

## WEEKLY OUTLOOK

***Fed announced its balance sheet reduction plan.***

The US Federal Reserve (Fed) has kept its interest rate unchanged and announced that it would begin to reduce its 4.2 trillion USD of U.S. Treasury bonds and mortgage-backed securities in October. In its statement after the meeting, Fed underlined that since July meeting the unemployment rate stayed low, growth in business fixed investment picked up and economic activity rose moderately. It was also stated that near-term risks to the economic outlook were roughly balanced and the Committee is monitoring inflation developments closely.

In October, Fed would begin to reduce its holdings of U.S. Treasury bonds and mortgage-backed securities by cutting up to 10 billion USD each month from the amount of maturing securities it reinvests. The reduction amount on reinvestment is scheduled to increase by 10 billion USD every three months to a maximum of 50 billion USD per month at the end of 2018. Fed Chairman Yellen noted that the process would be a gradual and predictable.

New economic projections were released after the meeting. They show that 11 of 16 officials see the "appropriate" level for the federal funds rate for 2017 would be 0.25 percentage points above the current level. While 3 rate hikes are expected in 2018, projections forecast 2 rate hikes in 2019 and one rate hike in 2020. Forecasts for economic growth and inflation were also revised. GDP is now expected to grow at a rate of 2.4% this year, 2.1% next year and 2.0% in 2019. In June, the forecasts were 2.2%, 2.1% and 1.9%, respectively. Inflation is expected to remain under the Fed's 2% target through 2018 before hitting it in 2019.

Emerging stock exchange markets and currencies were hit by Fed's statements, while DXY index, which shows the value of USD against major currencies, climbed to its peak for 2 weeks.

***US housing market on steady path...***

Seasonally adjusted housing starts data which declined in July mom, also slipped in August down to 1.18 million units. Activities at the housing market which faces rising costs of building materials in addition to insufficient land and qualified labor have been steady this year. Existing home sales also decreased by 1.7% mom in August, not meeting the expectations.

***S&P downgraded China's credit rating.***

S&P Global Ratings downgraded China's long-term sovereign credit rating one notch from AA- to A+. S&P said that downgrade reflects their assessment that a prolonged period of strong credit growth has increased China's economic and financial risks. S&P predicts that credit fuelled growth model to reach target will remain as a risk factor for the country for the coming 2-3 years period. Based on similar grounds Moody's had also downgraded China's credit rating in May.

## WEEKLY DATA

	15 Sep	22 Sep	Change		15 Sep	22 Sep	Change
BIST-100 Index	107,742	104,123	-3.4 % ▼	EUR/USD	1.1941	1.1952	0.1 % ▲
TRY 2 Year Benchmark Rate	11.62%	11.80%	18 bp ▲	USD/TRY	3.4366	3.4952	1.7 % ▲
US 10 Year Bond Rate	2.20%	2.26%	6 bp ▲	EUR/TRY	4.1057	4.1759	1.7 % ▲
EMBI+ (bps)	317	320	3 bp ▲	Gold (USD/ounce)	1,319	1,297	-1.7 % ▼
EMBI+ Turkey (bps)	274	283	9 bp ▲	Brent Oil (USD/barrel)	56.1	58.2	3.9 % ▲

bp: basis point

***ECB policymakers have yet to reach a consensus on the asset purchase program.***

It was reported last week that European Central Bank policymakers disagree on whether to set a definitive end-date for their asset-purchase programme when they meet in October. This development raises the chance that ECB will keep open at least the option of prolonging it again. In this context, if an agreement is not reached until October 26<sup>th</sup>, ECB may put off part of the decision until December. A strong euro, with its dampening effect on inflation, is causing dissension among ECB policymakers.

***BoJ did not change its monetary policy.***

Bank of Japan didn't make any changes to its monetary policy in its meeting last week; however, new board member Kataoka argued against the central bank's view that current policy was sufficient to boost inflation to its 2% target. While he signalled the need for further easing steps to nudge up consumer inflation, it remains to be seen if Kataoka will influence other members of the board. It was observed that yen depreciated against other currencies because of the growing expectation that expansionary policies would continue.

