

	19-Oct	26-Oct	Change		19-Oct	26-Oct	Change
<b>BIST-100 Index</b>	96,455	90,542	-6.1 % ▼	<b>EUR/USD</b>	1.1513	1.1401	-1.0 % ▼
<b>TRY 2 Year Benchmark Rate</b>	25.80%	25.17%	-63 bp ▼	<b>USD/TRY</b>	5.6415	5.5919	-0.9 % ▼
<b>Turkey 5-Year CDS</b>	390	389	-1 bp ▼	<b>EUR/TRY</b>	6.4924	6.3761	-1.8 % ▼
<b>MSCI EM Equity Index</b>	971	940	-3.3 % ▼	<b>Gold (USD/ounce)</b>	1,226	1,233	0.6 % ▲
<b>US 10-Year Bond Rate</b>	3.20%	3.08%	-13 bp ▼	<b>Brent Oil (USD/barrel)</b>	80.1	78.0	-2.7 % ▼

bp: basis point

Last week, the global stock markets, particularly the US markets, were under selling pressure. The US economy grew by 3.5% yoy in the third quarter driven by strong consumer spending, while growing trade war concerns continued to be effective in the course of the markets. In the Euro Area, the EU Commission's decision to reject the Italy's draft budget and the ECB's monetary policy meeting stood out. Oil prices decreased last week after Saudi Arabia announced that it would not allow a supply shortage problem following the imposition of Iran sanctions. While the CBRT did not make any changes in the monetary policy, the leading indicators pointed out that the economic activity continued to rebalance.

### Selling pressure on global stock markets...

Global stock markets, especially the US markets, faced with a sharp sell-off last week. Weak balance sheets of some companies in US, mounting trade war fears, global growth concerns and Saudi Arabia related tensions had selling pressure on global markets. Emerging market index also posted a weekly loss of 3.3%.

### US economy grew by 3.5% in the third quarter.

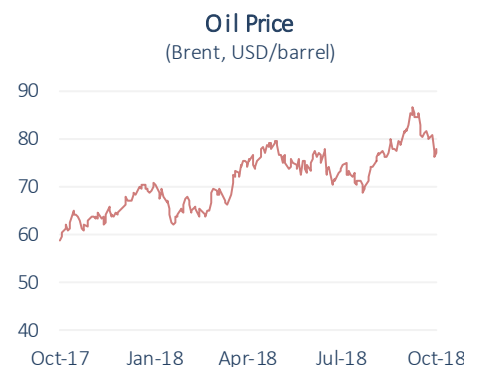
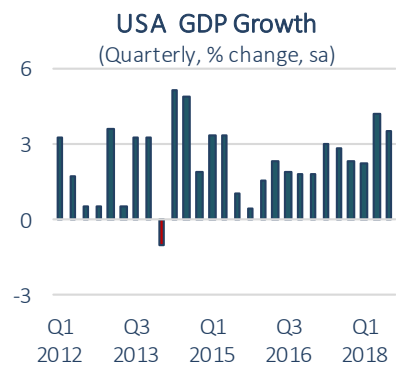
According to data released on Friday, the US economy grew by 3.5% yoy in the third quarter of the year, above the market's expectations. Consumer spending, which constitute an important part of the US economy, played a leading role in growth by making the highest contribution to growth with 2.7 pp. On the other hand, net exports reduced the growth rate by 1.8 pp in this period, highest contractionary impact of the last 34 years.

Developments in the trade war between the United States and China came to the forefront in global economic agenda. The recent news which informs that the US is preparing to announce new tariffs on all remaining Chinese imports in case of a failure in the meeting between presidents of both countries to be held on November raise the concerns over trade war.

### Italy's draft budget and the ECB meeting were high on the Euro Area's agenda.

Italian Government's budget, to increase its budget deficit/GDP ratio to 2.4% in 2019, was rejected by the EU Commission. The EU Commission stated that the rejected budget plan should be resubmitted to the EU Commission within three weeks by making the necessary corrections and Italy should reduce its budget deficit/ GDP target for the next year. On the other hand, Italian Prime Minister Giuseppe Conte's statement before EU Commission's decision that rules out a "Plan B" for the draft indicated that the uncertainties over the Italy's budget plan may persist.

European Central Bank (ECB) left interest rates unchanged in its monetary policy meeting last week. ECB reduced the amount of its monthly net purchases under the asset purchase programme, which is set to expire by the end of this year, to 15 billion euros as concluded before. In his press conference held after the meeting, ECB President Draghi stated that economic data pictured a less favourable outlook than previously estimated and monetary policy stimulus is still needed to support the economy. Preliminary manufacturing and services PMI for October came in at 52.1 and 53.3, respectively. Having showed that the expansion is still continuing in the Euro Area, the lower-than-expected PMI figures were evaluated as a sign of momentum loss in economic activity.



Source: Datastream

**Oil prices declined last week.**

Upcoming US sanctions on Iran which will take effect from November, 4th and Saudi Arabia related geopolitical risks pose upside risks for oil prices. However, oil prices declined by 2.7% on a weekly basis thanks to Saudi Arabia’s announcement expressing that they will meet supply shortages which is expected to occur as a result of Iran sanctions and rising US crude stockpiles.

