

	14-Sep	21-Sep	Change		14-Sep	21-Sep	Change
BIST-100 Index	94,760	97,988	3.4 % ▲	EUR/USD	1.1628	1.1749	1.0 % ▲
TRY 2 Year Benchmark Rate	24.94%	25.40%	46 bp ▲	USD/TRY	6.1693	6.2917	2.0 % ▲
Turkey 5-Year CDS	424	399	-25 bp ▼	EUR/TRY	7.1737	7.3954	3.1 % ▲
MSCI EM Equity Index	1,029	1,051	2.2 % ▲	Gold (USD/ounce)	1,193	1,199	0.5 % ▲
US 10-Year Bond Rate	2.99%	3.07%	7 bp ▲	Brent Oil (USD/barrel)	77.9	78.8	1.2 % ▲

bp: basis point

Last week, New Economic Program was announced. Macroeconomic forecasts that were published within the scope of this program were generally in line with market expectations while inflation is projected to fall to single-digit levels by 2020. Latest data on production in white goods and automotive industries, which are considered as leading indicators, has confirmed the stagnation in the economic activity. Besides, new developments regarding the trade war continued to affect global markets. This week, markets will focus on Fed's FOMC meeting and the statements of Fed members which could shed light on future path of policy.

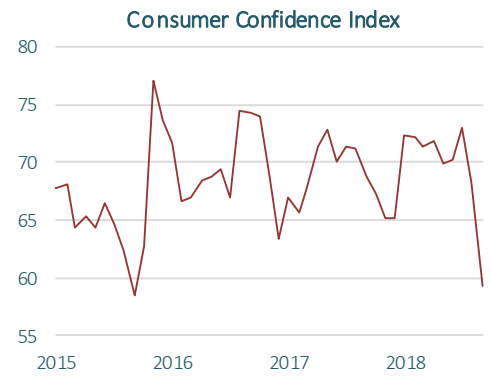
Turkish government announced New Economic Program.

Medium term program of the Turkish government was announced last week under its revised name of New Economic Program (NEP). In this program which has been covering 2019-2021 period, main objective of the economy management was stated as re-establishing price stability and financial stability. Moreover, strong emphasis on the re-balancing process in the economic activity and budget discipline was notable. Under this program, Turkish economy is forecasted to perform a slower growth than its potential during the period 2018-2020, however, the economic activity was anticipated to gain momentum by 2021. On the inflation front, single-digit levels are estimated to be achieved by the end of 2020. All in all, macro-economic forecasts made within the program were generally in line with market expectations. Following the public presentation of the program, Minister of Treasury and Finance Berat Albayrak's comments on NEP was also followed closely. In his speech, Mr. Albayrak cited the recent deterioration in the balance sheet of the real sector due to rising uncertainties. He also stated that they will start working on a new task in collaboration with the banks this week, in order to manage existing problems more effectively.

In its report published on Friday, Fitch revised its year-end inflation forecast for Turkey upwards to 20% and up to 15% for 2019. Fitch also expected USD/TRY to be stabilized at around 6.20.

Consumer confidence hit the 3-year low...

Large fluctuations in the FX market caused deterioration in household sentiment on the economy. Consumer confidence index recorded a sharp decline in September compared to the previous month, falling to 59.3. Thus, the index dropped to its lowest level in the last 3 years, weakening for the second consecutive month. As the decline in the index was widespread, the decline in the tendency to spend money on durable goods pointed out that the downside risks to economic growth became more evident.



YEP Macroeconomic Forecasts

	2018 ^F	2019 ^P	2020 ^P	2021 ^P
GDP Growth*(%)	3.8	2.3	3.5	5.0
GDP per Capita (USD)	9,385	9,647	10,292	10,973
Inflation (annual CPI, %)	20.8	15.9	9.8	6.0
Current Account Deficit (as of GDP, %)	4.7	3.3	2.7	2.6
Trade Deficit (billion USD)	66.0	62.0	61.0	62.6
Unemployment Rate (%)	11.3	12.1	11.9	10.8
Budget Deficit (as of GDP, %)	1.9	1.8	1.9	1.7
USD/TRY**	4.9030	5.5975	6.0023	6.2009

(F) Forecast (P) Programme

(*) According to chain linked volume index

(**) Average exchange rate that is calculated by TRY and USD based GDP figures in the Programme

Source: Ministry of Treasury and Finance, Datastream

Budget deficit increased in August.

Central government budget deficit, which was 874 million TRY in August of last year, became 5.8 billion TRY in the same month of this year. Budget revenues rose by 23.3% yoy to 70.3 billion TRY, while expenditures increased by 31.5% yoy to 76.1 billion TRY. The primary surplus fell by 2.1 billion TRY from a year ago to 2.5 billion TRY in August. In addition, the effect of 'échelle mobile' system, which has been putting downward pressure on budget revenues since June, became more pronounced in August. SCT being collected from oil products fell by 17% yoy (1.1 billion TRY) in August, negatively affecting the budget performance. (Our Budget Balance report)

New moves from the US and China in trade war...

