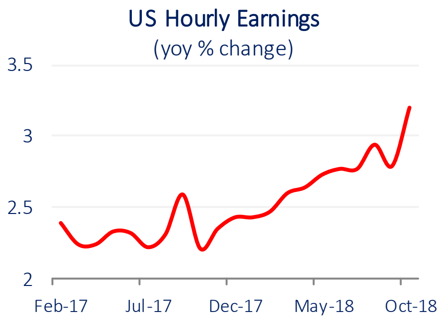
	26-Oct	2-Nov	Change			26-Oct	2-Nov	Change	
BIST-100 Index	90,542	94,123	4.0 %	▲	EUR/USD	1.1401	1.1385	-0.1 %	▼
TRY 2 Year Benchmark Rate	25.17%	23.10%	-207 bp	▼	USD/TRY	5.5919	5.4286	-2.9 %	▼
Turkey 5-Year CDS	389	370	-19 bp	▼	EUR/TRY	6.3761	6.1807	-3.1 %	▼
MSCI EM Equity Index	940	997	6.1 %	▲	Gold (USD/ounce)	1,233	1,232	-0.1 %	▼
US 10-Year Bond Rate	3.08%	3.21%	14 bp	▲	Brent Oil (USD/barrel)	78.0	71.2	-8.6 %	▼

bp: basis point

Last week, announced data in the US showed that the strong outlook of the economy continued. The non-farm employment and wage increases, which were well above the expectations, supported the view that the Fed would maintain its monetary policy stance. The data in the Euro Area and October PMI data in China confirmed the activity deceleration in these economies. The sharp drop in oil prices was also one of the important developments of the week. In the domestic market, CPI was realized above the market expectations at 2.67% mom, while PPI increased 0.91% mom. According to preliminary figures of Ministry of Commerce, the contraction in foreign trade deficit continued in October. As the new US's sanctions against Iran took effect this morning, comments that Turkey will be one of the countries that will be granted temporary exemption, affected domestic markets positively.

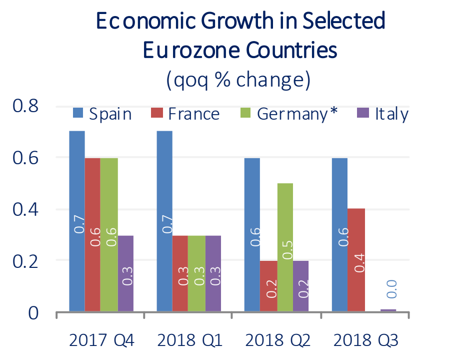
Heavy data flow in the US...

According to data announced in the US last week, factory orders increased above market expectations by 0.7% mom in September. In October, manufacturing PMI was close to market expectations with 55.7, while ISM manufacturing index remained below expectations with 57.7. The data showed that, despite the slowdown in export orders, manufacturing industry activity remained strong in general. On the other hand, growing concerns regarding the tariffs imposed on China were eye-catching. According to data released on Friday, non-farm payrolls rose above expectations in October (with 250k persons), while the unemployment rate remained at the lowest level since 1969 with 3.7%. Average hourly earnings posted a monthly increase of 0.2%, while the annual increase was realized as 3.1%. Consumer confidence, which exceeded the expectations in October and reached its highest level in the last 18 years, pointed out that also the demand conditions maintained a positive outlook.



Euro Area grew below expectations.

According to preliminary data, Euro Area grew below the expectations in the third quarter. Euro Area grew by 0.2% qoq and 1.7% yoy, while periphery economies lost some momentum in Q3. According to preliminary data, annual consumer inflation came in at 2.2% in October, in line with the expectations. On the other hand, the economic confidence index in the region declined to 109.8 in October and recorded its sharpest decline since March. Recent data releases confirmed the deceleration in Euro Area, but pointed out that the slowdown may be gradual. In addition, concerns over Italy's budget plan put pressure on the EUR/USD parity.



(*) Q3 data of Germany willl be released on 14th of November.

Manufacturing industry's activity in China slowed down.

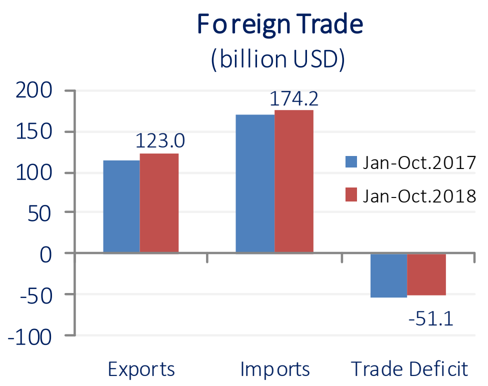
In China, where the economic growth rate came in below expectations in Q3, October official NBS manufacturing PMI recorded the fastest decline for the last two years. Caixin manufacturing PMI, which reflects the performance of SMEs more clearly, was slightly above expectations with 50.1. It is estimated that the increase in US customs duties on the imports from China has not yet been fully reflected in the data due to the orders put forward, and the negative impacts on exports will be more visible on China's production activity in the coming period. As pointed out by President Xi Jinping on Wednesday, the Chinese government is expected to take new measures to support the economy, as downward pressure on growth has increased. On the other hand, the positive evaluations made following the meeting between the US and China on Thursday support the prospects of a trade agreement between the two countries in the coming period.

Contraction in Turkey's foreign trade deficit gained momentum.

