

WEEKLY OUTLOOK

Heavy economic calendar in US...

Last week, US markets faced a heavy economic agenda. According to the data released at the beginning of the week, industrial production, which has recorded its sharpest decline for the last 5-months in August after rising in June and July, increased by 0.1% mom in September. Market expectation for industrial production index was an increase by 0.2%. In September, the annual increase in CPI rose to its highest level with 1.5% since October 2014, as the increase in core inflation softened to 2.2%. Initial jobless claims for the week ended October 15th surpassed the expectations, but the effect of this data was muted. Following the recent upturn in oil prices, job growth in US energy industry will likely to pick-up, as the investments in the sector is anticipated to gain momentum.

Markets maintained their positive outlook for US economy and trying to find clues about Fed's next step. Fed has two more meetings in 2016, on November 1-2 and December 13-14. The markets expect that Fed will raise the rates in December after a year of break.

ECB kept its monetary policy on hold.

European Central Bank (ECB) left the policy interest rate and asset purchase programme unchanged at the Monetary Policy Committee (MPC) meeting last week. Governor Mario Draghi, who spoke at the press conference after the meeting, expressed that policy makers didn't discuss whether to extend the stimulus program, which is due March 2017. Draghi said that such matters will be discussed in the December meeting. In addition, he said that tapering will be a gradual process rather than an abrupt cut in the program while recalling the importance of the programme for the economy. His speech implied that ECB is still cautious towards the continuing risks to the Euro Area economy. It kept the doors open for the new measures to be taken at the next meeting in December. After Draghi's announcements, euro dipped sharply against dollar. EUR/USD parity tumbled to 7-month low.

UK's annual inflation increased to 1% in September reaching to its highest level since October 2014. Pound's devaluation against dollar following Brexit related uncertainties was the main contributor to this inflation rise. High inflation figure raised the questions on Bank of England's (BoE) next move, as it was expected that BoE will cut the interest rate within this year.

Chinese economy is growing steadily.

According to latest data release, Chinese economy is growing steadily in the third quarter of the year. Chinese economy grew in line with the expectations by 6.7% in the third quarter at the same rate as the first two quarters of the year. Public expenditures and real estate investments pushed the GDP growth upwards in Q3, while private sector investments remained weak during that period. Chinese economy is expected to continue its balanced growth rate in the last quarter of the year as public expenditures and credit growth being the major contributors.

WEEKLY DATA

	14 Oct	21 Oct	Change		14 Oct	21 Oct	Change
BIST-100 Index	77,554	78,844	1.7 % ▲	EUR/USD	1.0969	1.0882	-0.8 % ▼
TRY 2 Year Benchmark Rate	9.00%	9.05%	5 bp ▲	USD/TRY	3.0890	3.0798	-0.3 % ▼
US 10 Year Bond Rate	1.79%	1.74%	-5 bp ▼	EUR/TRY	3.3891	3.3510	-1.1 % ▼
EMBI+ (bps)	346	346	0 bp ●	Gold (USD/ounce)	1,250	1,266	1.3 % ▲
EMBI+ Turkey (bps)	310	310	0 bp ●	Brent Oil (USD/barrel)	49.2	50.5	2.5 % ▲

bp: basis point

CBRT kept interest rates unchanged.

Domestic markets focused on CBRT's Monetary Policy Committee meeting last week. CBRT, which has cut the upper band of the interest rate corridor by 250 basis points since March, left the interest rates unchanged at its meeting on October 20th. Statement released after the meeting was different from the previous one in terms of its emphasis on the developments in exchange markets. Thus, before the meeting USD/TRY had reached to its record high level due to climbing geopolitical risks. In the note, CBRT expressed the importance of cautious monetary policy stance because the recent developments in FX rates and other factors restrain the improvement in inflation outlook. CBRT also stated that normalization process of the monetary policy and its timing will be data dependent. It is important to note that CBRT preferred a more dovish tone in its one-pager, while developments in the exchange market will be watched closely at the upcoming meetings.

