WEEKLY OUTLOOK

Fed left interest rates unchanged.

Fed kept policy interest rates steady before the presidential election which will take place this week. Global investors gave limited reaction to interest rate decision, which met the market expectations, while hawkish tone in FOMC statement attracted the attention. Fed noted that US labor market continued to strengthen and household spending rose moderately. Fed, which has been acting cautiously due to uncertainties related to price stability, signaled upward risks to inflation. Fed stated that inflation is expected to reach 2% in the medium term as the base effect of prior declines in energy prices weakens. Fed pointed to its December meeting for the next step stressing the increasing probability of an interest rate hike with the recent developments in the US economy.

Global markets focused on the political developments in the US during the presidential election process. Democratic Party candidate Hillary Clinton's leadership in the campaign against Republican Party candidate Trump was disrupted last week and that led to deterioration in the market's risk perception. Trump is known to criticize Fed's low interest rate policy and he defends that interest rates should be raised sharply. VIX index, an indicator of the market volatility, surpassed the level of 20 after four months. US stock indices went down to their lowest levels for four months, while global investors showed interest to the safe assets triggering a rise in gold prices. On the last working day of last week nonfarm payrolls proved solid US labor market, although nonfarm payrolls were realized below expectations as 161,000. Unemployment rate declined to 4.9% thanks to upward revisions in payrolls data for August and September. As the labor market converges to the full employment, average hourly earnings gain momentum.

Recovery signs in the Euro Area…

In Euro Area, GDP growth in Q3 was realized as 0.3% indicating a relatively positive outlook despite Brexit related risks. During this period, improving economic conditions in the periphery countries were perceived positively by the markets. Manufacturing PMI in Germany reached the highest level for two years in October supporting the market optimism. Rising economic activity in Germany is influencing the labor market as well. Unemployment rate which fell to 6% has been at its lowest levels since the country's reunification in 1990. On the other hand, HICP in the Euro Area accelerated to 0.5% in October, its highest level since June 2014.

Uncertainties in the Italian banking system, one of the downside risks for the Euro Area recently, were watched closely last week. The third largest bank of Italy, Monte dei Paschi's decisions on capital increase led to sales in the stock exchange. Moreover, realization of an unexpectedly high unemployment rate in Italy kept the country's political problems alive before the constitutional referendum, which will be held in December.

WEEKLY DATA

	28 Oct	4 Nov	Change		28 Oct	4 Nov	Change
BIST-100 Index	78,333	74,267	-5.2 % ▼	EUR/USD	1.0983	1.1135	1.4 % ▲
TRY 2 Year Benchmark Rate	9.28%	9.50%	22 bp ▲	USD/TRY	3.1054	3.1554	1.6 % ▲
US 10 Year Bond Rate	1.85%	1.78%	-6 bp ▼	EUR/TRY	3.4135	3.5159	3.0 % ▲
EMBI+ (bps)	354	368	14 bp ▲	Gold (USD/ounce)	1,276	1,304	2.2 % ▲
EMBI+ Turkey (bps)	323	348	25 bp ▲	Brent Oil (USD/barrel)	47.2	43.0	-8.7 % ▼

bp: basis point

Bank of England revised its forecasts.

At its meeting last week, Bank of England (BoE) kept its policy rate unchanged in line with market expectations. BoE also revised its growth and inflation forecasts upwards for 2016 and 2017. BoE Governor Carney said that household spending was performing strongly in spite of increasing uncertainties following Brexit decision. Emphasizing the need for time to see the impact of pound's depreciation on net exports, BoE Governor stated that the main effect of this depreciation will be seen on inflation.

One of the topics last week was the announcement of British Supreme Court that the government should receive parliamentary approval to implement the Brexit decision. As a matter of fact, the British government under the chairmanship of Theresa May was planning to launch the process by March 2017 without parliamentary approval. Following this news, GBP/USD parity tested the level of 1.25, reaching the highest level for one month. While this development appears to have boosted optimism in short-term, the continued risk of a troublesome exit process suggests that the increase in pound will not be permanent.

Economic activity in developing countries is recovering.

