

# FORTIS BANK

## Macro Scope

23 - 29 March 2009

## Weekly Economic and Strategic Review

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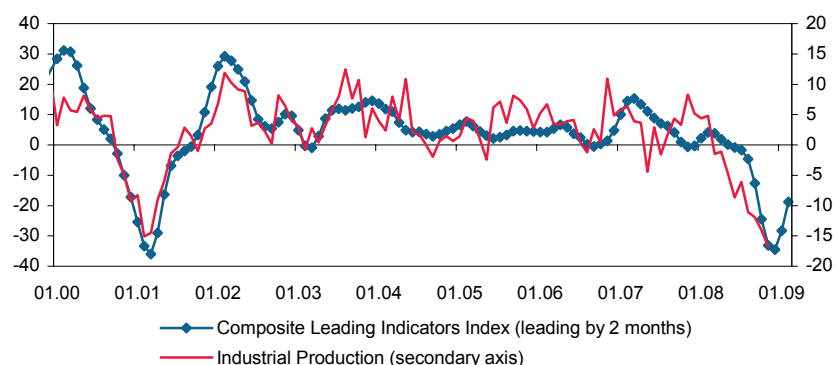
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### The Bottom Line: Extended Or Expended?

Once the picture of 1Q09 has become clearer, the growth forecasts across the globe were revised visibly down. IMF's new estimates circulated in the media (official figures are yet to be published in the World Economic Outlook report due April 24<sup>th</sup>) also kept step with this general outlook. The Fund's forecasts (the previous forecasts are in the parenthesis) are -% 0.6 (+%0.5), -%2.6 (-%1.6), -%3.2 (-%2.0) and -%5.0 (-%2.6) for the global economy, U.S., Eurozone and Japan, in the same order. **However, the recent data flow continued to suggest that at least consumption has bottomed out in the last month of 2008.** The price discounts and other sales promotion by producers which were gripped by recession with high stock piles, together with government's tax cuts (especially for the automotive sector) were influential on this consumption rebound. Also, the sliding energy and food prices also gave some relief to the household budget. **Depending on the momentum and sustainability of this recovery, if the producers finally align their supply with respect to the new demand conditions, production may start rebounding.** A similar tendency is also valid at home, given the data flow and news about domestic demand outlook. The pace of decline in the consumption index moderated to 3.4% in the end of February from 15.9% annual contraction in December. The special consumption tax cut put into force in the beginning of the week, which will be valid for only 3 months, is anticipated to support the improving trends in consumption, especially in automotive and white good sector. This recovery in consumer sentiment accompanied by actual consumption figures is also playing a role to reassure the confidence in the real sector. **CBRT's Composite Leading Indicators Index reflects that the industrial production will start improving after dipping in February, confirming increase seen in the real sector**

Central Bank Composite Leading Indicators Index (\*) & Industrial Production (\*\*)



Source: CBRT, TURKSTAT and Fortis Economy Research and Strategy

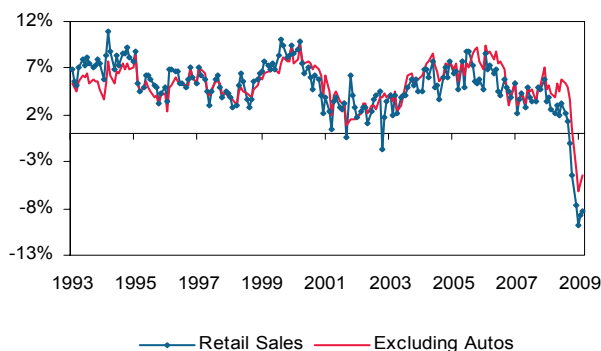
(\*) Annualized 6-month change

(\*\*) 6-month seasonally adjusted change

**confidence over the last two months.** The domestic demand has 70% share in GDP and that seems to make the rebound possible despite the lack of any recovery sign in the external demand.

