	02-Nov	09-Nov	Change			02-Nov	09-Nov	Change	
BIST-100 Index	94,123	92,839	-1.4 %	▼	EUR/USD	1.1385	1.1334	-0.4 %	▼
TRY 2 Year Benchmark Rate	23.10%	21.71%	-139 bp	▼	USD/TRY	5.4286	5.4596	0.6 %	▲
Turkey 5-Year CDS	370	364	-6 bp	▼	EUR/TRY	6.1807	6.1892	0.1 %	▲
MSCI EM Equity Index	997	976	-2.1 %	▼	Gold (USD/ounce)	1,232	1,209	-1.9 %	▼
US 10-Year Bond Rate	3.21%	3.19%	-3 bp	▼	Brent Oil (USD/barrel)	71.2	69.1	-2.9 %	▼

bp: basis point

Last week, global markets watched the data flow from the US closely. While the results of the US midterm elections were followed, the stock indexes in the country continued their upward movement. Holding the policy rate unchanged at the November meeting, the Fed gave the green light to an interest rate hike for December meeting, referring to the strong course of the US economy. In the Euro Area, problems related to Italy's public finance deteriorated investors risk perception and the euro depreciated. Oil prices, which continued their downward movement due to the assessments that excess supply might occur, entered to a bear market. The effects of the weak economic activity in the domestic market were reflected in the balance of payments data. The recent improvement in the risk appetite for TRY assets led to a decline in bond yields.

Midterm elections in the United States were closely monitored.

Last Tuesday, midterm elections in the US were the focus of global markets. As expected, the Democrats achieved a majority in the House of Representatives, while Republicans maintained their dominance in the Senate. While stock market indices in the US turned their trend upwards following the results of the elections, uncertainties regarding the future of public finance practices, such as tax cuts which were implemented relatively easily in previous periods, were effective in the course of the dollar and bond rates. Yield curve of US bonds initially flattened due to expectations that expansionary policies will be difficult to implement, while dollar depreciated against other developed currencies. On the other hand, reemergence of Italy-related problems in the second half of the week weakened the euro against the dollar and helped the DXY index to increase.

Another development followed closely last week was the FOMC meeting. At its meeting finished on Thursday, Fed left the policy rate unchanged at 2-2.25% in line with expectations. Investors focused on the statements of Fed members regarding the course of US economy. Expressing that household consumption is strong; Fed noted that private sector investment expenditures have increased somewhat gradually in recent months. Fed reiterated that labor market in the US have strengthened and inflation is in line with the targets. Statements by Fed indicated that Fed is likely to increase the policy rate again in its December meeting.

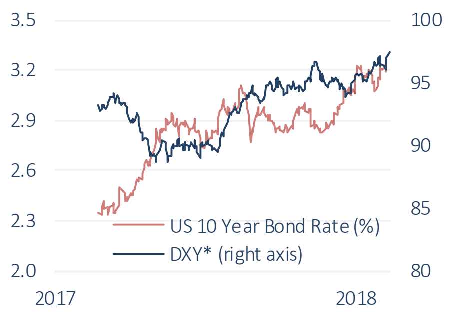
Ongoing uncertainties in Euro Area...

Recently, data from Euro Area indicated that economic activity has lost momentum, while negative perception regarding Italy's public finance practices have deteriorated the risk appetite in the region. In addition to EU Commission's call for Italy to comply with the fiscal rules, investors followed the statement by IMF indicating that Italy should cut its budget expenditures. The fact that Italy has not yet taken any steps in this direction raised concerns in financial markets. Demand for German bonds, which are seen as a safe haven in Euro Area, is gaining strength and euro is depreciating due to investors' cautious stance. EUR/USD parity, which maintained its downward trend last week, reached 1.13, its lowest level since June 2017.

Oil prices continued to decline.

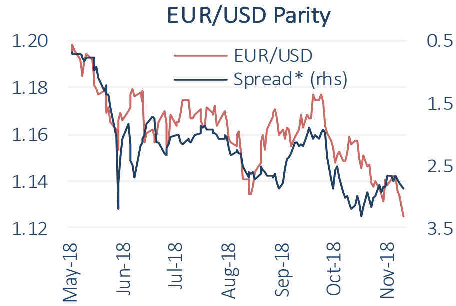
Amid further signs of slowdown in global economic activity, due largely to the moderation in China and Euro Area, and the increase in global oil production, a possible return to the supply glut concerns led the oil market in recent weeks. Oil prices fell last week over the US reporting that oil inventories grew more than expected and that the output has surged. Brent crude oil price per barrel decreased by 2.9% wow and became 69.1 USD on Friday. Thus, oil prices contracted by more

US 10 Year Bond Rate and DXY



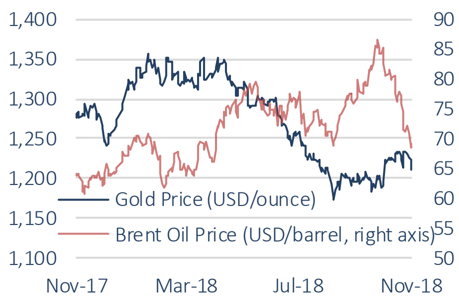
DXY measures the value of the US Dollar against a basket of foreign currencies.

Italy -Germany Yield Spread and EUR/USD Parity



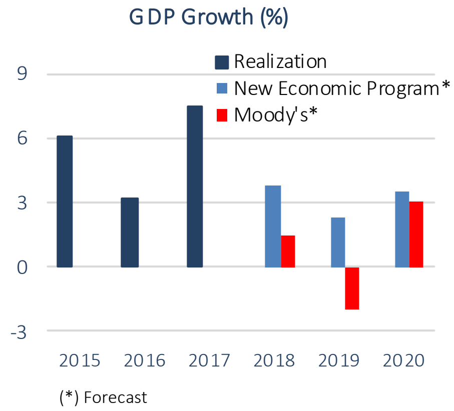
Spread differentiation of 5-year bonds, in reverse.

