

FORTIS BANK

Macro Scope

7 – 13 December 2009

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

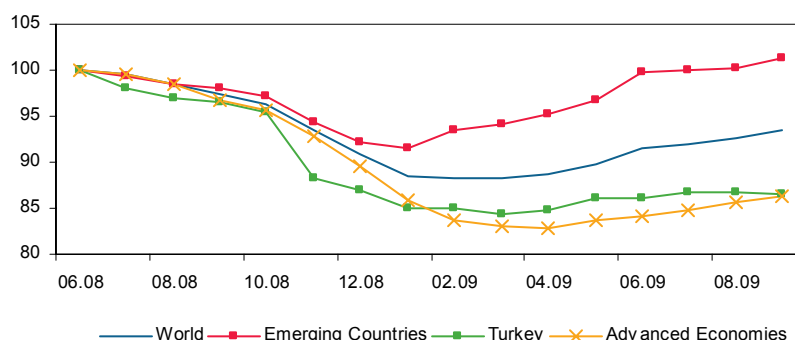
Nilufer Sezgin (Assistant Manager)
Tel: +212 318 37 90
Email: nilufer.s@fortis.com.tr

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

Exception That Proves The Rule...

Only a short time ago, Turkish economy was speculated to recover most quickly from the recession. In essence, the leading indicators such as PMIs had also backed this argument by increasing very fast in the first months of the recovery phase, with many analysts and financial houses both at home and abroad voicing this presumption. Now it has been seven months since the economy hit the rock bottom. However, neither the survey-based leading indicators do shine any more, nor the industrial output displayed the anticipated rebound so far. The most recent outlook of the comparison between industrial output performance among countries and country groups is available in the graph below. Unfortunately, **Turkey appears to be one of the countries that have suffered the severest decline in output and yet the pace of recovery also lags behind many countries.** We had the chance to revisit the outlook of leading indicators when the November PMI was released in the week behind. **Turkish PMI, which continued to fall fourth time in a row to 51.8 from 52.8, is now below the global index, as well as many developed and developing nations.** This was the lowest value since May. **This is a notable deterioration considering that Turkey had ranked at the top of the list in summer.** The only bright side is that the index is still holding above the 50 threshold that separates the expansion and contraction periods of the economy. In the U.S., the PMI receded to 53.6 from 55.7, undershooting the consensus at 55.0. Nevertheless, this was the second highest reading since May 2006 and **the sub-indices suggested that the decline would not turn into a trend.** We will discuss about how we reached that conclusion in the following parts of this weekly report and we will also look at the implications of a similar analysis for Turkey. Returning to the previous topic, only 6 countries (Russia, Hungary, Greece, Ireland and Australia) are still left with PMIs below 50, while the average of the developing countries is higher than Turkey, thanks especially to Asia (China 55.7, India 53). All in all, the global PMI edged down to 53.6 in November, yet suggested ongoing expansion.

Composite Industrial Output Indices (*)

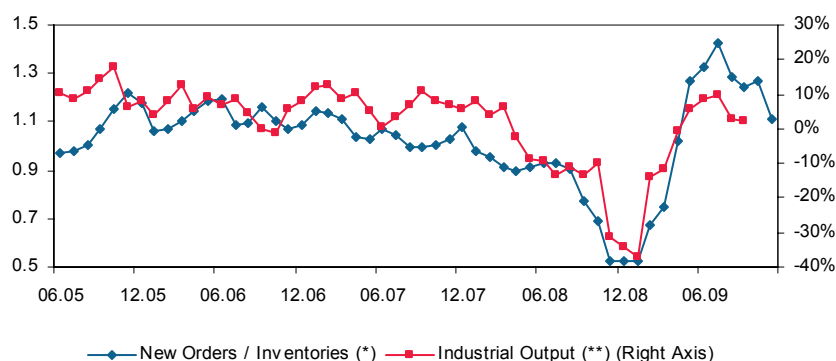


(*) June 2008 (The beginning of the crisis) = 100

Source: Netherlands Bureau for Economic Policy Analysis

The recent crisis showed once more that the headline PMI is a successful predictor of the industrial output. What is less popular is the leading power of the sub-indices of the headline PMI. The sub-indices, such as input prices, export orders and employment incorporate important information regarding the industry in general, while **the new orders to inventories ratio happens to give the most important hint regarding the future performance of output.** In essence, this ratio is a numerical tool that helps monitoring a production cycle. The inferences that are made for changes in production through inventory levels would be enhanced by the information as to the new orders. As is known, the decline (increase) in inventories pushes the inventory sub-index higher (lower) and the similar impact is felt of the headline PMI indirectly. Recessions mostly appear as a result of firms being unexpectedly caught by high inventories in an environment of suddenly plunging demand. Therefore, PMI inventory indices first fall sharply and then start ascending in parallel to inventory unwinding. In that respect, **in the late stages of the recovery period, the production should normally be boosted by both declining stocks and increasing orders. The ratio of the new orders to inventories would determine the strength of this boost.** This ratio is frequently used in other countries for PMI analyses and they are quite successful in predicting the output performance. We found out that a similar analysis for Turkish PMI, which is compiled by Markit, is pretty successful in forecasting the pace of industrial production. Similar to the headline PMI, this ratio advanced until July, tracked by the industrial production (annualized quarterly change in seasonally adjusted industrial output). After that point, they also moved in harmony during the period of rapid decline. The last data available for industrial output is September. Yet, **the new orders to inventory ratio suggests that after a mild rebound in October the production is likely to continue weaken in November and the rate of change in output may become negative.** Such a message from the leading indicators is quite disappointing considering that the automotive, white goods and steel production have just started to post annual increase and exports expanded in annual terms over the last two months. **The output recovery that started after the February bottom seems to have lost pace and more importantly, it seems to be heading into the new year at a slow momentum.**

