WEEKLY OUTLOOK

Donald Trump won US Presidential Election.

Last week, US Presidential Election was on the top of the agenda. The Republican Party's nominee Donald Trump has won the election and became the president-elect of the US. After Trump's surprise victory, global markets tumbled as investors sought safety in the early hours. Trump's moderate tone at his victory speech, on the other hand, calmed down the markets to some extent. Expectations of a favorable tax reform, increase in fiscal spending and easing regulations in healthcare and financial sectors led to an increase in US stock markets. Dow Jones Industrial Index jumped to a record high level. The bond market, on the other hand, faced a heavy sell-off due to the expected burden of new fiscal policies, as the US 10-year bond yield climbed 2.15%, the highest level for 2016. Besides, dollar gained strength against emerging countries' currencies. Trump's intention to renegotiate the trade agreements was another factor that increased uncertainty aftermath the election. Mexican peso tumbled, as the Trump era could have a negative impact on the foreign trade relations.

The debate over whether Trump will interfere with the Fed's monetary policy is closely monitored by the markets. Trump is known for his opposition to Fed's low interest rate policy due to his anxiety of a bubble in the stock market. President-elect Trump is expected to put his imprint on Fed given two existing vacancies on the seven-member board of governors. Last week, Fed officials' statements were also closely followed which strengthened the views that the December option for the next rate hike is still on the table. Markets anticipated that Trump's victory would not derail December rate hike. Fed's next FOMC meeting would be held on December 13-14.

Oil prices are under pressure…

International Energy Agency stated in a recently published oil market report that the global oil supply rose to 97.8 million barrels per day in October. OPEC is set to hold a meeting in Vienna on November 30th to finalize the details regarding supply cut; however, comments from member countries opposing such measures has been keeping oil prices under pressure. Oil prices, declining till 42 dollar per barrel following the election in the US, are expected to hover around that level in 2017 should production cut negotiations fail. On the other hand, gold prices declined by 6% weekly due to the appreciation of US dollar after the US election.

Referendum in Italy…

After the success of Trump in US elections, markets worry that current prime minister's political party in Italy may fail in the referendum as the populist ideas around the world rises. The possibility of a resignation of the PM after the referendum on December 4th together with the current problems in Italian banking sector increase the risks to Italian economy, hence European financial markets.

WEEKLY DATA

	4 Nov	11 Nov	Change		4 Nov	11 Nov	Change
BIST-100 Index	74,267	75,174	1.2 % ▲	EUR/USD	1.1135	1.0850	-2.6 % ▼
TRY 2 Year Benchmark Rate	9.50%	9.89%	39 bp ▲	USD/TRY	3.1554	3.2512	3.0 % ▲
US 10 Year Bond Rate	1.78%	2.12%	34 bp ▲	EUR/TRY	3.5159	3.5255	0.3 % ▲
EMBI+ (bps)	368	369	1 bp ▲	Gold (USD/ounce)	1,304	1,226	-6.0 % ▼
EMBI+ Turkey (bps)	348	352	4 bp ▲	Brent Oil (USD/barrel)	43.0	42.0	-2.4 % ▼

bp: basis point

Industrial production decreased in September.

Seasonally adjusted industrial production declined by 3.8% mom in September. Calendar adjusted industrial production also decreased by 3.1% yoy. In September, printing and reproduction of recorded media and manufacture of furniture registered the highest annual decline, 34.5% and 17.3% respectively, while mining of coal and lignite surged 10.2%.

New decisions from CBRT…

Last week, CBRT decided to put "Limits for FX Collateral Deposits" into practice again which had been abandoned after the coup attempt. In this context, the limits will be applied as four times the limits allocated before July 17th.

On its statement published at the weekend, CBRT announced a revision on the method of the remuneration of the TRY denominated required reserves. Accordingly, starting from 1 January 2017, CBRT will start implementing the new method which proposes a single ratio for all banks and the payments will be made once in every three months. According to the old method remuneration ratios were calculated for every single bank individually in accordance with the ratio of gross loans to sum of total deposits and equity targeting to control rapid loan growth. The new remuneration ratio will be 400 basis points lower than the one week repo auction rate (currently 7.5%). In the old version, interest rate payments to banks had been 300 to 500 basis points lower than the weighted average of the funding cost. On the weekend, CBRT also decided to lower the maximum interest rates to be charged on credit card borrowings for both TRY and FX denominated transactions. Consequently, starting from 1 January 2017, monthly maximum contractual interest rate will be 1.84% for the TRY and 1.47% for FX, whereas the monthly maximum overdue interest rates will be 2.34% and 1.97%, respectively.

Deputy Prime Minister Mehmet Şimşek stated that the number of the monetary policy meetings of CBRT which is currently being held monthly will be reduced 8 a year at minimum. This way, CBRT is suggested to have more time to examine economic data like many other central banks do in the developed countries. Thus, instead of focusing on lots of economic data in the short run, CBRT is expected to give its messages much clearer and simpler.

