

	11-Oct	18-Oct	Change		11-Oct	18-Oct	Change
BIST-100 Index	99,028	98,415	-0.6 % ▼	EUR/USD	1.1040	1.1169	1.2 % ▲
TRY 2 Year Benchmark Rate	15.23%	14.29%	-94 bp ▼	USD/TRY	5.8833	5.7909	-1.6 % ▼
Turkey 5-Year CDS	391	374	-17 bp ▼	EUR/TRY	6.4976	6.4687	-0.4 % ▼
MSCI EM Equity Index	1,012	1,024	1.2 % ▲	Gold (USD/ounce)	1,489	1,490	0.0 % ▲
US 10-Year Bond Rate	1.75%	1.75%	-0 bp ▼	Brent Oil (USD/barrel)	60.7	59.8	-1.5 % ▼

bp: basis point

Last week, the trade war stayed in the background, while geopolitical and political developments came to the fore on the global economic agenda. The developments related to the Operation Peace Spring and the new Brexit agreement reached between the EU and Britain were closely monitored. In addition, the macroeconomic data announced in the US and underperformance of the Chinese economy in the third quarter stood out in global agenda.

Weak data releases in the US.

In September, retail sales in the US fell by 0.3% mom despite expectations of an increase. Despite the strength of the employment market, the weak outlook of retail sales supported concerns that the loss of momentum in economic activity was also reflected in consumer demand. In this period, industrial output in the US also contracted by 0.4% mom, strengthening the pessimistic readings for the economy.

China grew by 6% in the third quarter.

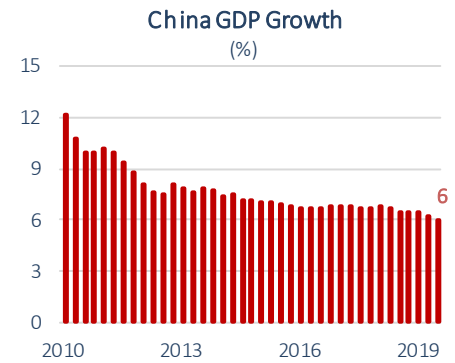
In Q3 of 2019, Chinese economy grew by 6% yoy, below expectations. Besides the pressure of trade wars on exports, the slowdown in domestic demand despite the measures taken by the Chinese government seemed effective in the decrease in the growth rate. The momentum loss in the economy supports the expectations that the Chinese government may announce new measures in the coming period.

IMF lowered its global growth forecast.

In its October edition of World Economic Outlook report, IMF projected that global growth rate would be reduced to its lowest rate since global financial crisis of 2008-2009 because of the ongoing trade dispute between US and China. Pointing out the decline in production and investment due to global trade dispute tensions, IMF lowered its global growth forecast for 2019 and 2020 by 0.2 points to 3.0% and 3.4% respectively. IMF also revised upwards its 2019 and 2020 growth forecasts for Turkey, from -2.5% to 0.2% and from 2.5% to 3.0% respectively.

Brexit...

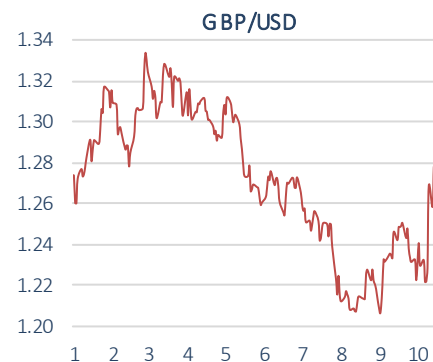
Uncertainties relating to Brexit, which is expected to take place on October 31st, are on the rise again. Although a new Brexit agreement between the UK and the EU has been reached last week, Britain's departure from the EU has been withheld by the vote in parliament at the weekend. On the other hand, sterling appreciated along with the news of progress in Brexit negotiations between the EU and Britain during the week.



IMF's Forecasts for 2019

	%	Change*
		(% pts)
Growth		
World	3.0	-0,2
AE	1.7	-0,2
US	2.4	-0,2
Euro Area	1.2	-0,1
UK	1.2	-0,1
Japan	0.9	0,0
EE	3.9	-0,2
China	6.1	-0,1
Brazil	0.9	0,1
Turkey	0.2	2,7
Inflation		
AE	1.5	-0,1
EE	4.7	-0,1

(*): Difference from July forecasts



Source: IMF, Datastream

Youth unemployment rate is at historically high.

Domestic unemployment rate rose by 3.1 pts to 13.9% in July compared to the same period of the previous year. The unemployment rate of youth, covering the ages of 15-24, climbed to the highest value of the 2005-based series with 27.1%. The seasonally adjusted unemployment rate rose by 0.3 pts to 14.3% compared to the previous month and indicated that labor market conditions kept worsening.

Budget deficit expanded rapidly in September.

