



Macro Scope

8 – 14 February 2010

Weekly Economic and Strategic Review

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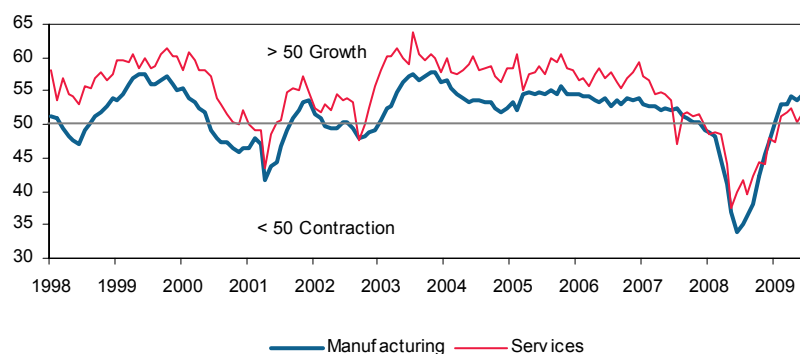
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Nothing New On The Economy Front...

The upward momentum in the economies started in the last months of 2009 continued at a stronger pace in the first month of new year. Especially, the improving expectations on the back of fading possibility of a new weakening cycle in the economy appeared as the most important supporter of this uptrend. January reading of Global Manufacturing PMI hit its highest level over the last 5.5 years and there is no country now whose PMI is surfacing lower than 50-threshold that separates the expansion and contraction periods in the economy. Not only the expectations are strengthening the recovery, but also the critical phase of the economic cycle we are in is supportive by itself. In other words, the efforts for adjusting the inventories to total demand gave some fruits and some increases emerged in the production front at last. Accordingly, nowadays, the growth forecasts are continuously revised up across the globe (IMF revised the global growth forecast up to 3.9% from the preceding 3.1%) and our above-consensus growth estimate for Turkish economy started to find a common acceptance. In the recent term, data disclosures regarding domestic economic activity posted some two-digit increases. This broadly stems from the base effect. Nevertheless, such increases create positive market sentiment, causing the perception towards recovery, which still can not depict a strong outlook, to remain on the positive side. Accordingly, we attach an importance to the January bounce in the Consumer Confidence and Turkish PMI released in the beginning of the week and we think that these data releases keep increasing the upside risks to growth. Despite this, the limited resource utilization (capacity use and employment) shows that there is still much way to go. On the other hand, the inflation pressure to stem from the moderate recovery in the resource utilization is not likely to be disturbing in short term. This may be conflicting, but we think that the above-mentioned tendencies reflect the current situation well for Turkey and for the several advanced countries.

Global PMI (*)



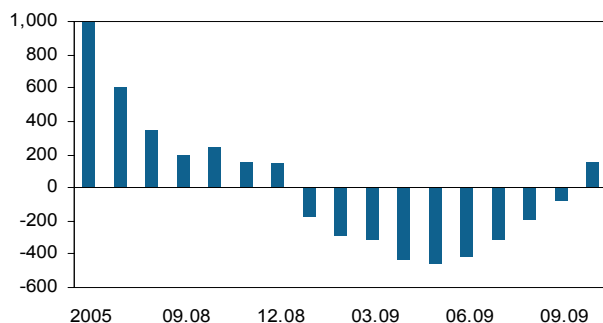
Source: JP Morgan, Fortis Economic Research & Strategy

* The level of 50 is the critical threshold which separates the expansion and contraction periods in the economy

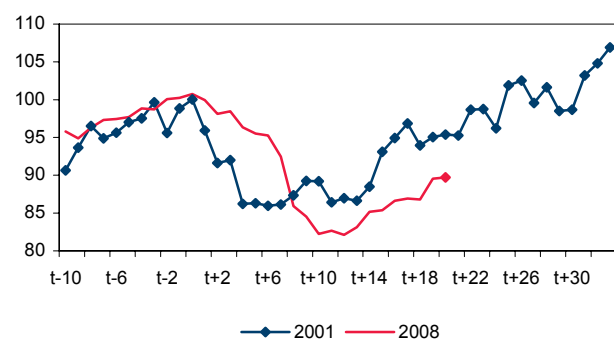
Therefore, we stick to our view that if the inflation permits, Turkey does not need to hurry for tightening the monetary policy. Yet, the fundamental macro indicators keep being the major determinants of this issue and for Central Bank's statement about keeping interest rates low for a long period of time. **An abrupt change in the monetary policy should not be awaited from the Central Bank. Bank will continue to make this change by giving some clues in their reports. Recall that the Bank changed the statement of "constant rates until end 2010" to "constant rates for a long time". Similarly, they would give some clearer signals in the upcoming period about the timing of interest rate hikes which were described as "limited increases" in the last Inflation Report.** The pace of this change would probably depend on the developments regarding economic activity, inflation and inflation expectations.

Accordingly, even though the annual inflation rose sharply to 8.2% in January, this was not as elevated as pointed by the leading indicators and there is no deterioration in the core indicators. These gave some relief to the markets. The annual price increase of Central Bank's favorite core indicator (excluding food, energy, gold, alcoholic beverages and tobacco), namely the "core-I" index, remained unchanged at 3.8%. Meanwhile, the annual inflation in the services group printed a slight m/m increase to 5.35%. Separately, the natural gas price hike expected to be introduced in early February was delayed for an indefinite time, pulling the upper-limit of CPI down. Nevertheless, while it is foreseen that the annual CPI is possible to come close to 9% in the upcoming months, it is also expected to stay higher than the target for a long time. The impact of such a tendency on the inflation expectations will be more important. The inflation expectations are very much related with the current annual inflation rate and therefore already started deterioration in the expectations seems to continue gradually.

