

Weekly Bulletin

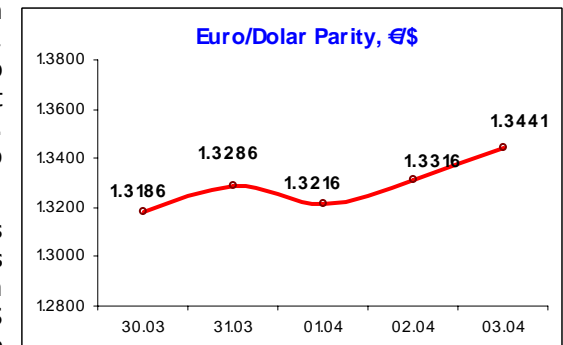
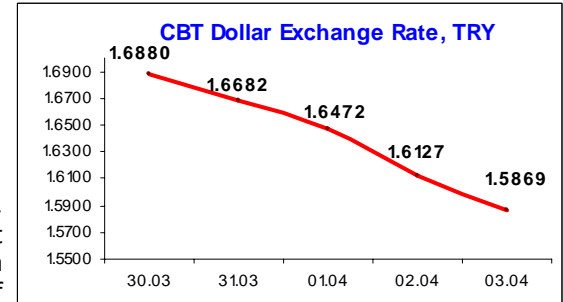
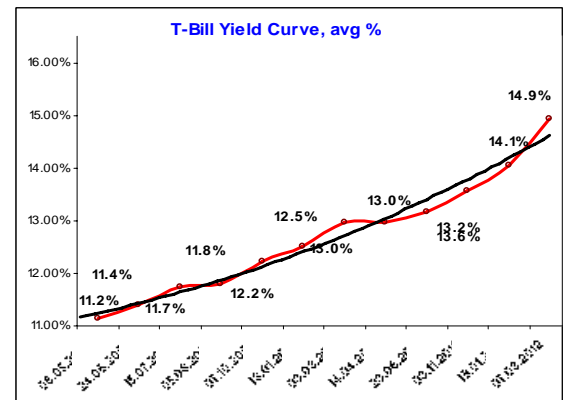
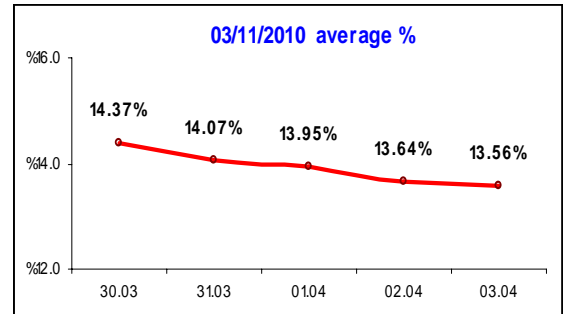
April 6-10, 2009

Focus of this week

- Apr-6** Obama's Turkey visit begins
 Auction: 4-year CPI-Indexed bond, Maturity: Agu 14, 2013
 Bank of Japan Meeting
- Apr-7** Alcoa, Financial Results, Q4, cons: \$-0.57
 Auction: 22-month discounted bond, Maturity: Feb 2, 2011
 Auction: 5-year FRN, Maturity: April 2, 2014
 Eurozone, Economic Growth
- Apr-8** Turkstat, Industrial Production, Feb, cons: -21.7%, prev: -21.3%
 Redemption: 2.74bn TL (2.67bn TL to the market)
 US, Fed Minutes
 US, Meeting on shortselling
 US, Consumer Credit, Feb, prev: \$-1.5bn
 US, Wholesale Inventories, Feb, cons: -0.6%, prev: -0.7%
 US, Crude Inventories, prev: 2840K
- Apr-9** CBRT, Expectatons Survey, Apr-I
 US, Initial Claims, prev: 669K
 US, Trade Balance, Feb, cons: -\$36.5bn, prev: -\$36bn
 Bank of England Meeting
 Chevron, Financial Results, Q4, cons: \$0.94
- Apr-10** Balance of Payments, Feb
 US, Treasury Budget, Mar, cons: -\$157bn, prev: -\$48.2bn

