



Macro Scope

11 – 17 January 2010

Weekly Economic and Strategic Review

Haluk Burumcekci (Managing Director)
Tel: +212 318 34 49
Email: haluk.burumcekci@fortis.com.tr

H. Erkin Isik, CFA (Manager)
Tel: +212 318 34 05
Email: erkin.isik@fortis.com.tr

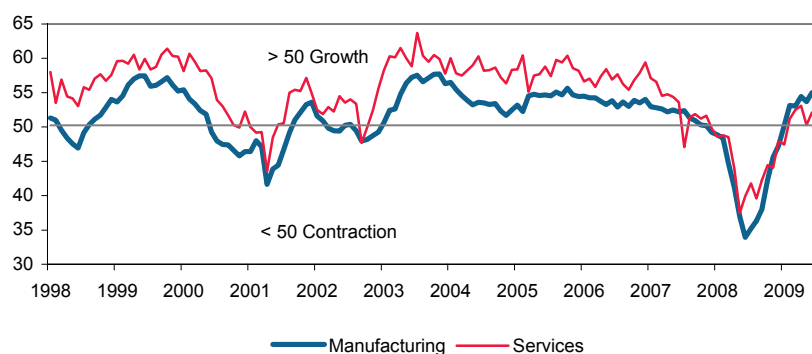
Nilufer Sezgin (Assistant Manager)
Tel: +212 318 37 90
Email: nilufer.s@fortis.com.tr

Email: research@fortis.com.tr
Tel: +212 272 79 98
Fax: +212 275 44 05

What Goes Around, Comes Around...

The new year already started with some critical developments. We learned that the government has a bias to make a stand-by deal with IMF in a short term and the gasoline, alcoholic beverages and tobacco tax increases will help reaching the assumed budget income, as usual. Moreover, the inflation, which hit its historical low levels a while ago, depicted an abrupt change. In the meantime, the government, which claims that the by-election is not in their agenda, decided to increase pension wages, adding some TRY3.0bn to the budget expenditures. On the other hand, there was not much change in the external arena. While the leading indicators showed that the economic activity was favorable in December, the risk appetite is still strong and the uptrend of the bourses and interest rates remain in place. The U.S. dollar, which recovered against euro in December thanks to the supportive macro data, lost some steam recently and keeps underperforming other developed markets' currencies. This mixed outlook of dollar caused the gold, which is in a reverse correlation with dollar, stopping its uptrend. However, it did not affect the uptrend of oil. The non-farm payrolls and the unemployment rate would especially be critical in terms of the tendency herein. The markets expect a slight loss in December employment, as is the case in November, and the unemployment rate is foreseen to increase by 0.1 pp to 10.1%. Despite this, the leading indicators such as U.S. jobless claims and ADP employment report are indicating at a limited increase in the employment for the first time after a 2-year break. If this comes true, the dollar and risk appetite will also benefit from this development. More importantly, if the unemployment rate posts some decline, this scene will strengthen and bring forward the interest rate hike expectations from Fed. Accordingly, this would put some pressure on the other central banks about the interest rate hikes. The severity of this pressure will depend on country specific growth-inflation balance. **In that context, Turkish economy has an advantageous position about keeping the interest rates low on the back of weak economic outlook. However, the country may lose this advantage due to the realized inflation risk stems from the budget**

Global Purchasing Managers Index (Global PMI)

