

September Inflation ...

September inflation printed lower than 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. D-PPI rose by 16.28% YoY.

Annual inflation rose to 11.20%...

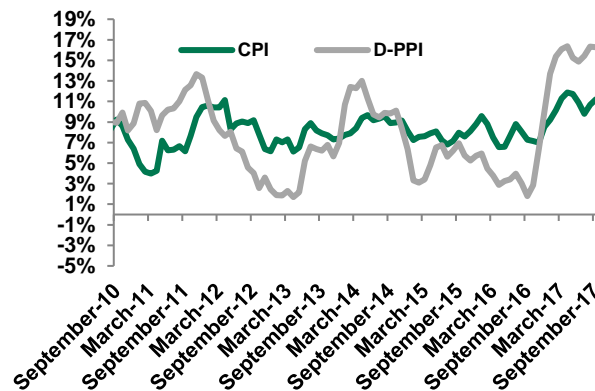
Of note, despite a negative print -0.65% MoM, food inflation rose to 12.5% YoY from 11.97% YoY in September, but restrained the rise of inflation, declining by 0.23% MoM. Also, core inflation – C increased 0.88% MoM in September. Accordingly, annual core inflation rose to 10.98% from 10.16%. Core inflation continued its upward trend due to rising energy prices due to those of oil.

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 rise in private university 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 that of car prices contributed to the rise in the annual CPI rate. 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 the announcements made by the CBRT, the tight monetary policy stance will continue until a tangible improvement in the inflation outlook emerges.

We expect CPI to decline below to %10 end of the year...

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.



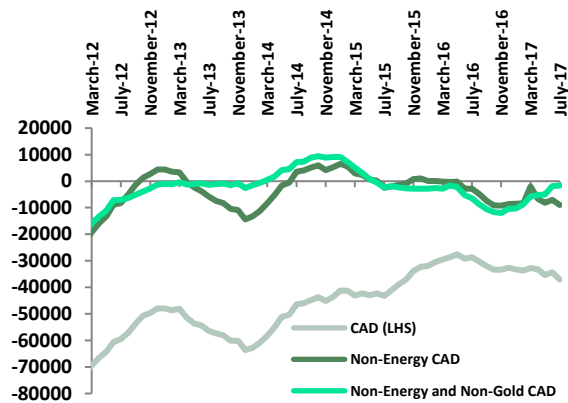
July CAD just slightly below deficit expectations...

The CA deficit came in at USD5.1bn in July, just slightly below the USD3.9bn deficit expectation. The 12mth rolling deficit rose to USD37.1bn in July from USD34.4bn in June (5.1% GDP). With the rise in exports in the first half of 2017, deterioration in the current account deficit slowed down slightly in July.

12mth rolling deficit at USD37.1 bn...

Direct investment rose USD321mn compared to the same month of 2016 and saw a net inflow of USD1.05bn in total in July, 2017. The positive performance in portfolio investments continued. Net portfolio investments were realized on USD570mn in July, 2017. Government bond inflow was at USD1.8bn and stock market inflow from non-residents at USD488mn.

However, regarding the bond issues in international capital markets, the treasury and banks realized net repayment of USD2,25bn and USD549mn, respectively. CBRT reserves were down by USD2.4bn in July.



IP July 2017...

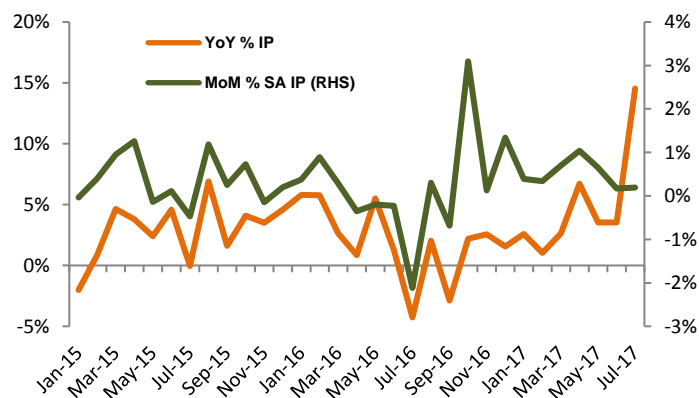
July's working day and seasonally-adjusted industrial production rose 2.3% MoM following a 1.42% MoM decline in May and 0,28% MoM decline in June. The calendar-adjusted industrial production rose by 14.53% YoY in July.

