

## WEEKLY OUTLOOK

*Mixed signals from the US...*

Democratic Party candidate Clinton's success over Trump at the first presidential debate caused US dollar to depreciate at the beginning of the last week. Clinton has been more supportive of Fed's current "gradual interest rate hike" policy while Republican candidate Trump asserts that Fed keeps interest rates too low and create asset bubbles. The second presidential debate will take place on October 9<sup>th</sup>.

The markets focused on hawkish comments made by Fed officials last week. Cleveland Fed president Mester, who started to vote for a rate hike in last FOMC meeting, claimed that if the decision for an interest rate hike delayed further, even if Fed approaches its inflation target and labor market continue to tighten, it will then be more necessary to implement a steeper policy and raise the rates more quickly. Likewise, Kansas City Fed president George, an opponent of Fed monetary policies, expressed that interest rate hikes should be "slow but sure". Despite the hawkish statements made by Fed officials, there was not a significant change last week in the market expectations. The financial markets expect that Fed will hold till the presidential election on November 8<sup>th</sup> and will continue raising the rates in December after a year of break.

Durable goods orders, a flash indicator for economic growth in the US, surprised the markets remaining flat despite expectations of a decrease, thanks to the fast growth in new orders for defense capital goods. On the other hand, non-defence new orders declined. Consumer sentiment reached up to its highest level last week since the global financial crisis. US households' improving labor conditions in September weighed on this development. Jobless claims were recorded close to their historically low levels and indicated the strong labor market in the country.

*Banking crisis in Germany is getting deeper.*

Deutsche Bank last week elevated concerns in the German banking sector, which has been experiencing significant revenue loss recently due to low interest rate environment. The statement made by bank's officials earlier that DB has no intent to settle the 14 billion dollars of fine by US Department of Justice had pressured down the bank's stocks notably. At the beginning of the last week, Germany's Chancellor Merkel's speech on no public support would be given to the bank made the fall in bank stocks more explicit. According to a report published by the US Federal Deposit Insurance Corporation (FDIC), DB has the lowest leverage ratio and was evaluated as one of the systematic risk factors that would trigger a new global financial crisis. Similarly, Commerzbank, another bank negatively affected by the current conjuncture in the country, announced that the bank has suspended its dividend payments and are soon planning to make labor dismissals.

## WEEKLY DATA

	23 Sep	30 Sep	Change		23 Sep	30 Sep	Change
BIST-100 Index	79,756	76,488	-4.1 % ▼	EUR/USD	1.1222	1.1238	0.1 % ▲
TRY 2 Year Benchmark Rate	8.68%	8.71%	3 bp ▲	USD/TRY	2.9662	2.9975	1.1 % ▲
US 10 Year Bond Rate	1.62%	1.61%	-1 bp ▼	EUR/TRY	3.3164	3.3724	1.7 % ▲
EMBI+ (bps)	343	346	3 bp ▲	Gold (USD/ounce)	1,337	1,316	-1.6 % ▼
EMBI+ Turkey (bps)	295	322	27 bp ▲	Brent Oil (USD/barrel)	45.2	48.6	7.5 % ▲

bp: basis point

***Draghi defended ECB.***

Last week, ECB President Mario Draghi responded to "low interest rates" critics and noted that Germany benefits from the implemented policies. Draghi said that the country's exports increased with the support of the policies and this fact helped the unemployment rate to decline to its lowest level since reunification. Draghi did not assess to London's role in euro clearing transactions with the start of Brexit agenda. It is estimated that the employment in the financial sector would decrease by 100k people in London, which performs approximately 90% of the global euro denominated derivative operations of 440 billion pounds (510 billion euros).

***Agreement in OPEC meeting...***

Last week, oil prices rose rapidly thanks to the announcement that OPEC members agreed to cut the oil production at the interim meeting. Following the "surprise" decision, the price of Brent crude oil has risen by around 7% to 49 dollars. At the interim meeting OPEC countries have agreed to cut their daily production to 32.5-33 million barrels from 33.2 million. How much the members will reduce their production accordingly will gain certainty at the official meeting on November, 30<sup>th</sup>. Iran would increase its daily production 11% to 4 million barrels, while Nigeria and Libya, which experience supply interruptions, is thought to be exempted from the decision. On the other hand, the signs that Saudi Arabia, one of the major oil producers, would change its strategy from maintaining its market share to aiming oil prices in the coming period drew attention. Last week, the news that the Saudi government decided to reduce expenditures due to deteriorating public finances as the oil prices fall and the central bank would provide additional liquidity to the markets attracted the attention.

