



## Macro Scope

21 December 2009 – 3 January 2010

# Weekly Economic and Strategic Review

Haluk Burumcekci (Managing Director)  
Tel: +212 318 34 49  
Email: haluk.burumcekci@fortis.com.tr

H. Erkin Isik, CFA (Manager)  
Tel: +212 318 34 05  
Email: erkin.isik@fortis.com.tr

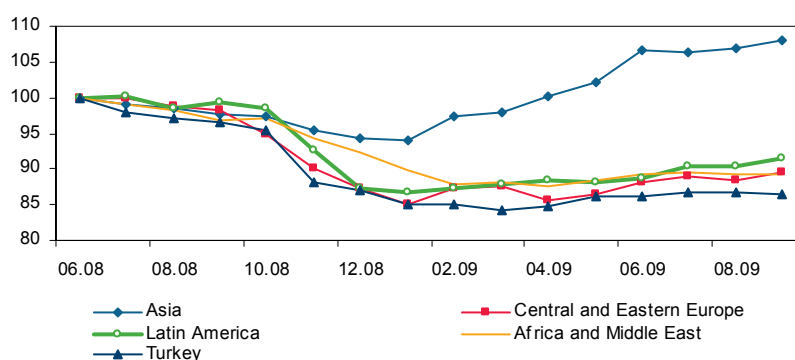
Nilufer Sezgin (Assistant Manager)  
Tel: +212 318 37 90  
Email: nilufer.s@fortis.com.tr

Email: research@fortis.com.tr  
Tel: +212 272 79 98  
Fax: +212 275 44 05

## New Year Special: Economy and Markets

We believe that in this last weekly report of the year 2009, it would be of value to see the year behind in numbers and to look at what the new year is set to bring about. Due to the backward-looking nature of most of the macroeconomic data, it is no surprise that **the year 2009 was very fruitful for the markets, while it was a bad year in terms of the economy. Therefore, a possible reversal of that picture next year seems to be the major risk.** The economic growth is set to be quite strong in 2010. However, in order for the forward-looking markets to enjoy another very good year, they would need signs that eliminate worries and improve the expectations regarding the year 2011. Maintaining favorable expectations would be challenged further in an environment where the EU anchor has weakened, IMF program has been dropped from the base scenarios, political risks or uncertainties have mounted and general election is set to be held in 2011 under normal circumstances. While in the future, the year 2009 would be remembered to have erased the extreme scenarios such as depression or deflation, **2010 is candidate to be a year where recovery continues, fears as to a double-dip fade and growth differentials between countries become more apparent, resulting in weaker global coordination.** In essence the recent developments, such as the debt problems of Dubai, Greece and Austria, suggest that we are at a new phase in the exit from recession. These themes strengthen the impression that extensive monetary and fiscal expansionary policies are at their limits and they urge the initiation of exit strategies from these policies. Decoupling seems also likely at this point. **Those countries who can suppress the worries about debt sustainability would be able to keep their fiscal stimulus alive until seeing more concrete signs of recovery or they may even introduce new measures. On the other side of the spectrum would be the countries which would have to risk impairing the economic recovery.**

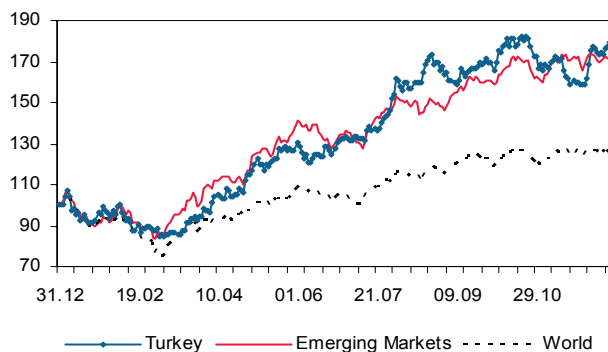
Industrial Output Indices In Emerging Countries (June 2008 (the beginning of the crisis) = 100)



