FORTIS

Macro Scope

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Weekly Economic and Strategic Review

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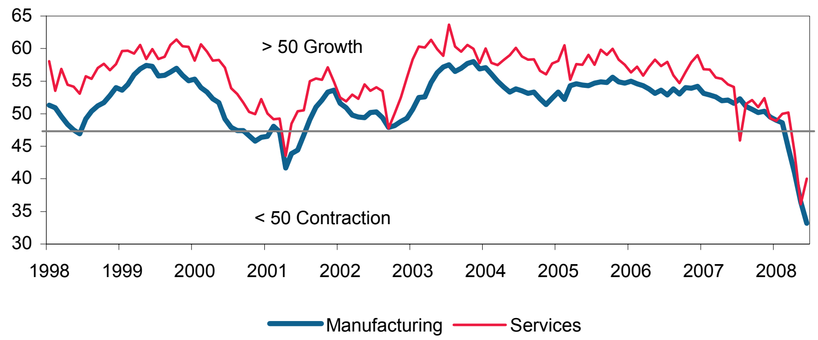
Save the Cheerleader, Save the World!

Even though bleak data regarding global economies extended into the new year, the realizations nevertheless started to surpass expectations or at least stopped surprising on the downside, as the expectations are adjusted downwards and aligned with a deeper recession. In essence, this is a typical market perception and behavior pattern to be seen in such periods. More importantly, shaving off growth projections is one of the desired conditions for the creation and strengthening of a market recovery. Bear in mind that the decision makers act upon their baseline scenarios which are shaped by a combination of future prospects and their sense of the current outlook, rather than a macroeconomic data telling them how the economy performed over the preceding term. Recalling the scenario for 2009, investors believed that the recession that was rooted in December 2007 had reached its peak in November-December term of last year and that the pace of contraction would get milder gradually from that point onwards, hopefully followed by positive economic growth in 2H09. Accordingly, as long as the fresh data do not surprise on the downside in the period ahead (*) in a way to ruin the presumptions of this scenario, the positions built on this recovery bet would also remain on course. The lack of market reaction to the weak economic activity indicators, especially on the production side, may also be explained by the investors' awareness of the fact that attitudes would differ across manufacturing vs. services sectors, as well as consumer vs. business sentiments in this phase of the economic cycle. Basically, economic weakness that starts with the loss of confidence and risk appetite may gradually spread to the overall economy through complicated interaction mechanism between consumers and producers.

The Institute for Supply Management (ISM) - Purchasing Managers Index (PMI)



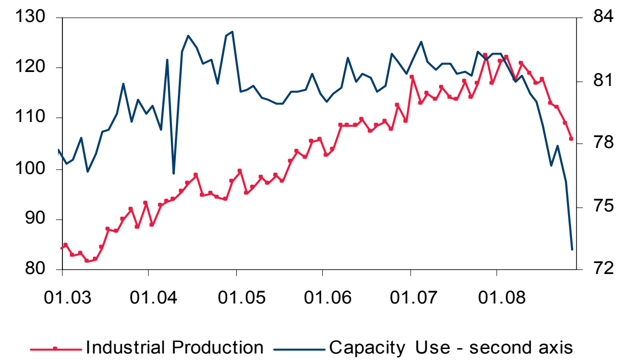
Source: Reuters, Fortis Economic Research and Strategy

In the first stage, consumers postpone their consumption decisions, bringing inventory built-up due to the slumping sales and this process ends up with production cut. During this process, producers' priority is more to revive the consumption and to deplete pipeline stocks via offering good bargains. In this period, if there are no energy and food price pressures to weigh on household budget and there is fiscal stimulus (tax cut) from government, the retail and manufacturing data may differ quite significantly. This difference becomes more pronounced for sectors that do not have credit support to their sales, such as automotive, white goods, housing, etc. We think that the developed countries are exactly at this very phase of the crisis.

Our views have found support from data. The consumer confidence is recently pulled back from the historical lows in the developed countries, accompanied by rapid decline in inflation, while services and manufacturing sectors started to produce dissimilar trends in favor of the former. The discounts or other sales promotions have been a great contributor to this timid rebound in sales and helped the survival of the economy so far. However, there is no guarantee that these favorable developments will secure a permanent recovery. At this point, as we had stated before, the stimulus package originated by President-elect Obama (the recent news claimed that the package size will reach US$775bn with US$330bn portion being the tax rebates) will be a milestone. First, the perceptions about the package and then the results of the implementation will be at the focus. Everybody will wait to see the repercussions on consumer spending, i.e. on whether there will be a permanent turnaround in consumption.