In addition, the statements of Russia's Energy Minister were also at the top of the agenda after the meeting. He said that Russia would remain in active discussions with OPEC in the coming weeks and pointed to a possible cut in oil production. We think that oil prices will increase somewhat and the market will approach a balance after three years, where there is 1 million barrels global excess supply daily overall in 2016 if OPEC members and other countries cut the production as planned.

***Domestic markets...***

Last week, BIST 100 started the week with a decline after Moody's downgrade and has fluctuated in the following days. Strong demand to the Treasury auctions in the first half of the week pointed that the investors' interest in TRY assets will continue in the coming period and defused the negative atmosphere to some extent. In the second half of the week, domestic markets recorded a weak performance due to increased risks in foreign markets. Thus, BIST 100 closed the week down by 4.2% w/w. On the other hand, the deterioration on debt securities remained limited. The interest rate of 2-year benchmark bond increased 3 basis points w/w to 8.71%. Risk premium on Turkish eurobonds increased by 36 basis points to 331.

***Capacity Utilization Rate increased rapidly.***

Capacity utilization rate (CUR) which was following a declining course for the last 2 months due to the uncertainties and seasonal factors increased rapidly in September. During this period, CUR in manufacturing industry increased by 0.7 points yoy and was realized as 76.6%. As a result, CUR reached its highest level for the last 58 months and hence indicated that the stagnation in economic activity might be temporary and lose effect after third quarter. CUR in base metals industry also rose dramatically due to the buoyant economic activity in construction and automotive sectors as well as the upward movements in commodity prices lately. Besides, an improved outlook on export performances in textiles industry similarly triggered the rise in CUR.

***Improvement in exports...***

Foreign trade volume which had been narrowing due to the local developments in July and the drop of the number of working days recovered in August. During this period, on annual basis, exports and imports increased by 7.7% and 3.7%, respectively. Foreign trade volume decreased by 5.3% yoy to 4.7 billion USD. In August, exports of motor vehicles increased 28.1% thanks to launches of new car models. Iron and steel industry was affected positively from the developments in iron ore prices in the global markets and exports of base metals rose 14.1% yoy in August. In fact, exports of this industry declined by 18.4% in the first 7 months of the current year. Moreover, in August there was a noticeable increase in non-monetary gold exports. On the import side, intermediate goods imports were under pressure due to *falling* energy imports whereas imports of capital goods have risen at a faster pace. Germany was the largest market for Turkish exports followed by UK, Iraq and USA. In terms of country groups, European Union (EU) remained as the biggest market for exports. According to 12-month cumulative data, the share of EU countries in total exports rose to 47.9% which is the highest level since April 2010. The weakening of the base effect related to EUR/USD parity in the recent months has played a considerable role in this development. ([Our foreign trade report](#)).

***Recovery in economic confidence...***

Economic confidence index which declined in August upon unsuccessful coup attempt has recovered rapidly in September. Confidence index recorded a monthly increase of 20.8% and reached to 87.8. This level was above the 7-month average. This substantial rise has also strengthened the expectations of the slowdown in economic activity might be temporary. During this period, optimism towards services and construction sectors increased while consumers preferred to remain cautious. Furthermore, weakening in the retail sector confidence index continued. This was mainly because the decline in sales volume and negative outlook on employment.

***CPI increased below expectations...***

Despite the general tendency that inflation accelerates in Septembers due to the increase in food prices, Consumer Price Index (CPI) was realized well below the expectations in September 2016. During this period, monthly rise in CPI was only 0.18% and realized as the record low. Accordingly, annual increase in CPI was declined to 7.28%. This sluggish pace in consumer prices has reduced the recent worries over price stability which arose from the depreciation of TL. Analyzing the price developments among the food items, prices of many of the products fell. Clothing prices have also decreased seasonally. On the contrary, transportation prices increased significantly as a result of the surge in Special Consumption Tax on fuel oil. Actually, it was notable to see that CPI dropped by 0.28% mom when the transportation item had been excluded. In September, domestic producer price index (D-PPI) increased 0.29% monthly and 1.78% yoy. Annual growth in D-PPI was realized as its lowest rate since April 2013. These figures also revealed that the upward pressures on producer prices based on costs have moderated. ([Our Inflation Report](#)).

## INDUSTRY NEWS

***The annual increase in house prices was realized as 14%.***

The annual increase housing price index, which reached its highest level in mid-2015 with 19%, continued to lose momentum. According to the data published by CBRT, in July, housing price index rose by 14% yoy. In this period, the divergence in house prices among regions was eye-catching. In Istanbul, where the housing market went vivid, the annual price increases gained some momentum and recorded as 17.7%. In “Edirne, Kırklareli and Tekirdağ” region, house prices recorded the sharpest increase by 22.7%. In Eastern and South Eastern provinces, on the other hand, house prices remained subdued due to the elevated security concerns.

