

WEEKLY OUTLOOK

Heavy economic calendar in US ...

Foreign trade deficit for August, that were released last week in the US, were realized slightly above the expectations. This was mainly because the robustness of capital goods imports. Investment spending which was mostly sluggish throughout 2016 also recovered during this period. In addition to strong ISM manufacturing data, jobless claims, which have dropped to 43-year lows, painted a positive picture for the US economy. In this regard, a market consensus has been reached on Fed's probable rate hike in December. Possibility of an increase in the Fed's funds rate is currently estimated as 65% in the markets. Advocating statements from Chicago Fed President Evans and Richmond Fed President Lacker about the rate hike drove US Dollar to appreciate against other developed market currencies. Nevertheless, the rise in non-farm payrolls in September was realized as 156k people and this was below the expectations. Consequently, the unemployment rate in US has risen to 5%. Despite the negative outlook on non-farm payrolls data which has been following closely by the markets as an early indicator of Fed's policy actions, Cleveland Fed President Mester emphasized the robustness of the labour market.

Fall in European banking stocks...

European stock markets focused on latest developments about Deutsche Bank (DB) as well as news on European Central Bank's (ECB) expected tapering. However, there was no official approval from the ECB in the following days regarding the path of the asset buying programme and the markets appreciated this. Expectations on a possible discount on the 14 billion USD - fine which was imposed by US government to DB also affected the market outlook positively. Before applying to US authorities, DB is likely to wait until November 8, when the presidential elections will end. DB is also expected to review the possibilities like capital increase and asset stripping. Besides, British Prime Minister Theresa May announced that Brexit will start before March 2017. Aftermath the Prime Minister's statement the risk appetite deteriorated significantly as Great Britain Pound (GBP) depreciated against developed market currencies considerably. GBP/USD parity was below 1.25 when the markets closed on Friday and that was the lowest level recorded since 1985. In other words, GBP/USD parity recorded its second largest weekly lose after Brexit voting.

IMF released "World Economic Outlook".

IMF kept its global growth projections unchanged at its recent World Economic Outlook (WEO), announcing the forecasts for 2016 and 2017 as 3.1% and 3.4%, respectively. However, in comparison to July's edition, IMF's projection of the composition of global growth has changed notably. IMF forecasted that in 2016 developed countries would grow much slower whereas developing countries would do faster. Due to sluggish growth of US economy in the first half of the year, IMF cut its growth projection by 0.6 point to 1.6%. Growth estimates for 2017 also lowered from 2.5% to 2.2% for the US economy. Furthermore, in the report predictions for the Chinese economy haven't been changed while growth forecasts for the European Union (EU) economies revised upwards for 2016 and 2017. IMF also projected that in 2016 economies of UK and Japan were expected to grow faster than estimated before.

WEEKLY DATA

	30 Sep	7 Oct	Change		30 Sep	7 Oct	Change
BIST-100 Index	76,488	77,976	1.9 % ▲	EUR/USD	1.1238	1.1199	-0.3 % ▼
TRY 2 Year Benchmark Rate	8.71%	8.66%	-5 bp ▼	USD/TRY	2.9975	3.0500	1.8 % ▲
US 10 Year Bond Rate	1.61%	1.74%	13 bp ▲	EUR/TRY	3.3724	3.4153	1.3 % ▲
EMBI+ (bps)	346	340	-6 bp ▼	Gold (USD/ounce)	1,316	1,256	-4.5 % ▼
EMBI+ Turkey (bps)	322	304	-18 bp ▼	Brent Oil (USD/barrel)	48.6	50.1	3.1 % ▲

bp: basis point

Oil prices increased over 50 USD/barrel...

OPEC agreement to cut the oil production continued to support the prices. Above the expectations decline in US crude oil inventories also supported the rise in prices. Thus, Brent crude oil prices reached \$50.5 per barrel during the week. The details of how OPEC countries will cut the production, is expected to be discussed in the World Energy Congress in Istanbul.