Current account deficit was better than expectations in September.

According to CBRT, current account deficit (CAD) was realized as 1.7 billion USD in September. In the first 9 months of the year, despite the rapid fall in foreign trade deficit, CAD grew by 242 million USD in annual terms thanks to continuing decline in tourism revenues. Therefore, 12-month cumulative CAD reached its highest level since November 2015. Moreover, 1.6 billion USD of net capital outflow from portfolio investments was remarkable.

We believe that the risks to current account deficit are tilted to the upside for the coming period. The widening of the foreign trade deficit in October, revealed by the provisionary data, supports our view. Furthermore, we expect the current account deficit to remain under pressure for a while longer by the fall in tourism revenues. The steps taken by the policymakers to increase domestic demand and the course of the oil prices would be other factors affecting the current account deficit in the forthcoming period (Our Balance of Payments Report).

INDUSTRY NEWS

New regulations for individual retirement funds…

Deputy PM Mehmet Şimşek spoke last week about their recent work on individual retirement system (IRS). Şimşek explained that as of January 1st, 2017 employers will have the chance to work with more than one retirement companies simultaneously for the automatic participation in IRS and 25% state contribution to the system will continue in 2017. Şimşek also stated that there is an ongoing process about including children aged under 18to the system. As of October 2016, there are 6.5 million people and 58.6 billion TL of savings at IRS and the fund is expected to reach 100 billion TL in 10 years.

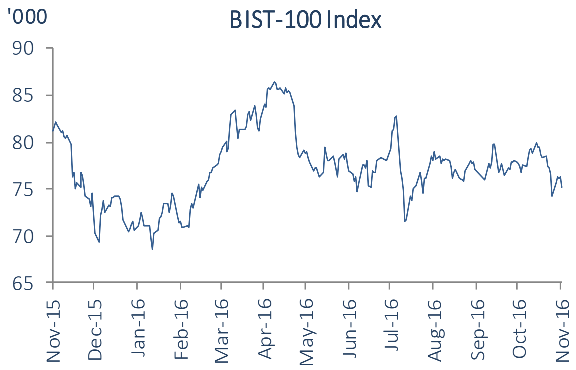
Storage requirement at natural gas sector…

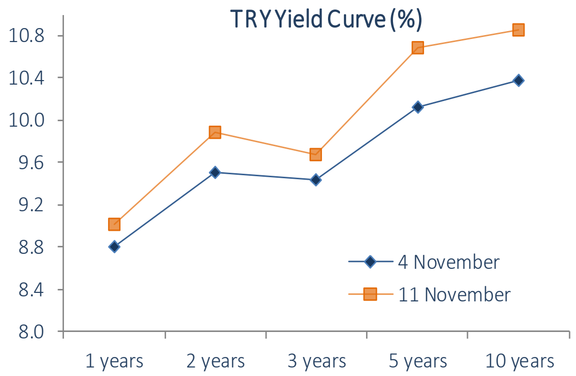
As a natural gas dependent country, Turkey continues to invest in natural gas storage in order to secure natural gas supply. There is currently one storage facility of BOTAŞ in Silivri with the capacity of 4.3 billion m^3.There is also another storage near Salt Lake which is planned to start operating in 2017. The decree published at the Official Gazette last week stated that importers and wholesale companies in the sector were entitled to storage while production firms were exempted from it. The decree requires that companies importing natural gas through pipelines will store 6% of the excess supply between their import contract amount and their sales to distribution companies. Wholesale companies have to secure 2% of their sales to distribution companies while LNG importers already using LNG terminals will be counted to have stored enough gas. Lastly, natural gas importers and wholesale companies will begin their storage activity in 5 years following their licenses have come into effect.

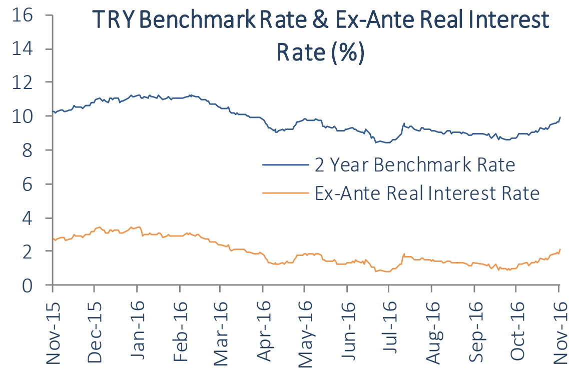
More funds for agriculture in 2017…

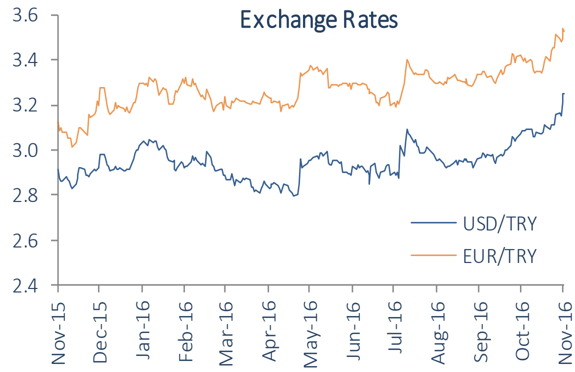
Investment programme of 2017 published on the Official Gazette last week indicated that government spared 12.8 billion TL of agricultural support in 2017 compared to 11.6 billion TL a year earlier. The largest share of agricultural support went to livestock by 30%, premium payments for crop production by 26% and field-based agricultural payments by 25% in 2017. There was no mention of previously announced 50% of government support for diesel fuel on the investment program since it has been planned to start as of 2018.

