

FORTIS BANK

Macro Scope

29 June – 5 July 2009

Weekly Economic and Strategic Review

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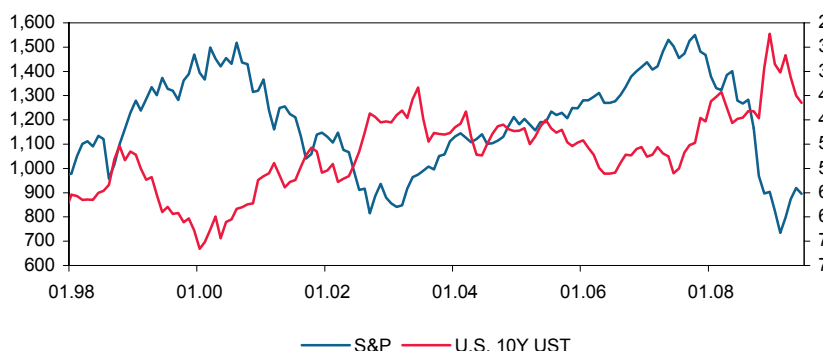
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Can't Escape The Fate...

Let us remind how we had interpreted the key unknown in the economy at the beginning of this year, which we had expected to be a year where the damages in the crisis-stricken economy would start being fixed. We had underscored that the strength of economic recovery would be a more important issue than the question of whether the trough of the economic cycle would be reached. After all, a U-type recovery, which is described by a slow recovery and a V-type recovery, which suggests a fast economic improvement, would have very different implications for the sectors and the markets. The global recession, which had the inflated house prices and rapid credit extension at its roots, would unlikely be followed with a fast rebound. Therefore, we built our baseline scenario on a U-type recovery. Our readers would recall that, when the leading indicators started to post fast improvements, we insistently emphasized that it was a normal process and it should not be overstated. Moreover, we warned that interpolating the pace of this recovery to the rest of the cycle would be very misleading. All in all, we argued that the outlook was consistent with merely a gradual recovery. **Once it has become clearer that the worst is behind especially from March onwards, markets enjoyed a 3-month lasting euphoria. However, in the very recent period, the strength of this euphoria started to loose steam and the fresh data on economic activity started to disappoint the markets, albeit slightly.** This outlook, in turn, suggests that **the expectations regarding the economy have improved even beyond the actual data.** The leading indicators also affirm this discrepancy. **This disharmony, which reversed the 3-month stock market rally and even caused a slight correction in June, would likely be eliminated with the expectations being downgraded and aligned with the real picture.** Such an adjustment would be healthy and prevent further losses in the stock markets. While this rebalancing act brought weakness in the stock markets for now, the surge in the long term U.S. Treasuries decelerated, with 10-year Treasury yield being pulled down from 4%. However, none of these developments changed the fact that we are still in a transition period.

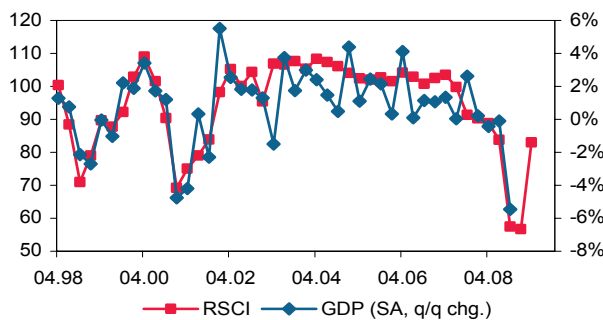
U.S. Stocks and Long Term Bond Yields (S&P and 10-Year U.S. Treasury)



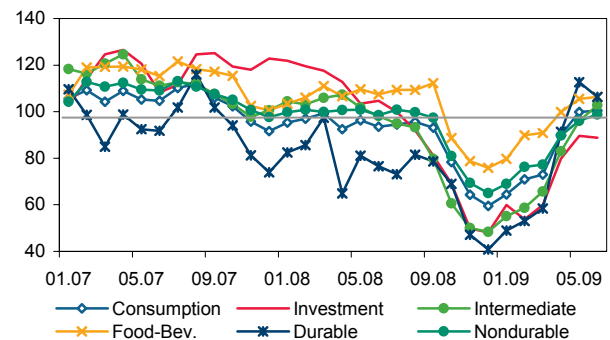
Source: Reuters, Fortis Economic Research and Strategy

As we mentioned in our weekly report released two weeks ago, we are in the beginning of a phase where economic recovery turns into expansion. As this tendency in the economy becomes more visible, the erratic movements in the stock and bond markets will likely to stabilize in an unfavorable manner for the bond market. **The increase in the bond yields seems unavoidable and it is feared to impede on the economic recovery. Therefore, officials are trying to postpone and limit this surge as much as possible.** The latest example of such intention was the ECB's liquidity injection. ECB poured EUR442.0bn funding into the market at a fixed 1% interest rate, while this was Bank's first money market operation with a one year term. Accordingly, the 3-month euribor hit its new record low level. **However, we have doubts that the rise in bond yields can be postponed for a long time in such an environment. After all, it is started to be talked more frequently that the developed markets should form exit strategies from the quantitative monetary easing policy, which is the latest of their efforts in the monetary expansion process.** Fed is expected to be the first to give the sign for such a change. In that context, the FOMC meeting on June 24th seemed to be important. While Fed left the target range for the interest rates at 0-0.25% in this meeting, there was a modest improvement in the Bank's statements about the economic outlook. The Bank, which stated that the pace of economic contraction is slowing, put less emphasis on the downside risks to inflation. Fed did not bring any change about the bond purchase program and the likely pace of interest rates, which were the key concerns in the market. Fed, emphasized once more that the interest rates would remain low for an extended period of time. **In brief, there was no big change vs. the FOMC meeting held two months ago. Yet, the market now thinks that the Fed sees less downside risks on growth and inflation. Nevertheless, the Fed fund futures continue pricing no change in the policy rate until 1Q next year, as the FOMC meeting did not mention about the exit strategy from the quantitative easing. We reckon from the futures market that the interest rate will be increased approximately by 150 bps until end-2010.**

GDP (*) and Real Sector Confidence Index (**)



Real Sector Confidence by Broad Economic Categories



(*) Seasonal adjusted q/q change (**) Unweighted Real Sector Confidence Index
Source: CBRT, TURKSTAT, Fortis Economic Research and Strategy.