Strong economic outlook continues in India that is decoupling positively from other developing countries with its rapid growth performance. In October, the manufacturing PMI was at its highest level since the end of 2014 with 54.4. Thanks to the expansionary monetary policies, the recent recovery in domestic demand has contributed to the positive outlook in manufacturing industry. In Russia, where the oil prices keep the growth under pressure, the manufacturing PMI in October has risen to its highest level in four years, indicating that the contraction in the economy has begun to lose momentum in the last quarter. Similarly in China, manufacturing PMI has recorded the best performance for the last 27 months with 51.2, thanks to the increase in production and new orders.

Volatile course in commodity markets…

Stronger signs of a sound global economic activity drive up industrial commodity prices recently. Iron ore prices kept its gains from relatively buoyant outlook in China's housing market and it causes the coal prices to increase. On the other hand, Chinese government prefer to control the rapid rise in coal prices before winter. Oil prices declined as a result of diminishing expectations of an agreement on production cut at the upcoming OPEC meeting to be held at the end of November. Thus, Brent crude price fell by 8.7% wow to 43 USD per barrel. Consequently, oil prices lost its earnings gained after the probability of a production cut from OPEC emerged for the first time after 8 years.

Domestic markets…

Domestic markets decreased throughout the week as a result of negative outlook and rising risk perception in the global markets. In this regard, Turkey's 5-year CDS premium reached 274 points which is the highest level for the last 3 months. 2-year benchmark bond yield also rose to 9.50% due to weakening demand towards TRY denominated instruments. BIST-100 decreased by 5.2% weekly showing the second worst performance since the unsuccessful coup attempt. Unsurprisingly, TRY depreciated more than 2% against the currency basket, closing the week at historically low level.

Recovery in manufacturing industry…

Manufacturing PMI which performs below 50 since February, increased by 1.5 points to 49.8 in October signalling a recovery compared to the previous month. PMI in October which was also realized above the 9-month average (48.8) showed signs of a relatively stronger start to the last quarter of 2016. New export orders in the manufacturing industry rose twice in the last 3 months and input demand accelerated due to increasing economic activity. Moreover, employment in the sector reached its highest level for the last one year. Recent depreciation in TRY is said to increase the upward pressure on input prices though.

Consumer prices rose by 1.44% in October.

Consumer prices index (CPI) rose by 1.44% mom in October. It was noteworthy that monthly rise in CPI, which tends to surge in every October due to seasonal factors, was realized below the market expectations and its long-term average. Moreover, annual CPI increase was realized as 7.16%, the lowest level for the last 5 months. Besides, clothing and footwear increased by 10.43% mom due to seasonal factors and pushed up inflation by 73 basis points. On the other hand, CBRT's favourite core indices of H and I signalled a downward trend in inflation in October. Core indices both increased by 7% yoy, recording their lowest rise for the last 3 years. In this period, D-PPI increased by 0.84% mom whereas surge in base metal and coke and refined petroleum product prices became more visible (Our Inflation Report).

Foreign trade balance…

According to preliminary data released by Ministry of Customs and Trade, trade deficit has widened in October. In that period, while imports increased by 0.8% yoy, exports declined by 2.7%. Hence, trade deficit widened to 4.1 billion USD by surging 13.8% annually. Automotive exports remained strong with an 11.3% increase yoy, thanks to new models. Surge in non-monetary gold sales also limited the decline in exports. Moreover, imports of mineral fuels were down by 15.8%, while electrical machineries increased sharply. Exports to Germany, main exporting partner of Turkey, registered a mild drop in October, while exports to United Kingdom were up by 7.8%.

S&P raised Turkey's credit rating outlook.

Standard&Poor's upgraded Turkey's credit rating outlook to stable from negative, keeping Turkey's credit rating unchanged as BB. In its statement after the decision, S&P said "Government policy is gradually refocusing on measures to reduce external vulnerabilities". S&P also added that the upgrade reflects the resilience of Turkish economy against regional and domestic risks. S&P lowered the growth expectation for 2016 and 2017 by 0.2 points to 3.2%, stating that coup attempt and performance of tourism sector are suppressing the economic growth. On the other hand, emphasizing the hefty external debt of Turkey, S&P pointed out that interest rates will go up in Turkey as interest rates rise in global markets.

IMF published Concluding Statement of Article IV Mission.

IMF published the Concluding Statement of the 2017 Article IV Mission. IMF projected that the economic growth set to decline to 2.9% from 3.3% in 2016. IMF stated that increased political uncertainty, a sharp fall in tourism revenues, and a high level of corporate debt are hurting the economy. As for the inflation, it is expected to realize at 8% for 2016 and 2017, way above the 5% target, due to 30% minimum wage increase and sticky inflation expectations.