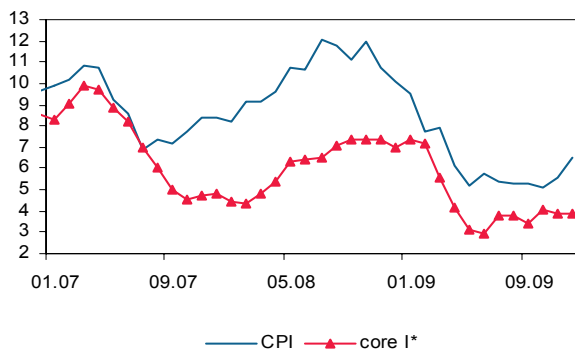


Source: JP Morgan, Fortis Economic Research and Strategy

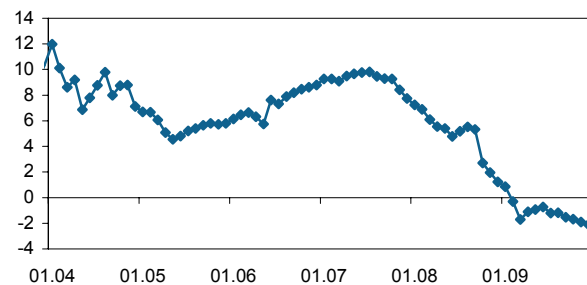
deficit and possible negative impact of this situation on the inflation expectations.

As is known, in Central Bank's last report released in October 2009, the most important part about the policy rates was the assumption of **constant interest rates until end-2010**. Accordingly, while the official inflation targets were 7.5% and 6.5% for 2009 and 2010, respectively, CBT's inflation forecasts were announced at 5.5% and 5.4%, in the same order. Even if it is not a pledge, "constant interest rates until 2010" was taken as an assertive statement when it was first announced. In the last MPC meeting on December 17th, **this statement was changed to "it would be necessary for the monetary policy to maintain an easing bias for a long period of time"**. **This was a more moderate declaration and there was some flexibility in it.** On the other hand, we think that some 1.5 point external shock coming from administrative prices was not added to these assumptions mentioned above. Therefore, **the first attempt of the Central Bank would be to raise their end-2010 inflation forecast by an amount of expected SCT (special consumption tax) impact (*)**. We can observe this attempt through the MPC meeting to be held on January 14th or Inflation Report to be released on January 26th. **Yet, it would be more important that whether the Bank will change their post-2010 inflation forecasts and will describe "the long period of time" statement about the monetary policy more clearly.** The surveys after December inflation and SCT regulations showed that CPI forecasts for end-2010 were increased to the range of 7.5 – 8.0% and a total 150-200 bps interest rate hike for 2010 is expected to start in 3Q10. Despite these expectations, the benchmark bond yield that is surfacing below 9% may be explained with the IMF deal expectations (The IMF loan will decrease the Treasury's borrowing). However, this is not likely to prove permanent under the outlook described above.

CPI and Core CPI (% chg. y/y)



Real Interest Rate Adjusted With EMBI+ Turkey Spread (**)



(*) CPI excluding food, energy, tobacco/alcoholic beverages and gold. (**) CBT's O/N quotation, 12-month forward looking inflation expectation and the gap between Turkey's eurobond yields and U.S. Treasury yields are used in this analysis.

Source: Reuters, Fortis Economic Research and Strategy

In the meantime, the stance to be preferred by the Central Bank will also be very important. At first, the Bank would underline that there is no deterioration in the general pricing behavior, and the rate of increase in the service prices and the other core inflation indicators are still in line with the medium term targets. By using these phrases, **the Bank would try to convince the economic actors that the upcoming shock will not prove permanent and after a while the inflation will depict a consistent path with the medium term targets.**

However, the similarity of the current developments with the depressed period in 2008, when the inflation targets were revised up (in 2008, while the CPI had increased sharply due to the food and energy prices, the core inflation had remained subdued for a long time), may prevent the Central Bank from being persistent about this issue. On the other hand, there are some factors that may provide some more time and maneuver space to the Central bank. The first one of these factors is the uncertainty range of ± 2 points in the official inflation target. The Bank may avoid from giving any monetary policy response as long as the CPI seems to end the year below 8.5%. The second factor may be the negative

repercussion of the decline in some leading indicators such as Turkish PMI observed in 2H09 on the economic activity. The third one may be the more visible appreciation trend in the TRY. Finally, the delay in the interest rate hike expectations across the globe may be assessed as the last factor. In brief, with all its advantages and disadvantages, we will witness to a period which is not easily managed. Yet, it should not be ruled out that, it is an important advantage to enter this period with a central bank which increased its credibility during the crisis while fulfilling inflation target. **Based on our view, the Central Bank will continue to attach importance to the economic activity as much as the inflation tendency, as is the case in the rate cut period started earlier. We also think that the Bank will not let the possible volatile trend emanating from the base effect both in economic activity and inflation to confuse the minds of economic actors.**

