

# FORTIS BANK

## Macro Scope

6 – 12 July 2009

## Weekly Economic and Strategic Review

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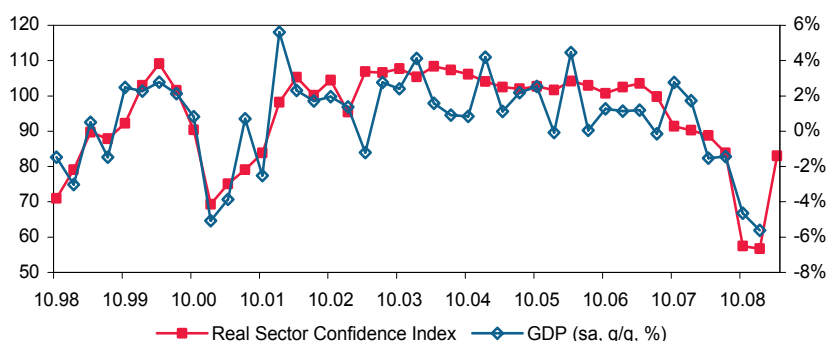
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### Too Late To Confess, Too Early To Celebrate...

The data disclosures over the last week once again spurred paradoxical thoughts: **Should we become more pessimistic given the dismal outlook of the backward looking data, or on the contrary, should we celebrate the fact that the leading indicators such as the consumer confidence and Turkish PMIs reached the highest levels since February and September 2006 accordingly?...** The 13.8% contraction in Turkish GDP in 1Q was the deepest among the OECD countries and this abysmal picture urged downward revisions in 2009 GDP forecasts. Moreover, exports continued diminishing more than 30% y/y as of June. So, under this challenging environment, does it make sense to advocate that Turkey would be one of fast runners in economic recovery, just by seeing that the revival in domestic demand is brought forward thanks to tax cuts?... **We believe it would more appropriate not to make such categorizations. Pessimism and optimism should not be seen as camps to be signed in. Instead, we should let the economic prospects be shaped by fresh data and the steps taken by the economy officials.** After this brief note as to how we cope with the conflicting signs, let us remind our downward revision in 2009 GDP forecast. We now anticipate the economy contracting by 5.5% (previous was 5%) after GDP shrank by even sharper than our below-consensus forecast. However, this did not change the outlook we had depicted in February. While the consensus had been pointing to slight contraction back then, we were the first to introduce a remarkable revision (from -1% to -5.0) to GDP estimate. This striking change in our forecast was circulated in the daily *Hurriyet* as "shocking revision." Coming today, the revisions by other financial houses would not be that shocking any more, considering that even the government is about to pull down their estimate to somewhere near our forecast. Let us repeat once more: we believe that 1Q was the trough of the economic cycle and industrial output data suggests that the recovery started in April. Accordingly, we expect the seasonally adjusted GDP to enjoy some recovery in 2Q and 3Q, followed by a flat pattern there on. On the other hand, GDP will unlikely resume growing in annual terms before 4Q, where the weak base year effect would kick in.

Real Sector Confidence Index and GDP

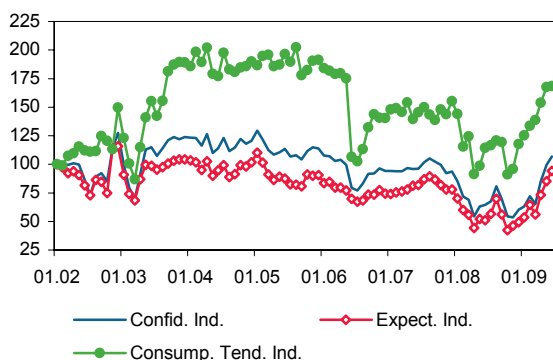


Source: Reuters, Fortis Economic Research and Strategy

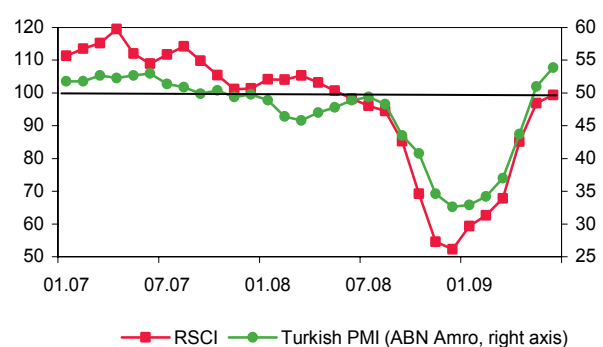
At this point, there is another question we want to ask, but will be unable to answer: **Would the dismal growth performance push the government a step closer to signing the IMF deal, or on the contrary would the government be more encouraged for not making the deal given the positive signals in leading indicators regarding the Turkish economy, as well as the global economy?...** We would be pleased to see the government making their choice clear as soon as possible in order to end the uncertainty. The Medium Term Plan expected in July may give further hints about the government's choice.