***CBRT released the summary of its Monetary Policy Committee meeting.***

CBRT released the summary of its Monetary Policy Committee Meeting held on September 14<sup>th</sup>. The summary indicated that CBRT will maintain its tight stance in monetary policy until the inflation outlook shows a significant improvement and further monetary tightening will be delivered if needed. It was also noted that the Committee will focus on the developments in underlying inflation rather than the anticipated fluctuations driven by the base effects during the course of the year. Leading indicators displayed that economic activity has remained robust in the third quarter and the inflation outlook is projected to improve gradually starting from the last months of the year.

***Private sector's outstanding loans received from abroad keeps rising.***

According to data published by CBRT, in July private sector's outstanding long-term loans received from abroad increased by 11.4 billion USD compared to 2016 year-end to 213.6 billion USD of which 52% belonged to financial institutions and %48 to non-financial institutions. In the same period, private sector's short-term loans rose by 2.3 billion USD to 16.6 billion USD, 76.4% of which belonged to financial institutions whereas 23.6% to the non-financial institutions.

***Domestic markets...***

While it was a quiet week in terms of data releases, Fed meeting was the main driver for the course of domestic markets. The announcement that Fed will start balance sheet reduction soon and stick to the plan that there will be one more interest rate hike this year has pushed the dollar up against other emerging market currencies while pressured stock exchange. TRY last week depreciated by 1.7% wow against USD and EUR, while BIST-100 index was down by 3.4%.

Turkish Treasury completed the re-opening of 11 month T-Bill and 10 year CPI indexed bond right before its debt redemption of 2.6 billion TRY last week. Tendered amount for the T-bill reached up to more than 4 times of the accepted amount while the annual compound rate was realized as 11.83%. Additionally, the annual compound rate of the 10-year bond came in as 10.84%. Hence, Treasury borrowed 2.1 billion TRY and 3.8 billion TRY including the non-competitive bids. Measures recently taken to support economic activity has increased the public sector's need to borrow. Likewise, Treasury's domestic debt roll over ratio reached up to 169% as of August.

## INDUSTRY NEWS

***In Turkey, white goods sales increased by 24% yoy in the first 8 months.***

According to TÜRKBESD, in January-August period domestic sales of 6 main products in white goods sector increased by 24% yoy reaching 6.08 million units, while exports increased by 5% to 13.02 million. In the Turkish white goods sector, which is the world's second largest producer and exports 75% of its production, sales are at historic high levels thanks to the special consumption tax (SCT) incentive. SCT incentive has been temporarily introduced till the end of September. On the other hand, sector officials say that recently rising production costs have put pressure on the sector's performance. Increases in input prices such as steel, copper and plastics lead to an increase in white goods' consumer prices. Thus consumer prices in the sector have surpassed the pre-stimulus period. Sector officials demand the removal of customs duty on steel sheet imports applicable up to 15%.

***The number of companies went out of business increased by 27.9% in January-August period.***

According to Union of Chambers and Commodity Exchanges of Turkey, the number of newly established companies in Turkey soared by 47.5% yoy to 6,593 in August, while 1,218 companies went out of business increasing 105.4% compared to August 2016. In the first 8 months of the year, the number of newly established companies increased by 8.4% while the number of companies went out of business increased by 27.9%.

