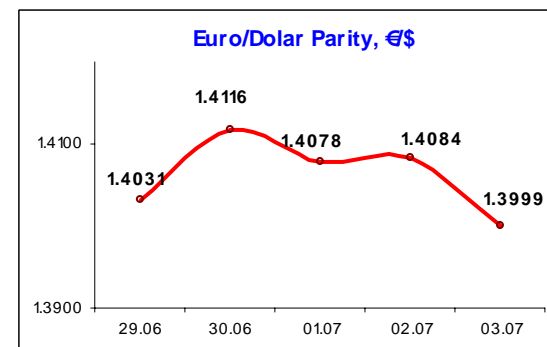
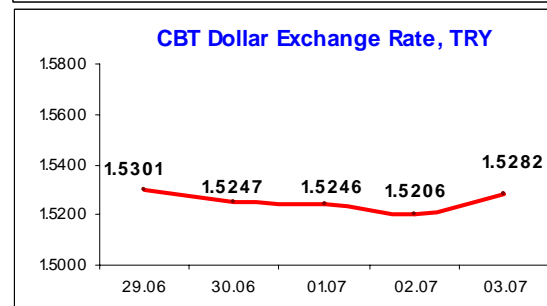
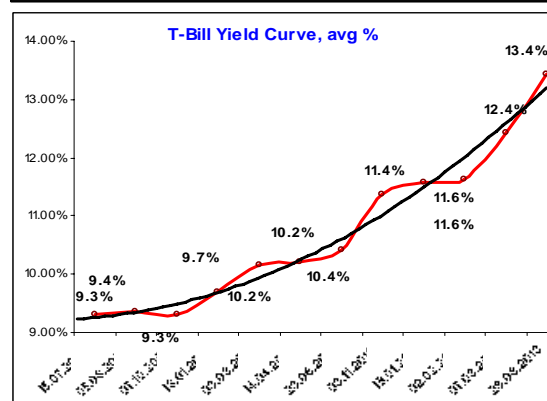
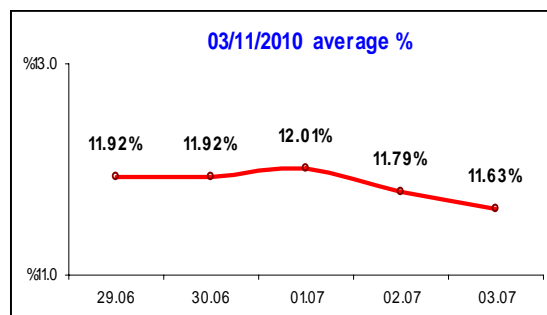


Weekly Bulletin

July 6-10, 2009

Focus of this week

- Jul-6** US, ISM Services, Jun, cons: 46, prev: 44
- Jul-7** UK, Industrial Production, May, prev: -12.3%
- Jul-8** Turkstat, Industrial Production, May, cons: -15.7%, prev: -18.5%
Eurozone, GDP Growth, Q1- final, cons: -2.5%, prev: -2.5%
US, Alcoa, Financial Results Q209, cons: \$-0.34, after markets close
US, Pepsi, Financial Results Q209, cons: \$0.73, before markets open
US, Consumer Credit, May, cons: \$-9.3bn, prev: \$-15.7bn
US, Crude Inventories
- Jul-9** Bank of England Meeting, no rate cut is expected, current: 0.5%
US, Chevron, Financial Results Q209, cons: \$1.12, after markets close
US, Wholesale Inventories, May, cons: -1%, prev: -1.4%
US, Initial Claims, cons: 610K, prev: 614K
- Jul-10** CBRT, Balance of Payments, May, cons: \$-1.7bn, prev: \$-1.2bn
US, Trade Balance, May, cons: \$-30bn, prev: \$-29.2bn
US, Michigan Confidence Index-prel, Jul, cons: 70.6, prev: 70.8



ECONOMICS: Both the June-July inflations and the likely future path of inflation suggest the CBT may continue to ease in the forthcoming two meetings. At least two rate cuts, either 25 + 25 bps or 50 + 25 bps, are in the agenda. Seasonally adjusted quarter-on-quarter GDP data convey that recession had already set in last year, starting from Q2 2008. Hence, Q2 GDP will display the fifth recession quarter in a row. The Q2 GDP record will be more benign, however, with the easing inventory cycle and a better trade data. We expect 7% contraction in Q2. Given the world economic outlook, it is more likely than not those interest rates will stand still for yet another 6 to 9 months. The current inflation targeting regime reveals that the same consideration holds for Turkey and we do not expect an upturn in target rates before Q1 2010, or rather Q2 2010. The problem here lies in the public finances, not inflation.

