

WEEKLY OUTLOOK

Data releases in US...

Last week, data releases in US were closely followed by the markets. September ISM Manufacturing and non-manufacturing indices, which were released in the first half of the week, came in well above expectations with 60.8 and 59.8, respectively. Hence, these data supported the view that Fed will increase interest rates one more time in December. Nonfarm payrolls have declined for the first time since September 2010 due to the negative effects of Harvey and Irma hurricanes. Decline in payrolls was 33K compared to previous month, while rest of the employment indicators was quite positive. While unemployment rate declined to 4.2%, 2.9% annual increase in average hourly earnings is expected to lift the inflation to Fed's medium-term inflation target of 2%. After nonfarm payrolls data, market expectation of a rate hike in December was up to 75-80%, while the USD quickly appreciated in global markets. US 10-year T-bill yield was recorded above 2.40% following the payroll data.

On the other hand, there was news that US President Trump was having meetings with possible candidates to replace Fed Chair Yellen whose term expires in February 2018. In addition to the possibility that Yellen could be reinstated in a second term, Trump's economic advisor Gary Cohn, Fed Board member Powell or former Board member Kevin Warsh are among possible candidates. As it is expected that the new chair will be announced in a few weeks, new Chair's monetary policy stance will be effective in the course of global markets.

Mixed signals regarding the economic activity in Euro Area...

Last week, data releases in Euro Area gave mixed signals. Manufacturing purchasing managers' index (PMI), which rose to 58.1 in September from 57.4, pointed out that manufacturing industry in the region has been expanding for 51 consecutive months. Annual producer price inflation was recorded as 2.5% in August, exceeding expectations, while retail sales fell by 0.5% monthly failing to meet the expectations of an increase. Unemployment rate in the region continued to remain at its lowest level since February 2009, although it was slightly above expectations at 9.1% in August.

Minutes of the ECB meeting held on September 6-7 was released last week. Minutes suggests that Bank's officials are worried about the appreciation of the EUR, as it poses a risk on the inflation. As asset purchase program of 60 billion EUR per month is expected to end in December, it is thought that ECB will downsize the program, but maintain it for the coming period. The EUR was under pressure last week in the global markets due to the ongoing effects of the referendum in Catalonia and coalition talks in Germany. The EUR/USD parity declined by 0.7% on a weekly basis.

WEEKLY DATA

	29 Sep	6 Oct	Change		29 Sep	6 Oct	Change
BIST-100 Index	102,908	104,137	1.2 % ▲	EUR/USD	1.1812	1.1733	-0.7 % ▼
TRY 2 Year Benchmark Rate	11.89%	12.00%	11 bp ▲	USD/TRY	3.5627	3.6139	1.4 % ▲
US 10 Year Bond Rate	2.33%	2.37%	4 bp ▲	EUR/TRY	4.2085	4.2400	0.7 % ▲
EMBI+ (bps)	317	317	0 bp ●	Gold (USD/ounce)	1,279	1,275	-0.3 % ▼
EMBI+ Turkey (bps)	282	281	-1 bp ▼	Brent Oil (USD/barrel)	57.0	55.8	-2.2 % ▼

bp: basis point

CPI inflation was lower-than-expected in September.

Consumer price index (CPI) increased by 0.65% mom in September, realizing below the expectations. Annual CPI which was 10.68% in August rose to 11.2% in September. Moreover, the surge in core inflation with a monthly rise of 0.86%, pointed out that CPI may remain in double-digit levels for a while. Among the main expenditure groups, excluding food and non-alcoholic beverages, all items in CPI basket contributed to the rise in consumer prices in September. Besides, domestic PPI went up by 0.24% mom and 16.28% yoy. CBRT is likely to keep its tight monetary stance until year-end while annual CPI is expected to decline to single digit levels in December mainly due to the favorable base effect. On the other hand, abolishing the tax cuts in white goods, furniture and housing sectors by the end of September, robust domestic demand and steady rise in energy prices are the main factors which may create inflationary pressures in the following period ([Our Inflation Report](#)).

Industrial production rose by 5.2% yoy.

Calendar adjusted industrial production rose by 5.2% yoy in August. Seasonally and calendar adjusted industrial production however declined by 0.1% mom. Analyzing the main industrial groups, the highest decrease was in capital goods by 3.7% mom whereas the largest increase was recorded in durable consumer goods by 8.5% mom in August. The steep rise in durable goods was mainly driven by the strong demand conditions in the white goods and furniture market due to former tax-cuts. As for the sub-sectors, the fastest fall was in manufacture of computer, electronic and optical products by 16.8% which is followed by manufacture of motor vehicles by 13.3% mom. The biggest rise, on the other hand, was realized in manufacture of basic pharmaceutical products by 11.8% and that was followed by leather and related products by 8% mom. Besides, manufacturing PMI went down to 53.5 in September but continued its course above the 50-threshold since March 2017. In its Global Economic Outlook report, international credit rating agency Fitch revised the growth rate of Turkish economy upwards to 5.5% from 4.7% for 2017 and published its growth forecasts as 4.1% for 2018 and 2019.