The marked improvement in the consumer confidence and the real sector confidence is a very positive development. The sudden steep drop in consumer spending in 4Q08 was the key driver behind the deepening recession. Producers were caught unexpectedly with hefty stock piles, as the external demand started to shrink sharply in that period. The 4Q08 and 1Q09 GDP figures underscored the real sector's efforts to adjust their inventories and the inventory melt-down alone gave a significant damage to the GDP. The domestic sales started to recover thereafter. We believe that producers will likely start adding to inventories again and hence this would start making positive contributions to growth. Even though the leading indicators are also affirming such a recovery, they fail to provide much hint regarding its strength. The Real Sector Confidence Index came in at a strong 99.4 in June - close to the critical 100 threshold that separates the expansion and contraction periods in the economy – and the ABN Amro Turkish PMI rose to 53.9, surfacing above 50 threshold value as a second month in a row. **Those strong performances are very encouraging. However, unless exports improve (there was 33% annual contraction in June), the underlying trend of the industrial production would be consistent with the pattern we had depicted for 2009 (Macro Scope, April 13<sup>th</sup>).** However, we are not sure whether this picture is line with the "robust recovery" term used by the Central Bank. The Bank had stated that they will consider a deceleration in the pace of rate cuts or a pause should the indications of an improvement in economic activity point to a robust recovery. If this robustness is to mean that the recovery should be permanent, we would be unable to become sure on that until the tax cuts are terminated in September.

Consumer Confidence (CNBC-e)



Real Sector Confidence Index and Markit Turkish PMI (\*)



Source: CNBC-e, Reuters, Fortis Economic Research and Strategy.

**Meanwhile, the strength of the revival in economic activity following the initial recovery, especially from 4Q09 onwards, is another key concern.** The actual growth performance after the end of recession will be the main determinant of 2010 and post-2010 GDP forecasts. The launch of an economic program, with or without an IMF deal will be of critical importance for sustaining the long term confidence. **The weak base year may result in technically elevated annual growth figures for 2010. Yet, the underlining growth pattern will depend on the introduction of an economic framework that would rekindle the private sector investments and spending.**

All in all, since we have long been on our ways in a tunnel of fear, looking backwards we see the disappointing picture, while we are inspired by the forward looking indicators. Bearing in mind that optimism or pessimism would not be

permanent in economic cycles, we continue closely monitoring new data and decisions. In that context, we do not expect that the downward revisions in Turkish GDP forecasts to be shocking. However, if the strength of GDP expansion in 4Q and its repercussions for 2010 fall short of expectations, that would be a major hit.

## Economic and Political Agenda

- This week, at home, we will watch the strength of economic recovery in May through the industrial production due Wednesday. On the last day of the week, the capacity use will give the first signals regarding June output performance. Separately, the important data disclosures both for the fiscal and foreign balance will be on the agenda this week. Coming to the external arena, the U.S. services ISM and consumer confidence seem to be important.

### Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Industrial Output, May	% y/y	July 8 <sup>th</sup> , 7:00 GMT	-15.7 (15.7)
Medium	Cash Based Primary Bal., June	TRY bn	July 8 <sup>th</sup>	-1.6
Medium	CB's Expectation Survey, July I	-	July 9 <sup>th</sup>	-
Medium	CNBC-e Consumption Index, June	-	July 10 <sup>th</sup> , 7:00GMT	-
High	Capacity Use, June	%	July 10 <sup>th</sup> , 7:00GMT	-
High	C/A deficit, May	US\$ mn	July 10 <sup>th</sup> , 14:00 GMT	-1,600

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	U.S.	Non-manufacturing ISM, June	-	July 6 <sup>th</sup> , 14:00 GMT	45.6
Weak	Eurozone	GDP (final), 1Q	% q/q	July 8 <sup>th</sup> , 9:00 GMT	-2.5
Medium	U.K.	BoE Rate Decision	bps	July 9 <sup>th</sup> , 11:00 GMT	no change
Weak	U.S.	Export & Import Prices, June	%	July 10 <sup>th</sup> , 12:30 GMT	0.4 & 1.6
Medium	U.S.	Foreign Trade Balance, May	US\$bn	July 10 <sup>th</sup> , 12:30 GMT	-30.0
Medium	U.S.	Michigan Sentiment Ind., July	-	July 10 <sup>th</sup> , 13:55 GMT	71.0

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	932.0	1,023.1	1,131.1
GDP (US\$ - bn)	734.9	589.9	635.5	686.7
GDP Growth (y/y % chg)	1.1	-5.5	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	-38.9	-62.3	-68.0
Exports (FOB, excl. luggage trade)	132.0	98.2	98.7	106.4
Imports (CIF, incl. gold)	201.7	137.2	161.0	174.4
Current Account Balance (US\$ - bn)	-41.5	-12.6	-33.3	-36.0
Current Account Balance / GDP (%)	-5.7	-2.1	-5.2	-5.2

### Financial Indicators Forecasts

	July 3 <sup>rd</sup>	1M	3M	6M	12M	2009	2010
US\$/TRY	1.5206	1.5500	1.5500	1.5500	1.6400	1.5500	1.6300
EUR/TRY	2.1416	2.1400	2.0900	2.0200	2.1700	2.0200	2.1200
FX Basket	3.6622	3.6900	3.6400	3.5700	3.8100	3.5700	3.7500
EUR/US\$	1.4084	1.3800	1.3500	1.3000	1.3200	1.3000	1.3000
O/N	8.75%	8.25%	8.00%	8.00%	9.50%	8.00%	11.00%
Benchmark Bond	11.70%	11.00%	11.00%	12.00%	12.50%	12.00%	14.00%

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