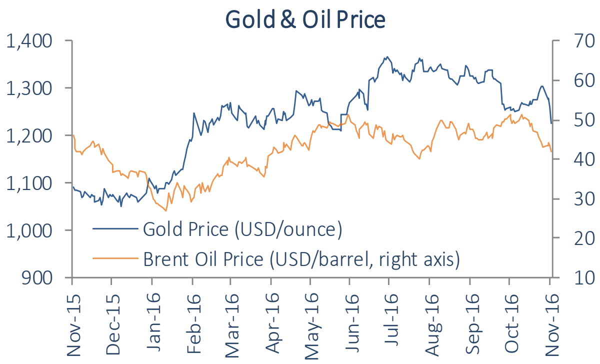
FINANCIAL MARKETS

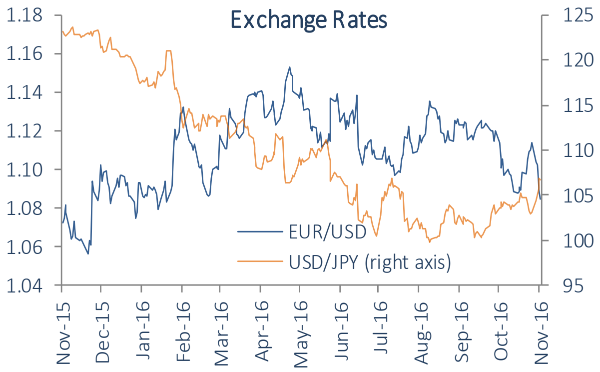


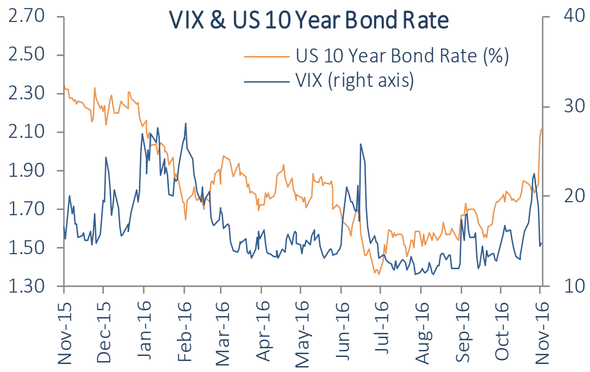


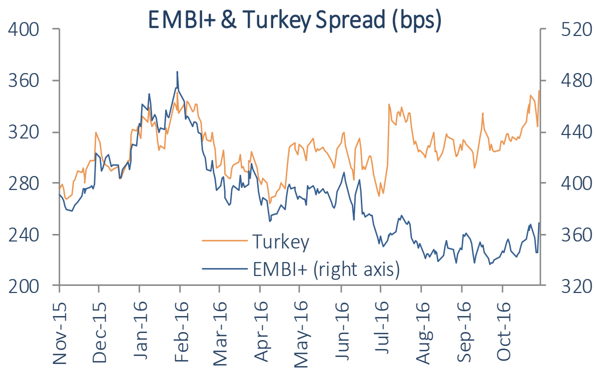












WEEKLY DATA RELEASES

		Period	Consensus
14 November	Reissuance of Fixed Coupon Bond with 11.07.2018 Maturity Date	November	
	Reissuance of Fixed Coupon Bond with 11.02.2026 Maturity Date	November	
15 November	Turkstat Employment Statistics	August	
	Ministry of Finance Central Government Budget Realization	October	
	Euro Zone GDP (Preliminary)	2016 Q3	1.60%
	Germany ZEW Survey	November	
	Germany GDP (Preliminary)	2016 Q3	1.80%
	USA Retail Sales Data	October	0.6% mom
	Reissuance of Fixed Coupon Bond with 22.09.2021 Maturity Date	November	
	Reissuance of Floating Coupon Bond with 20.04.2022 Maturity Date	November	
16 November	USA PPI-FD	October	1.20%
	USA Industrial Production	October	0.2% mom
	USA Capacity Utilization Rate	October	75.50%
	Treasury's Domestic Debt Redemption (9,752 million TRY)	November	
17 November	Euro Zone CPI	October	0.50%
	USA Housing Starts	October	10.3% mom
	USA CPI	October	1.60%

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