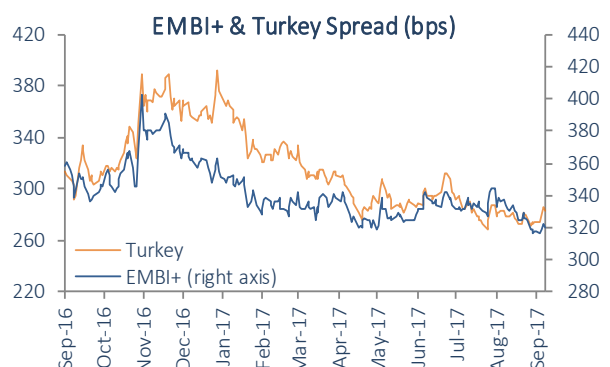
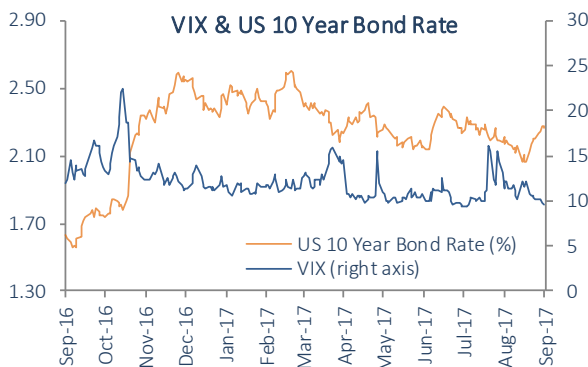
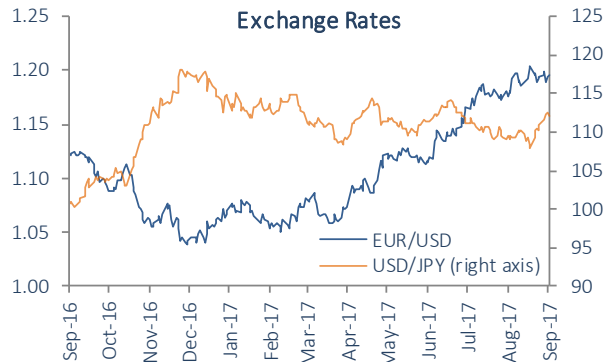
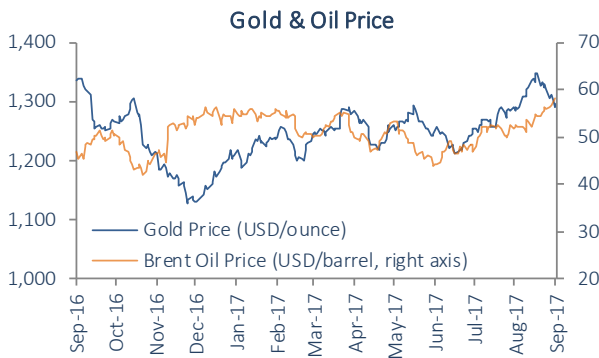
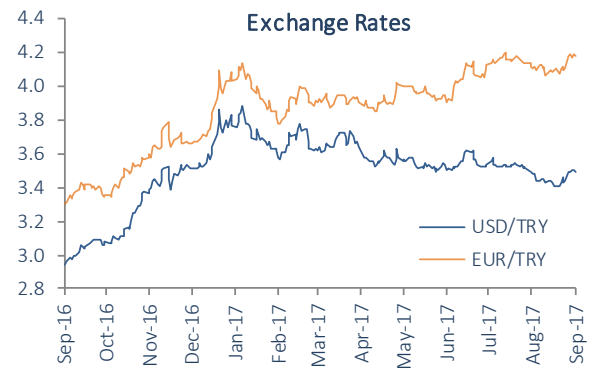
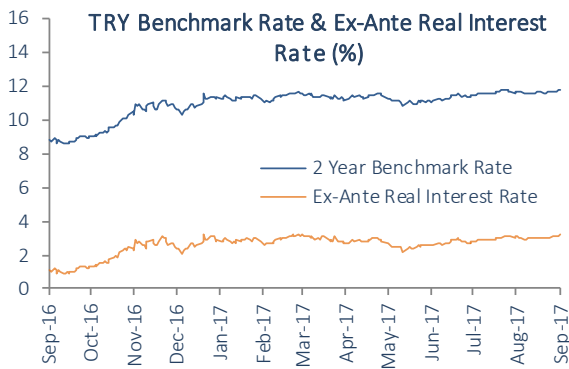
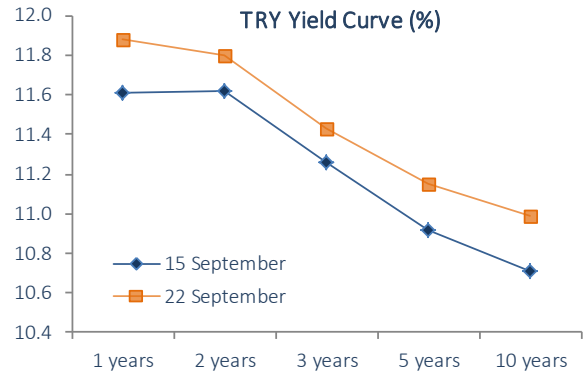
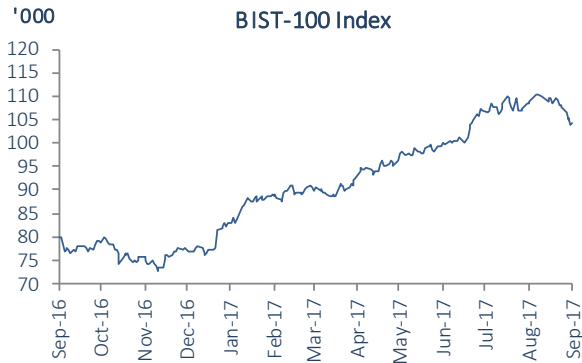
***The shipbuilding industry has doubled its exports.***