Domestic markets...

Last week, inflation data and geopolitical developments were on the top of the domestic markets' agenda while the timing of Fed's interest rate hike and the developments related to Deutsche Bank were followed in the global markets. September inflation data, which was well below the expectations, hinted an interest cut at CBRT's meeting that would be held on October 20th. As the sales in the bond market were limited, USD/TRY parity rose to 3.06. BIST-100 index increased by 1.9%, diverged from the global markets positively, thanks to the rising demand for companies with closed FX position.

On the other hand, although reaching the highest value since May, manufacturing PMI data remained sluggish in September realizing below the 50 threshold for the last 7 months. The decline in inventories, employment and new orders were effective in the deterioration of the index during this period.

Medium Term Programme for the period 2017-2019 was published.

Last week the Medium Term Programme (MTP) for the period 2017-2019 was published. In the MTP, the growth forecast for 2016 was revised down to 3.2% from 4.5%, while the GDP per capita is expected to decline to 9,243 dollars. As the year-end inflation target is kept unchanged at 7.5%, the average USD/TRY forecast of the Government for the year 2016 is calculated as 2.96. As there is improvement in inflation and current account deficit expectations for the coming years, the acceleration in public investment spending, particularly in 2017, is eye-catching. Finance Minister Naci Ağbal told that the increase of budget deficit ratio to 1.9% in 2017, which was 1.2% in 2015, stemmed from the planned expenditures in the incentives for exports, investments and R&D. Expressing that the increase in expenditures is mandatory for the growth and employment, Ağbal announced that there are plans to increase the Eximbank loans and freight incentives within the export-oriented growth strategy.

IMF revised down Turkey's economic growth forecasts.

In its recent "World Economic Outlook" report, IMF revised down Turkey's GDP growth forecast for 2016 from 3.8% to 3.3%, while also reducing its 2017 forecast from 3.4% to 3.0%. In April, on the other hand, IMF increased its GDP forecast for 2016 by 0.6 point, while cut its forecast for 2017 by 0.2 point. IMF announced that geopolitical developments and the elevated risks after the failed coup attempt put pressure on the Turkish economy.

In August, industrial production increased.

Calendar adjusted industrial production index, which declined by 4.9% yoy after the failed coup attempt, recorded an annual increase of 2.2% in August. Manufacture of basic pharmaceutical products and electronic devices went vivid thanks to the expansion on their production capacities. Indeed, the production on those sectors increased by 21.2% and 13.6% on an annual basis. Manufacture of basic metal sector kept its upward trend in line with the recovery in commodity prices. Manufacture of motor vehicles, on the other hand, remained subdued due to the base effect.

INDUSTRY NEWS

Regulation change for coal imports...

Last week, previously announced regulation regarding a tariff of 15 USD/ton on imported coal was amended to a price limit of maximum 70 USD/ton. Considering that the current price of imported coal is around 60 USD/ton, the new regulation has reduced the additional cost levied on the imported coal. The primary driver of the regulation change is the increased cost of power plants using imported coal. As of 2015, Turkey made most of its coal import from Colombia, Russia and South Africa.

Moreover, Çayırhan power plant, which is a property of EÜAŞ (State-owned Electricity Generation Company) and generates electricity from an area of 422 million tons of lignite reserves, was issued a tender to be privatized through transfer of operating rights. In the scope of ongoing privatizations, four different firms tendered for the distribution network of Türkiye Petrolleri Anonim Ortaklığı (Turkish Petroleum-TP), which is the 6th biggest oil distributor in Turkey with the market share of 4.4%.

Discount in SCT for hybrid automobiles...

SCT (Special Consumption Tax) on hybrid automobiles with the electricity engine power over 50 kW and engine capacity less than 1,800 cm³ was marked down to 45% last week from 90% and SCT on the ones with their power over 100 kW and engine capacity with less than 2,500 cm³ declined to 90% from 145%.

