FORTIS BANK

# Macro Scope

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# Weekly Economic and Strategic Review

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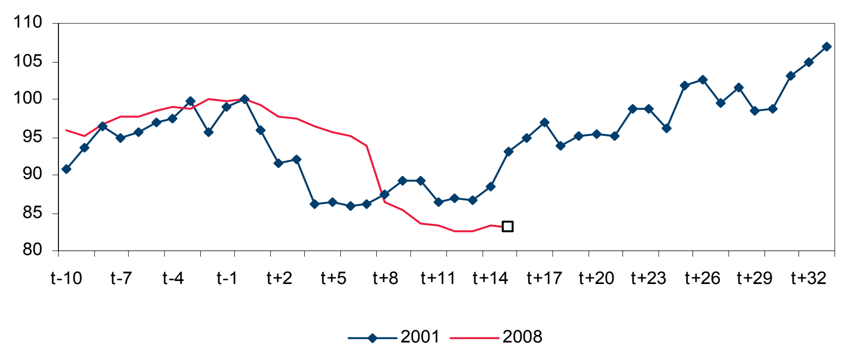
## Fast And Furious Or Slow And Dubious?...

Purchasing Managers Indices, which are taken as the most important leading indicators, depicted a very favorable outlook as of August. The gains are so impressive that one may even be pleased to have suffered such a sharp recession for the sake of enjoying strong recovery. No doubt, this is a deceptive view and we are concerned that the record high levels of PMIs since June 2007 may spur a misleading positive sentiment in terms of the growth outlook. **In essence, we are still not convinced that the current output recovery as suggested by the leading indicators would be able to turn into a long-lasting trend in a way to rapidly eliminate the slack in the economy.** The only certain thing is that the global economy is heading out of the recession and the next step would be the official announcement of this fact (by IMF, World Bank etc.) Separately, even if this recovery period is widespread all across the board, there are some important differences between the countries. PMIs have been increasing continuously from December 2008 onwards in some countries, whereas recently there are some signs of lethargy in others (including Turkey). This disparity seems to be mostly linked to the different timings of fiscal stimulus and the analysts in many countries are probably waiting for these exogenous boosts to cease in order to truly discover the underlying strength of recovery. For instance, glancing at Turkey, the automotive and white goods sales increased in March-May period, when the tax incentive was first introduced. Yet, once part of the tax cuts were terminated, sales dropped visibly in June-July period. Given the latest data set, the Central Bank also concluded that the fiscal measures gave a temporary lift to the domestic demand. **The weak domestic demand outlook is accompanied by the depressed external demand, as suggested by August export figures. Therefore, we are deterred from claiming that "Turkey would be among the countries which will recover faster". On the contrary, the current recovery in the industrial production has been even slower than our cautious scenario that we assume for this year.**

Industrial Production in 2001 and 2008 Crisis (Seasonally Adjusted)

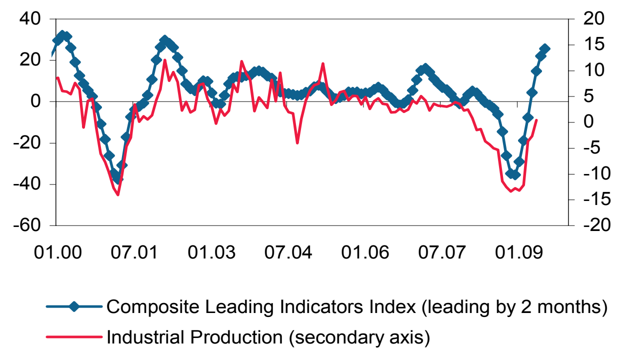



*P.S: The production level at the starting point of the crisis is taken to be 100.*
*Source: TURKSTAT, Fortis Economic Research and Strategy*

