

# WEEKLY MARKET COMMENT

From TSKB's Chief Economist, **Gündüz Findikcioglu**, Ph.D.

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We are off to set sail in a cloudy atmosphere again, but this time odds look good. The political agenda is indeed loaded going forward, with the referendum a week ahead and the general elections looming large on the horizon. From the looks of political statements, there is further ground for change after the elections also, with a possible new and wide-ranging change regarding the Constitution after 2011. We gather that the incumbent government is determined to move with accelerated speed after the referendum regardless of the outcome, and try to achieve its goals sooner than later. The fiscal rule is delayed, which signals to many an observer that public spending ahead of elections is more than likely. However, fiscal performance was nearly admirable in H1 2010, and both the net government debt stock-to-GDP and the budget deficit-to-GDP ratios compare favourably with other countries. Hence, the post-2001 crisis fiscal adjustment did indeed pay off, leaving the government with a strong hand facing the 2008 global storm, and the 2 elections. Markets support any development leading to the continuation of a single-party government, meaning stability in their eyes, and look prone to further rally after the referendum, following a profit-taking moment that should immediately follow the referendum. Let us continue in the form of Q&As.

***Does the August inflation print have any bearing on the future path of interest rates?*** The answer is no, since the print is largely neutral. Most of the core inflation indices featured negative readings, and the headline inflation was higher than expectations due to food prices alone. Indeed, the food & non-alcoholic beverages item contributed 0.77 points to the headline, whereas the clothing & footwear item posted a minus 0.33 contribution. Netting those two off, we come up with a 0.44 reading, which is almost equivalent to the 0.40 headline. Hence, all the other items' contributions to the CPI were nearly netted off. Now both developments are beyond the reach of the CB and are highly seasonal. As regards the PPI, the main headline was a high agricultural inflation, in conformity with the CPI, and the manufacturing industry only posted a 0.22 rise. Core inflation is what matters most, and the CBT is posed to stay unmoved yet for another months at the very least. That said it is obviously true that annual inflation would more likely than not surpass 8.50 percent next month, only to fall in the remainder of the year to below 7.50 percent by December.

***How do we see Turkish assets to be priced after the referendum?*** Our equities rather decoupled from developed markets recently, which is eye-catching and invited a few "now equities are no longer cheap" type of comments recently. Market valuations already incorporate a yes vote with 51-55 percent approval rate. Refining further we come up with consensus estimate of 51-53 percent. We expect profit taking immediately after the referendum. However, September is in general a bullish time, and we might easily see 62.500 after the short-lived profit taking. If, on the other hand, at some point in time the American and European economies visible stagnate, and this for a long time, the CBT could signal a rate cut. This is still a far-fetched argument, but should this happen equities might jump led by bank stocks. Below 8 percent in the benchmark is again possible for the time being only because of further foreign investor interest after the referendum. Nearly everybody expects a sell-off if there is a no vote showdown. Yet the real concern lies in the expectation that in such a scenario the government would resort to larger than usual public spending ahead of elections. Even this, however, might not change the mood since Turkey's public finances are relatively in good shape.

***Roubini claims that further quantitative easing is unwarranted. Yet there is talk about a new rescue package in the U.S.A. In addition, the Nobel Laureate Krugman says recovery is not genuine. What awaits us here?*** If Roubini conjectures that monetary easing should be discontinued because fiscal spending is on the agenda yet again, I would not concur with that. The only logic I could agree with

goes like this: helping banks through further easing is of no use because banks do not on-lend to corporates based on capital adequacy, but because of risk aversion and loan demand. In this case, risk appetite and growth prospects matter most. However, even so monetary policy should remain active for some time to come because issuing a new fiscal package ahead of U.S. interim Senate elections does not seem to me a realistic option on behalf of the Obama administration. The Obama Team loses strength, and there are rumours that Peter Orszag is about to leave. US data is not that bad for the time being, and in the absence of a new package US-T bill yields would continue to downtrend. Otherwise, a new package would only make things worse in a sense, and the curve could steepen in the anticipation of an eventual sharp u-turn.