In addition to 0.20 TRY of SCT increase imposed to gasoline earlier, 0.14 TRY of price-up was implemented last week as well. Price of diesel oil, on the other hand, was raised by 0.12 TRY. It is expected that related markups will push the inflation up by around 10 basis points.

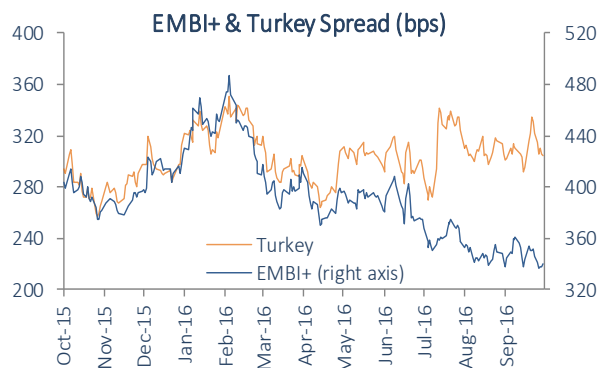
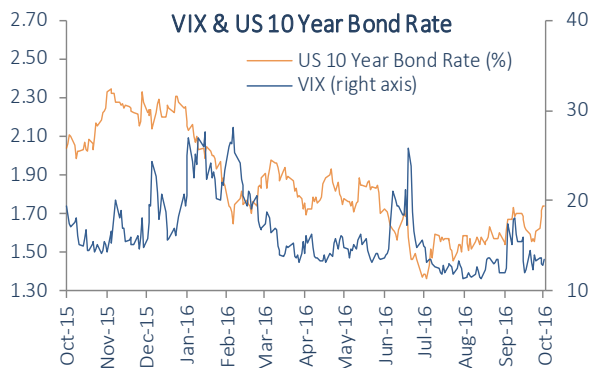
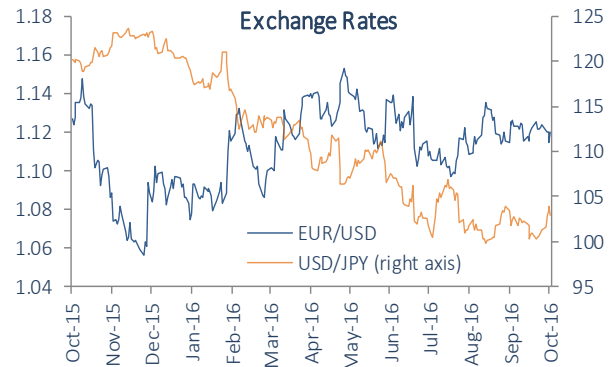
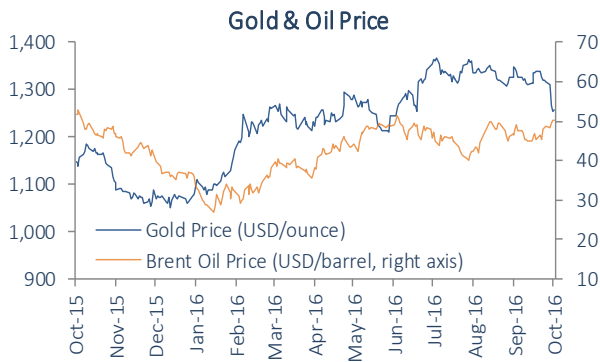
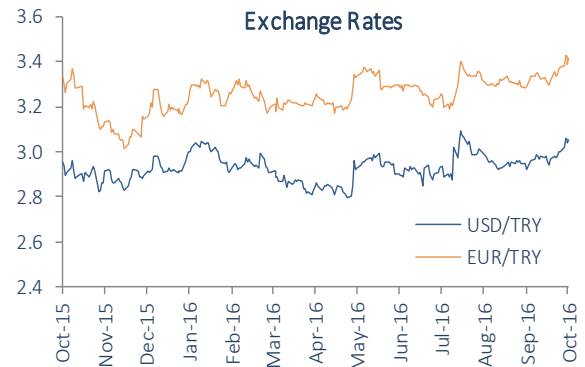
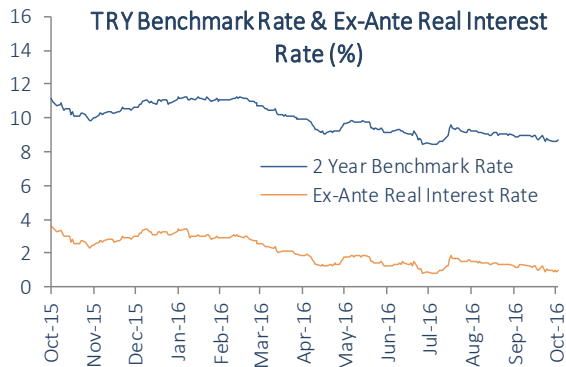
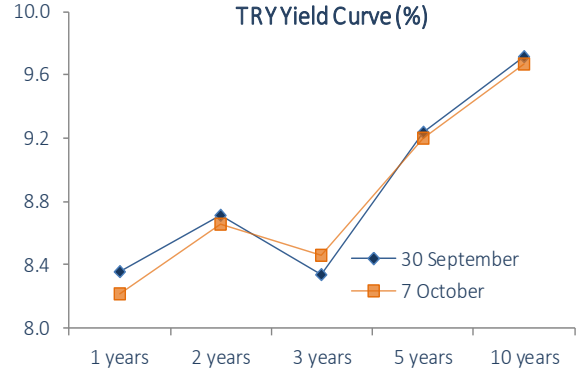
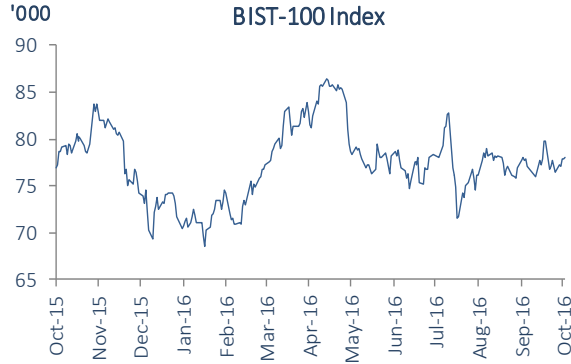
Additional incentives for production of medium-high technologies...