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

According to calendar-effect and seasonally-adjusted data; the mining and quarrying group declined by 2.6% MoM in July of 2017 from the previous month. The manufacturing industry sector rose by 2.2% MoM. In addition; the electricity, gas, steam and air conditioning supply sector rose by 4.8% MoM in July of 2017.

According to Turkey's September PMI Index print, 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 declining, the growth of new orders, and the rise in the production rate, employment rate and purchasing activities were positive supports in September.

The significant support behind industrial production can be explained together with the declining base effect compared to the same month of the previous year. Considering the industrial sector as a whole, industrial production rose 25.6% in total, and at this point, major indicators point to a significant growth rate in the third quarter of 2017.



2Q17 GDP Growth just slightly below the expectations...

2Q17 GDP growth was slightly below market expectations, up 5.1% YoY (market expectation: 5.3%). There is a positive contribution of net exports and recovery to rising investment expenditures on the part of the strong growth data for the quarter. Investments rose 2.9%, playing a key role in growth dynamics. The basis of investment growth is rising construction expenditures, up 25% in 2Q17. In addition; the Credit Guarantee Fund continued to support investments in the country, and GDP growth maintained its strong momentum as in 1Q17. However, in machinery and equipment investments, the quarterly decline observed had a negative share in overall investment. Yet positive developments in the tourism and automotive sectors created welcome momentum in GDP.

When we look at the production side in 2Q17; the construction sector grew by 6.8%, the industrial sector by 6.3% and the agricultural sector by 4.7%. In addition; rising with the production of durable consumer goods, durable consumption goods sales rose positively in the quarter boosted by the special communication tax (SCT) reduction effect on white goods and furniture.

As a result of these developments; the significant effect of investment expenditures, as well as the positive effect of net exports ensured reaching a national growth rate of 5.1%. We expect the growth rate to accelerate in 3Q17 GDP with the base effect.

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).

The positive second quarter developments in the Turkish Economy, as evinced in welcome macro data, had determined the MPC's announcement. At the same time, with the confirmation of recovering domestic demand, demand also rose in EU countries, boosting positive sentiment towards the Turkish economy. Meanwhile, the decline in the exchange rate and appreciation of the Turkish Lira were also factors behind the latest decisions.

In accordance with the explanation of the latest inflation rate data, the Committee has agreed that its tight monetary policy stance would be maintained until **a significant improvement in annual inflation materialized, or as a safeguard**, until the risk of pricing behavior following the **rise in core inflation was visible**. In addition; interest rates have been maintained against the circumstances where the risk to pricing has risen after the rise in core inflation. The weighted average funding rate through the utilization of the late liquidity window remained at around 12.00% in September.

Developments of "2018 – 2020 Medium Term Program"...

The "Medium Term Program" (MTP) covering the period from 2018 to 2020 was announced in September 2017. Within the information announced, the main targets are high growth and high employment. According to the details of the planned program; it is expected that inflation will reach 9.5% at end-2017, while the tight monetary policy stance is expected to be maintained in order to reach targeted levels, whereby inflation will decline to 5% in 2020 as a result of the program. This is also aimed at ensuring price stability. In addition; the downward trend in the inflation rate will be supported as a result of the decline in the base effect for the coming years. On the growth side, the expectation for 2017 is 5.5%, while the growth targets of the next three years are also 5.5%.

The surprising development in the MTP concerns the tax arena. First of all, increased tax on passenger vehicles is planned by applying a 40% (subsequently announced that the rate would be reduced) rise on Motor Vehicles Tax (MTV) by 2018. Another item set to change on the taxation front is the corporate tax rate, rising from 20% to 22% for financial institutions. This particular announcement is set to negatively impact banks' profitability.

