

September Inflation ...

Annual inflation rose to 11.20%...

September inflation printed below expectations (exp: 0.75%) at 0.65%, and annual inflation rose to 11.20% YoY from 10.68% YoY. After the announced print, the annual rate of CPI has continued its uptrend momentum and has maintained its double-digit rate. D-PPI rose by 16.28% YoY.

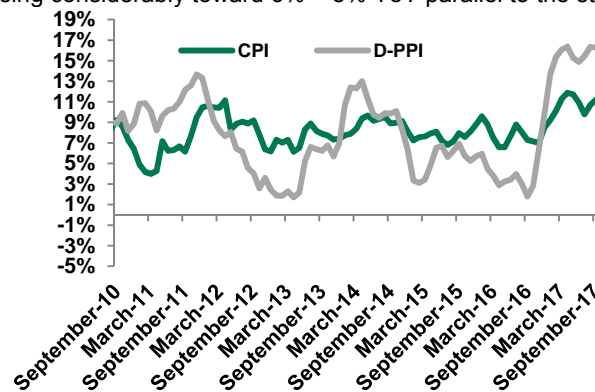
Of note, despite a negative print -0.23% MoM, food inflation rose to 12.5% YoY from 11.97% YoY in September, but restrained the rise of inflation. Also, core inflation – C increased 0.88% MoM in September. Accordingly, annual core inflation rose to 10.98% from 10.16%. Core inflation continued its upward trend due to rising energy prices following those of oil.

We expect CPI to decline below 10% by year-end...

While food&non-alcoholic beverages fell 0.23% MoM, education rose by 2.08% and transportation by 1.58% MoM in the main spending groups in September. With the change in pre-school and primary education fees, the movement in the education group has been upwards. In the main spending groups, the effect of rising oil prices influenced the transportation group on a monthly basis, putting upward pressure on CPI. In addition, the rise in fuel oil and LPG prices following those of car prices contributed to the rise in the annual CPI rate. In addition, the change in the weight system in the calculation of clothing has been an important factor for the upward movement of inflation. When the weight of the main expenditure group is considered, food inflation made a downward contribution to monthly headline inflation, while the transportation and housing sectors also affected monthly CPI negatively, raising inflation.

As a result of higher levels of exchange rates, the tight monetary policy stance will continue until a tangible improvement in the inflation outlook emerges.

We expect annual inflation after the pick up in September to ease to below 10% in December. And beyond year-end 2017, we continue to expect significant disinflation towards end-1H2018, with inflation easing considerably toward 6% – 8% YoY parallel to the stabilization of USD/TRY parity.



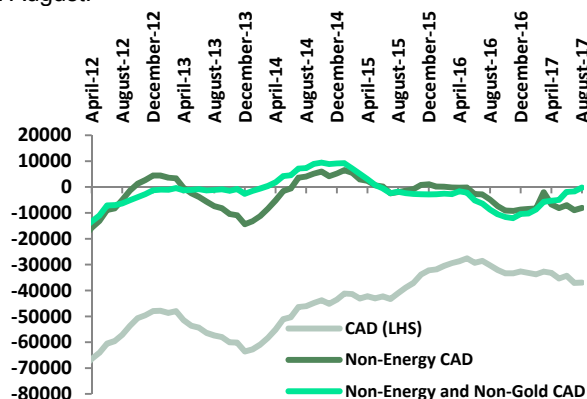
August CAD is below deficit expectations...

The CA deficit came in at USD1.2bn in August, below the USD1.4bn deficit expectation. The 12mth rolling deficit rose to USD36.97bn in August from USD37.1bn in July (5.1% GDP). Due to mobility in the tourism sector, the rise in net revenues occurring in the balance of services, has had a positive effect.

12mth rolling deficit at USD36.97bn...