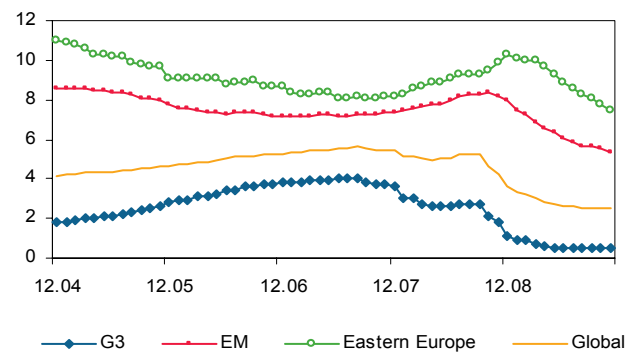
Source: Netherlands Bureau for Economic Policy Analysis

Glancing at the evolution of the recovery in 2009, the U.S. economy where the crisis had first appeared, was believed to exit the recession quite late and hence the Fed was foreseen to keep the zero rate policy for a long time. Therefore, the US\$ took the biggest hit from the revival in the risk appetite, sending commodity prices, especially gold prices, higher. This period was also marked with simultaneous increase in stock markets and bonds. On the other hand, more recent data for leading indicators show that the recovery either paused or lost steam in Europe and Japan, unlike the U.S. and the emerging economies, for which the growth forecasts are being upgraded over the recent term. We do not know whether this is going to be permanent, yet the markets started to price this outlook, as evidenced by the slide in EUR/US\$. Only a short time ago, the EUR/US\$ was speculated to ascend towards 1.60 by the year-end. However, upsetting those bets, it is now testing 1.43 only days left to finish the year. **Note that the EUR/US\$ market has the biggest transaction volume in the world and it is a leading indicator for the perceptions regarding the economic outlook.** The commodities, such as gold and oil, has been hit since the downtrend started in EUR/US\$ in the beginning of December. In that period, the U.S. Treasury yields rose. Meanwhile, the stock markets in developed and developing universe extended gains, reaching the highest levels in the post-crisis periods. On one hand, this shows that the main market themes in 2009 have not been reversed yet and on the other hand it suggests that the market players' expectations are also influenced by the difference between the average life of the bear and bull markets (2 year and 5 year, respectively). **In that context, we expect the markets to be more volatile in 2010, unlike the stable one-way direction of 2009. However, this would not change the underlying uptrend. Note that especially Fed's ability in managing the exit strategy without causing abrupt and rapid increase in interest rates would be critical for the severity of volatility.**

MSCI Stock Market Indices (31.12.2008=100)



Central Bank Policy Rates (%)



Source: CBRT, Fortis Economic Research and Strategy

We explained the main themes in the domestic markets in our monthly *Glocal Strategy* report released within the week. Let us reiterate these themes below.

**1) Upward tendency in the yields:** The O/N rates would start increasing towards normal levels in the year of 2010, most likely from 4Q10 onwards. We expect 150 bps interest rate hike in 2010. We presume that there would be further 200 bps rate hike in 2011, with the O/N rate stabilizing at around 10% at the end of the tightening period. Even if the O/N rate hikes are introduced in 4Q10, the long term yields may start increasing earlier. We expect the benchmark bond yield to ascend gradually and complete the year of 2010 at a level of 11.0%, after surfacing in the range of 9.5% - 10.0% in 1Q10.

**2) Flat F/X rates:** On the F/X front, the interest rate differentials may appear more important, going forward. The countries which exit from the recession earlier either started raising rates or they are anticipated to start tightening earlier. Therefore, these countries' currencies would normally depict better performances. Meanwhile, in parallel to the exit from the crisis and normalization trend in the financial markets, the risk appetite is set to revive gradually,

prompting appreciation tendency in the emerging market currencies. We expect a slightly weaker performance in the Turkish economy. Therefore, interest rate hikes are set to come later and accordingly TRY would continue underperforming the peers. Yet, combined with the global risk appetite, this may lead to a flat pattern, rather than visible surge in F/X rates.