New Orders / Inventories and Industrial Output



(*) The ratio of new orders and inventories sub-indices of the Markit Turkish PMI

(**) Annualized quarterly change of seasonally adjusted industrial output

Source: TURKSTAT, Fortis Economic Research and Strategy

In that respect, the data disclosures regarding economic activity in the week ahead are more important now. The October industrial production will be the first of these announcements. As we stated previously, the industrial output is likely to post the first annual increase after 14 months and we estimate 2.5% increase, compared to the consensus that points to 2.1% contraction. Nevertheless, since higher number of working days and weak base year are also influential on our forecast for a positive change, the seasonally adjusted data is likely to display a more limited advance. Recall that the output fell by 0.1% and 0.3% in August and September, respectively, so that the cumulative recovery remained even below 2.0%. **Accordingly, it should be noted that even our above-consensus**

estimate for October would be consistent with a slow and gradual recovery.

The 3Q GDP due December 10th will be the next critical data to follow this week. This data may be influential on 2009 and 2010 growth forecasts. The average forecasts were -5.6% and 3.2%, respectively in the last Expectations Survey of the Central Bank. Meanwhile, the polls indicate at 3.7% contraction in 3Q vs. our 3.5% decline estimate. If industrial output and GDP surprise on the upside, they have the potential to have favorable impact on 2009 and 2010 GDP forecasts, while the opposite would be true in case of bad surprises. The same day, the Central Bank will disclose the 2010 Monetary and Exchange Rate Policy for 2010 and the Treasury will unveil the Financing Program for 2010. Our special report on these topics will be published soon.

In conclusion, Turkey appears to be one of the countries that have suffered the severest decline in output and yet the pace of recovery also lags behind many countries. Therefore, it becomes harder to justify the thesis that Turkey would recover most quickly from the recession, posing a major risk of underperformance for Turkish markets. Those who turn less optimistic for 2009 this time may try to depict a strong growth outlook for 2010. However, the output recovery that started after the February bottom seems to have lost pace and more importantly, it seems to be heading into the new year at a slow momentum.

Economic and Political Agenda

▪ At home, the economic activity will be at the forefront this week, with industrial output, GDP and capacity use. On December 10th there will be a busy agenda. In addition to numerous data, the Treasury will unveil the Financing Program for 2010 and the Central Bank is likely to disclose the 2010 Monetary and Exchange Rate Policy for 2010. External agenda is relatively quiet. In the U.S, the retail sales and Michigan Sentiment appear as the most important items on the list.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Cash Based PS, Nov.	TRY bn	Dec. 8 th	-3.9
High	Industrial Output, Oct.	% y/y	Dec. 8 th , 8:00 GMT	2.5 (-2.1)
Medium	CB's Expectation Survey, Dec. I	-	Dec. 9 th	-
High	GDP, 3Q	% q/q	Dec. 10 th , 8:00 GMT	-3.5 (-3.7)
Medium	CNBC-e Consumption Index, Nov.	-	Dec. 10 th , 8:00 GMT	-
Medium	Capacity Use, Nov.	%	Dec. 10 th , 8:00 GMT	(71.4)
Medium	C/A deficit, Oct.	US\$ mn	Dec. 10 th , 15:00 GMT	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.K.	BoE Rate Decision	bps	Dec. 10 th , 12:00 GMT	no change
Medium	U.S.	Foreign Trade Balance, Oct.	US\$bn	Dec. 11 th , 13:30 GMT	-36.25
Weak	U.S.	Export & Import Prices, Oct.	%	Dec. 11 th , 13:30 GMT	0.3 & 1.0
High	U.S.	Retail Sales, Total & ex-auto, Nov.	%, m/m	Dec. 11 th , 13:30 GMT	0.5 & 0.5
Medium	U.S.	Michigan Sentiment Index, Dec.	-	Dec. 11 th , 15:00 GMT	68.4

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	973.5	1,066.7	1,179.7
GDP (US\$ - bn)	734.9	628.0	688.2	718.8
GDP Growth (y/y % chg)	0.9	-6.0	4.0	5.0
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	-37.6	-58.0	-63.8
Exports (FOB, excl. luggage trade)	132.0	101.3	126.2	122.9
Imports (CIF, incl. gold)	201.7	138.8	184.2	186.7
Current Account Balance (US\$ - bn)	-41.7	-14.4	-30.6	-33.9
Current Account Balance / GDP (%)	-5.7	-2.3	-4.4	-4.7

Financial Indicators Forecasts

	Dec. 4 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4812	1.4800	1.5200	1.5800	1.5600	1.4800	1.5600
EUR/TRY	2.2395	2.1850	2.2300	2.2900	2.2500	2.1800	2.2500
FX Basket	3.7207	3.6650	3.7500	3.8700	3.8100	3.6600	3.8100
EUR/US\$	1.5119	1.4760	1.4670	1.4500	1.4400	1.4750	1.4400
O/N	6.50%	6.25%	6.25%	6.25%	7.25%	6.25%	7.75%
Benchmark Bond	8.90%	8.70%	9.00%	9.00%	10.50%	8.70%	10.50%

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>