

FORTIS BANK

Macro Scope

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Weekly Economic and Strategic Review

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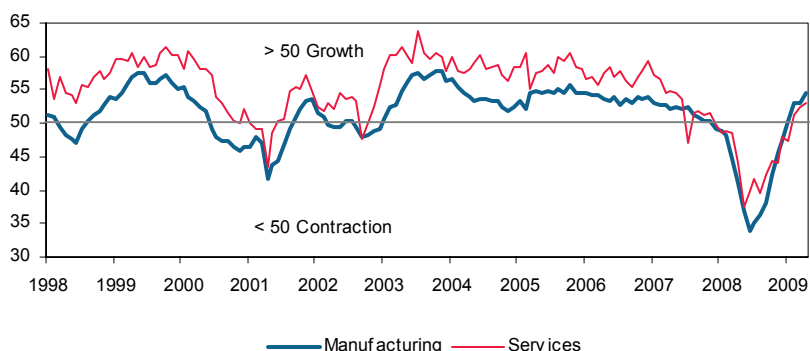
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U Would Be Long and Lonely...

While the leading indicators of economic activity gained a new momentum in the U.S., they entered into the expansion territory in Eurozone after an extended break. Coming to the emerging universe, these indicators are still preserving their elevated levels. However, despite these good news, the most apparent correction of the last months emerged in the markets on the grounds of worries regarding the strength of global recovery. This last movement is a healthy correction in the main trend according to those, who take the uptrend started in March as the sign of a new bull market. On the other hand, the others, who perceive the mentioned uptrend since March as a correction in the bear market, believe that the recent pull-back is a long-awaited return to trend. It may be too early for such an assessment, yet the current tendency and the size of this last movement fits better to the first camp mentioned above. **Even though the economic activity data made some downside surprises in the recent term, this mostly stemmed from the fact that the expectations have been adjusted to very high levels. Accordingly, we think that even the actual macro data, which fell short of the strength suggested by the leading indicators, does not warrant a W-type recovery scenario for the economy.** Considering that markets started to be hit by the fear of a W-type recovery only a short time after they were pretty comfortable with the idea of a V-type recovery, this abrupt change seems to be a typical example of manic depressive ebb and flow in the market mood. We think that the economic recovery started in 1Q09 is still viable and **the U-type recovery (gradual and protracted) is still more likely.** While the stock markets sold off aggressively, there is not yet a significant decline in the bond yields, which are seen as safe-haven investment. This also assures that the "double-bottom" scenario is fairly marginal for now. **Going forward, any market fluctuation would mostly be linked to changing assessments regarding the strength of recovery.**

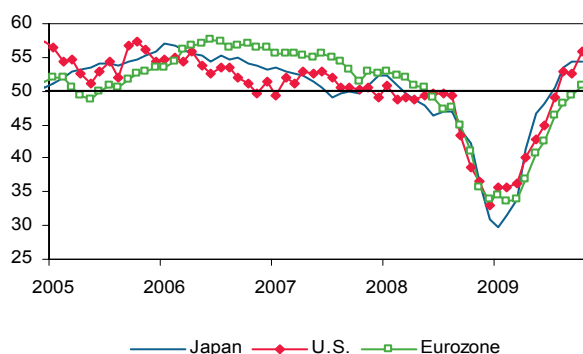
Global PMI (*)



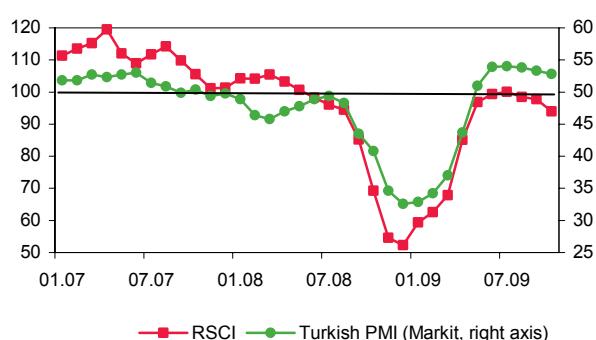
(*) Country data released by Markit are combined to obtain the Composite Global PMI by JP Morgan
Source: Markit, JP Morgan, Fortis Economic research and Strategy

Having briefly explained our take of the recent outlook, let us analyze the key data releases of the week behind. **Undoubtedly, the most important data of the last week were October readings of PMIs, which are the leading growth indicators across the globe.** We think that these indices are fairly useful for determining the turning points in the economic cycles, yet they are not as beneficial in foreseeing the pace of recovery. However, we should say that both the manufacturing and services indices pointed to a strong outlook in the first month of 4Q09. The Eurozone manufacturing PMI increased to 50.7 from the preceding 49.3, surpassing the critical 50-threshold for the first time since May 2008. Moreover, the improvement in the index was broad based across almost all countries. Similarly, the U.K.'s PMI hit 53.7, higher than critical 50-level. Ahead of these European data, Chinese PMI advanced to 56.6 from 53.4, while the most striking result came from the U.S. manufacturing ISM. The index rose by approximately 3 points to 55.7 in October, reaching the highest level since mid-2006. Accordingly, the Global PMI, which is the leading indicator for the global growth outlook, rose by 1.4 points to 54.4. The outlook was broadly same for the services sector. While the services indices came in at 52.6, 56.9 and 50.6 in Eurozone, U.K. and U.S., respectively, the Global Services PMI advanced to 53.0. **Turkey became the country where the PMI posted the fastest recovery. However, this improvement continued until June and the index gave back some of the gains since then. Coming to October, Turkish PMI came in at 52.8 and fell behind several countries except Eurozone. This shows that the economic recovery lost steam in Turkey after a strong performance posted in March-June period. As a matter of fact, the hard data affirmed this outlook so far, as well.**

G3 Countries' PMIs (*)



Turkish PMI and Real Sector Confidence Index



(*) The contraction and expansion periods is separated with 50 and 100 for PMI and for RSCI, in the same order.