**3) Bourses are volatile but the direction is upward:** For the stock market performance, the pace of economic recovery will be important. In tandem with the signals which suggested that the worst point of the crisis is over in 1H09, the equity markets had priced that the economy would normalize in the upcoming period. However, in order to secure the continuation of the uptrend there must be strong signals which suggest the production and consumption will improve towards their pre-crisis levels. The data regarding manufacturing industry and labor market still point to weak outlook. This is in line with our baseline scenario which assumes a U-type recovery with an extended bottom. In line with this scenario, the recovery signs should be expected to become more apparent in 1H10. Accordingly, although we can not say that the outlook is much promising in terms of the stock markets in the short term, the uptrend may continue in the medium-long term.

In conclusion, we think that 2010 is candidate to be a year where recovery continues, fears as to a double-dip fade and differentials in growth rates become more apparent among countries, resulting in weaker global coordination. Meanwhile, “weak economy – strong markets” theme may be reversed going forward and in our opinion, this is the most important risk for 2010. We expect the markets to be more volatile in 2010, unlike the stable one-way direction of 2009. However, this would not change the underlying uptrend. Note that especially Fed’s ability in managing the exit strategy without causing abrupt and rapid increase in interest rates would be critical for the severity of volatility. Coming to home, while we foresee the yields increasing and F/X rates remaining flat, the bourses would be volatile, with the underlying trend being upward.

## Economic and Political Agenda

▪ Next week will be quiet in terms of local data agenda. However, the last week of the year will be loaded with some key disclosures, such as the Real Sector Confidence Index, foreign trade and Treasury's borrowing program for 1Q. Glancing at the foreign agenda, the 3Q GDP, housing data and durable goods orders appear to be the major releases in the U.S. in the week of December 21<sup>st</sup>. Meanwhile, foreign markets are getting ready for the Christmas holiday. Many will be closed on December 25<sup>th</sup> and January 1<sup>st</sup>.

### Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	CB's Expectation Survey, Dec. II	-	Dec. 22 <sup>nd</sup>	-
High	Real Sec. Confid. Index, Dec.	-	Dec. 29 <sup>th</sup> , 15:00 GMT	-
High	Imports & Exports, Nov.	US\$ mn	Dec. 30 <sup>th</sup> , 15:00 GMT	-
Medium	Treasury's Borrow. Prog., Jan.-Mar.	-	Dec. 31 <sup>st</sup>	-
Medium	ICC Price Index, Dec.	% m/m	Jan. 1 <sup>st</sup> , 10:00 GMT	-
Medium	TEA's Preliminary Exports, Dec.	US\$ mn	Jan. 2 <sup>nd</sup>	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	U.S.	GDP (final), 3Q	% q/q	Dec. 22 <sup>nd</sup> , 13:30 GMT	2.7
High	U.S.	Existing Home Sales, Nov.	mn	Dec. 22 <sup>nd</sup> , 15:00 GMT	6.3
High	U.S.	Core PCE, Nov.	% m/m	Dec. 23 <sup>rd</sup> , 13:30 GMT	0.1
Medium	U.S.	Michigan Sent. Ind., Dec.	-	Dec. 23 <sup>rd</sup> , 14:55 GMT	74.0
High	U.S.	New Home Sales, Nov.	mn	Dec. 23 <sup>rd</sup> , 15:00 GMT	0.44
High	U.S.	Durable Orders, Nov.	% m/m	Dec. 24 <sup>th</sup> , 13:30 GMT	0.3
Medium	U.S.	Case Shiller House Price Ind., Oct.	% y/y	Dec. 29 <sup>th</sup> , 14:00 GMT	-
Medium	U.S.	Consumer Confidence Index, Dec.	-	Dec. 29 <sup>th</sup> , 15:00 GMT	-