The shipbuilding sector, which increased its exports rapidly since June, registered a record exports growth in August with 179%. The sector, whose exports were 449 million USD in the first 8 months of last year, almost doubled its exports to 903 million USD in the same period of this year reaching the total exports volume of last year. Share of ship in total exports is 78% while share of yachts and crafts is 22%. If geopolitical problems in the region and some security problems are eliminated, the increase in exports is expected to accelerate even more. After 2008 crisis, Turkish shipbuilding industry lost most of its orders to Far East countries; therefore, industry had to reform into building custom made, technology-oriented ships. Turkish shipyards, which have rapidly specialized in this area, are trying to improve themselves in building military ships as well. Currently, there are more than 40 ships in the order book of Turkish shipyards.

***Renewed mining regulation was published in the Official Gazette.***

The renewed mining regulation and the tender regulation of the mine sites are published in the Official Gazette. With the new regulation, mining activity implementation regulations are abolished. Newly published law regulates the application of mining law for the purpose of granting rights to natural and legal persons for a certain period for the purpose of searching, operating, developing and producing mineral resources in accordance with national interests. Principles regarding the tender of minefields or sites are being regulated by the tender regulation of the mine sites published in the same Gazette.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>25 September</b>	CBRT Capacity Utilization Rate of Manufacturing Industry	September	
	CBRT Business Tendency Survey and Real Sector Confidence Index	September	
<b>26 September</b>	Re-opening of Fixed Coupon Bond with 2-year Maturity	September	
	USA New Home Sales	August	583K
	USA The Conference Board Consumer Confidence Index	September	120.2
<b>27 September</b>	Treasury Debt Redemption (1,680 million TRY)	September	
	USA Durable Goods Orders	August	1.5% mom
	USA Pending Home Sales	August	-0.1% mom
	UK GDP Growth	2017Q2	1.7%
<b>28 September</b>	USA GDP Growth (Final)	2017Q2	3.1%
<b>29 September</b>	TÜİK Foreign Trade Statistics	August	
	USA Consumer Spending	August	0,1% mom
	USA Personal Income	August	0.3% mom
	USA The University of Michigan's Consumer Sentiment Index	September	95.3
	Eurozone Consumer Price Inflation (Preliminary)	September	1.6%

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