

## WEEKLY OUTLOOK

***US data bolster the case for a rate hike.***

In the USA, inflation and retail sales in October recorded an upbeat tone. Annual consumer inflation picked up by 2%, while core annual inflation has risen by 1.8%, posting the first increase on annual basis since January 2017. As better-than-expected retail sales and industrial output figures confirmed the robust outlook in economic activity, the probability of a Fed interest rate hike in December currently stands at around 90%.

***Third quarter growth rates presented a positive outlook.***

Japanese economy grew faster than expected in the 3rd quarter, rising by 1.4% on an annual basis, thanks to the strong pickup in exports. Recording 7 quarters of growth in row, Japan's economy witnessed the longest uninterrupted growth period in more than 10 years.

In Germany, economic growth in the third quarter accelerated, reaching an annual growth rate of 2.3%. On the other hand, annual growth rate in the Euro Area as a whole has been 2.5% in the same period.

***IMF published regional economic outlook for Europe.***

International Monetary Fund (IMF) has published its latest regional economic outlook for Europe. In the report, it is emphasised that the improvement has gathered momentum in European economies and the growth forecast for this year and 2018 is 2.4% and 2.1%, respectively. It is mentioned that growth, which has been picked up pace by domestic demand and investments, has greatly contributed to the global economy and Europe has become an engine for global trade. However, it is noted that Brexit may result in slower growth both for the UK and Euro Area.

***Turkey's current account deficit was larger than expected.***

Current account deficit came in at 4.5 billion USD in September, exceeding market expectations. While more than doubling of foreign trade deficit in this period on an annual basis was behind the current account expansion, the recovery in tourism revenues continued. Thus, in the January-September period, current account deficit expanded to 31.1 billion USD, 12-month cumulative current account deficit was realised as 39.3 billion USD. It is observed that portfolio investments continued to play a significant role in financing of the deficit as it has been the case so far this year. Portfolio investments recorded a net capital inflow of 3.4 billion USD in September. Foreign direct investments, however, continued to perform weakly in September. We expect that current account deficit will face mostly upside risks in the period ahead as credit growth leads to stronger economic activity and oil prices display an increasing trend ([Our Balance of Payments report](#)).

***Tax revenues remained strong.***

In October, budget expenditures and revenues increased by 29.2% yoy and 21.8% yoy, respectively. Thus, central government budget deficit was 3.3 billion TRY in October and budget deficit reached 35 billion TRY in the first ten months of the year. In the same period of 2016, budget deficit was realised as 12.1 billion TRY. Tax revenues, which had rapidly expanded in October, maintained its strong performance albeit losing some momentum. In this period, due to the increase in imports led by the recovery in domestic demand conditions and rise in exchange rates,

## WEEKLY DATA

	10 Nov	17 Nov	Change		10 Nov	17 Nov	Change
BIST-100 Index	108,949	106,239	-2.5 % ▼	EUR/USD	1.1663	1.1793	1.1 % ▲
TRY 2 Year Benchmark Rate	13.55%	13.73%	18 bp ▲	USD/TRY	3.8608	3.8745	0.4 % ▲
US 10 Year Bond Rate	2.40%	2.35%	-5 bp ▼	EUR/TRY	4.5053	4.5695	1.4 % ▲
EMBI+ (bps)	348	345	-3 bp ▼	Gold (USD/ounce)	1,276	1,294	1.4 % ▲
EMBI+ Turkey (bps)	329	322	-7 bp ▼	Brent Oil (USD/barrel)	63.8	62.0	-2.8 % ▼

bp: basis point

Special Consumption Tax (SCT) and Value Added Tax (VAT) on imports contributed to the rise in tax revenues significantly. We anticipate that the budget deficit will continue to widen in the last two months of the year and budget deficit will be compatible with the MTP targets at the end of the year ([Our Budget Balance report](#)).