In September, foreign trade deficit shrank by 77.1% yoy due to the rapid decline in imports. Import coverage ratio, which was 59.1% in September 2017, increased to 88.5% in the same month of this year. The ongoing decline in non-monetary gold

Source: Datastream

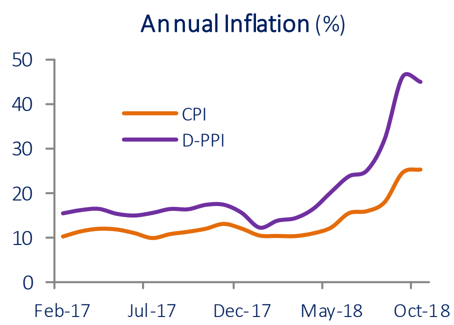
imports was crucial in the improvement of foreign trade deficit. In addition, the weakening domestic demand also pulled down the motor vehicles imports (Our Foreign Trade Balance Report). According to the preliminary data published by the Ministry of Commerce, foreign trade deficit continued to shrink in October and recorded an annual decline of 92.8%



October inflation came in above expectations.

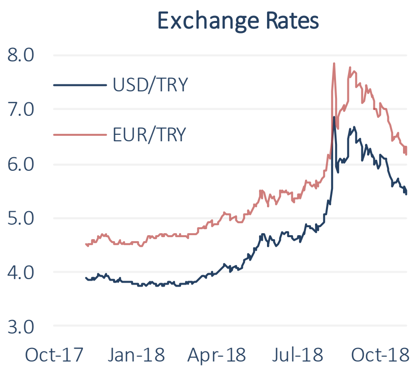
In October, monthly increase in CPI was realized as 2.67%, exceeding market expectations. Domestic PPI increased by 0.91% on a monthly basis. Thus, annual consumer inflation rose to 25.24%, while annual rise in producer prices was 45.01% in October. In this period, while all the main expenditure groups excluding transportation affected the CPI upwards, the increase in clothing-footwear group and food prices were the main determinants of the inflation (Our Inflation Report).

CBRT revised its 2018 year-end inflation forecast to 23.5% from 13.4% in its latest Inflation Report published last week. In addition to FX rate developments, food prices and deteriorating pricing behavior were effective in the upward revision of inflation forecasts. In the report, which emphasized the slowdown in domestic demand conditions and the balancing in economic activity, it was stated that the tight monetary policy stance would be maintained for a long time due to the risk of inflation and inflation expectations on the pricing behavior.



Recovery in domestic markets...

Last week strong earnings in the US as well as the positive sentiment regarding the trade dispute following the talks between China and the US boosted the global risk appetite in the markets. Furthermore, improvement in US-Turkey relations drove purchases in the domestic markets. As the 2nd phase of US sanctions to Iran has started this morning, announcements confirming Turkey as being one of the eight countries that will be exempted from the sanctions temporarily also affected domestic markets positively. BIST-100 index closed the week 4% higher while compound rate of 2-year benchmark bond declined by 207 basis points wow. USD/TRY that has been following a descending course lately thanks to recovering US-Turkey relations fell to 3-month lows.



This week's agenda...

This week, as well as the Fed meeting the US inflation data and the Euro Area PMI indicators will be followed in the global markets. Also the developments in the US sanctions on Iran and the course of oil prices will be on the agenda of the markets. There is no significant data release in Turkey other than the inflation data released this morning.

Data Releases

		Period	Consensus	Prior
5 November	Consumer Price Index (CPI), mom	October	2.67%(A)	6.30%
	Domesti Producer Price Index (D-PPI), mom	October	0.91%(A)	10.88%
	US Markit Services PMI	October	54.7	53.5
	US ISM Non Manufacturing PMI	October	59.4	61.6
	China Caixin Services PMI	October	50.8(A)	53.1
6 November	Euro Area Markit Services PMI	October	53.3	53.3
	Euro Area PPI, mom	September	0.3%	0.3%
7 November	Domestic Debt Redemption (78 Million TRY)	November	-	-
	Euro Area Retail Sales	September	0.1%	-0.2%
8 November	Fed FOMC Meeting and Interest Rate Decision	November	-	-
	China Foreign Trade Balance	October	-	-
9 November	US PPI, mom	October	2.6%	2.6%
	UK GDP (preliminary), yoy	3. Quarter	1.5%	1.2%
	China PPI, yoy	October	3.4%	3.6%
	China CPI, yoy	October	2.5%	2.5%

Source: Datastream

Sectoral Developments

Tax discounts in automotive, white goods, furniture and housing…

According to the decision published in the Official Gazette dated 31.10.2018 and numbered 30581, VAT and SCT discounts were made in automotive, white goods, furniture and housing. In the white goods sector, the SCT was reduced to “0” till the end of the year, while VAT on furniture was decreased from 18% to 8%. In the automotive sector, VAT on motor vehicles under 1600 cc was reduced by 15 points; VAT on commercial vehicles was decreased from 18% to 1%. Furthermore, it was announced that the title deed fees and VAT for house sales which were respectively brought down to 3% and 8% will remain at these discounted percentages until the end of the year.

The decline in automotive sales continued in October.

Automotive sales decreased in October due to rising vehicle prices parallel to the depreciation of TRY. According to data released by the Association of Automotive Distributors (ODD), the automobile and light commercial vehicle market contracted by 76.5% yoy in September to 22K units. In the first 10 months of the year, the automotive market shrank by 32.5% to 485K units. In the last months of the year, where demand is generally high in the automotive market, the said discounts are expected to increase sales significantly in these months. Before the discounts, ODD estimated that domestic sales in 2018 would be at 600K level, however, now sale numbers are expected to exceed 650K following the discounts.

The price of natural gas sold to electricity producers have been decreased.

BOTAŞ announced that the price of the natural gas sold to electricity producers will be reduced by 9% to be effective as of November 1. It is also declared that there is no discount for natural gas for housing and industry. The dynamic pricing model, which BOTAŞ started to use following the rapid depreciation of TRY, has caused the rapid rise in natural gas prices since August.

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