



Macro Scope

31 May - 6 June 2010

Weekly Economic and Strategic Review

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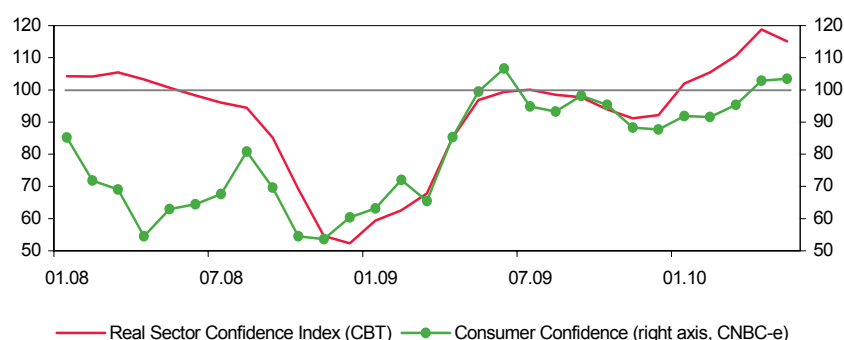
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What Do the Stock Markets Foreshadow?...

The outbreak of the European debt crisis and failure to alleviate concerns despite the strong measures taken to date seem to have brought about another widely expected market fluctuation this year. The greatest change occurred in April when stock markets in the US, Europe, and Turkey (İMKB) contracted a substantial 15%, 18%, and 12%, respectively. **The key question for economies at this time is whether these concerns, which could negatively affect consumer and business confidence, are deep enough to ultimately cause a new economic downturn or even a recession that would mean a double dip for global economy.** Given that we have only just come out of recession, both scenarios are deemed as negative. But even if the fiscal measures necessary to allay worries over debt sustainability were undertaken, they would be seen as weakening the recovery trends in place – and thus a relative slowdown will be accepted as the “lesser evil”. **Let us remind you at this point that we stand by our base scenario that does not see the global economy hitting bottom again but rather a continuation of the moderate and gradual recovery.** Accordingly, the sell-off pressure currently observed in the stock markets can be viewed as a correction within an overall upward trend. If mid-April is taken as the start of this correction, a period of one and a half months has passed and – assuming we are right about the nature of this market movement – the extent and duration of this will be considered as sufficient. Our stance does not mean that we are underestimating or downplaying the debt crisis. Previously, we described concerns of debt sustainability as the single dynamic that could bring about a new deterioration in the global economy. Our greatest fear at times like these, which tend to deteriorate consumer and real sector perceptions of and expectations for the future, is entering a negative feedback loop. Since consumer confidence typically parallels stock markets, a likely scenario is one where a drop in the stock markets considerably weakens consumer confidence after a certain threshold and pushes down demand – the most vital growth factor - and negative perceptions about the growth thus become a key driver of the stock markets.

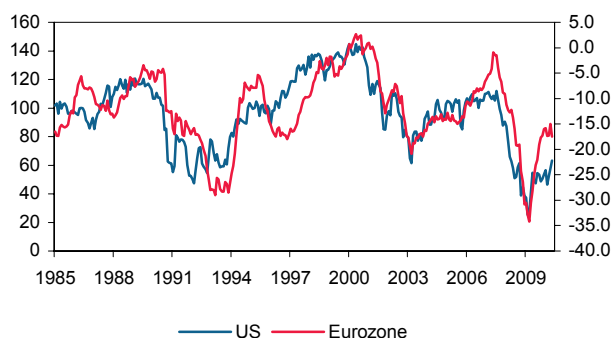
Consumer and Real Sector Confidence (Turkey)



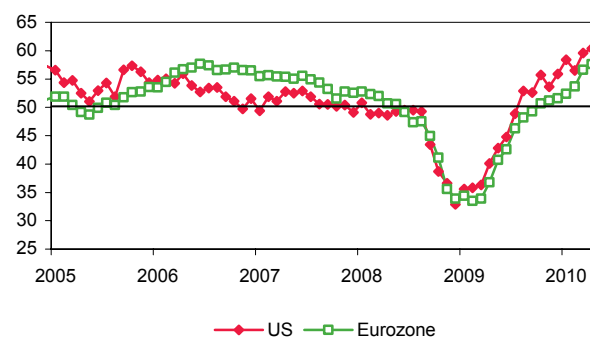
Source: CBT, CNBC-e, Fortis Economic Research and Strategy

Nevertheless, this scenario is not inevitable. Therefore, it will be essential to determine whether market fluctuations have reverberations in the corporate sector in terms of overcoming uncertainty. We do not expect to see these reverberations reflected in the backward-looking basic macro-indicators. Moreover, the March and April macro data recently made public looks positive overall. **We think the most useful indicators in leading economic trends are the consumer and business confidence indices such as PMI and ISM, since these indices are prepared by surveying consumers and business representatives on their expectations for the future, and are published with a slight delay.** Before going into detail, let's look at where these indices stand in the post-crisis period in advanced economies. Consumer confidence is back to pre-Lehman levels but still well below early 2008 levels, and PMI indices are even above pre-crisis levels. Therefore, it is important to note that declines in PMI indexes are considered normal unless they occur in a consecutive manner. The consumer sentiment and flash PMI figures for the eurozone, which is at the center of the debt crisis, decreased slightly in May, as would be expected. Consumer confidence fell from -15 to -17.5, and the Flash PMI declined from 57.6 to 55.9 compared to the previous month. In the US, on the other hand, the consumer confidence index announced this week is on the rise, and the ISM index to be released on June 1 is anticipated to contract marginally from a previous 60.4 to 59.7. **These indicators seem to show that the US and eurozone economies are in a slow and gradual recovery in terms of domestic demand, while a stronger recovery can be seen in industrial output levels particularly with the foreign demand effect from fast-recovering developing countries and efforts to replace inventories that were reduced during the crisis.** Should consumer confidence decline further, however, the risks to the already-fragile recovery will be greater – meaning a distinct change in direction from the consistent upward revisions in growth forecasts issued by many financial institutions including the IMF and OECD since mid-last year. Moreover, that the 2011 predictions made by these organizations are below those made for 2010 indicates that these entities also believe the strong momentum observed in the first half of this year will not carry over into the second half.