Direct investment declined to USD505mn compared to the same month of 2016 and saw a net inflow of USD657mn in total in August, 2017. The positive performance in portfolio investments continued. Net portfolio investments were realized at USD2.2bn in August, 2017. Government bond inflow was at USD1bn and stock market inflow from non-residents at USD520mn in August, 2017.

However, regarding bond issues in the international capital markets, the treasury and banks realized net repayment of USD117mn and USD192mn, respectively. CBRT reserves were up by USD3.4bn in August.



IP August 2017...

August's working day and seasonally-adjusted industrial production fell 0.1% MoM following a 0.28% MoM decline in June and 2.3% MoM rise in July. Calendar-adjusted industrial production rose by 5.2% YoY in August in parallel to expectations (Aug17 Market Expectation: +5.1%).

The PMI index declined to 53.5 in September...

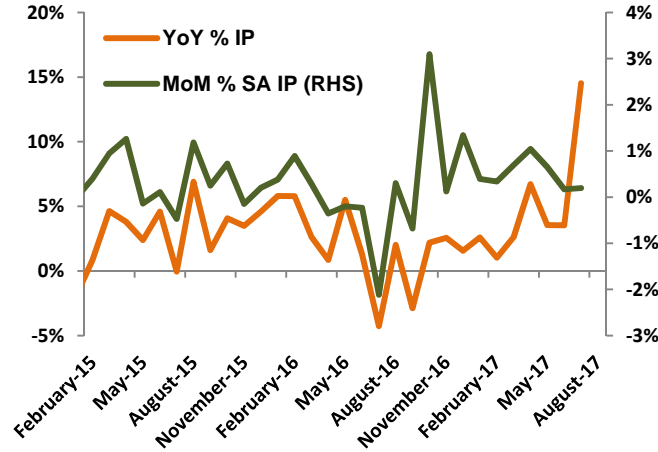
According to calendar-effect and seasonally-adjusted data; the mining and quarrying group declined by 1.5% MoM, and the electricity, gas, steam and air conditioning supply sector declined by 1.1% in August of 2017 from the previous month. The manufacturing industry sector rose by 0.2% MoM. In addition; with the calendar-adjusted data, the mining and quarrying group declined by 4.7%, the manufacturing industry sector rose by 5.6% and the electricity, gas, steam and air conditioning supply sector rose by 7.3% YoY in August of 2017.

According to Turkey's September PMI Index print, the operating conditions of the Turkish manufacturing sector will have improved in September for the seventh month in a row.

The PMI index, at 55.3 in August, declined to 53.5 in September. Despite this decline, the growth of new orders, and the rise in the production rate, employment rate and purchasing activity were positive supports in September.

Hence, GDP growth in 3Q17 had probably been as strong as in 2Q17...

The significant support behind industrial production can be explained by the rising effect on the production of the durable consumer goods group (+9.5% YoY). In August, opportunities to benefit from SCT reductions in sectors such as white goods and furniture continued to increase production in durable goods. Considering the industrial sector as a whole, industrial production rose strongly in total, and at this point, major indicators point to a significant growth rate in the third quarter of 2017.



Decisions of the Monetary Policy Committee...

Parallel to market expectations regarding the CBRT, the MPC's 1-week repo rate was unchanged at 8.00%, the upper band was unchanged at 9.25% and the late liquidity window was also unchanged at 12.25% (constant).

In line with the trend of the Turkish economy, there has been no change in interest rate decisions in order to maintain price stability. Based on data released within the country; economic activity has continued strongly. With this statement, it is confirmed that domestic demand improvement continues steadily. It is also stated that the effect of positive sentiment on export rates continues, as observed in rising demand from EU countries.

On the other hand; it is stated that the pricing behavior risk continues to rise on increased inflation rates, with core inflation also rising in line with inflation rate levels. In addition to the decision of the previous meeting to "maintain a tight monetary policy stance decisively until a significant improvement in annual inflation is seen", the Committee also mentioned more hawkishly that, "this stance would continue until established targets were reached". It is also stated that additional monetary tightening may be continued if deemed necessary.