Exports continue to rise.

Turkish Exporters' Assembly (TIM) figures showed that Turkey's exports increased by 8.9% yoy in September reaching 11.4 billion USD. In the 9-month period, exports rose by 10.6% yoy and was realized as 114.7 billion USD. Nonetheless, preliminary figures published by Ministry of Customs and Trade revealed that foreign trade deficit surged by 85.23% to 8.1 billion USD in September due to the steep rise in imports. Under the Medium Term Programme (MTP) for the period of 2018-2020, export target is revised and finally determined as 156.5 billion USD for 2017. In this regard, it seems probable to achieve the year-end target considering the fact that exports have already reached 73% of the above-mentioned amount in January-September period.

Domestic financial markets...

Domestic financial markets followed a volatile course last week. While BIST-100 index increased by 1.2% on a weekly basis, 2-year benchmark bond's compound interest rate rose by 11 basis points. The USD/TRY closed the week at 3.61 with the effects of continued concerns about northern Iraq and increased expectations of the Fed rate hike in December after the released US economic data. EUR/TRY exceeded the historical highs of 4.24. After the US and Turkey suspended visa transactions reciprocally on weekend, USD/TRY rose steeply and was traded at around 3.68 levels this morning. This development also caused BIST-100 index to test the levels below 100,000 in the morning.

INDUSTRY NEWS

Passenger car and light commercial vehicle market showed an increase in September.

According to data released by Automotive Distributors' Association last week, passenger car and light commercial vehicle market grew by 5.6% yoy in September, while it shrunk by 1.4% yoy to 627,343 at January-September period. The contraction of domestic market was driven by 2.6% decline in passenger car sales. It is foreseen that domestic automotive market will shrink this year by 5% to 875-925K. As part of the omnibus bill, new motor vehicles tax rates to be effective as of 2018 year beginning are expected to be announced right after it will be discussed at the parliament on Tuesday.

Amendment of regulations on packaging of vegetables and fruits...

