

Weekly Bulletin

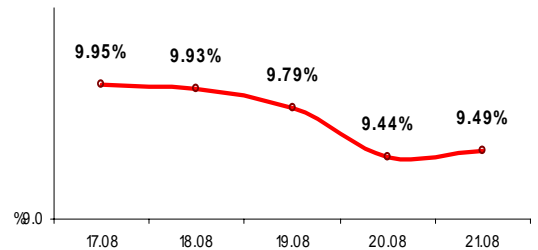
August 24-28, 2009

Focus of this week

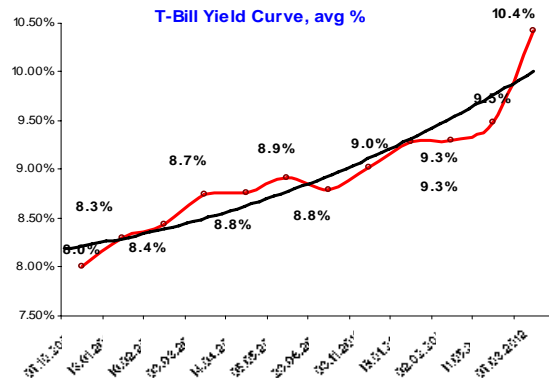
- 24-Aug** US, Chicago Fed National Activity Index, Jul, prev: -1.8
- 25-Aug** US, S&P Case-Shiller Home Price, Jun, cons: -16.45%, prev: -17.06%
US, Consumer Confidence, Aug, cons: 48, prev: 46.6
US, Richmond Fed Manufacturing, Aug, cons: 16, prev: 14
- 26-Aug** US, Durable Orders, Jul, cons: 3%, prev: -2.5%
US, New Home Sales, Jul, cons: 390K, prev: 384K
US, MBA Mortgage Applications, prev: 5.6%
US, Crude Inventories
Germany, IFO Business Climate, Aug, prev: 87.3
- 27-Aug** US, GDP Growth, Q2, cons: -1.4%, prev: -1%
US, Personal Consumption, Q2, cons: -1.2%, prev: -1.2%
US, Initial Claims, cons: 565K, prev: 576K
- 28-Aug** CBT, Minutes of Aug 18 Meeting
US, Personal Income, Jul, cons: 0.1%, prev: -1.3%
US, Personal Spending, Jul, cons: 0.2%, prev: 0.4%
US, Core PCE, Jul, cons: 0.1%, prev: 0.2%
US, Michigan Consumer, Aug, cons: 64.5, prev: 63.2
Eurozone, Consumer Confidence, Aug, cons: -21, prev: -23

ECONOMICS: The outlook is rather stable, with the new price adjustments suggesting the possibility of an IMF deal in autumn. In terms of budget figures, the same suggestion remains valid since public investments and expenditures came to a sudden halt. We do not think the negative impact of fiscally oriented price and tax increases would kill the already weak demand altogether, but the anticipated Q4 "recovery", due to the base effect mainly, might be jeopardized. As such, our growth estimate still remains slightly below minus 6%. Inflation is heading towards 5% for the year end, and monetary easing should continue. However, supplying liquidity and shoring up bank funding, as has been amply done in the EU for instance where the ECB provides funding up to one year and the US where the Fed does the same up to 3-months, will not translate into a credit easing. The banking system is liquid both in terms of TL and FX, and the cyclical nature we observe from time to time in repo funding and deposit collection –through "other deposits" and repo-funded deposits- does not imply liquidity squeeze, not even temporarily. We expected a higher than Q1 banking sector bottom line, and the financials confirmed this expectation in the main. Of course, the Group 2 credits –of which some 40% could really be NPLs- helped generate a sound bottom line and also helped banks built into their equity. NPL provisioning is the main issue going forward. We estimate that, should 50% of Group 2 credits turn out to be NPLs, the sector's bottom line would be hit by approximately 40% assuming 80% provisioning. On a risk-adjusted basis emphasizing banks' excessive profitability is simply quite not correct.