As a matter of fact, the affect of the improving consumer sentiment differs in countries depending on their reliance on the domestic and foreign demand. The countries where domestic demand constitutes a greater role in the economy has the chance to recover rapidly with the support of fiscal measures. The recent developments suggest that consumer and real sector confidence will likely preserve their rebounding tendency. **Yet, even though consumption has most likely bottomed out, markets may soon start worrying that “the recovery can not gain enough strength” due to the protracted problems in the other areas.** In the U.S., which is anticipated to be the first to outrun the recession, there is no sign that shows the weekly jobless claims or the house prices reached their peak or bottom, yet. Although we are too close to these points, this sharper and extended recession may prevent an early recovery, as well. Accordingly, maybe we should take the bold and aggressive decisions taken in the previous day's FOMC meeting as the results of bigger-than-thought problems in the economy and finance sector. In the FOMC statement, Fed decided to purchase up to US\$300bn of longer term Treasury securities over the next six months. It was the last trump card of Fed to revive the credit markets, given the fact that interest rates which are already close to zero cannot be taken to the negative territory. Separately, while Fed underlined that the federal fund rates at the interval of 0 – 0.25% will be maintained for an extended period, a gradual recovery is foreseen despite the weak economic outlook in the near future.

U.S. Retail Sales (Annual Change)



Source: Reuters, Fortis Economic Research and Strategy

U.S. Housing Sector



Source: Reuters, Fortis Economic Research and Strategy

**Once we see the recession ends in the U.S. eventually, it will be easier for the other countries, Europe in particular, to outrun from this cycle with a few months lag.** Once the recession ends, a process which is expected to be synchronized, the improvement in the growth outlook will depend on the countries' macro policies. Coming to the markets, if the latest rally in the foreign stock markets is the messenger of the reviving economic activity, just as seen in most of preceding recession experiences, the continuation of this recovery and repercussions of this on Turkey should be coming, as well. At that point, Turkey's relative performance may come to the forefront. We believe that progress about IMF program would continue being the primary determinant of Turkey's relative performance.

Firstly, we should say that there are still some uncertainties on this issue, even after IMF said they offered some flexibility and made changes in their previous proposals. We believe after the local elections, the government will unlikely impose adjustments to counterbalance the current fiscal expansion. Accordingly, the only way out seems to be IMF allowing for a primary deficit this year. Moreover, in the context of our late and slow recovery scenario, the measures to reverse the earlier fiscal loosening are not realistic expectations for next year,

either. All in all, we think that chance of a quick resolution in the IMF deal is very low.

**Under the light of these findings, even if there will be a deal with IMF it would take a long time before the authorities reach agreement.** As long as Turkey launches an IMF deal, or at least hopes for such an agreement do not fade, markets would prefer paying more attention to the advantageous features Turkey has, such as the contracting current account deficit, solid banking sector, low leverage ratio. However, the IMF deal is highly anticipated to be finalized short after the local elections in March 29<sup>th</sup>. Any delay or news that would undermine the deal hopes would hit Turkey's relative market performance, as the weaknesses (such as the external and domestic financing need) start to seem as a bigger issue.

All in all, while the growth expectations were revised markedly down across the globe, there are strong signs that consumption already dipped in the end of last year and the worst is yet to reach soon for the production cycle. However, we are concerned that the markets may soon start worrying that "the recovery can not gain enough strength". Once the U.S. economy outruns the recession sooner or later, countries would follow suit. Yet, in order to benefit fully from the positive developments or being less vulnerable to the negative impacts, the macro policies of the countries will keep being the front burner issues.

## Economic and Political Agenda

- This week's data agenda will be very quiet at home. The key development of the week will be the Real sector Confidence Index.
- Glancing at external arena, while the housing data, 4Q GDP and core PCE will be important in the U.S., the flash PMIs will be at focus in the Eurozone. Meanwhile, Fed Chairman Bernanke and U.S. Treasury Secretary Geithner will make testify before the House Financial Committee on Tuesday.