Domestic financial markets...

USD/TRY parity rose in the first 2 days of the week due to geopolitical developments and investors' holding off before CBRT's policy meeting. In the following days however, the parity regained its losses thanks to the rising expectations on CBRT's potential pause on monetary policy normalization. Indeed, USD/TRY parity which surged to 3.11 before the meeting changed its direction and tested 3.05 on Thursday. However, developments on the US dollar which has been appreciating in the global markets recently, limited the correction in the parity for the good of TRY. Hence, USD/TRY parity declined by 0.3% and closed at 3.0810 on Friday. As for the stock exchange market, BIST-100 index which was following a volatile course throughout the week rose by 1.7% on a weekly basis whereas in the bond market 2 year benchmark rate increased by 5 bps compared to previous week.

Budget deficit has widened.

According to the data released by Ministry of Finance, budget deficit was realized as 16.9 billion TL, by increasing 19.9% yoy in September due to weak course of revenues. Figures showed that slowdown in tax revenues had a negative effect on total revenues and there was a considerable rise in non-interest payments. The latter was caused by the acceleration of public sector spending on "social security contributions" as a result of the rise in minimum wage and discount in employers' insurance premiums. On the other hand, in the first 9 months budget deficit narrowed by 10.6% yoy realizing as 12 billion TL. ([Our Budget Balance report](#))

In the Medium Term Programme (MTP), budget deficit is estimated as 34.6 billion TL for the year-end 2016. Considering this fact, it is concluded that the budget deficit will probably follow a rising course in the last quarter. Besides, budget revenues are targeted to increase thanks to the debt restructuring facility whose application period is due until the end of October. Minister of Finance Naci Ağbal announced that under this facility, 31.3 billion TL of debt was restructured so far and 951 million TL tax was collected already. Mr. Ağbal also stated that they have finished working on a plan that was designed to compensate the loss of workers whose last 3-month income declined below 1,300 TL because of the upward move in tax brackets. He added that the plan has already been approved in the Cabinet.

Survey of Expectations...

October issue of CBRT's Survey of Expectations revealed that the year-end growth forecast was worsened while USD/TRY forecasts rose. In this respect, growth projection for 2016, which has been declining for the last 3 months, stood close to MTP forecast with 3.2%. Moreover, year-end forecast for USD/TRY that has been rising fast lately due to Fed's potential rate hike as well as rising geopolitical and political risks, increased to 3.12 in October. Besides, expected inflation continued to decline in October with 7.8%.

Consumer Tendency Survey which was released on Friday indicated that the outlook on the household side deteriorated as well. Nevertheless, results revealed that there was a fall in the expected number of unemployed. It was also noticeable to see an improvement in the private savings prospects in spite of the worsening outlook in macroeconomic fundamentals.

INDUSTRY NEWS

Increase in FX rates reflects negatively on the retail sector.

Industries that are heavily dependent on imported goods in their production chains have been affected by the recent increase in FX rates. Retail sector, on the other hand, has been experiencing difficulties mainly because of dollar-denominated rents. The new Chairman of United Brands Association of Turkey Sinan Öncel said last week that the problems due to rising rents and falling profitability ratios with the depreciation of TRY against the dollar might spread to all shopping centers. Öncel also added that the July 15 coup attempt and the losses in tourism sector are badly affecting the retail sector. The members of the association have about 65 thousand stores and outlets in the country. Sector's sale volume reached 47 billion USD in 2015.

The number of established companies decreased.

The Union of Chambers and Commodity Exchanges of Turkey released the statistics of established and closed companies in September. According to the report, the number of start-ups decreased by 29% yoy to 3,704. In September, the number of closed companies increased by 22% to 832. In the first nine months of 2016, the number of newly established companies decreased by 3.9%, while the number of closed companies decreased by 18.7%.