Central government budget deficit expanded by 197% yoy and was realized as 17.7 billion TRY in September. In this period, budget revenues posted a limited increase with 3.3%, while budget expenditures surged up by 20.5%. Slowdown in economic activity has continued to have adverse impact on tax revenues in September, while current transfers continued to make the highest contribution to the rise in budget expenditures ([Our Budget Balance Report](#)).

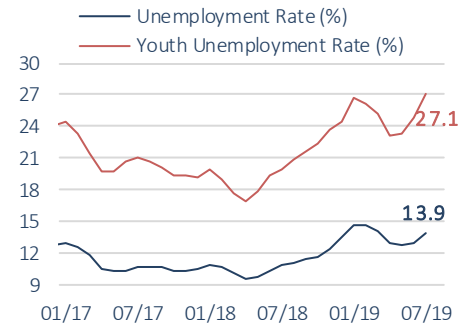
Domestic markets...

Domestic markets began the week under pressure due to the ongoing Operation Peace Spring in Syria. In the middle of the week, sanctions from the US continued to pressure the markets. On Thursday, agreement between the United States and Turkey on pausing the military operation and agreement for the suspension of the sanctions, has helped the TL denominated assets to appreciate. With purchases on Friday, the BIST-100 index compensated its weekly loss substantially, and the TL appreciated against the currency basket. The interest rate of the 2-year benchmark bond closed the week at 14.29%.

This week's agenda

This week, as well as the geopolitical developments, the CBRT meeting will be closely monitored by the domestic markets. At this week's CBRT meeting, it is expected that the policy interest rate to be decreased because of the recent fall in inflation to single digits. In global markets, the ECB meeting stands out. In addition, developments in the Brexit and the trade war, as well as the data to be released in the US, will be on the agenda of the markets.

Labor Market Indicators

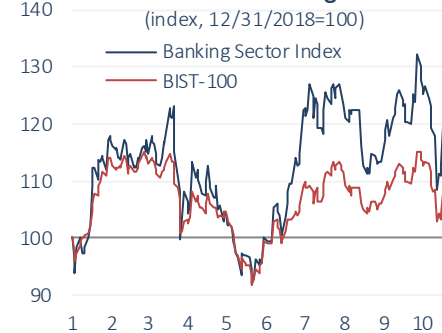


Central Government Budget

	September		%
	2018	2019	Change
Expenditures	67.0	80.8	20.5
Interest Expenditures	10.2	12.2	19.0
Non-Interest Expendi	56.8	68.7	20.8
Revenues	61.1	63.1	3.3
Tax Revenues	49.2	52.6	6.8
Other Revenues	11.8	10.5	-11.4
Budget Balance	-6.0	-17.7	197.0
Primary Balance	4.3	-5.6	-

Numbers may not add up to total value due to rounding.

BIST-100 and Banking Index



Data Releases

		Period	Consensus	Prior
21 October	Central Government Domestic Debt Statistics	September	-	-
22 October	USA Existing Home Sales	September	5.45 million units	5.49 million units
23 October	TR Consumer Confidence	October	-	55.8
	TR Domestic Debt Redemption (3,798 million TRY)	October	-	-
24 October	CBRT Policy Meeting and Interest Rate Decision	October	-	16.5%
	ECB Meeting and Interest Rate Decision	October	-0.5%	-0.5%
	USA Durable Good Orders, monthly	September	-0.7%	0.2%
	USA New Home Sales	September	700 thousand units	713 thousand units
	Euro Area Markit PMI, flash	October	46.0	45.7
25 October	TR Real Sector Confidence Index	October	-	98.8
	TR Capacity Utilisation Ratio	October	-	76.3%
	USA Michigan Consumer Confidence	October	96.0	96.0

Source: Datastream

Sectoral Developments

House sales increased in September.

According to the data released by TURKSTAT, after August, house sales in Turkey also posted an increase in September. In September, house sales increased by 15.4% compared to the same period of the previous year and realized as 146,903 units. In this period, sales with mortgage increased rapidly by 410.2% thanks to the support of the decrease in mortgage interest rates, while the share of sales with mortgage in total house sales rose to 39.4%. Other sales decreased 23.2% in the same period.

Residential Property Price Index, which is calculated by CBRT to monitor quality-adjusted price changes, increased by 0.6% mom in August. The index recorded an annual increase of 4% in nominal terms and an annual decrease of 9.6% in real terms. Analyzing price changes in three biggest cities reveals that housing prices in Istanbul decreased by 3.4% yoy in August and, Ankara and Izmir recorded an increase of 3.8% and 2.2% respectively.

Decline in retail sales continues.

According to TURKSTAT data, calendar adjusted retail sales volume with constant prices declined by 4.3% yoy in August. The sales volume of food, drinks and tobacco contracted by 5% while non-food (except automotive fuel) sales declined by 5.8% in the same period. Under non-food group, sales of electronic goods and furniture declined by 20.7% yoy, whereas sales of textiles, clothing and footwear rose by 7.1%. Real turnover in retail trade continued to decline in August also.

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