### ***Unemployment rate at 10.6%...***

According to August employment data which covers July to September period, unemployment rate was 10.6% in August, decreasing by 0.7 point year on year. After reaching its peak since 2010 by climbing to 13% in January 2017, unemployment rate has declined in the following periods thanks to the positive impacts of employment incentive package and seasonal effects. The number of employed persons increased more than 1.4 million with respect to the same period of last year and labour force participation rate rose up to 53.7% in a similar fashion. Seasonally adjusted unemployment rate also decreased by 0.3 point from the month prior to 10.8%.

### ***CBRT targets to reduce volatility in TRY.***

CBRT launched “Turkish lira-settled forward foreign exchange sale auctions” on 20th of November to help manage the exchange rate risk of corporate sector. CBRT announced that the difference between the forward exchange rates set on the contract day and the spot rate on the settlement day will be paid in Turkish Liras and this instrument will contribute to the corporate sector’s management of exchange rate risk. It is also mentioned that demand of corporate sector for FX will decrease and CBRT reserves will not be affected. The maximum total amount of foreign exchange sale position is planned to be USD 3 billion until end-2017.

### ***Treasury has borrowed 3.1 billion TRY through auctions.***

Last week, the Treasury borrowed 3.1 billion TRY via bond auctions in line with the borrowing schedule for November. The average compound yields have been realised at high levels of 13.75% for 2-year benchmark auction and 12.33% for 10-year benchmark re-issuance auction.

### ***Moody’s published the annual credit analysis.***

Rating agency Moody’s has published the annual credit analysis for Turkey on 17th of November. In the report, it is expressed that the country’s economic growth and government debt metrics continue to provide key credit rating anchors while noting that “Turkey’s sovereign rating could be downgraded if the probability of a balance-of-payments crisis were to rise”. On the other hand, it is assessed that “upward rating pressure could follow structural reductions in vulnerabilities” in economy or “improvements in Turkey’s institutional environment or competitiveness”. With a negative outlook, Moody’s Turkey’s rating is Ba1, one notch below investment grade.

### ***Markets...***

News stream about the tax reform bill in USA continued to weigh on the US dollar. While there are two separate drafts for tax overhaul; one in the Senate and the other one in the House of Representatives, these drafts differentiate between issues such as the number of tax brackets and inception dates of tax cuts. Given their narrow majority in the Senate, it is assessed that the Republicans may not have a majority to vote the bill, and this situation results in increased volatility for the US dollar. While the dollar lost 1.1% of its value against the euro, DXY retreated by 0.8% on weekly basis. On the other hand, euro depreciated at the start of this week in the face of Merkel’s talks to form a coalition collapsed.

On the domestic markets, the upward pressures on interest rates and exchange rates have been persisted. While 2-year benchmark bond yield increased by 18 bps from a week ago, the demand for TRY denominated assets have decreased. As a result, BIST-100 index fell by 2.5% on a weekly basis and TRY depreciated by 0.4% and 1.4% against the US dollar and the euro, respectively.

Signs of slowing down in China’s economy and downward revision by International Energy Agency for oil demand forecast have resulted in retreat in oil prices. Consequently, spot price for Brent oil decreased by 2.8% wow. Uncertainties about the US tax reform bill have pushed investors into safe-haven demand and gold prices went up by 1.4% wow.

