

	25-Oct	1-Nov	Change		25-Oct	1-Nov	Change
BIST-100 Index	100,216	98,463	-1.7 % ▼	EUR/USD	1.1078	1.1165	0.8 % ▲
TRY 2 Year Benchmark Rate	13.02%	12.54%	-48 bp ▼	USD/TRY	5.7738	5.6989	-1.3 % ▼
Turkey 5-Year CDS	338	335	-3 bp ▼	EUR/TRY	6.3905	6.3748	-0.2 % ▼
MSCI EM Equity Index	1,036	1,049	1.3 % ▲	Gold (USD/ounce)	1,504	1,514	0.6 % ▲
US 10-Year Bond Rate	1.80%	1.73%	-7 bp ▼	Brent Oil (USD/barrel)	62.2	61.5	-1.3 % ▼

bp: basis point

Last week, the Fed cut policy interest rate by 25 basis points in line with expectations and gave the signal that there won't be any further cuts unless economic activity deteriorates in the following period. In the third quarter of the year, the US economy grew by 1.9% above expectations, while the growth in Euro Area was slightly above the forecasts. In October, according to preliminary data foreign trade deficit continued to widen in Turkey. In the same period, monthly CPI inflation increased by 2% yoy, in line with market expectations. Having published its last Inflation Report of the year, CBRT revised its year-end inflation forecast down to 12%. This week, PMI data in US and Euro Area will be monitored in global markets.

### Fed cut policy interest rate by 25 basis points.

At its meeting ended on October 30th, the Fed cut the policy interest rate by 25 basis points to the range of 1.50-1.75% in line with expectations. Having cut interest rates for the third time this year, the Fed gave the signal that there won't be any further cuts unless economic activity in the US deteriorates in the following period. The removal of the phrase "act as appropriate to sustain the expansion" from Fed's statement drew attention. After the meeting Fed Chairman Jerome Powell stated that global risks persist and added that they foresee the growth in the US will continue at a moderate pace, inflation will rise to the target level of 2% and consumption will remain strong.

### US and Euro Area growth data were monitored.

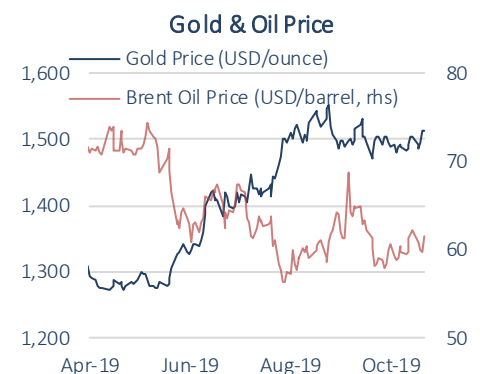
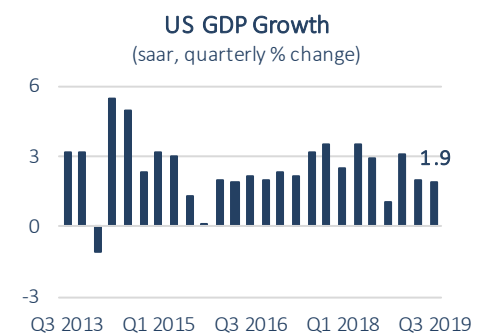
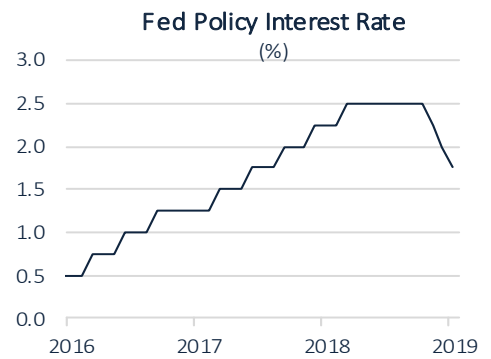
In the US nonfarm payrolls rose by 128K in October, faster than expected, confirming Fed's expression that the labor market was strong. The US economy grew by 1.9% in the third quarter of the year, above expectations. While private consumption expenditures lost momentum in this period, business investments contracted by 3%. Growth in Euro Area for the same period also came in slightly above the forecasts. The economy expanded by 0.2% qoq, maintaining its moderate performance in the previous quarter. On the other hand, inflation indicators in the US and Euro Area continue to remain weak. In the US, personal consumption expenditures price index increased by 1.3% yoy in September, staying below the 2% target level for the 11th consecutive month. Moreover, annual inflation in the Euro Area came in at 0.7% in October, the lowest level since November 2016.

### Political developments in the UK are on the agenda...

In Britain, a proposal to allow early elections was adopted in Parliament last week. Accordingly, as a result of the uncertainties in Brexit process, an election on December 12 is expected to take place. On October 28<sup>th</sup>, the EU approved the postponement of Brexit until January 31, at the request of Britain, and Prime Minister Boris Johnson has sent a letter to EU Council President Donald Tusk, acknowledging Brexit's postponement on behalf of the UK government.

### Oil and gold prices...

Last week, oil prices fluctuated due to the news of the trade agreement between the US and China, while gold prices rose slightly. In this context, Brent



Source: Datastream

crude oil price decreased by 1.3% on a weekly basis to 61.5 USD and gold prices were realized at 1,514 USD/ounce.

#### In Turkey, October CPI inflation came in line with expectations...

Monthly increase in CPI came in at 2% in October, parallel to the market expectations. Domestic PPI, on the other hand, increased by 0.17% in this period. Annual CPI and D-PPI increases became 8.55% and 1.70%, respectively. Contributions of alcoholic beverages-tobacco and clothing-footwear groups to CPI were noteworthy ([Our inflation report](#)).