Non-farm Payrolls (annual change, K)



Industrial Production in 2001 and 2008 Crisis (*) (Seasonally Adjusted)



(*) (t) is the month when the crisis started and the production level is taken as 100.

Source: TURKSTAT, Fortis Economic research & Strategy

The other data, which may be important in the short term even if they will not have an abrupt effect on the monetary policy, are the December industrial production on February 8th (in terms of the production outlook), CNBC-e Consumption Index on February 10th (in terms of the domestic demand outlook) and unemployment figures on February 15th (in terms of the employment). We expect the industrial production to increase by an annual 18%, similar with the average forecast in the market polls. However, this elevated increase broadly stems from the base effect (this year, the working day number is higher than the preceding year). Meanwhile, we anticipate the monthly change which is adjusted for the calendar and seasonal affects to be released at the same time with the headline data to indicate at a much limited increase, supporting the moderate recovery scenario. The possible upside or downside surprises herein would undoubtedly be important in terms of both 2009 GDP forecast and general perceptions regarding growth outlook. In the meantime, it is normal that the Consumption Index to regress in January after hitting the highest level (185) of last two years in December 2009. Yet, unless the index declines below the level of 150, this would mean that the domestic demand continues to

make a positive contribution to the growth in 1Q. It would be critical whether unemployment and non-farm unemployment rates, which regressed by a surprising 13% and 16.4% in October, will continue their downtrend. Recall that, annual change in the non-farm employment at 156K entered into the positive territory in October for the first time for a long time. Considering the seasonal pattern, it is normal to see a monthly increase in unemployment rate in November. Accordingly, if the downtrend continues, it can be said that the recovery tendency in the unemployment rate is much stronger than seen. However, we should remind something very important herein. Our readers would remember that, in our FlashNote, where we analyze the October employment data, we underlined that some part of the improvement in the labor market is probably related with the temporary hirings in the public sector, as the payrolls increased especially in the community social and personal services. This development was not mentioned in the comments and analyzes released after the data (including CBT) and we think that it is a big deficiency. Recall that there was a legislation last year to increase the public sector payrolls by 120 thousand temporarily for 6 months, as a measure to fight with the economic crisis. Yet, the payroll increase in this sector in the last 2 months was 227 thousands.

In sum, the economic cycles have some underestimated dynamics that come to the forefront when exit from the recession takes place. Nowadays, we observe that the growth forecasts are continuously being revised up and the expectations are improving as a result of ruling these dynamics out. However, even this progress is not strong enough to change the fact that the resource utilization is still subdued in many economies. We think that for now, it would be more appropriate to wait and let the fresh data speak in order to arrive at a healthier decision.

Economic and Political Agenda

▪ At home, there will be some critical data disclosures such as industrial production and current account balance in this week. Separately, the Treasury will issue discount bond due 13.04.2011 and fixed-coupon bond due 09.01.2013 on Tuesday ahead of Wednesday's TRY6.4bn redemption, with TRY4.6bn portion being destined to the market. Glancing at external arena, while the retail sales will be important in the U.S., flash reading of Eurozone 4Q GDP will also be eyed by the market.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Industrial Output, Dec.	% y/y	Feb. 8 th , 8:00 GMT	-18.0 (-15.7)
Medium	CB's Expectation Survey, Feb I	-	Feb. 8 th	-
Medium	Cash Based PS, Jan.	TRY bn	Feb. 8 th	2.9
Medium	CNBC-e Consumption Index, Jan.	-	Feb. 10 th , 8:00 GMT	-
High	C/A Balance, Dec.	US\$ mn	Feb. 11 th , 8:00 GMT	4.00 (3.37)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	Foreign Trade Balance, Dec.	US\$ bn	Feb. 10 th , 13:30 GMT	-36.5
High	U.S.	Retail Sales, Total & ex-auto, Jan.	%, m/m	Feb. 11 th , 13:30 GMT	0.5 & 0.5
High	Eurozone	GDP (flash), 4Q	%, y/y	Feb. 12 th , 10:00 GMT	0.4
Medium	U.S.	Michigan Cons. Sent. Index, Feb.	-	Feb. 12 th , 14:55 GMT	74

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	969.4	1,095.1	1,203.6
GDP (US\$ - bn)	734.9	626.6	725.3	756.0
GDP Growth (y/y % chg)	0.9	-5.7	5.0	4.0
PPI (y/y % chg)	8.1	6.0	5.0	4.0
CPI (y/y % chg)	10.1	6.5	7.9	5.5
Trade Balance (US\$ - bn)	-69.8	-38.0	-67.7	-68.7
Exports (FOB, excl. luggage trade)	132.0	101.8	125.5	122.9
Imports (CIF, incl. gold)	201.7	139.8	193.2	191.6
Current Account Balance (US\$ - bn)	-41.9	-13.6	-38.1	-36.9
Current Account Balance / GDP (%)	-5.7	-2.2	-5.2	-4.9

Financial Indicators Forecasts

	Feb. 5 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.4903	1.5000	1.5200	1.5200	1.5300	1.5200	1.6030
EUR/TRY	2.0637	2.0600	2.1050	2.1300	2.1880	2.1580	2.1800
FX Basket	3.5540	3.5600	3.6300	3.6500	3.7200	3.6800	3.7800
EUR/US\$	1.3848	1.3800	1.3900	1.4000	1.4300	1.4200	1.3600
O/N	6.50%	6.50%	6.50%	6.50%	8.50%	8.00%	10.00%
Benchmark Bond	9.10%	9.20%	9.50%	10.30%	11.10%	11.00%	11.50%

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