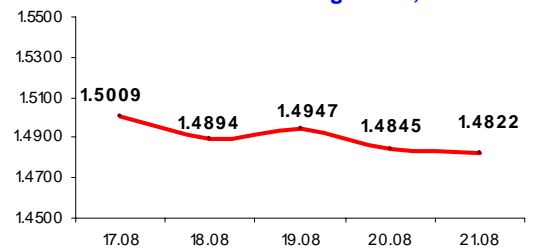
11/05/2011 average %



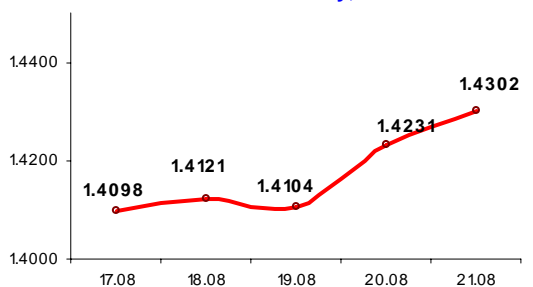
T-Bill Yield Curve, avg %



CBT Dollar Exchange Rate, TRY



Euro/Dolar Parity, €/€



Inflation %	Jul-09	Jun-09	12 month
PPI	-0.71	0.95	-3.75
CPI	0.25	0.11	5.39

EQUITY: The markets recharged the rally last week after two weeks of flat trading in local markets and some retreat in foreign markets. The local markets were triggered with the Central Bank of Turkey's widely expected rate cut and maintaining the signal for monetary easing to continue. The ISE100 index increased up to 47,170 on Friday, at almost the daily high, with 1.3% daily and 6.6% gain on the last three days of the week after increasing over 45,500, the previously effective resistance level of the flat trading period. The US data released last week on manufacturing had shown growth in the related regions. The US existing home sales of July and FED's Governor Bernanke's speech on the recovery of economy was the final catalyst of last week. The US markets closed with 1.6-1.9% gains. The US futures and Asian markets carry on the optimism to the new week. The markets will be data free on the first trading day of the week while the first revision of the US second quarter GDP will be the data that will probably drive the most attention this week. The local stock market's increase above 45,500 - 46,500 may carry the index up to 55,000 with the support of foreign markets' advance. The initial resistance levels of the market will be 47,500 – 48,000, the supports will be at 46,500-300.

FIXED INCOME & CURRENCY: Last Friday has been a downbeat USD trading day versus the TL, as we ended the day at below 1.48. The day started at 1.4950, and the intraday trading range was 1.4810-1.4930. U.S: housing data was upbeat and the EUR/USD trades carried the cross to over 1.4355. We expect a weakening USD against the TL this week. Turkish Treasuries began the day at 9.45% after ending the week at 9.48%. Ten to twenty bps ups and downs are likely, but sales are ordinarily met easily, and market rates hover around 9.50% without causing worries. We believe 200 bps positive carry looks reasonable, and should the CBT ease further down to 7% in the upcoming months, 9-9.25% market rates compound are imaginable. We do not see yet any room for the below trading 9% range.

August 2009– Monthly Domestic Debt Service			
(TRY mn)			
Date	To the Markets	Other	TOTAL
5-Aug	10,357	4,119	14,476
12-Aug	284	110	394
19-Aug	6,346	413	6,759
26-Aug	417	85	502
TOTAL	17,404	4,726	22,130

Gündüz Fındıkçioğlu, PhD

Angus Maddison has recently published yet another tour de force, and entitled it *Contours of the World Economy: 1-2030 AD*, Oxford University Press, 2007. The chapter on the Roman Empire is strikingly impressive, but I would rather point to the futurology chapter here, whereby Maddison, together with the US Census Bureau and the Groningen Growth and Development Centre (GGDC), indulges into grasping the surrounds of the world economy c. 2030, equipped with population, productivity, energy and global warming estimates. In so doing, he delves into his unrivalled mastery of the macroeconomic history of many parts of this earth.