## INDUSTRY NEWS

***Slower production growth in the automotive sector...***

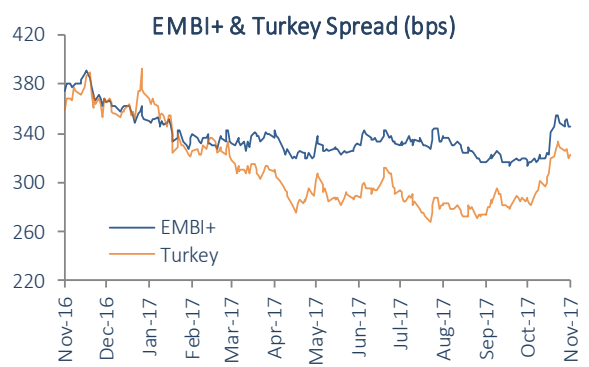
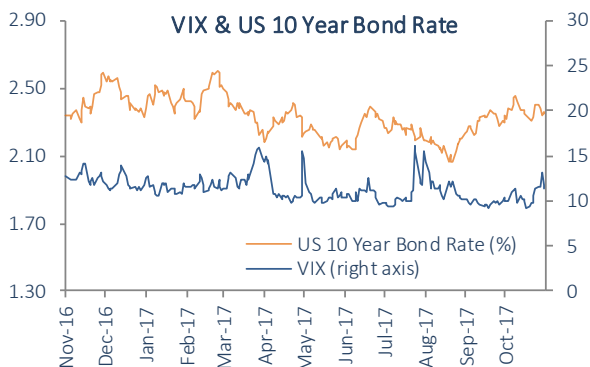
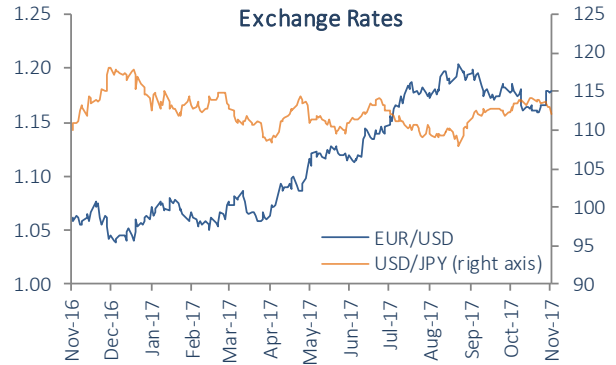
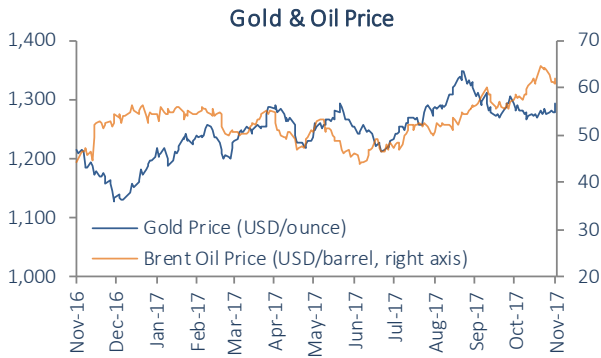
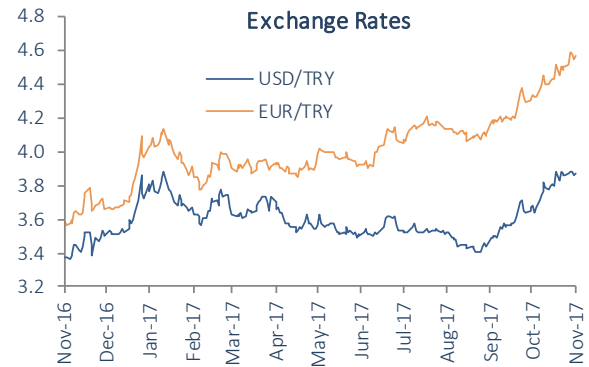
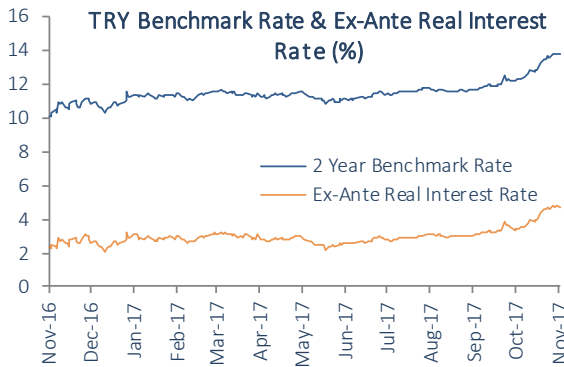
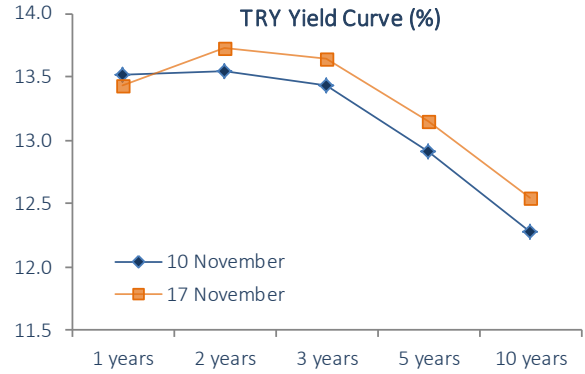
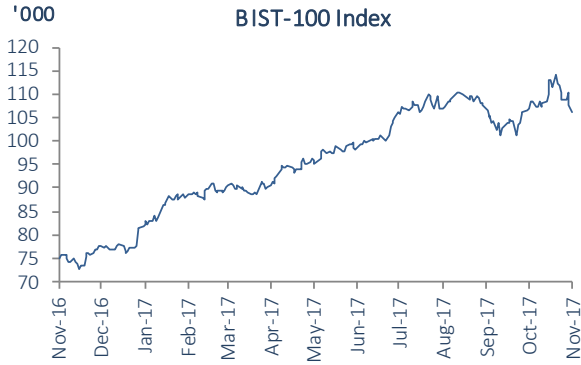
Annual production growth in automotive industry in October was recorded as 7% due to high base effect from the same month of 2016. Growth in exports came in at 9%. In January-October period, production increased by 17% on an annual basis while export growth was 22%. Although growth in exports has been losing some momentum after registering 29% increase in the first half of the year, nearly 80% of the manufactured vehicles have still been exported. Almost all of the increase in production and exports in January-October period came from automobiles. Automobile production in the sector in this period increased by 27% year-on-year while automobile exports picked up by 34%. High growth rates in production and exports of the industry were driven by the new models produced by Renault, Toyota and Tofaş since the second half of last year.