INDUSTRY NEWS

Expansion in automotive market…

Automotive sales, after following a weak course in summer, continued to recover in October. According to the figures compiled by the Automotive Distributors' Association (ODD), total sales in automobile and light commercial vehicle (LCV) market increased by 29% yoy to 83k units. In this period, some consumers brought their demand forward due to the volatility in FX rates and the campaigns applied by companies also became evident. Thus, in the first 10 months of the year, sales in automobile market erased early losses and reached 719k units. ODD anticipated that the demand for automobiles would be vivid in the coming months, as the sales in 2016 is expected to be 950k – 1 million units.

Tourism revenues continued to decline.

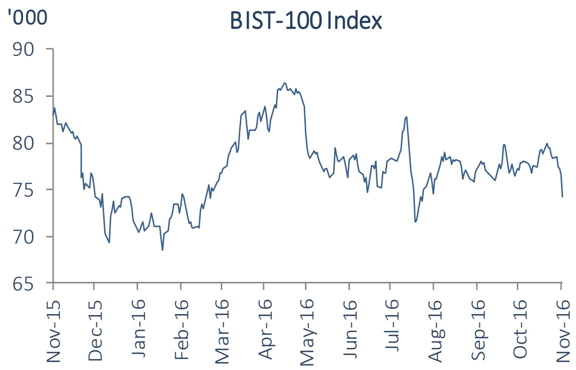
Tourism revenues continued to decline for the sixth consecutive quarter due to the security concerns and decrease in arrivals from Russia. According to the Turkstat, in the third quarter of 2016 tourism revenues declined by 32.7% yoy to 8.3 billion dollar. In this period, the number of foreign visitors declined by 5.3 million to 9.5 million persons. Besides, decline in the revenue per visitor was eye-catching. In this period, tourist's daily average spending declined to its historically low level as 62 dollar.

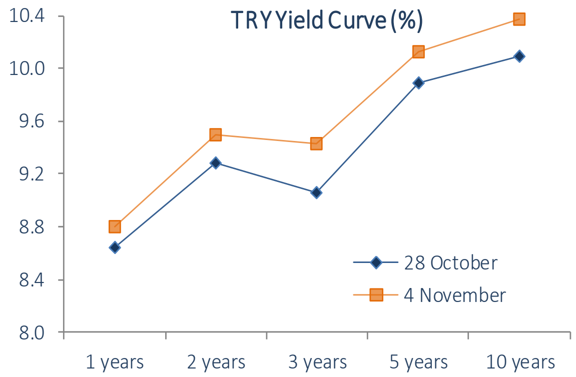
Besides, Hotel Association of Turkey (TÜROB) stated that Istanbul's existing 186k units bed capacity would likely to increase by 47k units in line with the 1.3 billion dollar worth of new hotel investments and hinted a serious oversupply in sector. Furthermore, TÜROB emphasized that only one third of total capacity was used in 2015 when the sector was experiencing better results adding that the overcapacity in hotels caused losses of roughly 3 billion dollars for the sector.

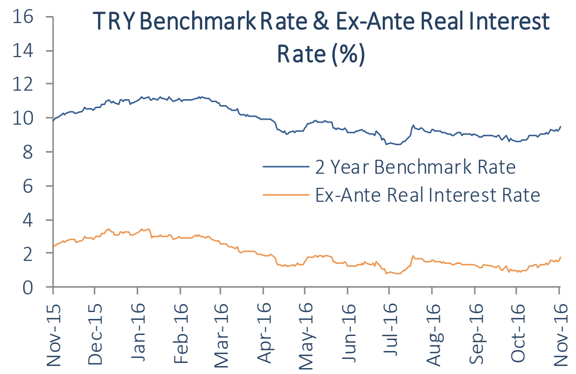
The surge in foam prices affected domestic furniture sector.