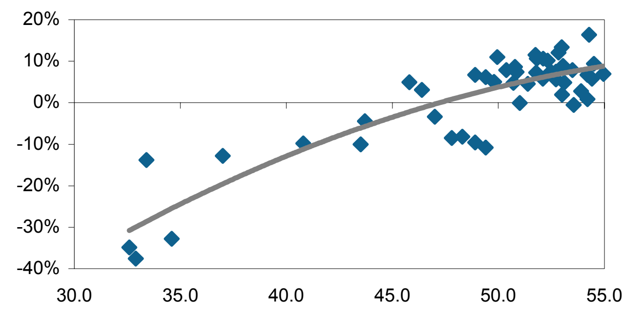
As is known, July reading of industrial production will be announced on September 8th. Before coming to July, TURKSTAT unveiled the figures adjusted for the seasonality and calendar affect for June. There was a monthly decline of 0.4%, which suggested that the recovery posted since the lowest point in March remained very limited. While the cumulative decline between April 2008 and March 2009 was 18.9%, the increase in the following 3-month was fairly limited at 0.7%. **The consensus is 9.5% annual decline in the industrial output similar to June reading. We expect a slightly deeper retrenchment of 10.5%. Yet, based on even our more pessimistic expectation, there would be a seasonally adjusted 1% m/m increase. If the actual figures do not diverge from these levels visibly, it would be confirmed that the recovery from the trough continues, albeit at a sluggish pace.**

The August readings of the Real Sector Confidence Index and Turkish PMI, which produce similar results, are available, yet the industrial production data has been two months behind them. Separately, the major part of the questions that form the confidence indices includes the expectations of the real sector for the upcoming 3-month. Therefore, the above-mentioned indices have a strong forecasting power for the economic activity. Meanwhile, the Central Bank's Leading Indicators Index (CLI) is also very successful in giving the right signals. The index also incorporates the interest rate at Treasury auctions, electricity production and intermediate goods import in addition to some specific questions from the aforementioned survey. **These two indices would be useful in estimating the improvement in the industrial production in the upcoming months.** The Turkish PMI, which has been stuck in the range of 53-54 over the last 3 months, indicates that 3-month production change would rise to an annualized 10%. Meanwhile, the CBT's Composite Leading Indicators Index (CLI) points at a 6-month rate of change at 10%. **Both of the indicators depict a consistent outlook with our slow recovery scenario rather than a rapid rebound. Nevertheless, note that the recovery remained weaker in the first months than suggested by these leading indices. If the July figures also depict a similar outlook, this may urge us to adopt even a more cautious approach than our current slow recovery scenario.**

**CBT's Leading Indicator Index (*) and Industrial Production (**)**




**Turkish PMI and Industrial Production (***)**




*(*) 6-month change of CLI (**) 6-month change of seasonally adjusted industrial output (IO) (***) Annualized rate of 6-month change of seasonally adjusted IO.*
*Source: CBT, TURKSTAT, HSBC, Fortis Economic Research and Strategy*

**The aforementioned issues are not relevant in terms of 2Q GDP to be released September 10th.** It is known that the industrial production plummeted by an annual 15% in that period. Based on this information, the surveys (Reuters, CNBC-e) pointed to an average 8% economic contraction in 2Q (Our expectation is - 8.4%). **Yet, the strength of the production performance would be important starting 3Q.** If both the performance in 2Q and 3Q turns out to be weaker than expected, the average 5.5% contraction forecast for the whole 2009 (our forecast is 6% shrinkage) and more importantly positive growth projections for 2010 may be pulled down. These figures are anticipated to be influential on medium term program that is set to be launched within a month. Moreover, they may pave the way for revising the official 3.6% contraction forecast for 2009 released beforehand in Pre-Accession Economic Program to the vicinity of 6%.

In conclusion, the uptrend in the leading indicators across the globe is not sufficient for averting the concerns over growth outlook. The reason behind this may be the sentiment that the impact of the stimulus packages will be temporary. The signs of such an outlook already appeared in Turkey with the automotive and white good sales falling markedly over the last 2 months. This increased the downside risks on the recovery of production which remained weaker than our already cautious assumption. We are all ear for the important information to be given by this week’s critical data releases (2Q GDP and July industrial production) in order to reappraise the growth outlook.