Against this external backdrop, Turkey has unlikely come to that stage yet, since the repercussions of the global crisis are hitting the domestic economy with some time lag. The Real Sector Confidence Index fell sharply in December and the industrial production contracted by a rapid 13.9% y/y in November. However, the industrial output has unlikely bottomed yet, considering that the passenger car sales tumbled by 58% y/y in December and the leading indicators regarding January exports are still heading further down. On the contrary, we saw some recovery in the CNBC-e's Consumer Confidence Index and Consumption Tendency Index in December. In essence, there are a number of reasons that lies behind this rebound: The volatility in financial markets has diminished markedly compared to mid-November. Moreover, sales discounts and decline in gasoline prices might have provided some incentive for households to spend more. Atop of this, the new year shopping may have added the strength, as well.

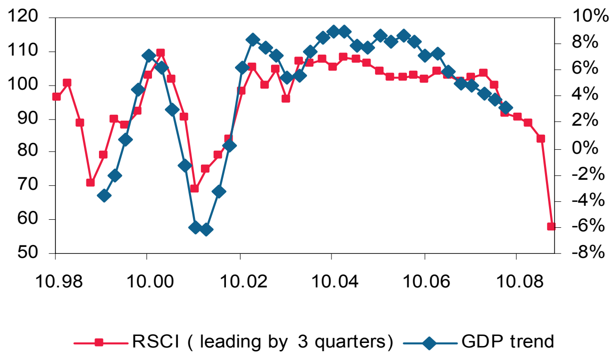
Industrial Production and Capacity Use (S.A.)



Source: TRKSTAT, Fortis Economic Research and Strategy

(*) The annual change in the total of last 4 quarter seasonal adjusted values

Growth Tendency (*) and Real Sector Confidence Index (**)



Source: CBRT, TRKSTAT, Fortis Economic Research and Strategy

(**) Not weighted Real Sector Confidence Index, leading by 3 quarters.

Interbank Card Center announced that TRY661.3mn was spent on consumption by credit cards between December 30th and 31st 2008, rising by 18% compared to the look-alike slice of 2007. The retail sector which covers categories such as supermarkets, shopping centers, clothing and accessory stores had the biggest share (31%) of this amount. We will keep a close eye on the CNBC-e

Consumption Index due January 12th, to see whether the actual sales will affirm this strength. The Consumption Index is based on actual sales figures corrected for price changes and can be thought of as Turkey's retail sales index. Even though the seasonal adjusted figures are announced, analyses can also be made on the annual changes. As a key difference to the Interbank Card Center's data, the Consumption Index includes the housing and automotive sales. Considering that the automotive and housing loans of the banking sector contracted from October onwards, it would not be surprising to see the Consumption Index depicting a more dismal picture. The index had declined by 4.8% and 10.3% y/y in October and November, respectively. Therefore, it would be encouraging enough to see the rate of contraction in December remains intact. On the other hand, since we do not anticipate consumption-boosting measures in Turkey, such as tax cuts or rebates, the outlook in consumption expenditures would depend on the consumer's risk perception and confidence for the future of the economy. The external outlook and the implementation of the new IMF program would be the critical factors to influence the course of consumer confidence. All in all, if the rebound in December consumer confidence proves to be permanent, this may gradually improve expenditures and the revival in the domestic sales may limit the production cuts.

In conclusion, there are tentative signs of stabilization of deterioration in macroeconomic data as we enter into the new year. The current mindset offers the basic conditions needed for a recovery, as the expectations are downgraded significantly so as to limit the downside risks. The awareness of the fact that attitudes would differ across manufacturing vs. services sectors, as well as consumer vs. business sentiment, plays an important role in the current intactness of the markets against the bleak data. Producers' priority is depleting pipeline stocks. So they are offering good bargains in order to revive sales. This in turn results in higher consumption yet lower production in the short term. The most significant risk is the possibility that the recent rebound in consumer confidence and the relative strength in retail sales, both in the external arena and at home, fail to be permanent.

(*) The ADP Unemployment Report, which indicated at a 693K decline in the employment of private sector in December, raised the upside risks to the size of decline in Friday's non-farm payrolls. Even thought the expectations may be revised in last two days, investors may see such a development as the most important data surprise of the recent term.