***Tourism sector continued to suffer.***

In August, the number of tourist arrivals to Turkey decreased by 38% yoy and became 3.2 million visitors. In this period, the number of visitors from European countries declined by 1,038k people due to the growing security concerns. The number of Russian tourist started to pick-up thanks to the steps taken towards normalizing relations with Russia in early August. In fact, number of tourist arrivals from Russia increased by 1.2 times and became 105k people. On an annual basis, however, the decline in Russian market continued and was recorded as 533k people.

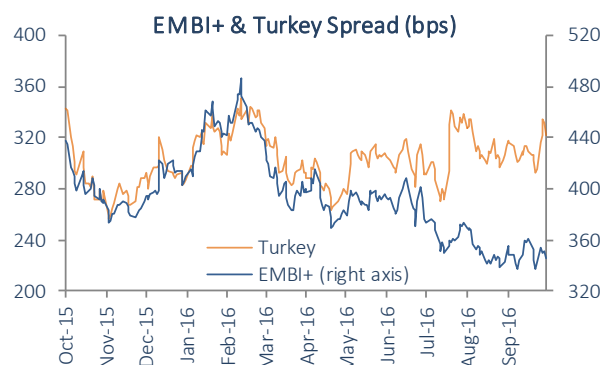
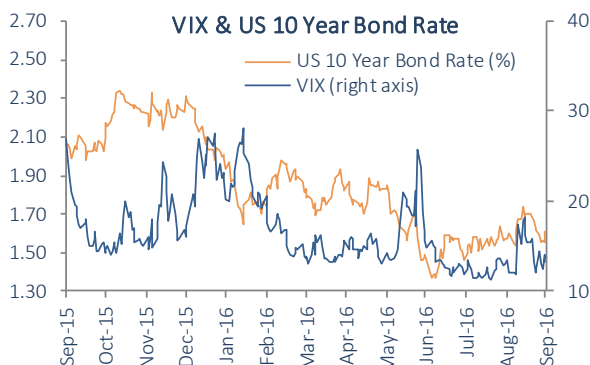
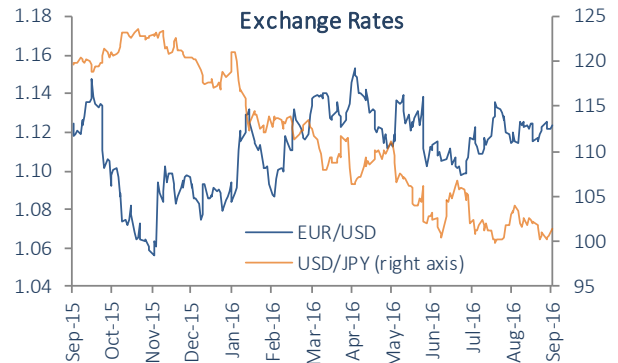
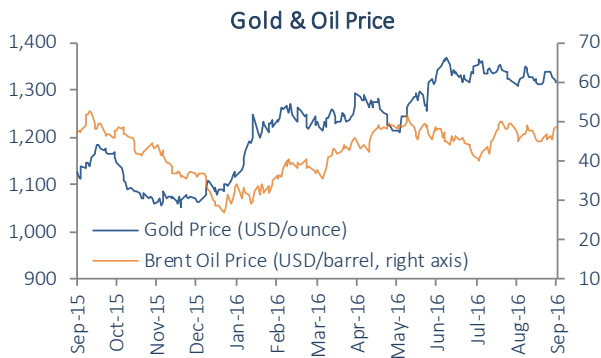
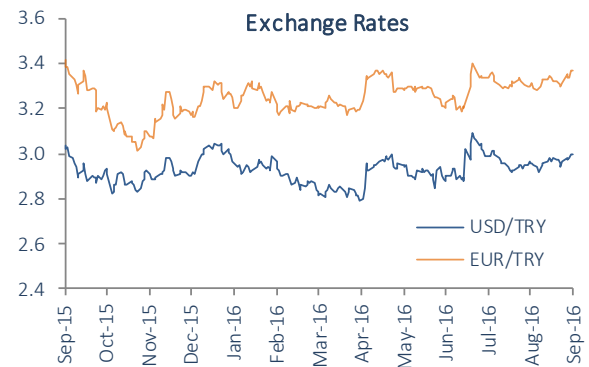
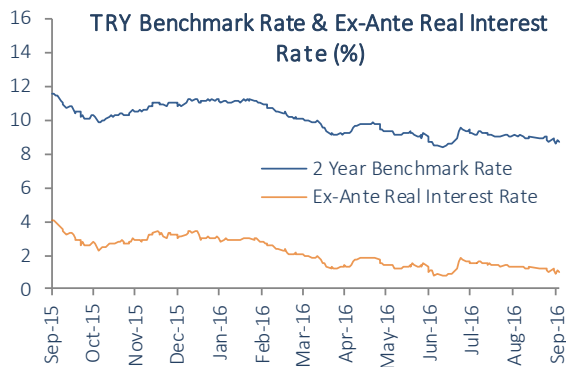
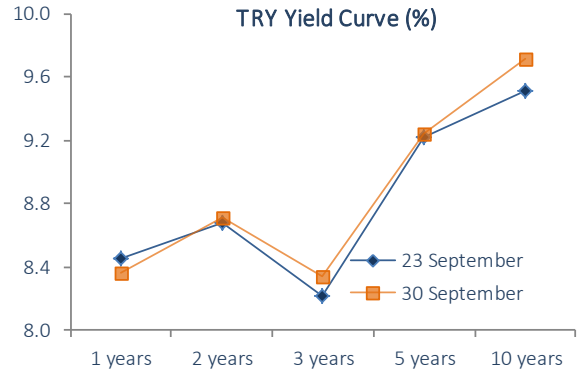
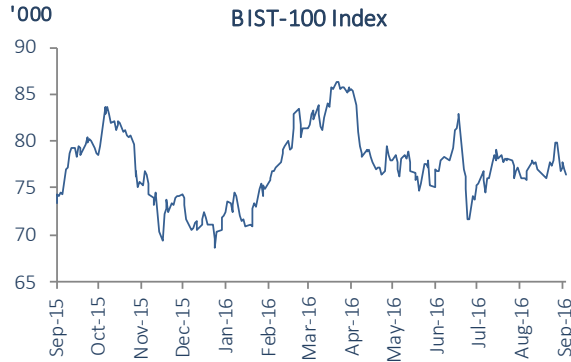
Turkey’s hoteliers continued to experience one of their worst season as the number of tourist arrivals decline. According to the data published by Hotel Association of Turkey (TUROB), hotel occupancy ratio in August was realized as 53.4% down by 27.4% yoy while the same ratio decreased by 33.6% in Istanbul, the most preferred holiday destination in Turkey. Because of the discounts at accommodation prices, average accommodation price in Istanbul slide to 87 euros in August from the level of 129 euros in 2015.