**CBRT kept its monetary policy stance.**

In its meeting held on October 25th, CBRT kept the policy rate (one week repo rate) unchanged at 24%. In its statement published after the meeting, CBRT noted that the recent data have been reported to show that rebalancing trend in the economy became more noticeable. Citing the significant risks to price stability due to the latest developments regarding inflation figures, CBRT emphasized that although weaker domestic demand conditions would mitigate the deterioration in the inflation outlook to some extent; upside risks on the pricing behaviour would continue. While announcing that the tight monetary policy stance will be maintained, CBRT repeated its statement indicating additional tightening will be implemented if needed.

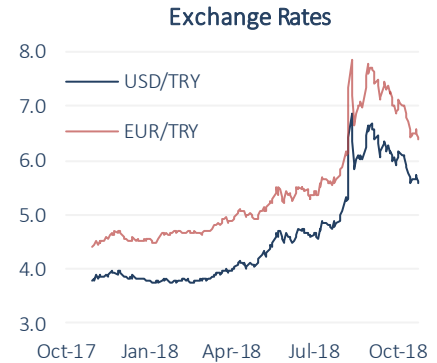
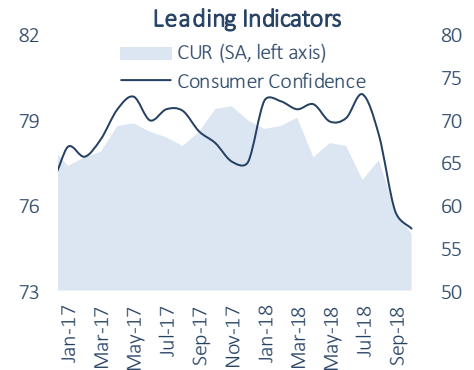
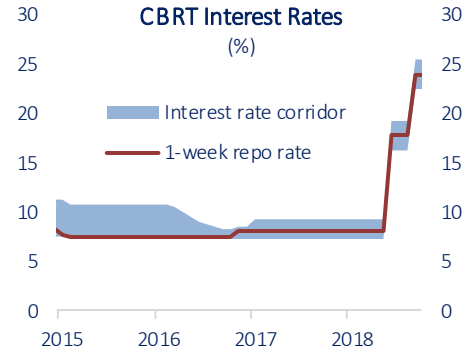
**Leading indicators confirm the slowdown in economy.**

Leading indicators released last week confirmed the deceleration in the economic activity. Capacity utilization rate (CUR) in the manufacturing industry decreased by 4.3 points yoy to 75.4% in October. CUR decreases to 75% when seasonally adjusted. CUR in 18 of the 24 sectors in the manufacturing industry showed a decline compared to the same month of the previous year. In October, Real Sector Confidence Index declined by 2 points to 87.6 compared to the previous month, while consumer confidence declined by 3.4% to 57.3, the lowest level since December 2008.

**Financial markets...**

Contrary to the depreciation in emerging market currencies, Turkish lira gained strength last week. Similarly, bond yields followed a downward trend. 2-year benchmark bond, which was re-issued last week, attracted investors and its yield decreased by 63 basis points to 25.17%. On the other hand, BIST-100 index completed the week with a 6.1% loss, parallel with the sales pressure in global stock markets.

This week domestic markets will watch foreign trade data for September and the CBRT’s final Inflation Report for 2018. According to the data released by the Ministry of Commerce, foreign trade deficit is expected to shrink by 77% yoy. US non-farm payroll data and the developments regarding the Iran sanctions will be high on the global agenda.



**Data Releases**

		Period	Consensus	Prior
<b>30 October</b>	Euro Area GDP, flash	3rd Q	0.4%	0.3%
	US Consumer Confidence	October	136	138.4
	BoJ Meeting	October	-	-
<b>31 October</b>	TURKSTAT Foreign Trade Balance	September	-	- 2.4 billion USD
	TURKSTAT Economic Confidence Index	October	-	71
	CBRT Inflation Report	2018-4	-	-
	Euro Area Unemployment	September	8.1%	8.1%
	Euro Area HICP, annual, flash	October	-	2.1%
<b>1 November</b>	BoE Meeting	November	-	-
	USA ISM Manufacturing Index	October	59.0	59.8
	USA Manufacturing PMI Index	October	-	55.6
<b>2 November</b>	Euro Area Manufacturing PMI Index, final	October	52.1	53.2
	USA Nonfarm Payrolls	October	190K	134K
	USA Unemployment Rate	October	3.7%	3.7%
	USA Factory Orders, monthly	September	0.5%	2.3%

Source: Datastream

## Sectoral Developments

### Construction cost index rose by 33.6% yoy.

According to the construction cost index figures, in August construction costs increased by 6.1% on a monthly basis and 33.6% on an annual basis. Due to exchange rate developments, the increase in material index played an important role in the rise in construction costs. Indeed, in August, material index posted an annual increase by 41.1%, while the in labor index increased by 16.9%, slightly below annual inflation rate.

### The deadline for “Zoning Peace” was extended.

It is announced that “Zoning Peace” period, which was planned to be finalized in October, 31st, was extended till the end of year. Environment and Urbanization Minister Murat Kurum, announced that the period for Zoning Peace, in which 5.12 billion TL was collected from 8.2 million people applicant, was extended until December, 31st. The Minister said that the total number of applications is estimated to be around 13-14 million by the end of the year.

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