All in all, starting the new year, there appeared important developments in terms of Turkish economy. The lingering recovery in the global arena is a favorable event. However, there are also some negative developments, such as ongoing uncertainty regarding IMF deal, the rise in both budget expenditures and revenues (offsetting each other) and the bad inflation surprise. Such events could weaken the predictive ability of Central Bank and the other decision makers in the economy, which disturbs the more favorable investment environment formed by low real interest rates.

(*) Central Bank announced that the SCT increases will add some 1.5 points to the headline CPI, if implemented. The major part of this expected impact was foreseen to come from the tobacco prices. Accordingly, it seems that the final impact would be fairly lesser than the expected one, since the producers are reversing the price increases to take a competitive advantage recently. We think that the total impact may regress to 0.6 points. On the other hand, due to these price discounts, the expected tax collection through the VAT and SCT could not be reached, as these taxes are proportional to price.

Economic and Political Agenda

▪ At home, the C/A deficit and unemployment rate seems to be critical this week, as well as the MPC meeting on Thursday. There will be a more loaded data agenda in the external arena. While the foreign trade balance, retail sales, inflation and economic activity data will be important in the U.S., ECB's interest rate decision will also be eyed. Separately, Japanese markets will be closed on January 11th.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	CNBC-e Consumption Index, Dec.	-	Jan. 11 th , 8:00 GMT	-
High	C/A deficit, Nov.	US\$ mn	Jan. 11 th , 8:00 GMT	1.70 (1.54)
Medium	Cash Based Primary Balance, Dec.	TRY bn	Jan. 11 th	-1.6
Medium	Capacity Use, Dec.	%	Jan. 12 th , 8:00 GMT	(71.6)
High	MPC Rate Decision	bps	Jan. 14 th , 16:00 GMT	No change
High	Unemployment, Oct.	%	Jan. 15 th , 8:00 GMT	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	Foreign Trade Balance, Nov.	US\$ bn	Jan. 12 th , 13:30 GMT	-34.3
Medium	Eurozone	ECB Rate Decision	bps	Jan. 14 th , 12:45 GMT	No change
Weak	U.S.	Export & Import Prices, Nov.	%	Jan. 14 th , 13:30 GMT	0.4 & 0.1
High	U.S.	Retail Sales, Total & ex-auto, Dec.	%, m/m	Jan. 14 th , 13:30 GMT	0.2 & 0.3
High	U.S.	Core PPI and PPI, Dec.	%, m/m	Jan. 15 th , 13:30 GMT	0.2 & 0.1
Medium	U.S.	New York Fed Man. Index, Jan.	-	Jan. 15 th , 13:30 GMT	9.45
High	U.S.	Capacity Use, Dec.	%	Jan. 15 th , 14:15 GMT	71.6
High	U.S.	Industrial Production, Dec.	%, m/m	Jan. 15 th , 14:15 GMT	0.4
Medium	U.S.	Michigan Sentiment Index, Jan.	-	Jan. 15 th , 14:55 GMT	-