#### In September, foreign trade deficit expanded by 6.6% yoy.

In September, export volume expanded by 0.3% to 14.4 billion USD, while import volume increased by 1% to 16.5 billion USD. Thus, foreign trade deficit widened by 6.6% yoy to 2.1 billion USD. During this period, import coverage ratio declined to 87.5% ([Our Foreign Trade Balance Report](#)). According to provisional data, exports decreased by 0.1% yoy to 15.7 billion USD in October, while imports rose by 7.8% to 17.4 billion USD. In this period, foreign trade deficit widened by 256% yoy and realized at 1.8 billion USD.

#### Fitch upgraded Turkey's credit rating outlook to stable.

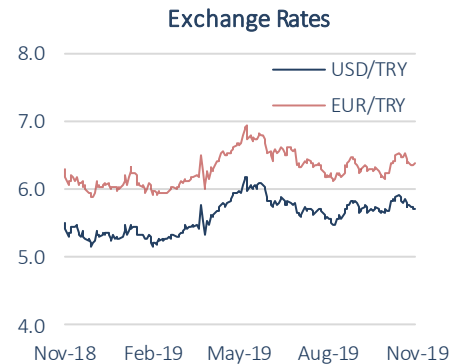
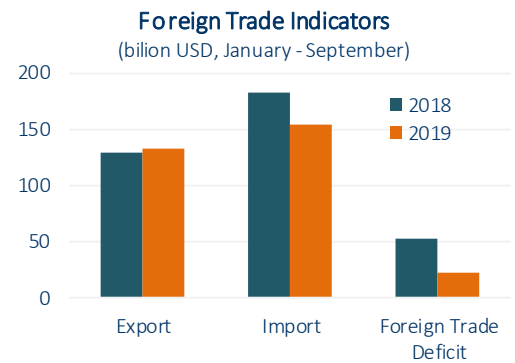
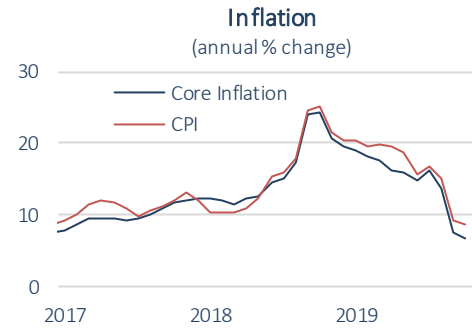
Credit rating agency Fitch, raised Turkey's credit rating outlook from "negative" to "stable", while maintaining its credit rating at BB-. In the statement, the Agency noted that Turkey has made progress in balancing the economy and the downside risks were relieved.

#### Domestic markets...

Last week domestic markets had a mixed outlook. USD/TRY fell by 1.3% to 5.6989, while BIST-100 index fell by 1.7%, below the level of 100,000. The interest rate of the 2-year benchmark bond also decreased by 48 basis points to 12.54%.

#### This week's agenda...

This week, PMI data to be announced in the US and Euro Area will be high on the data agenda in global markets. In domestic markets where there is no significant data release, geopolitical developments will continue to be monitored.



#### Data Releases

		Period	Consensus	Prior
4 November	TR CPI Inflation, mom	October	2% (A)	0.99%
	TR PPI Inflation, mom	October	0.17% (A)	0.13%
	US Factory Orders, mom	September	-0.3%	-0.1%
	Euro Area Markit Manufacturing PMI	October	45.7	45.7
5 November	US Markit Services PMI	October	-	51
	US ISM Non-Manufacturing PMI	October	53.2	52.6
6 November	Euro Area Services PMI	October	52	51.8
	Euro Area Retail Sales, mom	September	-0.6%	-0.3%
	Germany Factory Orders, mom	September	2.9%	-0.6%
	Germany Markit Services PMI	October	52.5	51.2
7 November	Germany Industrial Production, mom	September	-0.1%	0.3%
8 November	US Michigan Consumer Sentiment Index, preliminary	November	94.7	95.5

(A): Actual

Source: Datastream

## Sectoral Developments

### Manufacturing PMI declined in October.

Manufacturing PMI, which was 50 in September, fell to 49 in October, signaling a slowdown in the sector. During this period, new orders lost momentum due to weak demand conditions in both domestic and export markets, while production declined. Input costs continued to rise due to weakness in TRY and the rise in electricity prices. On the other hand, the rise in the employment index to the second consecutive month was recorded as a positive development.

### Economic confidence index rose in October.

According to the data released by TurkStat, economic confidence index increased by 4.5% mom to 89.8 in October. It took attention that the construction sector confidence index expanded by 8.3% in October also after having risen in September. All of the sectoral sub-indices that constitute the index, rose on a monthly basis and pointed out that the positive expectations about the economic activity spread to the general. However, the index has been continuing to be below the 100 threshold level since April 2018.

### September tourism statistics are published.

According to data released by the Ministry of Culture and Tourism, in September, the number of foreign visitors to Turkey increased by 13.2% yoy and reached 5.4 million. Moreover, the number of visitors increased by 14.5% in the January-September period to 14.4 million. Tourism revenues also continue to recover. In September tourism revenues reached 4.4 billion USD with an increase of 19.4%; while tourism revenues totaled 26.6 billion USD in the first 9 months of the year having risen 15.9% yoy. On the other hand, according to the law proposal adopted by the Parliament's Planning and Budget Commission, a new tax regulation under the name of "Accommodation Tax" comes into play. According to the regulation, the highest accommodation tax per person per night will be 18 TRY and the lowest will be 6 TRY.

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