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	976.6	1,087.2	1,190.2
GDP (US\$ - bn)	734.9	630.0	701.4	723.9
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	5.9	6.5	5.5
Trade Balance (US\$ - bn)	-69.8	-38.2	-64.8	-65.6
Exports (FOB, excl. luggage trade)	132.0	100.4	127.0	122.9
Imports (CIF, incl. gold)	201.7	138.6	191.8	188.5
Current Account Balance (US\$ - bn)	-41.8	-14.4	-35.7	-34.5
Current Account Balance / GDP (%)	-5.7	-2.3	-5.1	-4.7

### Financial Indicators Forecasts

	Dec. 18 <sup>th</sup>	1M	3M	6M	12M	2009	2010
US\$/TRY	1.5099	1.5200	1.5400	1.5700	1.5600	1.5200	1.5600
EUR/TRY	2.1702	2.1890	2.2300	2.2600	2.2460	2.1890	2.2500
FX Basket	3.6801	3.7090	3.7700	3.8300	3.8060	3.7090	3.8100
EUR/US\$	1.4373	1.4400	1.4500	1.4400	1.4400	1.4400	1.4400
O/N	6.50%	6.50%	6.50%	6.50%	8.00%	6.50%	8.00%
Benchmark Bond	9.30%	9.40%	9.70%	10.10%	11.00%	9.20%	11.00%

Fortis Bank SA/NV Montagne du Parc 3 B-1000 Brussels Belgium Tel: +32 2 565 11 11	Fortis Bank Austria Euro Plaza/D Wienerbergstrasse 41 1120 Vienna Austria Tel: +43 1 81 10 43 81 85	Fortis Bank Czech Republic Myslbek Building Ovocny Trh 8 117 19 Prague 1 Czech Republic Tel: +420 225 43 60 10	Fortis Bank Denmark Gothersgade 49 3. 1123 Copenhagen Denmark Tel: +45 32 71 19 09
Fortis Bank, Succursale en France 30, quai de Dion Bouton F-92824 Puteaux Cedex France Tel: +33 1 55 67 72 00	Fortis Bank Germany Cäcilienkloster 8 50676 Cologne Germany Tel: +49 221 1611-0	Fortis Bank Greece Sygrou Ave 166 17671 Athens Greece Tel: +30 21 09 54 43 70	Fortis Bank Hong Kong 27/F, Fortis Bank Tower 77-79 Gloucester Road Hong Kong Tel: +852 28 23 04 56
Fortis Bank Hungary Deak Ferenc 15 1052 Budapest Hungary Tel: +36 14 83 81 09	Fortis Bank Italy Via Comaggia 10 I-20123 Milano Italy Tel: +39 02 57 53 24 61	BGL 50, avenue J.F. Kennedy L-2951 Luxembourg Luxembourg Tel: +352 42 421	Fortis Bank Norway Haakon VII's gate 10 0161 Oslo Norway Tel: +47 23 11 49 50
Fortis Bank Polska S.A. P.O. Box 15 02-676 Warszawa Poland Tel: +48 22 566 90 00	Fortis Bank Portugal Rua Alexandre Herculano 50-6 Andar 1250-011 Lisboa Portugal Tel: +351 213 13 93 16	Fortis Bank SA/NV, Singapore Branch 63 Market Street #21-01 Singapore 048942 Tel: +65 65 38 03 90	Fortis Bank S.A., Sucursal en España Serrano 73 28006 Madrid Spain Tel: +34 91 436 56 00
Fortis Bank Romania Tipografilor 11-15 013714 Bucharest Romania Tel: +40 21 401 17 02	Fortis Bank Sweden Birger Jarlgatan 25 10396 Stockholm Sweden Tel: +46 8 505 375 59	Fortis Bank Switzerland Rennweg 57 8021 Zurich Switzerland Tel: +41 58 322 09 70	Fortis Bank Turkey Yildiz Posta Caddesi No: 54 Gayrettepe 34353 Istanbul Turkey Tel: +90 212 274 42 80
Fortis Bank SA/NV, UK Branch 5 Aldermanbury Square EC2V 7HR London United Kingdom Tel: +44 20 32 96 80 00	Fortis Bank USA 520 Madison Avenue, 3rd Floor New York, NY 10022 United States Tel: +1 212 418 87 00		

Each research analyst primarily responsible for the content of this research report certifies that with respect to each security or issuer that the analyst covered in this report: 1) all of the expressed views accurately reflect his or her personal views about those securities or issuers, and 2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views contained in this report.