***Shopping center sales index went up by 19.4% in the third quarter.***

Shopping center sales index, which shows the performance of the shopping malls in Turkey, increased by 8.5% on annual basis in September and 19.4% in third quarter of the year, despite a fall in the number of visitors. This increase was mainly due to low base effect of the last year, as well as the demand brought forward, especially in electronics, before special consumption tax incentive lifted. Technology market posted the highest sales increase with 38.5% in September, followed by food and beverages with 12.8%, wearing apparel with 0.9% and shoes with 0.5%. On the other hand, hypermarkets' sales decreased by 1.2%.

On monthly basis, the fact that the increase in sales in September is below the inflation rate indicates that the domestic demand conditions for retail sector are somewhat moderate. Although quarterly data suggests a high increase in sales compared with last year, the favorable base effect created by low consumer confidence after the coup attempt in the third quarter of last year was effective in this increase.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
21 November	Re-opening of Fixed Coupon Bond with 5 Years Maturity	November	
	USA Existing Home Sales	October	5.425 million units
22 November	TURKSTAT Consumer Confidence Index	November	
	Treasury Domestic Debt Redemption (1,768 million TRY)	November	
	USA Durable Goods Orders	October	0.5% mom
	USA University of Michigan's Consumer Sentiment Index	November	97.9
	Fed Open Market Committee Minutes	November	
23 November	TURKSTAT Home Sales	October	
	Eurozone Manufacturing PMI (Preliminary)	November	58.6
24 November	CBRT Capacity Utilization Rate of Manufacturing Industry	November	
	CBRT Business Tendency Survey and Real Sector Confidence Index	November	
	TURKSTAT Sectoral Confidence Indices	November	
	USA Manufacturing PMI (Preliminary)	November	54.6



This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.