On the other hand, there are some developments which would help to eliminate the discord between the expectations and realizations (mentioned above). The first countries to release the June PMIs, which are the very first signals for June performance of the economic activity, were Eurozone and Turkey. While Eurozone manufacturing flash PMI came in line with the expectations, services flash PMI remained below the forecasts. Manufacturing index rose to 42.4 from 40.7 while services index declined to 44.5 from the preceding 44.8. **Coming to Turkey, the Real Sector Confidence Index (RSCI) rose by a mere 2.5 points in June after a total 29 points increase posted in the last two months. Moreover, the uptrend seen in exports orders and output volume for the next 3-month (the sub-components of RSCI) from December onwards cut some pace in June.** Separately, based on classification by broad economic categories, **there was visible slowdown in all sectors, excluding the**

intermediate goods. Moreover, the sectors of investment and durable consumption goods posted some declines.

We think that this outlook is in line with our baseline scenario which assumes the economy will start to expand in the last quarter of 2009. Once 1Q GDP is announced on Tuesday, we will be talking much about the growth outlook. If 1Q GDP indicates a 12% contraction in line with the consensus, this would be consistent with our 5% decline estimate for the whole 2009. However, more important than the current year, the key risk would be on 2010 growth outlook if a comprehensive program is delayed further.

In conclusion, while the power of recovery would be under more scrutiny in this period, we think that the gradual recovery scenario is still more likely. In this context, we anticipate the expectations to become more aligned with the realizations, preventing further losses in the stock markets. It is important to keep the recovery on course, even if it is a gradual one. Therefore, the central banks are trying to prevent the upward pressure on the bond yields linked to their budget outlooks or at least to delay it as much as possible by launching new liquidity measures.

Economic and Political Agenda

- This week, domestic agenda is full with some critical data disclosures such as 1Q GDP and inflation. Separately, the Treasury will unveil July borrowing program on Tuesday. Glancing at external arena, U.S. and Eurozone PMIs will be important. Additionally, U.S. non-farm payrolls and ADP Employment Report will be at the market focus. The U.S. markets will be closed on Friday.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	GDP, 1Q	% y/y	June 30 th , 7:00 GMT	-12.8 (-12.0)
High	Imports & Exports, May	US\$ bn	June 30 th , 14:00 GMT	11.0 & 7.5 (10.8 & 7.6)
Medium	CBNC-e Cons. Confid. Index, June	-	July 1 st , 6:00 GMT	-
Medium	TEA's Preliminary Exports, June	US\$ mn	July 1 st	8,000
High	ICC Price Index, June	% m/m	July 1 st , 9:00 GMT	0.1
High	PPI & CPI, June	%m/m	July 3 rd , 14:00 GMT	- 0.2 & 0.0 (0.35 & 0.09)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	C. Shiller House Price Ind., Apr.	% m/m	June 30 th , 13:00 GMT	-18.5
Medium	U.S.	Consumer Confid. Index, June	-	June 30 th , 14:00 GMT	57.0
High	Eurozone	Manufacturing PMI, June	-	July 1 st , 7:58 GMT	42.4
Medium	U.S.	ADP Employment Rep., June	K	July 1 st , 12:15 GMT	-411
High	U.S.	Manufacturing ISM, May	-	July 1 st , 14:00 GMT	44.0
Medium	U.S.	Pending Home Sales, May	% m/m	July 1 st , 14:00 GMT	2.4
High	Eurozone	ECB Rate Decision	bps	July 2 nd , 11:45 GMT	no change
High	U.S.	Non-farm Payrolls, June	K	July 2 nd , 12:30 GMT	-368
High	U.S.	Unemployment Rate, June	%	July 2 nd , 12:30 GMT	9.6
High	Eurozone	Services PMI, June	-	July 3 rd , 7:58 GMT	44.5

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	936.6	1,028.0	1,136.2
GDP (US\$ - bn)	734.9	592.8	637.1	688.9
GDP Growth (y/y % chg)	1.1	-5.0	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	-40.2	-63.8	-69.7
Exports (FOB, excl. luggage trade)	132.0	98.2	98.7	106.4
Imports (CIF, incl. gold)	201.7	138.4	162.5	176.0
Current Account Balance (US\$ - bn)	-41.6	-13.8	-34.7	-37.6
Current Account Balance / GDP (%)	-5.7	-2.3	-5.4	-5.5

Financial Indicators Forecasts

	June 26 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.5566	1.5500	1.5500	1.5500	1.6400	1.5500	1.6300
EUR/TRY	2.1713	2.1400	2.0900	2.0200	2.1700	2.0200	2.1200
FX Basket	3.7279	3.6900	3.6400	3.5700	3.8100	3.5700	3.7500
EUR/US\$	1.3949	1.3800	1.3500	1.3000	1.3200	1.3000	1.3000
O/N	8.75%	8.50%	8.50%	8.50%	11.50%	8.50%	12.50%
Benchmark Bond	12.20%	12.50%	13.00%	13.50%	15.00%	13.50%	14.00%

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