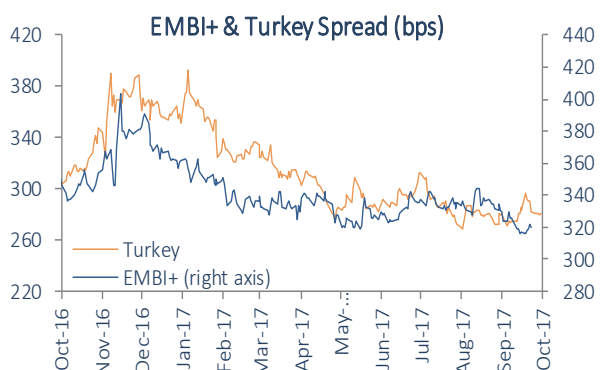
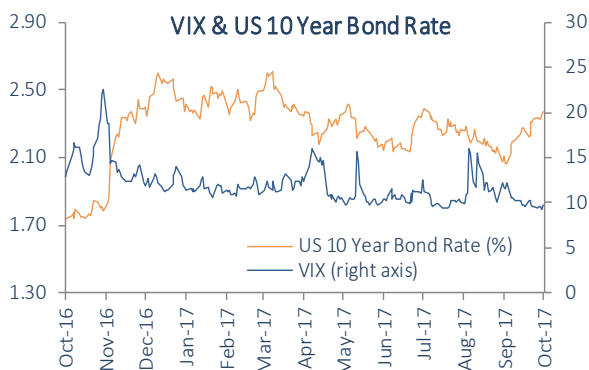
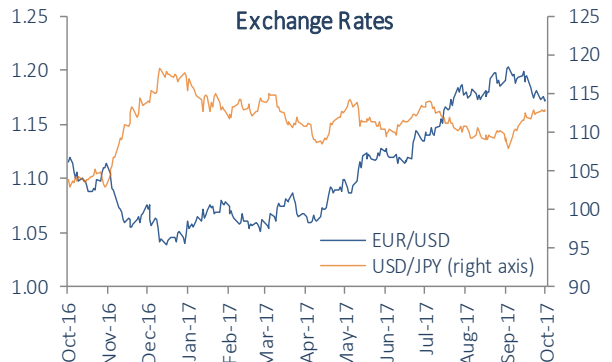
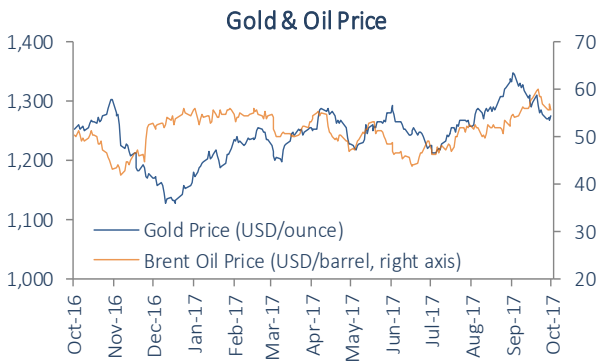
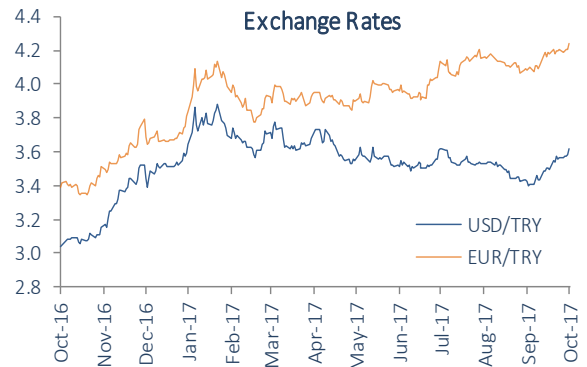
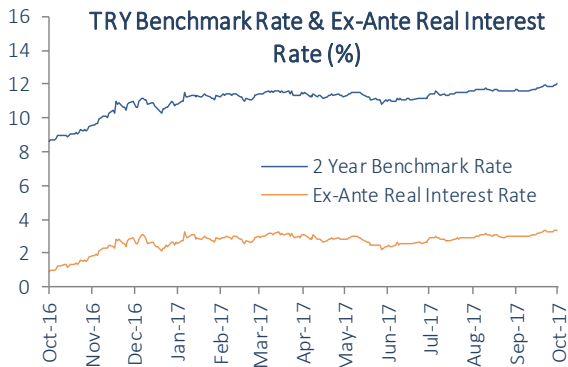
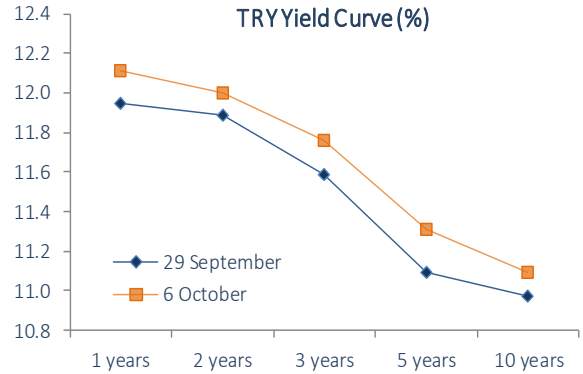
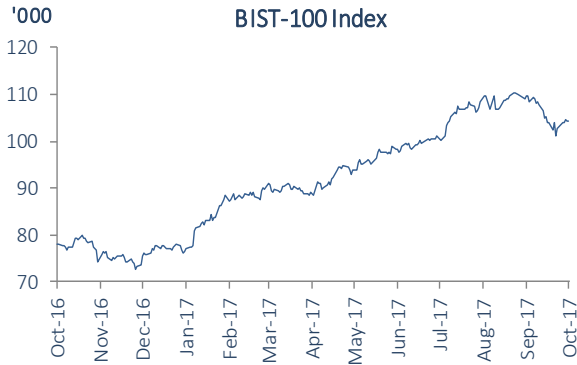
Recent works in order to reduce the loss in food products, which appears while carried from farms to markets and leads to rapid rise in consumer price inflation, have been progressing. The regulation published on the Official Gazette last week by the Ministry of Customs and Trade required that vegetables and fruits, subject to retail and wholesale trade, will be in packages while carried, stored and served in coolers at retail stores. Taking the cooler and energy costs at stores into account together with the possibility that related fresh products might also be wasted in packages, decline in product prices will be at most 5%. On the other hand, retailers assert that retail prices may not be as competitive as before compared to prices at farmers market since package costs might push the retail prices up and consumers might incline to shop more from the farmers market. The deadline for the implementation of the regulation is 2019 year-beginning.

Deputy Prime Minister of Russia last week explained that Ministry of Agriculture made a proposal to the Russian parliament for the import of maximum 50,000 tons of tomatoes from Turkey till 2017 year-end/2018 year-beginning. After the warplane crisis in November 2015, Russia had suspended tomato imports from Turkey, which were 276 million USD in 2014 and 259 million USD in 2015.

Investment incentives granted in August...

According to investment incentives statistics released by the Ministry of Economy, fixed investments climbed by 47.3% yoy to 8.15 billion TRY in August while 18,342 people are expected to be employed within the scope of the related investments. It is projected that 80% of total fixed investments, 67.8 billion TRY at the first eight months of the year, will be implemented by the local investors. Energy sector received the highest share among all the sub-groups by 29%.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
9 October	China Caixin Services PMI	September	50.6 (A)
	Germany Industrial Production	August	+2.6% mom (A)
	TURKSTAT Industrial Production Index	August	-0.1% mom (A)
11 October	Fed FOMC Minutes	Sept.19-20	
	CBRT Balance of Payments Statistics	August	
12 October	USA Producer Price Index	September	+0.4% mom
13 October	USA Consumer Price Index	September	+2.3% yoy
	USA Retail Sales	September	+1.9% mom
	USA The University of Michigan's Consumer Sentiment Index (Preliminary)	October	95.5

(A) Actual

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