“Law of state incentives on investments” was published on the Official Gazette last week. The law, which had been regularly prolonged, was now decided to be permanently held. Additionally, the amount of regional incentives given to the medium-high technological products was raised. Within the scope of additional incentives, manufacturing of industrial products with medium-high technologies (motor vehicles, machinery and chemical products etc.) will be utilized by Region 4’s incentives even if they are located in the regions 1, 2 or 3. The minimum fixed investment amount must be 1 million TL for the investment in Region 1 and 2, while the related amount must be 500,000 TL for the investment located in Region 3.

341 firms received investment incentives in August.

In August, 341 firms were qualified to get investment incentives for their investments of which the total amount is 5.7 billion TL. Total employment is targeted to be 10,444 people within the related investments. There were 128 firms at the manufacturing industry, 99 firms at the services, 96 firms at the energy, 10 firms at the mining and 8 firms at the agricultural sector, which the incentives were granted to.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
10 Ekim	Turkstat Industrial Production Index	August	2.2% yoy (A)
	China Foreign Trade Statistics	September	
11 Ekim	Germany ZEW Survey	October	
12 Ekim	CBRT Balance of Payments Statistics	August	
	FED FOMC Meeting Minutes	September	
14 Ekim	USA PPI	September	
	USA Retail Sales Data	September	
	USA The University of Michigan's Consumer Sentiment Index (Flash)	October	

(A) Actual

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