Economic and Political Agenda

- The Central Bank's interest rate decision due Thursday seems to be the key event of this week. The average market expectation is 75 bps rate cut, same as our forecast. The Treasury will issue 6-month T-bill on January 12th, the new benchmark bond due 3.11.2010 and 5-year FRN on January 13th ahead of Wednesday's TRY5.1bn redemption on January 14th.
- Glancing at external arena, U.S. inflation figures, retail sales and Philadelphia Fed Index will be the key data of the week. On the other hand, markets have the ECB's interest rate decision to watch.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis *(Consensus)*
Medium	CNBC-e Consumption Index, Dec.	-	Jan. 12th, 7:00 GMT	-
Weak	Capacity Use, Dec.	%	Jan. 12th, 8:00 GMT	*(69.9)*
High	C/A deficit, Nov.	US$ mn	Jan. 12th, 15:00 GMT	-1,300 *(-1,281)*
Weak	Unemployment, Oct.	%	Jan. 15th, 8:00 GMT	-
High	MPC Rate Decision, Jan.	bps	Jan. 15th, 17:00 GMT	-75 *(-78)*
Medium	Consumer Confidence, Dec.	-	Jan. 16th, 8:00 GMT	-
Medium	Central Gov. Bud. PS, Dec.	TRY mn	Jan. 12 - 16th	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	Foreign Trade Balance, Nov.	US$bn	Jan. 13th, 13:30 GMT	-54.5
Medium	Eurozone	Industrial Production, Nov.	%, m/m	Jan. 14th, 10:30 GMT	-
Weak	U.S.	Export & Import Prices, Dec.	%	Jan. 14th, 13:30 GMT	-2.0 & -5.0
High	U.S.	Retail Sales, Total & ex-auto, Dec.	%, m/m	Jan. 14th, 13:30 GMT	-1.2 & -1.2
High	Eurozone	ECB Rate Decision, Jan.	bps	Jan. 15th, 12:45 GMT	-50
High	U.S.	Core PPI and PPI, Dec.	%, m/m	Jan. 15th, 13:30 GMT	0.1 & -1.8
High	U.S.	Philadelphia Fed Index, Jan.	-	Jan. 15th, 15:00 GMT	-32.3
High	U.S.	Core CPI and CPI, Dec.	%, m/m	Jan. 16th, 13:30 GMT	0.1 & -0.9
Medium	U.S.	Capacity Use, Dec.	%	Jan. 16th, 14:15 GMT	74.7
Medium	U.S.	Industrial Production, Dec.	%, m/m	Jan. 16th, 14:15 GMT	-0.8
Medium	U.S.	Michigan Sent. Ind., Jan.	-	Jan. 16th, 14:55 GMT	60.0

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2007	2008f	2009f	2010f
GDP (TRY - mn)	853.7	992.4	1,102.8	1,203.6
GDP (US$ - bn)	658.8	753.2	709.8	807.1
GDP Growth (y/y % chg)	4.6	1.5	1.5	4.0
PPI (y/y % chg)	5.9	8.1	6.0	5.0
CPI (y/y % chg)	8.4	10.1	6.5	6.0
Trade Balance (US$ - mn)	-62.8	-69.6	-50.5	-58.4
Exports (FOB, excl. luggage trade)	107.3	131.5	141.4	155.5
Imports (CIF, incl. gold)	170.1	201.1	191.9	213.9
Current Account Balance (US$ - mn)	-37.7	-42.2	-22.3	-28.0
Current Account Balance / GDP (%)	-5.7	-5.6	-3.1	-3.5

Financial Indicators Forecasts

	Jan. 9th	1M	3M	6M	12M	2009	2010
US$/TRY	1.5462	1.5500	1.6500	1.6000	1.6000	1.6000	1.5000
EUR/TRY	2.1003	2.0770	2.1450	2.0800	2.0800	2.0800	1.9800
FX Basket	3.6465	3.6270	3.7950	3.6800	3.6800	3.6800	3.4800
EUR/US$	1.3584	1.3400	1.3000	1.3000	1.3000	1.3000	1.3200
O/N	15.00%	14.25%	13.00%	13.00%	13.00%	13.00%	14.50%
Benchmark Bond	16.40%	15.60%	15.90%	15.90%	14.90%	14.90%	16.60%

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