Over the years 1952 to 1978, the world per capita income grew faster than ever before, at 2.6% per annum, which is about 28 times as fast as in 1700-1820, and 3 times as fast as in 1820-1952. In this golden age, all parts of the world economy showed substantial improvement on past performance to the point of belabouring the obvious, i.e. that growth was indeed smooth and proportional, dismaying the unsavoury language of the Harrod-Domar model. The United States –the lead country in terms of productivity and per capita income- grew more slowly than the world average, but posted nonetheless relatively high rates of total factor productivity growth, which can be taken as evidence of rapid advance at the technological frontier. There was a remarkable degree of catch-up in Japan and the advanced capitalist countries, and that substantially reduced the per capita income gap between themselves and the lead country. In China, real income grew faster than ever before, but its growth was less than the world average. Africa and “Other Asia” fell behind in relative income, but also increased their absolute levels at historically unprecedented rates.

In 1978-95, world economic growth was much slower. The deceleration in the lead country was mainly due to a sharp drop in total factor productivity performance, suggesting strongly that the pace of advance at the technological frontier had weakened. There was a sharp slowdown in Japan and the other advanced capitalist countries, because of the weaker growth at the technological frontier and the fact that they were operating much nearer to US levels of performance and hence had eroded a good part of their potential for rapid catch-up. The Asian economies were the most dynamic component of the world economy in 1978-95. Growth of per capita income accelerated sharply in China and the 7 other dynamic Asian economies. There was substantial improvement in India, but some slowdown in the 31 other Asian economies.

It is likely that progress at the frontier of technology will continue to be slow, in line with the evidence of slow total factor productivity growth in the lead country (the United States) which has been evident for the past quarter of a century. It is assumed that the other advanced capitalist countries and Japan will have little potential for significant narrowing of the real income/productivity gap between themselves and the United States. This is now fairly small, and economic policy in both Japan and the advanced capitalist countries of Europe has been and is likely to continue to be less than optimal for realising their full potential. It does not seem unreasonable to hope for some reversal of the previous declines in per capita income in the countries of the former Soviet Union, the Middle East and Africa, and there are already signs of revival and some success in policy reorientation in Eastern Europe and Latin America, where somewhat better growth is forecast. Deceleration in the dynamic Asia group seems likely as some of the countries have already arrived at levels of income where the pace of catch-up can be expected to wane, and several of them have very serious problems of adjustment to the system shocks of 1997 (flight of foreign capital, collapse of stock markets and exchange rates, escalating inflation and IMF stabilisation programmes) which are likely to have repercussions for several years.

In other Asia, where incomes are much lower, there is potential for growth acceleration of the type already evident in India. China seems likely to be able to grow faster than most other Asian countries a) because its level of real income/productivity is quite low; b) it has sustained a high growth trajectory for two decades and has proved capable of maintaining high rates of investment in physical and human capital; and c) it has been less exposed to the shocks which other dynamic Asian countries sustained in 1997. However, future growth is unlikely to be as fast as in 1978-95 because it faces major problems in reforming state industry, fiscal, and monetary policy; has eroded some of the once-for-all gains from previous liberalisation; and faces some

slowdown in its Asian markets. The overall world projection suggests slower demographic growth than in 1978-95, but a significant improvement in the overall growth of per capita income. World GDP is projected to grow at about 3% a year. This would be better than the 2.7% of 1978-95, but substantially slower than in 1952-78.

The exhibit below displays the changing patterns of world economic outlook, and portrays the change as a post-1973 phenomenon, if not dating from older times.

Shares of world GDP (as %)

	1820	1870	1950	1973	2003	2030
Western Europe	23.0	33.1	26.2	25.6	19.2	13.0
Western Offshoots*	1.9	10.0	30.7	25.3	23.7	19.8
Asia**	59.4	38.3	18.6	24.1	40.5	53.3
Eastern Europe	3.6	4.5	3.5	3.4	1.9	1.3
Former USSR	5.4	7.5	9.6	9.4	3.8	3.4
Latin America	2.1	2.5	7.8	8.7	7.7	6.3
Africa	4.5	4.1	3.8	3.4	3.2	3.0

Source: Maddison, 2007, Table 7.6, p. 340

*Includes USA

**Includes Japan

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