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	976.6	1,098.4	1,207.0
GDP (US\$ - bn)	734.9	630.0	722.6	756.1
GDP Growth (y/y % chg)	0.9	-5.7	5.0	4.0
PPI (y/y % chg)	8.1	5.9	5.0	4.0
CPI (y/y % chg)	10.1	6.5	6.9	5.5
Trade Balance (US\$ - bn)	-69.8	-37.9	-67.8	-68.7
Exports (FOB, excl. luggage trade)	132.0	101.8	125.5	122.9
Imports (CIF, incl. gold)	201.7	139.7	193.3	191.6
Current Account Balance (US\$ - bn)	-41.8	-13.2	-38.1	-36.9
Current Account Balance / GDP (%)	-5.7	-2.1	-5.3	-4.9

Financial Indicators Forecasts

	Jan. 8 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.4698	1.5000	1.5200	1.5200	1.5300	1.5200	1.6500
EUR/TRY	2.1093	2.1600	2.2040	2.1900	2.1900	2.1900	2.2440
FX Basket	3.5791	3.6600	3.7240	3.7100	3.7200	3.7100	3.8900
EUR/US\$	1.4351	1.4400	1.4500	1.4400	1.4300	1.4400	1.3600
O/N	6.50%	6.50%	6.50%	6.50%	8.00%	8.00%	10.00%
Benchmark Bond	8.71%	9.20%	9.80%	10.30%	11.10%	11.00%	11.50%

Fortis Bank SA/NV Montagne du Parc 3 B-1000 Brussels Belgium Tel: +32 2 565 11 11	Fortis Bank Austria Euro Plaza/D Wienerbergstrasse 41 1120 Vienna Austria Tel: +43 1 81 10 43 81 85	Fortis Bank Czech Republic Myslbek Building Ovocny Trh 8 117 19 Prague 1 Czech Republic Tel: +420 225 43 60 10	Fortis Bank Denmark Gothersgade 49 3. 1123 Copenhagen Denmark Tel: +45 32 71 19 09
Fortis Bank, Succursale en France 30, quai de Dion Bouton F-92824 Puteaux Cedex France Tel: +33 1 55 67 72 00	Fortis Bank Germany Cäcilienkloster 8 50676 Cologne Germany Tel: +49 221 1611-0	Fortis Bank Greece Sygrou Ave 166 17671 Athens Greece Tel: +30 21 09 54 43 70	Fortis Bank Hong Kong 27/F, Fortis Bank Tower 77-79 Gloucester Road Hong Kong Tel: +852 28 23 04 56
Fortis Bank Hungary Deak Ferenc 15 1052 Budapest Hungary Tel: +36 14 83 81 09	Fortis Bank Italy Via Comaggia 10 I-20123 Milano Italy Tel: +39 02 57 53 24 61	BGL 50, avenue J.F. Kennedy L-2951 Luxembourg Luxembourg Tel: +352 42 421	Fortis Bank Norway Haakon VII's gate 10 0161 Oslo Norway Tel: +47 23 11 49 50
Fortis Bank Polska S.A. P.O. Box 15 02-676 Warszawa Poland Tel: +48 22 566 90 00	Fortis Bank Portugal Rua Alexandre Herculano 50-6 Andar 1250-011 Lisboa Portugal Tel: +351 213 13 93 16	Fortis Bank SA/NV, Singapore Branch 63 Market Street #21-01 Singapore 048942 Tel: +65 65 38 03 90	Fortis Bank S.A., Sucursal en España Serrano 73 28006 Madrid Spain Tel: +34 91 436 56 00
Fortis Bank Romania Tipografilor 11-15 013714 Bucharest Romania Tel: +40 21 401 17 02	Fortis Bank Sweden Birger Jarlgatan 25 10396 Stockholm Sweden Tel: +46 8 505 375 59	Fortis Bank Switzerland Rennweg 57 8021 Zurich Switzerland Tel: +41 58 322 09 70	Fortis Bank Turkey Yildiz Posta Caddesi No: 54 Gayrettepe 34353 Istanbul Turkey Tel: +90 212 274 42 80
Fortis Bank SA/NV, UK Branch 5 Aldermanbury Square EC2V 7HR London United Kingdom Tel: +44 20 32 96 80 00	Fortis Bank USA 520 Madison Avenue, 3rd Floor New York, NY 10022 United States Tel: +1 212 418 87 00		

Each research analyst primarily responsible for the content of this research report certifies that with respect to each security or issuer that the analyst covered in this report: 1) all of the expressed views accurately reflect his or her personal views about those securities or issuers, and 2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views contained in this report.