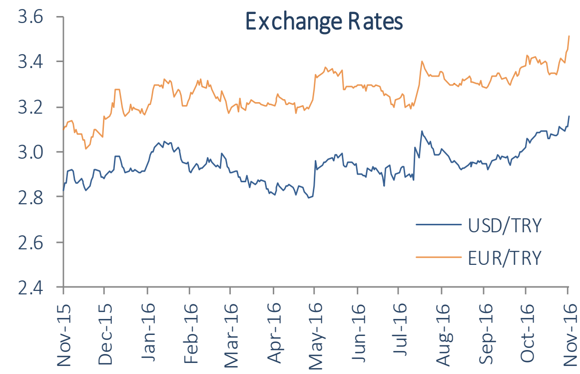
The foam prices have tripled in last month on tightened domestic availability due to the explosion at BASF production site and supply problems in other European producers. These developments have negative impacts on both global and domestic markets. Furniture sector, which faced the problem with low foam stocks, suffers higher production cost. According to the sector officials, the initial rise in furniture prices would be between 7%-10%. Domestic furniture sector, whose production remained under pressure through the year due to weakness in export markets, would likely to decelerate further if disruption in supply chain lingered.

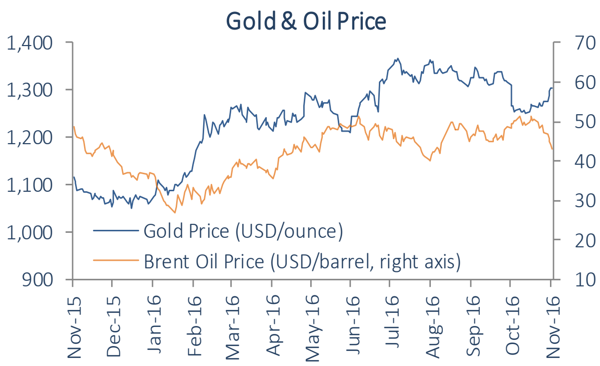
FINANCIAL MARKETS

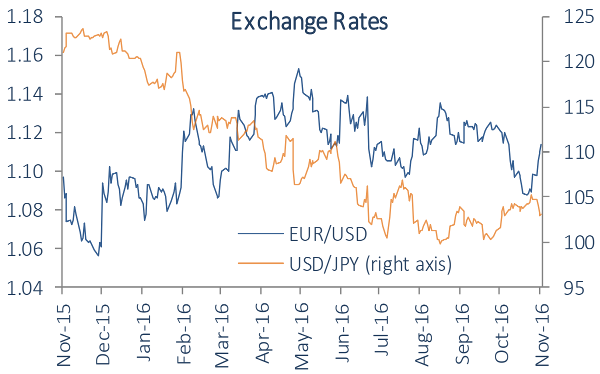


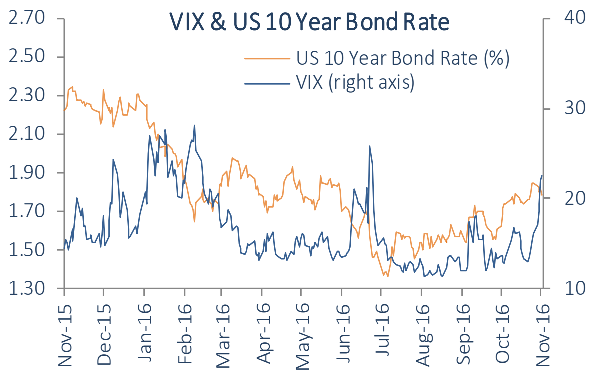


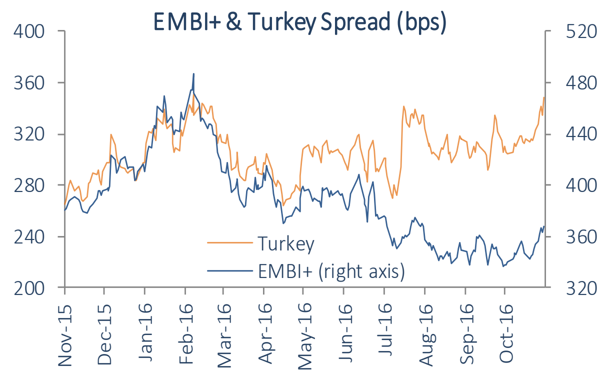












WEEKLY DATA RELEASES

		Period	Consensus
7 November	Euro Area Retail Sales	September	
8 November	Turkstat Industrial Production Index	September	
9 November	Treasury's Domestic Debt Redemption (59 million TRY)		
10 November	US Jobless Claims	November I	
11 November	CBRT Balance of Payments Statistics	September	
	US The University of Michigan's Consumer Sentiment Index	November	

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