EQUITY: Local equities were carried away with the revitalized IMF hopes upon IMF Vice President Lipsky's visit and the Prime Minister's latest comments on negotiations. Markets have extended the latest March rally to the 17th week, despite the pause and the retreat in mainly US and European markets. The ISE100 index has tested 37,500 and headed above for three times during the week. Furthermore, it has remained over 36,600 during the stepbacks. The index has been in the downturn in almost the last two days of the week and has tumbled down to 36,797 after its final trial at 37,500 on Thursday. The daily loss was 0.65% while a slight gain of 0.11% was achieved in a weekly basis. The bond yields had been rallying and testing 11.60% with the increasing rate cut expectations after the disappointing first quarter GDP and the comments of the vice president of the Central Bank on further rate cuts. The yields have been declining and putting the bond prices higher, since the downturn accelerated below 12%. The yields have tested 11.50% previously at the start of May and turned north afterwards mostly

Inflation %	Jun-09	May-09	12 month
PPI	0.95	-0.05	-1.86
CPI	0.11	0.64	5.73

with the expectations of slowing down rate cuts. The foreign markets were under pressure of the lacklustre US employment data and tried to recover some of the losses on Friday. The US Dow and German Dax indices are about to test their critical support levels. Although the debate on the dollar's position as reserve money is on the headlines almost every day, the euro/dollar parity failed to increase over 1.42 and retreat below 1.40 towards the end of the day. The dollar has also gained value against lira and increased over 1.53 after testing below 1.52. The markets will focus on the ISM services index at the start of the week, while US Treasury auctions, G8 leaders' summit with an extended participation and Bank of England's policy meeting will also be watched. The losses in foreign markets will be critical for the local stock market as it has over performed the US Dow and German Dax indices in the last month. The industrial production of May will be the critical data for local markets this week. Declines below 8,200 in Dow and 4,600 in Dax should be watched as the hopes for IMF negotiations start to fade and losses in foreign markets mount, the index may perform a more than expected pull down. The support levels of the index will be at 36,600-500 while the index should trade over 36,200 for the increasing trend to prevail. The initial resistance level is the 5 day average at 36,900.

FIXED INCOME & CURRENCY: US markets were closed in the last trading day and banking quotations here tranquil thereof. USD/TRY tracked 1.5310-1.5440 and closed at 1.5310. We started the week at 1.5370 with a forecast range of 1.5250-1.5450. T-bill yields trended down visibly upon rising rate cut expectations and traded within the narrow band of 11.66-11.56%. The benchmark yield bended back by 31 bps last week, and closed at 11.63%. OTC rates are around 11.70% today and our target range is 11.90-11.50%.

July 2009– Monthly Domestic Debt Service (TRY mn)			
Date	To the Markets	Other	TOTAL
1-Jul	535	128	663
8-Jul	309	122	431
10-Jul	-	896	896
15-Jul	7,264	242	7,507
22-Jul	956	24	979
29-Jul	55	8	63
TOTAL	9,118	1,420	10,538