Source: CBT, Markit, Fortis Economic Research and Strategy

In the upcoming period, it will be closely monitored how the acceleration especially in the developed countries' leading indicators will be reflected to the hard data for economic activity. After all, this will also be an important determinant for the timing of exit from the extremely loose monetary and fiscal policies. As we expected, the countries started to differ in their exit strategies, depending on the extent of the damage they have felt from the crisis. In the preceding week, Norway joined the group of countries which increased the policy rates, after Israel and Australia (introduced second rate hike). Yet, the key central banks to be monitored would be Fed, ECB and BoE, considering their relative importance in the global liquidity. Therefore, it was very crucial whether Fed would reiterate the statement that "it is necessary for the interest rates to preserve their low levels for an extended period" in the FOMC meeting held on November 4th. **The Bank repeated their pledge for low rates. However, different than before, the Bank gave explicit reference to the economic conditions that would warrant such low interest rate policy. These were low resource utilization, subdued inflation and stable inflation expectations.** Considering that the expansion in the household consumption was underlined, Fed sounded more positive for the economic outlook vs. the month before. Meanwhile, the statements after the last ECB and BoE meetings did not bring

any change to the current perception. The only difference was £25bn increase in the amount of BoE's quantitative easing program. As is known, U.K. economy printed an unexpected contraction in 2Q, showing that the recession is not yet over for them. These central bank announcements showed that the excess global liquidity is still in place and they were supportive for the risk appetite. However, despite all this support, if the risk aversion turns more severe, this would raise the risks to economic recovery after a while. Therefore, there would be no other alternative for the central banks other than preserving their current stance.

All in all, while we think that it is normal to see a slow recovery process after such a deep global recession, the hard data is not weak enough to warrant a W-type recovery scenario in the economy. We think that the economic recovery started in 1Q09 is still in place and the U-type recovery is still more likely. Fed and other key central banks sound more positive in terms of economic outlook vs. the previous months and they started to implement the exit strategies, at a fairly slow pace though, giving the impression that the current course of improvement is the expected and desired one.

Economic and Political Agenda

At home, industrial output and capacity use data will be important for the performance of economic activity this week, while both external and fiscal balances will also be on the data schedule. In the external arena, 3Q Eurozone GDP will be on the forefront. Coming to the U.S., the foreign trade balance and Michigan Sentiment Index are set to top the agenda.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	CB's Expectation Survey, Nov. I	-	Nov. 9 th	-
Medium	Cash Based PS, Oct.	TRY bn	Nov. 9 th	3.6
High	Industrial Output, Sep.	% y/y	Nov. 9 th , 8:00 GMT	-8.5 (-7.6)
High	Central Gov. Budget PS, Oct.	TRY mn	Nov. 9 - 13 th	-
Medium	CNBC-e Consumption Index, Oct.	-	Nov. 10 th , 8:00GMT	-
High	C/A Balance, Sep.	US\$ mn	Nov. 10 th , 15:00 GMT	-100 (-234)
Medium	Capacity Use, Oct.	%	Nov. 11 th , 8:00GMT	70.9

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, Nov.	-	Nov. 10 th , 10:00 GMT	55.0
High	Eurozone	GDP (flash), 3Q	% q/q	Nov. 13 th , 10:00 GMT	0.5
Weak	U.S.	Export & Import Prices, Oct.	%	Nov. 13 th , 13:30 GMT	0.1 & 0.5
Medium	U.S.	Foreign Trade Balance, Sep.	US\$bn	Nov. 13 th , 13:30 GMT	-31.5
Medium	U.S.	Michigan Sentiment Index, Nov.	-	Nov. 13 th , 14:55 GMT	72.0

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	4.0	5.0	4.0
CPI (y/y % chg)	10.1	5.5	6.5	5.5
Trade Balance (US\$ - bn)	-69.8	-37.0	-58.0	-63.8
Exports (FOB, excl. luggage trade)	132.0	102.1	126.2	122.9
Imports (CIF, incl. gold)	201.7	139.0	184.2	186.7
Current Account Balance (US\$ - bn)	-41.7	-11.6	-27.4	-30.6
Current Account Balance / GDP (%)	-5.7	-1.8	-4.0	-4.3

Financial Indicators Forecasts

	Nov. 6 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4845	1.4800	1.5000	1.5600	1.5600	1.4800	1.5600
EUR/TRY	2.2041	2.1900	2.2000	2.2600	2.2500	2.1800	2.2500
FX Basket	3.6886	3.6700	3.7000	3.8200	3.8100	3.6600	3.8100
EUR/US\$	1.4847	1.4800	1.4700	1.4500	1.4400	1.4700	1.4400
O/N	6.75%	6.50%	6.25%	6.25%	6.75%	6.25%	7.75%
Benchmark Bond	8.80%	9.00%	8.50%	8.50%	10.00%	8.70%	10.50%

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