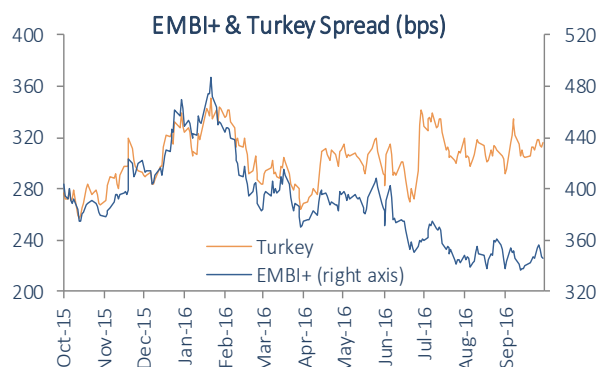
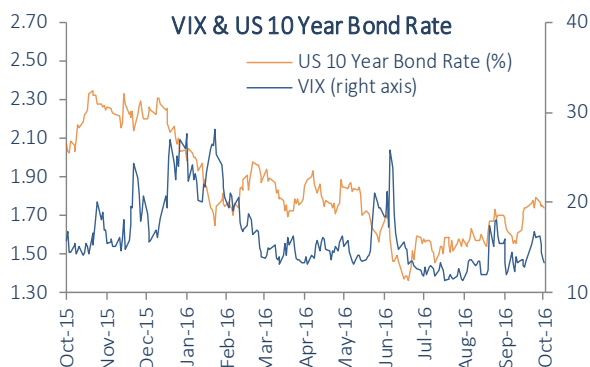
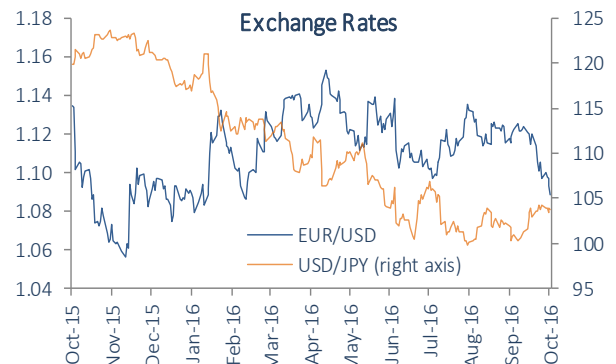
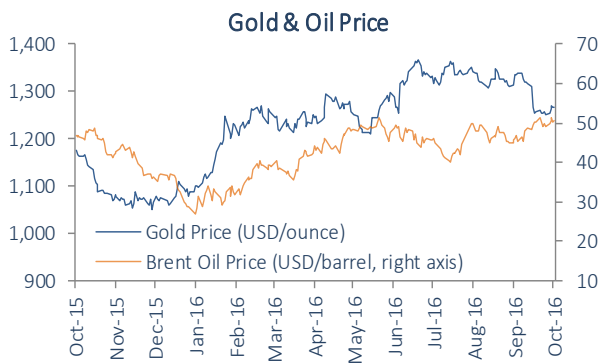
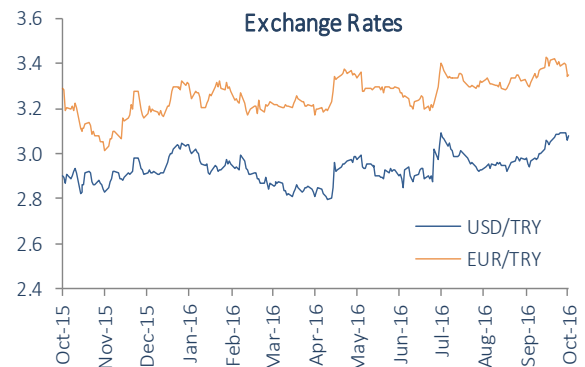
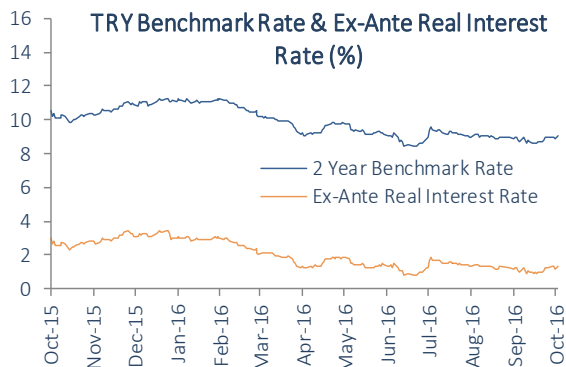
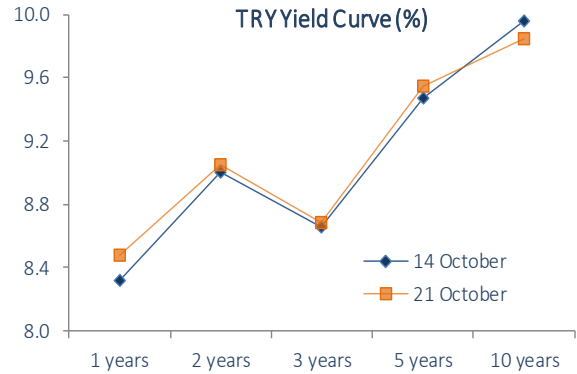
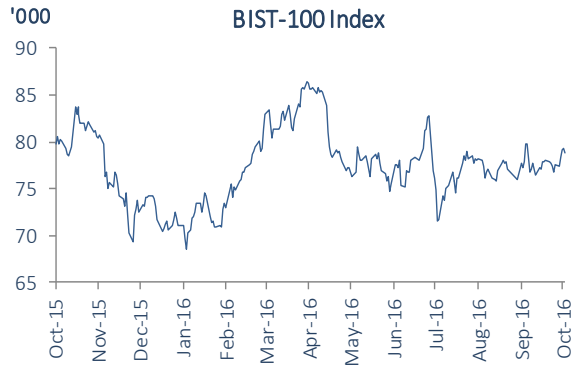
In September, 248 companies were given investment incentive certificates.