Gündüz Fındıkçoğlu, PhD

What does growth figures tell us? As the CBT had warned us all beforehand, two-digit contraction was already built in the consensus estimate, i.e. 12%, but the result surpassed the estimate by some 2%, i.e. a negative 13.8% reading. Why is that so? (1) Industrial production slides down by 17.6%, in line with industrial production quarterly downfall of 22%. The negative contribution to GDP reached 4.8 points in industrial production alone. In Q2, we expect c. 4 percentage points negative contribution accruing from industrial production. (2) Industrial production weighs on trade data also, which carries 14% weight in the national accounts. A negative 23% reading in the trade data meant 3.2 percentage points negative contribution to GDP in Q1. In Q2, with the advent of SCT and VAT decreases, we expect a significant recovery in the trade item. (3) Construction hovers around 6% GDP weight, and was down by 19%. A negative contribution of 1.1 points came from that score. (4) Inventory decumulation accounts for 7.1% decline in GDP. What was the outcome of soaring public spending then? Public expenditures have 11.1% share in GDP whereas public investment carries 3.8% weight. Now, public investment rose by a tremendous 24.6% and public spending by 5.7%. Overall, the contribution to GDP was only c. 1%. GDP would have contracted by 15% without hefty public expenditures, but the drop was only slightly lower than 14% with sizeable spending. It is very difficult to make the public spending item bear significantly on GDP since the public sector accounts for 15% of GDP only, while private consumption has nearly 75% weight. In such an economy, a one percent government spending multiplier translates into 1.5 points contribution to GDP if government spending rises by 10%. The debate on the size of the fiscal multiplier, i.e. "Old Keynesian" multiplier versus the "New Keynesian" one, matters here. If you have a limited amount of ammunition, you should hold your fire in order to use it when it matters. So far the GDP gain at the cost of significantly deteriorating public finances remained subdued. We are heading towards yet another 7% contraction in Q2. In Q4, GDP could post zero or slightly positive a reading, but this would not underscore a genuine improvement. Rather, the base effect will make it so because the Turkish GDP is measured head-on as the seasonally unadjusted change with respect to the same quarter of last year.

Contribution to GDP	2007	2008-I	2008-II	2008-III	2008-IV	2008	2009-I
Production							
Agriculture	-0.6%	0.3%	-0.1%	0.8%	0.4%	0.4%	-0.1%
Industry	1.5%	2.5%	1.4%	0.2%	-2.5%	0.3%	-4.8%
Construction	0.4%	-0.2%	-0.3%	-0.5%	-0.8%	-0.5%	-1.1%
Trade	0.8%	1.4%	0.6%	-0.2%	-1.8%	-0.1%	-3.2%
Transport&Communication	1.0%	1.3%	0.7%	0.2%	-1.0%	0.2%	-2.6%
Financial Intermediaries	1.0%	1.0%	0.9%	0.8%	1.2%	1.0%	1.4%
Spending							
Final Private Consumption	2.8%	4.3%	0.7%	-1.1%	-2.9%	0.1%	-7.1%
Government Expenditure	0.7%	0.4%	-0.5%	0.1%	0.8%	0.2%	0.6%
Government Investment	0.2%	0.5%	0.6%	0.2%	0.8%	0.5%	0.9%
Private Investment	1.2%	2.0%	-0.8%	-1.6%	-4.4%	-1.5%	-6.2%
Goods and Services Export	1.8%	3.4%	1.0%	0.9%	-2.1%	0.7%	-3.0%
Goods and Services Import	3.2%	4.6%	0.7%	-0.8%	-5.9%	-0.9%	-7.8%

Source: Turkstat, TSKB Research

What does inflation figures tell us? (a) Food and non-alcoholic beverages account for 28% of the CPI. Well, in June 2008 this item posted minus 3.40%, and it reads as minus 1.56% this year. (b) Housing has an 18.63% weight, and in May it recorded negative inflation since natural gas prices were curtailed administratively, following previous months' world energy price falls. Housing posted positive inflation in June. However, last year's June and July readings were 1.30 and 5.34 respectively, which are unlikely to be matched this year. Hence, housing alone may make sure CPI falls to negative territory in July, implying c. 5% annual CPI reading in

early August. (c) Last year's June reading of 1.62% in transportation turned out to be 2.82% this time. 34% of this item is composed of car purchases: hence SCT&VAT readjustments automatically translate into it. In fact, the May reading was already a positive 0.79%, which means tax adjustments had already run their course last month. (d) Core indices show a downward trend. (e) PPI is positive and, especially, the manufacturing PPI is up. Manufacturing explains 73.75% of PPI. We do not think, however, that PPI will turn up on an annual basis in July. After August the base effect may translate into a positive PPI measured annually.

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