#### Production of the document

Fortis Bank SA/NV, with registered office at Montagne du Parc 3, 1000 Brussels, Belgium ("Fortis"), is responsible for the production and the dissemination of this document, which has been prepared by the individual(s) working for Fortis or any of its affiliates and whose respective identity is disclosed in this document (the "persons involved") (together the "producers of the document"). This document can be distributed (i) by an affiliate of Fortis Bank SA/NV that is not registered as a U.S. broker-dealer to major U.S. institutional investors only and (ii) by Fortis Securities LLC, a U.S. registered broker-dealer, to all U.S. persons.

#### No public offer or financial promotion

This document does not constitute an offer or solicitation for the sale, purchase or subscription of any financial instrument in any jurisdiction. It is not directed to, or intended for distribution to, any person or entity who is a citizen or resident of or incorporated or located in any jurisdiction where such distribution would be contrary to local law or regulation and/or where Fortis would infringe any registration or licensing requirement within such jurisdiction. This document has been provided to you for your personal use only and should not be communicated to any other person without the prior written consent of Fortis. Should you have received this document by mistake, please delete or destroy it, and notify the sender immediately.

#### Sources and disclosure

Fortis believes that the information and/or the interpretations, estimates and/or opinions regarding the financial instrument(s) and/or issuer(s) to which this document relates (respectively, the "financial instrument(s) concerned" and/or the "issuer(s) concerned") are based on reliable sources. Fortis makes no representations as to the accuracy or completeness of those sources and, in any case, the recipients of this document should not exclusively rely on it before making an investment decision. The interpretations, estimates and/or opinions reflect the judgement of Fortis on the date of this document and are subject to changes without notice. This document has not been disclosed to the issuer(s) concerned prior to its dissemination by Fortis.

#### No investment advice

The information contained herein does not constitute investment advice nor any other advice of whatever nature (including advice on the tax consequences that might result from making any particular investment decision). Investments in the financial instrument(s) to which this document relates may involve significant risks, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any financial instrument(s) concerned may fluctuate and/or be affected by external factors such as exchange rates fluctuations. Past performance is not indicative of future results. This document is intended for general circulation and does not take into account the recipient's particular financial knowledge and experience, investment objectives and financial situation or needs, and is not intended as a personal recommendation to invest in the financial instrument(s) concerned. Before making an investment decision on the basis of this document, an investor should consider whether such investment is suitable in light of, amongst others, its particular financial knowledge and experience, investment objectives and financial situation and, if necessary, should seek appropriate professional advice. Neither Fortis nor any of its group companies (including any subsidiary, affiliate or holding company), directors, officers and employees shall in any way be liable or responsible (whether directly or indirectly) for any costs, claims, damages, liabilities and other expenses, including any consequential loss, arising from any use of this document, except in the event of wilful misconduct or gross negligence on their part.

#### Supervision

Fortis Bank SA/NV is authorised by and subject to the supervision of the "Commissie Bancaire, Financiële et des Assurances/Commissie voor het Bank-, Financien- en Assurantiewezen" (the "CBFA") in Belgium and each of its affiliates is regulated by the supervisory authority of the country in which it carries out its activities.

#### Copyright

This document contains information, text, images, logos, and/or other material that is protected by copyrights, database rights, trademarks, or other proprietary rights. It may not be reproduced, distributed, published or used in any way by any person for any purpose without the prior written consent of Fortis or in the case of third party materials, the owner of that content.

To check the occurrence of possible (conflicts of) interests please visit our website through the link:  
<http://www.fortisbusiness.com/fbweb/service/disclosures/companies.jsp>