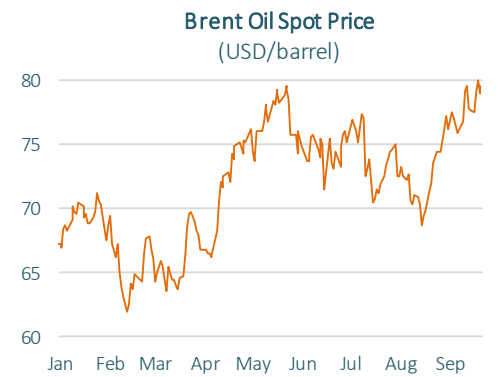
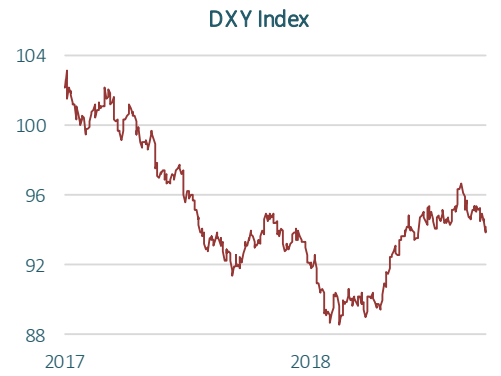
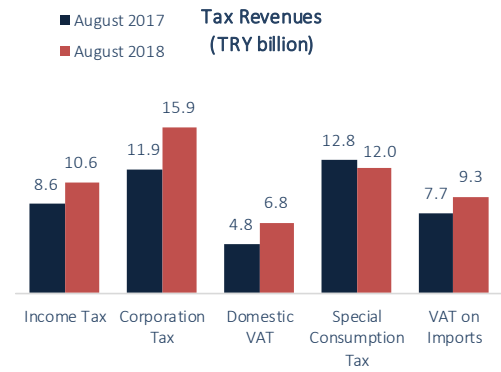
At the beginning of last week, US President Donald Trump announced that US would impose 10% tariffs on 200 billion USD worth of Chinese imports. The tariffs are scheduled to go into effect on September 24 and they will rise to 25% at the end of the year. China declared it would take retaliatory tariff action against 60 billion USD of US goods. It is said that tariff rates on those products will be at 5% - 10% instead of previously proposed rates of 20%-25%. Such a move means that nearly 90% of US' exports to China would be subject to new duties. Investors are waiting eagerly for the US' response to China's latest move. The US administration warned of tariffs on another 267 billion USD worth of Chinese products if China takes retaliatory action.

Oil prices and OPEC meeting...

Having tested the level of 80 USD/barrel in the mid-week, the price of Brent crude oil declined as the US President called on the Organization of Petroleum Exporting Countries (OPEC) to increase their production in order to lower prices, saying oil prices are already too high. The meeting held on weekend ended with no formal recommendation for any additional supply change while stressing the importance of 100% compliance with the cut deal.

Markets...

Although TRY denominated assets followed a downward trend last week, BIST-100 index, which was at low levels in dollar terms, ended the week up by 3.4%. On weekly basis, USD/TRY and EUR/TRY rose by 2.0% and 3.1%, respectively. 2-year benchmark bond yield surged up by 46 bps to 25.4%. This week, Fed's meeting will be closely monitored in global markets.



Data Releases

		Period	Consensus	Prior
24 September	Capacity Utilization Rate	September	-	77.8%
	Real Sector Confidence Index	September	-	96.4
25 September	Direct Sale of Lease Certificate with 2 Years Maturity	September	-	-
	Re-opening of CPI Indexed Bond with 5 Years Maturity	September	-	-
26 September	Treasury Debt Redemption	September	2,8 billion TRY	-
	Fed FOMC Meeting	September	+25 bps	-
	USA New Home Sales	August	630K	627K
27 September	USA GDP Growth	2018 Q2	4.3%	4.2%
	USA Durable Goods Orders	August	2.0%	1.7%
28 September	Foreign Trade Statistics	August	-	-6,0 billion USD
	USA Personal Consumption Expenditures	August	2.3%	2.3%
	Euro Area Harmonized CPI	September	-	2.0%

Source: Datastream

Sectoral Developments

Homes sales are declining.

Home sales, which had been increasing on annual basis since last May thanks to incentives and campaigns, declined in August. Sales dropped by 12.5% on annual basis to 105K units in this period. Due to rising financing costs, mortgage sales remains significantly under pressure by declining 67.1% yoy to 12,743 units while other sales increased by 13.5% to 92,411 units. In August there was a significant increase in demand by foreigners due to recent exchange rate developments. Home sales to foreigners increased by 129.6% yoy in August reaching 3,866 units, while majority of that demand came from Middle Eastern countries. Last week, the lower limit to obtain citizenship via home ownership was reduced to 250K USD. Along with this reduction, sales to foreigners are expected to reach 10 billion USD per year from 4-5 billion USD.

Temporary protection measure for steel industry...

In steel industry, it was decided to apply a temporary protective measure of 25% custom tax for imports for 200 days. According to the communiqué published in the Official Gazette, cold rolling of narrow strip, tubes, pipes, hollow profiles and related fittings and railway track materials are all subject to new measure. With this measure, rather than boosting local productions it is aimed to channel exports of steel products to domestic markets.

Slowdown in automotive industry...

Declining trend in automotive production and sales seemed to have accelerated in August due to ongoing slowdown in the economy. Along with 53% decline in domestic sales and 25% decline in exports, production also declined in August by 34%. In the first 8 months of the year, production contracted by 5%, while exports decreased by 4% in the sector where 80% of the production is exported. On the other hand, according to the Presidential Decree published today, base value on automobiles subject to Special Consumption Tax (SCT) has been increased. However, SCT rates were unchanged. With this development, automobile prices are somewhat expected to decline.

Domestic sales of durable goods are declining.

Domestic sales of durable goods declined by 19% in August, while decline in January-August period was realized as 13%. Despite 4% fall in the production in the first 8 months of the year, activity in the sector slowed down significantly in August with a 14% contraction. Even though exports dropped by 13% in August, total exports of the sector, being a net exporter, increased by 2% in January- August period.

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