# Economic and Political Agenda

- The key domestic data of the week will be 2Q GDP and industrial production, while the external balance and budget balance both will be at the market's focus. Meanwhile, the Treasury will issue 6-month T-bill on Monday, discount bond due 11.05.2011 and 5-year fixed income bond on Tuesday ahead of Wednesday's redemption at TRY2.1bn. Glancing at external arena, the U.S. markets will be closed on Monday and the data agenda in the rest of the week does not seem that critical.

**Data issuances at Home**

| Importance | Indicator | Unit | Date of issuance | Fortis *(Consensus)* |
|---|---|---|---|---|
| High | Industrial Output, July | | Sep 8th, 7:00 GMT | -10.5 *(-9.4)* |
| Medium | Cash Based PS, Aug. | TRY bn | Sep. 8th | 10.6 |
| High | CB's Expectation Survey, Sep. I | - | Sep. 9th | - |
| High | GDP, 2Q | % y/y | Sep 10th, 7:00 GMT | -8.4 *(-8.0)* |
| Medium | CNBC-e Consumption Index, Aug. | - | Sep. 10th , 7:00GMT | - |
| Medium | Capacity Use, July | % | Sep. 10th , 7:00GMT | *71.3* |
| High | C/A deficit, July | US$ mn | Sep. 10th, 14:00 GMT | -100 *(-168)* |

| Importance | Country | Indicator | Unit | Date of Issuance | Consensus |
|---|---|---|---|---|---|
| High | U.K. | BoE Rate Decision | bps | Sep. 10th, 11:00 GMT | no change |
| High | U.S. | Foreign Trade Balance, July | US$bn | Sep. 10th, 12:30 GMT | -27.5 |
| Medium | U.S. | Export & Import Prices, Aug. | % | Sep. 11th, 12:30 GMT | 0.0 & 0.9 |
| High | U.S. | Michigan Sent. Ind., Sep. | - | Sep. 11th, 13:55 GMT | 65.3 |

# Macro-Economic and Financial Forecasts

**Macro Economic Outlook of 2007-2010**

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| **GDP (TRY - mn)** | 950.1 | 928.7 | 1,018.5 | 1,126.2 |
| **GDP (US$ - bn)** | 734.9 | 599.2 | 648.7 | 691.8 |
| **GDP Growth (y/y % chg)** | 1.1 | -6.0 | 4.0 | 5.0 |
| **PPI (y/y % chg)** | 8.1 | 4.0 | 5.0 | 4.0 |
| **CPI (y/y % chg)** | 10.1 | 5.5 | 6.5 | 5.5 |
| **Trade Balance (US$ - bn)** | -69.8 | -37.8 | -61.2 | -66.1 |
| **Exports (FOB, excl. luggage trade)** | 132.0 | 102.4 | 102.7 | 106.1 |
| **Imports (CIF, incl. gold)** | 201.7 | 140.2 | 163.9 | 172.2 |
| **Current Account Balance (US$ - bn)** | -41.3 | -11.5 | -32.1 | -34.3 |
| **Current Account Balance / GDP (%)** | -5.6 | -1.9 | -5.0 | -5.0 |

**Financial Indicators Forecasts**

| | Sep. 4th | 1M | 3M | 6M | 12M | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| **US$/TRY** | 1.5005 | 1.5000 | 1.5000 | 1.5600 | 1.5800 | 1.5000 | 1.5800 |
| **EUR/TRY** | 2.1459 | 2.1000 | 2.1000 | 2.1500 | 2.0500 | 2.1000 | 2.0500 |
| **FX Basket** | 3.6464 | 3.6000 | 3.6000 | 3.7100 | 3.6300 | 3.6000 | 3.6300 |
| **EUR/US$** | 1.4301 | 1.4000 | 1.4000 | 1.3800 | 1.3000 | 1.4000 | 1.3000 |
| **O/N** | 7.75% | 7.25% | 7.00% | 7.00% | 8.50% | 7.00% | 10.00% |
| **Benchmark Bond** | 9.40% | 9.50% | 10.50% | 11.50% | 12.00% | 10.50% | 12.50% |

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