Additionally, tax changes were made in the telecommunication sector. The changes are based on data - frequency fees and the SCT. In addition; the tax rate on income will be increased by 3% from 27% to 30%. In line with precautions to be taken in conjunction with these tax increases, a contribution of 0.8% -0.9% is planned on GDP on the budget. 8 billion TL of income from these taxes will be channeled to the defense industry.

Orta Vadeli Program (2018 - 2020) Medium Term Program (2018 - 2020)	Eski OVP 2017 - 2019 (Old MTP Data)			Yeni OVP 2018 - 2020 (New MTP)				
	2017P	2018P	2019P	2016	2017 GT	2018P	2019P	2020P
Büyüme ve Enflasyon (Inflation and Growth)								
GSYH Büyümesi (GDP Growth) (%)	4,4%	5,0%	5,0%	3,2%	5,5%	5,5%	5,5%	5,5%
GSYH (GDP) (ml TL - bn TL)	2.404	2.686	2.987	2.609	3.035	3.446	3.872	4.321
Kişi Başına Milli Gelir (Income per capita) (\$)	9.529	10.164	10.926	10.883	10.579	11.409	12.100	13.024
Enflasyon (Inflation) (%)	6,5%	5,0%	5,0%	8,5%	9,5%	7,0%	6,0%	5,0%
Ödemeler Dengesi (Balance of Payment)								
İhracat (FOB) (Export) (ml \$ - bn \$)	153,3	170,0	193,1	142,5	156,5	169,0	182,0	195,0
İthalat (CİF) Import (ml \$ - bn \$)	214	236,9	261,8	198,6	222,0	237,0	253,0	272,0
Dış Ticaret Dengesi (Balance of Trade) (ml \$ - bn \$)	-60,7	-66,9	-68,7	-56,1	-65,5	-68,0	-71,0	-77,0
Cari İşl. Dengesi (Current Account Balance) (ml \$ - bn \$)	-32	-31,7	-31,2	-32,6	-39,2	-40,0	-40,9	-41,9
Cari İşlemler Dengesi / GSYH (Cur. Ac. Bal. / GDP) (%)	-4,2%	-3,9%	-3,5%	-3,8%	-4,6%	-4,3%	-4,1%	-3,9%
İşgücü Piyasası (Labor Market)								
İstihdam Oranı (Employment Rate) (%)	46,9%	47,6%	48,3%	46,3%	47,0%	47,8%	48,7%	49,5%
İşsizlik Oranı (Unemployment Rate) (%)	10,2%	10,1%	9,8%	10,9%	10,8%	10,5%	9,9%	9,6%
Merkezi Yönetim Bütçesi (Central Government Budget)								
Toplam Harcamalar (Total Expend.) (ml TL-bn TL)	645,1	694,6	750,6	584,1	673,7	762,8	838,5	912,9
Faiz Dışı Har. (Non-interest Expen.) (ml TL - bn TL)	587,6	632,6	678,1	533,8	616,2	691,1	753,5	816,9
Faiz Harcamaları (Interest Expen.) (ml TL - bn TL)	60,2	65,0	75,8	50,2	57,5	71,7	85,0	96,0
Toplam Gelirler (Total Revenue) (ml TL - bn TL)	598,3	650,3	710,5	554,1	612,0	696,8	765,3	842,3
Vergi Gelirleri (Tax Revenues) (ml TL - bn TL)	526,9	585,5	644,5	459,0	520,5	599,4	663,9	730,5
Diğer Gelirler (Other Income) (ml TL - bn TL)	511,1	567,0	624,2	95,1	91,6	97,4	101,4	111,8
Bütçe Dengesi (Budget Balance) (ml TL - bn TL)	-46,9	-44,3	-40,1	-29,9	-61,7	-65,9	-73,2	-70,5

Kaynak (Source): T.C. Kalkınma Bakanlığı

GT: Gerçekleşme Tahmini (Estimation of Realization)

P: Program

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