STRATEGY: We may have entered a prolonged bear market rally. It is, however, difficult to claim this is the beginning of a bull market. True, asset prices, notably equities, have fallen to historic lows, and the beginning of a wake-up has been long-awaited and is in the air. Now, despite everything, if bulls are to be back, this will be due to Bernanke's hint to the effect that in both credit and financial markets the turning point nears. If this is indeed so, we should expect a rally in both equity and debt markets. We should also expect further policy rate cuts from the ECB going forward. I would bet on at least 100 bps, or even 150 bps, cuts in two or three consecutive rounds. Nevertheless, the IMF deal is a sine qua non for anything of that sort to happen.

EQUITY: The markets rallied with the G20 meeting outcomes, as the leaders showing unity and deciding to pump money into IMF freshen up the hopes for survival from the economic crises. The week had started with the gloom rising from the US automakers' long term plans being declined by the US government once again and getting a time frame of 1 to 2 months at the verge of calling for bankruptcy. While the global markets cheered for the G20 summit, the local markets were also thrilled with the Turkish government meeting with the IMF officials during the summit and announcing that the team will be invited to Turkey in April. The last day of the week was a profit taking day while the decline in the US employment was in line with expectations. The ISE100 index started the week at 25,000 and tested



Inflation %	Feb-09	Feb-09	12 month
PPI	0.29	1.17	3.46
CPI	1.1	-0.34	7.89

27,180 on Friday. While the index closed at 26,630 with 0.52% daily loss and 3.6% weekly gain, when the weekly low and weekly highs are considered the index rallied by 9.5% last week. Within the short term increasing trend that has started three weeks ago at 22,500, the ISE100 index has surged by 20%. The bond yields have declined to 13.50% from 15.00% in the same period while the dollar has retreat from the 1.8200 level where the Central Bank has initiated the daily FX sale auctions to 1.5850. The bank suspended the auctions on Friday. The inflation of Turkey announced after market's close was slightly higher than the expectations but the lira gained value after the data release. The dollar trades below 1.5700 against lira at the start of this week. The week does not bear much important data release from US, while Alcoa's first quarter results and Wal Mart's March sales will be closely watched. The Bank of Japan and Bank of England's policy calls will be followed. Local markets will also monitor the Treasury's auctions. US President's Obama's visit in Turkey may also create a momentum. The ISE100 index is testing its short term declining trend and remaining over 26,500 will be crucial for a break through. The upper levels to be tested will be at 27,000 – 27,500. The support levels are at 26,500 and 5 day moving average at 26,300.

ECONOMICS: Fundamentals do not change easily and recession dynamics are now deeply entrenched. Inflation did not surge at all, and producer prices stand at an all time low. Current account experiences a reversal, and at minus 7.5% GDP growth, the CAD would revert to zero. Given external financing needs, this is indeed good news. With a regular 3-year stand-by comprising 25 to 30 billion USD line, possibly front-loaded to some extent, the exchange rate worries could disappear. Note, however, that neither the IMF nor the CBT look ready to cherish a renewed TL appreciation at this stage. We are perhaps recurring back to the historical A Scenario hint, whereby USD/TL would hover around 1.6. The B Scenario was in the making last month when USD/TL hit 1.82. This is as far as it gets, probably. Again we should not let pass unnoticed that the FX inflow we mention in order to secure the stability of TL is in the order of 40 billion USD, if we add the net errors & omissions item (14 billion USD thus far).