### Data issuances at Home

| Importance | Indicator                          | Unit | Date of issuance                  | Fortis (Consensus) |
|------------|------------------------------------|------|-----------------------------------|--------------------|
| High       | Real Sector Confidence Index, Mar. | -    | Mar. 24 <sup>th</sup> , 15:00 GMT | -                  |

| Importance | Country  | Indicator                      | Unit  | Date of Issuance                  | Consensus |
|------------|----------|--------------------------------|-------|-----------------------------------|-----------|
| High       | U.S.     | Existing Home Sales, Feb.      | mn    | Mar. 23 <sup>rd</sup> , 14:00 GMT | 4.45      |
| Medium     | Eurozone | Services Flash PMI, Mar.       | -     | Mar. 24 <sup>th</sup> , 8:58 GMT  | 39.1      |
| Medium     | Eurozone | Manufacturing Flash PMI, Mar.  | -     | Mar. 24 <sup>th</sup> , 8:58 GMT  | 33.1      |
| Medium     | Germany  | Ifo Index, Mar.                | -     | Mar. 25 <sup>th</sup> , 9:00 GMT  | 82.5      |
| High       | U.S.     | Durable Orders, Feb.           | % m/m | Mar. 25 <sup>th</sup> , 12:30 GMT | -2.0      |
| High       | U.S.     | New Home Sales, Feb.           | mn    | Mar. 25 <sup>th</sup> , 14:00 GMT | 0.3       |
| High       | U.S.     | GDP (final), 4Q                | % q/q | Mar. 26 <sup>th</sup> , 12:30 GMT | -6.5      |
| High       | U.S.     | Core PCE, Feb.                 | % m/m | Mar. 27 <sup>th</sup> , 12:30 GMT | 0.1       |
| Medium     | U.S.     | Michigan Sentiment Index, Mar. | -     | Mar. 27 <sup>th</sup> , 13:55 GMT | 56.8      |

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2007-2010

|                                     | 2007  | 2008  | 2009f | 2010f   |
|-------------------------------------|-------|-------|-------|---------|
| GDP (TRY - mn)                      | 853.7 | 963.9 | 960.3 | 1,056.0 |
| GDP (US\$ - bn)                     | 658.8 | 745.5 | 564.9 | 610.7   |
| GDP Growth (y/y % chg)              | 4.6   | 1.0   | -5.0  | 4.0     |
| PPI (y/y % chg)                     | 5.9   | 8.1   | 6.0   | 5.0     |
| CPI (y/y % chg)                     | 8.4   | 10.1  | 6.0   | 6.0     |
| Trade Balance (US\$ - mn)           | -62.8 | -69.7 | -29.8 | -39.6   |
| Exports (FOB, excl. luggage trade)  | 107.3 | 132.0 | 105.6 | 117.2   |
| Imports (CIF, incl. gold)           | 170.1 | 201.7 | 135.4 | 156.8   |
| Current Account Balance (US\$ - mn) | -38.3 | -41.6 | -6.1  | -14.3   |
| Current Account Balance / GDP (%)   | -5.8  | 5.6   | -1.1  | -2.3    |

### Financial Indicators Forecasts

|                | March 20 <sup>th</sup> | 1M     | 3M     | 6M     | 12M    | 2009   | 2010   |
|----------------|------------------------|--------|--------|--------|--------|--------|--------|
| US\$/TRY       | 1.6807                 | 1.7200 | 1.7200 | 1.6500 | 1.7100 | 1.6500 | 1.7300 |
| EUR/TRY        | 2.2761                 | 2.3560 | 2.4080 | 2.2600 | 2.2400 | 2.2300 | 2.2500 |
| FX Basket      | 3.9568                 | 4.0760 | 4.1280 | 3.9100 | 3.9500 | 3.8800 | 3.9800 |
| EUR/US\$       | 1.3543                 | 1.3700 | 1.4000 | 1.3700 | 1.3100 | 1.3500 | 1.3000 |
| O/N            | 10.50%                 | 10.00% | 10.00% | 10.00% | 11.50% | 10.00% | 13.50% |
| Benchmark Bond | 14.20%                 | 15.00% | 14.50% | 13.00% | 15.19% | 13.00% | 14.50% |

|   |   |   |   |
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