on Friday.



Data Releases

		Period	Consensus	Prior
7 October	EA Sentix Index	October	-16.8 (A)	-11.1
8 October	US PPI Inflation(annual)	September	1.8%	1.8%
	UK Retail Sales (annual change)	September	-	-0.5%
9 October	US Job Openings	August	-	7.217 million
10 October	UK Industrial Production (annual)	August	-0.9%	-0.9%
	US CPI Inflation (annual)	September	1.8%	1.7%
	US Jobless Claims	1-5 October	219k persons	219k persons
11 October	TR Current Account Balance	August	-	1.158 billion USD
	US Michigan Consumer Sentiment Index, flash	October	92.0	93.2

(A) Actual

Source: Datastream

Sectoral Developments

The base effect played a significant role in the growth of automotive market.

According to the data published by the Automotive Distributors Association; the domestic automotive market expanded in September thanks to the favorable low-base effect. While automobile sales doubled on an annual basis in September, light commercial vehicle sales expanded by 23% yoy. Although, total sales increased by 82.4% to 41.992 units in this period, the sales remained below the 10-year average (approximately 64,000 units). During the January-September period, total sales contracted by 39.3% yoy in the automotive market as the market exhibited a weak outlook during the year.

In the January-August period, the number of foreign visitors increased by 14.7% yoy.

According to the data announced by the Ministry of Culture and Tourism; the number of foreign visitors coming to Turkey increased by 17.2% yoy to 6.3 million people in August. Thus, in the first eight months, the number of visitors rose by 14.7% yoy to 31.4 million people. In August, Russia ranked first with a share of 17.1% and 1 million persons. This country was followed by Germany and the UK with 11.3% and 6.7% share, respectively.

Electricity tariffs were increased by 14.9%.

According to the Energy Market Regulatory Authority (EMRA), consumers' electricity tariffs have been increased by 14.9% starting from October 1. Accordingly, residential users will pay TL 71.02 for 100 kWh consumption. EMRA had also hiked electricity prices by 15% in July due to the increases in energy costs.

Economic Research Division

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

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

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

Mustafa Kemal Gndođdu, Ph.D
Economist
kemal.gundogdu@isbank.com.tr

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

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