POLITICS&VISION: It is remarkable that in terms of voting shares as cultural and ideological building blocks, the system displays an amazing stability. In the 1983 elections, three parties were allowed to compete. The only "left-wing" party out of three had won 30%, while the "right-wing" in toto had accounted for 70%. Now, after 26 years, with population dynamics having changed a lot, and old republican population having passed away, the building blocks remain almost the same. Add up CHP, DTP, DSP (even after deducting the one-off Sarigül and Büyükerşen votes) and the remaining minor leftist parties, this building block accounts for c. 30%. Yes, DTP has a stronghold in the South East, conservatives sweep Central Anatolia, and the Mediterranean and Aegean coastal regions vote for CHP. This is a stylized fact of Turkish politics. Nonetheless, there emerges yet another stylized fact: the modernist legacy, the remnants of the "Left", or "Modernism" for that matter, and other opposing forces command 30%. Does this magic 30% make the political equilibrium a globally unique one although it is not possibly locally unique this time around? It may prove to be an intriguingly appealing conjecture after 2011. We simply hint at that possibility.

FIXED INCOME & CURRENCY: In the last trading day of the week, opening at 1.60 levels, interbank dollar quotations fell to 1.58 levels through the positive signals on IMF agreement. On Friday night, testing 1.57 levels in London, \$/TL started this week at 1.5780, where we expect is to hover around 1.55-1.58 today. As purchases continued in the bond market, benchmark compound rate was traded within 13.71%-13.53%, and completed the week at 13.40%, by falling 82bps weekly. Opening at 13.55% on average at OTC, we expect benchmark compound rate to move within 13.70%-13.30% where 4-year CPI-indexed bond will be reopened.

April 2009– Monthly Domestic Debt Service			
Date	To the Markets	Other	TOTAL
1-April	3,803	503	4,307
8-April	2,678	62	2,740
15-April	88	1	89
22-April	1,216	28	1,244
29-April	67	8	74
TOTAL	7,851	602	8,453

Gündüz Fındıkçioğlu, PhD

As the G-20 meeting passes, there is a lot of uneasiness going around despite the fact that at least a pronounced equity bear market rally, if not a total comeback of bulls, is in the making. The uneasiness is not without foundations since the G-20 prep notes suggest many an item has been scrutinized after the initial kick-off in November, but that the end-results remain either elusive or too general to admit specific applications handily. Take monetary policy and fiscal policy coordination for instance. They are easier said than done because:

After 1929, M2 collapsed despite the fact that Fed BS enlarged. Full sterilization was the wrong policy choice at the time. Now that Bernanke eases rapidly the monetary stance (QE, or quantitative easing) the question seems to be whether a repetition of 1979-1981 is in the making. Will inflation go rampant and get out of hand after the current deflationary wave is over? How much should the rate of interest respond to either "money printing" or debt financing of the budget deficit in 2010 or 2011 at the latest? The monetary base expansion is noteworthy since it comprises banknotes and coins, and commercial banks' reserves deposited to the Fed. Still the expansion was not necessarily that inflationary until recently as claimed above since a good part of the money instilled through reserve credits were sterilized.

Three claims will be held here: (1) Fed now expands in an inflationary mode. Furthermore, the Obama Plan 1 will be financed initially through debt financing, which implies further T-bill issuance. On both accounts, the inflation outlook is dim. (2) In a New Keynesian spirit, it is imperative to let the Fed act counter-cyclically and respond to mounting inflationary pressures by raising the FFR either in 2010 or in 2011 at the latest. In fact, the Fed might have avoided ZIRP (zero-interest-rate-policy) at some point, but it could not. The 25 bps FFR is only there positive because the Fed does not want money market yields to turn negative after deductions are levied for annual operating expenses. (3) Sterilizing the monetary consequences of FED BS hitting USD6 billion –or even USD4 billion- requires an impeccable u-turn in the monetary stance, reminiscent of Paul Volcker. That looks undoable now since the 1979 shock was a supply-side shock whereas we now face a financially widespread phenomenon, which is endogenous to U.S. monetary policy after 2001. The Fed will have to undo what it has done after 2001, and what he was bound to do after 2007. Impasse!