***Installed electricity capacity continued to grow.***

According to the data compiled by the Energy and Natural Resources Ministry, in July, installed electric capacity in Turkey rose to 77.4 GW. In this period, 18 new power plants went into operation. Thermal plants constituted 66.5% of the new capacity, as the share of wind and hydraulic plants were 29.3% and 3.7%, respectively. Thus, in the first seven months of the year, Turkey’s installed electricity capacity increased by 3.9 GW. In the mentioned period, thermal plants constituted 71.8% of the new capacity, while that of wind and hydraulic plants’ were 14.5% and 10.1%, respectively. Besides, the increase in electric generation capacity in landfill, biogas and geothermal plants contributed to the new capacity by 3.6%.

Last week it was announced that a 10% discount for all natural gas users would be delivered starting from October 1st. In February, Turkey won an international arbitration case against Iran. Furthermore, it was also told that the government was not projecting an increase for electricity prices and there might be a discount in line with the fall in production costs. In this context, we foresee that the decline in natural gas prices would have a 16 bps downward impact on inflation.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>3 October</b>	Turkstat D-PPI Inflation	September	0.29% mom (A)
	Turkstat CPI Inflation	September	0.18% mom (A)
	Euro Area Manufacturing PMI	September	52.6
	China Manufacturing Caixin PMI	September	
	Germany Manufacturing PMI	September	54.3
	US Manufacturing PMI	September	
	US Manufacturing ISM	September	50.2
<b>4 October</b>	Euro Area PPI Inflation	August	-2.2%
<b>5 October</b>	Euro Area Retail Sales	August	2.9%
	US Factory Orders	August	-0.5%
	US Foreign Trade Statistics	August	-42 billion USD
	US ADP Data	September	160k
	Treasury's Domestic Debt Redemption (985 million TRY)		
<b>7 October</b>	US Nonfarm Payrolls	September	175k
	US Unemployment Rate	September	4.9%

(A) Actual

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