Consumer Confidence (US and Eurozone)



Manufacturing PMI (US and Eurozone)



Source: Reuters, Fortis Economic Research & Strategy

Looking at similar indicators for the Turkish economy, consumer confidence has been only slightly affected and business confidence stagnated due to stronger levels reached in the previous period.

The CNBC-e Consumer Confidence Preliminary Index, released twice a month, was up 0.2 points in May to 103.04. A closer look at the index, however, indicates that this increase largely stemmed from existing consumption trends and consumers have slightly lowered their future expectations. For its part, the Real Sector Confidence Index contracted by 3.8 points from 118.8 points in April to 115.1 in May – still well above the critical 100 level that demarcates periods of expansion and contraction in the economy. Thus the economic recovery, while slower than last month, continues. That being said, when we take into account the slight drop in the capacity use of the same month adjusted for seasonal and

calendar effects as well, this outlook strengthens the likelihood of a relative decline in the second half of the year.

In conclusion, despite the debt crisis in the EU we do not expect to see a new recession, but rather a continued moderate recovery. This means the risk avoidance observed in the stock markets in particular is not likely permanent, and the correction in place since mid-April is nearing its end in both scope and duration. The negative scenario would be the creation of a negative feedback loop for consumers if worries over debt sustainability do not dissipate – but we have not seen any disruption in the leading indicators that would trigger such a situation. So, the more likely current scenario is the strong growth of first half of the year giving way to a slower growth trend in the second half.

Economic and Political Agenda

▪ This week at home, imports and exports figures on Monday, CNBC-e consumer confidence index, TEA preliminary export figures and ICC price index on Tuesday, and lastly CPI and PPI figures on Thursday will be important. Glancing at external arena, in the US, manufacturing and services ISM indexes, pending home sales and unemployment data are going to be eyed closely. In Eurozone, manufacturing and services PMI indexes will be watched.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Imports & Exports, Apr.	US\$ mn	May. 31 st , 7:00 GMT	15.5 & 9.7(14.8 & 9.5)
Medium	CBNC-e Cons. Confi. Index, May	-	June 1 st , 5:00 GMT	-
Medium	TEA's Preliminary Exports, May	US\$ mn	June 1 st , 7:00 GMT	-
High	ICC Price Index, May	% m/m	June 1 st , 9:00 GMT	-
High	CPI & PPI, May	%m/m	June 3 rd , 7:00 GMT	0.60 (0.58 & 0.52)

Data issuances Abroad

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	Manufacturing PMI, May	-	June 1 st , 7:58 GMT	55.9
High	U.S.	Manufacturing ISM, May	-	June 1 st , 14:00 GMT	59.7
Medium	U.S.	Pending Home Sales, Apr.	% m/m	June 2 nd , 14:00 GMT	3.3
High	Eurozone	Services PMI, May	-	June 3 rd , 7:58 GMT	56.0
High	U.S.	Manufacturing ISM, May	-	June 3 rd , 14:00 GMT	55.6
High	U.S.	Non-farm Empl. & Unempl., May	ths,%	June 4 th , 12:30 GMT	425 & 9.8

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2009-2012

	2009	2010f	2011f	2012f
GDP (TRY - bn) (*)	954.0	1,090.1	1,197.4	1,310.7
GDP (US\$ - bn) (*)	616.6	717.1	776.7	834.9
GDP Growth (y/y % chg) (*)	-4.7	6.0	4.0	4.0
PPI (y/y % chg)	5.9	5.0	5.0	5.0
CPI (y/y % chg)	6.5	8.0	6.0	5.5
Trade Balance (US\$ - bn)	-38.6	-61.2	-69.8	-70.4
Exports (FOB, excl. luggage trade)	102.2	104.9	122.9	142.7
Imports (CIF, incl. gold)	140.8	166.1	192.7	213.0
Current Account Balance (US\$ - bn)	-13.8	-34.3	-39.4	-36.9
Current Account Balance / GDP (%)	-2.2	-4.8	-5.1	-4.4

(*) 2010 values are our forecasts

Financial Indicators Forecasts

	May 28 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.5607	1.5700	1.5300	1.5300	1.5300	1.5300	1.5600
EUR/TRY	1.9155	1.9000	1.9400	1.9900	2.0400	1.9900	2.1500
FX Basket	3.4762	3.4700	3.4700	3.5200	3.5700	3.5200	3.7100
EUR/US\$	1.2273	1.2100	1.2700	1.3000	1.3333	1.3000	1.3800
Policy Rate	7.00%	7.00%	7.00%	8.00%	10.00%	8.50%	10.00%
Benchmark Bond	9.00%	9.50%	10.40%	10.90%	11.50%	11.00%	11.50%

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