Production of the document

Fortis Bank SA/NV, with registered office at Montagne du Parc 3, 1000 Brussels, Belgium ("Fortis"), is responsible for the production and the dissemination of this document, which has been prepared by the individual(s) working for Fortis or any of its affiliates and whose respective identity is disclosed in this document (the "persons involved") (together the "producers of the document"). This document can be distributed (i) by an affiliate of Fortis Bank SA/NV that is not registered as a U.S. broker-dealer to major U.S. institutional investors only and (ii) by Fortis Securities LLC, a U.S. registered broker-dealer, to all U.S. persons.

No public offer or financial promotion

This document does not constitute an offer or solicitation for the sale, purchase or subscription of any financial instrument in any jurisdiction. It is not directed to, or intended for distribution to, any person or entity who is a citizen or resident of or incorporated or located in any jurisdiction where such distribution would be contrary to local law or regulation and/or where Fortis would infringe any registration or licensing requirement within such jurisdiction. This document has been provided to you for your personal use only and should not be communicated to any other person without the prior written consent of Fortis. Should you have received this document by mistake, please delete or destroy it, and notify the sender immediately.

Sources and disclosure

Fortis believes that the information and/or the interpretations, estimates and/or opinions regarding the financial instrument(s) and/or issuer(s) to which this document relates (respectively, the "financial instrument(s) concerned" and/or the "issuer(s) concerned") are based on reliable sources. Fortis makes no representations as to the accuracy or completeness of those sources and, in any case, the recipients of this document should not exclusively rely on it before making an investment decision. The interpretations, estimates and/or opinions reflect the judgement of Fortis on the date of this document and are subject to changes without notice. This document has not been disclosed to the issuer(s) concerned prior to its dissemination by Fortis.

No investment advice

The information contained herein does not constitute investment advice nor any other advice of whatever nature (including advice on the tax consequences that might result from making any particular investment decision). Investments in the financial instrument(s) to which this document relates may involve significant risks, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any financial instrument(s) concerned may fluctuate and/or be affected by external factors such as exchange rates fluctuations. Past performance is not indicative of future results. This document is intended for general circulation and does not take into account the recipient's particular financial knowledge and experience, investment objectives and financial situation or needs, and is not intended as a personal recommendation to invest in the financial instrument(s) concerned. Before making an investment decision on the basis of this document, an investor should consider whether such investment is suitable in light of, amongst others, its particular financial knowledge and experience, investment objectives and financial situation and, if necessary, should seek appropriate professional advice. Neither Fortis nor any of its group companies (including any subsidiary, affiliate or holding company), directors, officers and employees shall in any way be liable or responsible (whether directly or indirectly) for any costs, claims, damages, liabilities and other expenses, including any consequential loss, arising from any use of this document, except in the event of wilful misconduct or gross negligence on their part.

Supervision

Fortis Bank SA/NV is authorised by and subject to the supervision of the "Commissie Bancaire, Financiële et des Assurances/Commissie voor het Bank-, Financien- en Assurantiewezen" (the "CBFA") in Belgium and each of its affiliates is regulated by the supervisory authority of the country in which it carries out its activities.

Copyright

This document contains information, text, images, logos, and/or other material that is protected by copyrights, database rights, trademarks, or other proprietary rights. It may not be reproduced, distributed, published or used in any way by any person for any purpose without the prior written consent of Fortis or in the case of third party materials, the owner of that content.

To check the occurrence of possible (conflicts of) interests please visit our website through the link:
<http://www.fortisbusiness.com/fbweb/service/disclosures/companies.jsp>