Let us put things in historical balance sheet. In 1979, when the world was hit by the second oil shock, inflation pent up unbound and reached two digits. Jimmy Carter appointed Paul Volcker to Fed, and Volcker immediately hiked the rate of interest and curbed all monetary aggregates, M1, M2, and M3. By November 1980, the FFR hit 17%. Carter lost to Reagan who left Volcker in charge. Volcker's crusade continued under Reagan and in June 1981, the FFR peaked at 20%. The result was historically named the "Volcker deflation," which initiated the "Great Disinflation" of the 1980s. However, this is not the end of the story. The "Volcker deflation" also triggered the worst recession ever since WWII at that time, whereby unemployment skyrocketed to 11%. Inflation was down to 4% and the USD/GBP rate was almost at par for some years. The USD depreciated only after the G-3 intervention at Plaza in 1985. Volcker stepped down in August 1987, two months before the "Black Monday."

Now, despite everything, if bulls are to be back, this will be due to Bernanke's hint to the effect that in both credit and financial markets the turning point nears. If this is indeed so, we should expect a rally in both equity and debt markets. We should also expect further policy rate cuts from the ECB going forward. I would bet on at least 100 bps, or even 150 bps, cuts in two or three consecutive rounds. Nevertheless, the IMF deal is a sine qua non for anything of that sort to happen.

TSKB

Research

research@tskb.com.tr
MECLISI MEBUSAN CAD. NO 81
FINDIKLI ISTANBUL 34427, TÜRKİYE
(90) 212 334 50 50 fax: (90) 212 334 52 34

TSKB Research

Gündüz Fındıkçıoğlu	<i>Head of Research</i>	(Economy, Strategy, Banking, Leasing, Cement, Automotive)	+90 (212) 334 52 71	findikciog@tskb.com.tr
Şebnem Mermertaş	<i>Manager</i>	(Conglomerates, Telecom, Media, Energy, Steel, Airline Services)	+90 (212) 334 53 60	mermertass@tskb.com.tr
Sibel Alpsal	<i>Senior Analyst</i>	(Banking, Insurance, Consumer Durables, Retail, REIT)	+90 (212) 334 53 65	alpsala@tskb.com.tr
Okan Uzunoğulları	<i>Analyst</i>	(Textile, Food & Beverage, Petrochemicals)	+90 (212) 334 53 23	uzunoqullario@tskb.com.tr
Başar Yıldırım	<i>Analyst</i>	(Economy, Fixed Income Securities, Automotive, Data Analysis)	+90 (212) 334 52 59	yildirimb@tskb.com.tr
Bahar Şenol	<i>Junior Analyst</i>	(Cement, Pharmaceuticals, Economy)	+90 (212) 334 51 52	senolb@tskb.com.tr

This document was produced by Türkiye Sinai Kalkınma Bankası A.S. ("Industrial Development Bank of Turkey") ("TSKB") solely for information purposes and for the use of registered broker or dealer, whether the registered broker or dealer is acting as principal for its own account or as agent for others, or a bank acting in a broker or dealer capacity as permitted by U.S.A. law. This document shall not be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is produced and distributed in the Republic of Turkey. This document does not constitute an offer of, or an invitation by or on behalf of TSKB or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources which TSKB considers to be reliable. No liability or responsibility whatsoever is accepted by TSKB for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. TSKB may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients. TSKB may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this document.

Any customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of TSKB.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior consent of Türkiye Sinai Kalkınma Bankası A.S.

This document does not constitute an offer to sell, or an invitation to subscribe for or purchase, any of the offer shares in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by TSKB and the managers to inform themselves about and to observe any such restrictions. No person has been authorised to give any information or to make any representation except as contained in this publication.

In making an investment decision investors must rely on their own examination of the Company and the terms of the offering including the merits and risk involved.

Industrial Development Bank of Turkey

Meclisi Mebusan Caddesi, No:81 34427 Fındıklı/İstanbul

Phone: +90 (212) 334-5340

Fax: +90 (212) 243-2975

Email: research@tskb.com.tr

Homepage: www.tskb.com