According to Official Gazette, in September 2.8 billion TRY investment incentive certificates were given to 248 companies which created employment for 8,343 people in September. Investments were found to be concentrated on manufacturing (101), energy (53) and services (80) sectors.

Rapid increase in home sales in September

In September, home sales increased by 17.8% annually to 108.918. Mortgage sales, which represent the 38.6% of total sales, increased by 46.7% yoy. After a rapid decline in July, home sales gained momentum in the last 2 months thanks to decreasing mortgage rates and promotions in housing sector. Total sales in the first nine months of 2016 reached the number of sales in the same period last year.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
24 October	Euro zone Manufacturing PMI (Preliminary)	October	
	US Manufacturing PMI (Preliminary)	October	
25 October	Turkstat Sectoral Confidence Index	October	
	CBRT Capacity Utilization Rate of Manufacturing Industry	October	
	CBRT Business Tendency Survey and Real Sector Confidence Index	October	
	Treasury Auction of Fixed Coupon Bond		
	US The Conference Board Consumer Confidence Index	October	
26 October	Treasury Domestic Dept Redemption		1.1 billion TRY
	US New Home Sales	September	
27 October	CBRT Monetary Policy Committee Meeting Summary	October	
	CBRT Inflation Report	2016-IV	
	US Durable Goods Order	September	
28 October	US GDP Growth (Preliminary)	2016-III	
	US Consumer Sentiment	October	

İŞBANK - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

H. Erhan Gül - Asst. Manager
erhan.gul@isbank.com.tr

Dilek Sarsın Kaya - Economist
dilek.kaya@isbank.com.tr

Aslı Göksun Şat Sezgin - Economist
goksun.sat@isbank.com.tr

Bora Çevik - Economist
bora.cevik@isbank.com.tr

Ahmet Aşarkaya - Economist
ahmet.asarkaya@isbank.com.tr

Ayşe Betül Öztürk - Asst. Economist
betul.ozturk@isbank.com.tr

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

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