Gold & Oil Price



Source: Datastream

than 20% compared to the peak level seen in early October and tumbled into a bear market. Gold prices, which declined in global markets, closed the week at 1,209 USD/ounce.

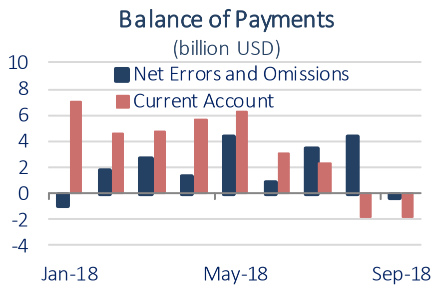


Real effective exchange rate increased.

Turkish lira has gained value in recent weeks as relations with USA have improved. In October, CPI-based real effective exchange rate (REER) increased by 7.5 points to 69. Therefore, REER, which has been declining for the last eight months, has turned its direction up as of October.

Moody's assessments of the Turkish economy…

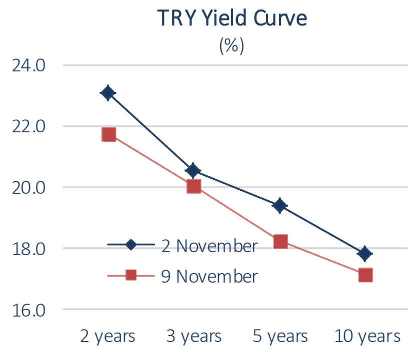
International credit rating agency Moody's pointed to the slowdown in the Turkish economy seen since the second half of the year and suggested that the economy faces the risk of contracting during the next four consecutive quarters. Revising its forecasts, Moody's expected Turkish economy to grow by 1.5% in 2018 and then to contract by 2% in 2019. Turkish economy is forecasted to experience a gradual recovery and record a growth rate of 3% in 2020, according to Moody's. These latest projections seem to diverge in a negative way from the New Economic Program's forecasts. Moody's also stated that the recent tax cuts aiming to revive domestic demand will support consumption expenditures in the short term while this, in turn, raises the risk of reigniting inflationary pressures.



Current account posted a surplus in September.

Along with the rebalancing process of the Turkish economy, current account posted a surplus in September for the second month in a row. In this period, current account surplus became 1.8 billion USD, broadly matching market expectations. Capital outflows persisted in both portfolio and other investment accounts. Official reserves declined by 3.5 billion USD in September (Our Balance of Payments Report).

Fluctuations in domestic markets…



Turkey's temporary exemption from US sanctions on Iranian oil, as well as the improvement in the diplomatic relations with the US, fed investment appetite for Turkish lira assets last week. Yield curve for Turkish government bonds shifted downwards and market interest rates declined. Having tested below 5.30 level during the first half of the week, USD/TRY moved upwards in the following days. This increase was due both to the appreciation of the US dollar in global markets and to the purchases of the US dollar from low levels. Nearing 5.55 level, USD/TRY fell and closed the last trading day of the week at 5.47, after the Treasury announced that 3 of the 6 auctions, previously scheduled to be held this week, would not be issued.

Data Releases

		Period	Consensus	Prior
12 November	Balance of Payments	September	1.8 billion dollar (A)	2.6 billion dollar
	Issuance of 13-Month Treasury Bond	-	-	-
	Issuance of 5-Year Treasury Bond	-	-	-
13 November	Issuance of 2-Year Treasury Bond	-	-	-
14 November	Domestic Debt Redemption (19.5 billion TRY)	-	-	-
	Euro Area GDP (preliminary)	Q3	0.2%	0.2%
	Euro Area Industrial Production	September	0.3%	1.0%
	US CPI (mom)	October	0.3%	0.1%
15 November	Budget Balance	October	-	-6 billion TRY
	CBRT Survey of Expectations	November	-	-
	Unemployment Rate	August	-	10.8%
	US Retail Sales (mom)	October	0.5%	0.1%
16 November	Industrial Production	September	-	1.7%
	US Industrial Production	October	0.2%	0.3%

(A) Actual

Source: Datastream

Sectoral Developments

Details of Renewable Energy Resources Area project have been revealed.

Details of the projects on effective use of renewable energy resources, designed in line with the policies aiming to reduce Turkey's reliance on energy imports have been revealed. Under the context of Renewable Energy Resources Area wind power (YEKA RES-2) project, Balıkesir, Çanakkale, Aydın and Muğla have been selected as "high class wind" areas for the 1,000 megawatt-powerhouses that are planned to be built by investing 1 billion USD. Three thousand persons are projected to be employed under this project where a minimum rate of 55% has been required in terms of utilization of domestically-produced goods.

Cattle imports are expected to stop by 2021.

While red meat prices have been under control via cattle imports that were in place for some time, increasing dependency on imports caused pressure on producers due to latest depreciation in TRY and rising farming costs. Minister of Agriculture and Forestry, Bekir Pakdemirli stated that there will be no need for cattle imports in the following 4-5 months, highlighting the sufficiency of existing stocks. Citing the necessary preparations for the medium-term requirements have already been undertaken, he announced that butchery animal imports will come to an end after 2021. In 2017, Turkey was the third biggest importer of cattle (according to the statistics which is classified under the Harmonised System Code of 0102) following the US and Italy.

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