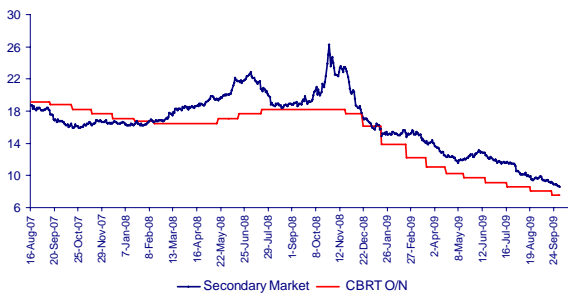


Turkey Weekly Macro Comment

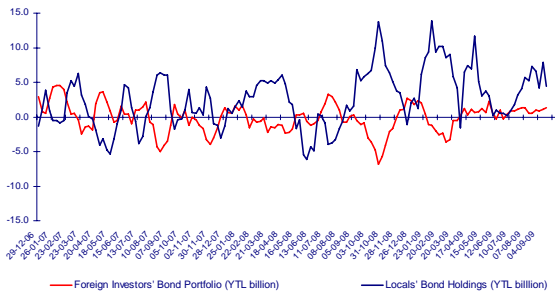
05 October 2009

Bond Rates vs O/N



Source: Central Bank of Turkey, YK Economic Research

Domestic & Foreign Bond Portfolios (4W change)



Source: Central Bank of Turkey, YK Economic Research

Declaration of Commitment

- What was most striking in PM Erdogan's speech over the weekend was his references to out of mainstream (some considered to be subversive by the establishment) figures in this land's history and his candid embracement of them all.
- It is also very likely that the tone of PM Erdogan's speech implicates that he deliberately positioned himself at a point of no return and he may thus have implemented a well known strategy in certain games: constrain your own maneuvering space so as to force your rival to commit to a strategy that works for you the best.
- September inflation at 0.39% came lower than market's expectation and much lower than ours and brought down the 12-month inflation figure to 5.27%. Seasonal factors do not seem to have had their usual impact and benign food inflation in particular was a significant contributor to the low monthly figure.
- The minutes of the last MPC have created reasonable controversy among economists. Some opine that the tone has turned relatively hawkish, but we beg to differ.

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1.1 General Outlook

PM Erdogan delivered another one of his recent well-written and well-thought out speeches in his Party's General Council meeting in which he was once again elected as the Party Chairman in a landslide fashion. **What was most striking in his speech was his references to out of mainstream (some considered to be subversive by the establishment) figures in this land's history and his candid embracement of them all.** Ancient figures like Yunus Emre and Mevlana, whose versions of Islam hardly have any connection to the mainstream interpretation today, 17th century Kurdish poet and historian Ahmet Hani, late Kurdish singer Ahmet Kaya who was forced to flee to Paris in 1999 after the harassments he was subjected to in Turkey when he had declared his intention to sing in Kurdish (died in Paris in 2000), the worldwide famous legendary Turkish poet Nazim Hikmet known for his commitment to communism (who died in exile in the former Soviet Union in 1963), Ottoman Armenian musician Tatyos Efendi (real name Tateos Enserciyan, 1858-1913), and the Kurdish origin philosopher of Islam Said-i Nursi (a most subversive figure to most secular Turks who believe his disciples aim at sabotaging the foundations of the Republic) all found their place in PM Erdogan's embracing speech the candid tone of which seems to have impressed almost all of the general council attendants. **Some see this as a big step towards the "grand reconciliation" that this land has been missing for so long. One need not stretch it that much, but the genuineness was surprisingly not doubted by anyone and it was precisely that trait of this speech that led to extreme reactions from certain fronts.**

His genuineness and candidness seem to be the PM's greatest assets which do not always necessarily pay off for him since every word he utters is taken to be genuine and from the heart by default. As we had mentioned numerous times before, his pre-Kurdish initiative tone regarding the Kurdish issue in 2008 prior to local elections which resembled that of the establishment caused the AKP to lose the region in a big way and to what extent the reversal in tone today will be working for the AKP with respect to the Initiative is still a question mark. Yet it is more than likely that not moving ahead with the Initiative would have been more costly than initiating it although the marketing by the AKP cadre is that they have taken a huge risk by initiating the entire democratic initiative. That may be a reasonable marketing/sales pitch, but is far from reflecting the truth in *today's* Turkey. It would have made more sense three years ago but that is probably why the Initiative was not given a go-ahead then and the order had to wait until now (or as we argued many times in the past, ideally until the no closure decision by the Constitutional Court in the summer of 2008, but that clearly was not the timing chosen by the AKP administration).

The main opposition party, the CHP, does not look very warm to the idea of the democratic initiative and its leader Baykal commented that efforts to serve this end by emphasizing ethnic differences causes despair and sorrow on their part. An influential CHP deputy, Guldal Mumcu, who served as the deputy Head of Assembly recently and happens to be the widow of legendary

columnist late Ugur Mumcu, asserted that the Initiative would lead to intensified separation tendencies and that it was basically part of the Greater Middle East Initiative implemented by the US. That more or less sums up the official CHP line.

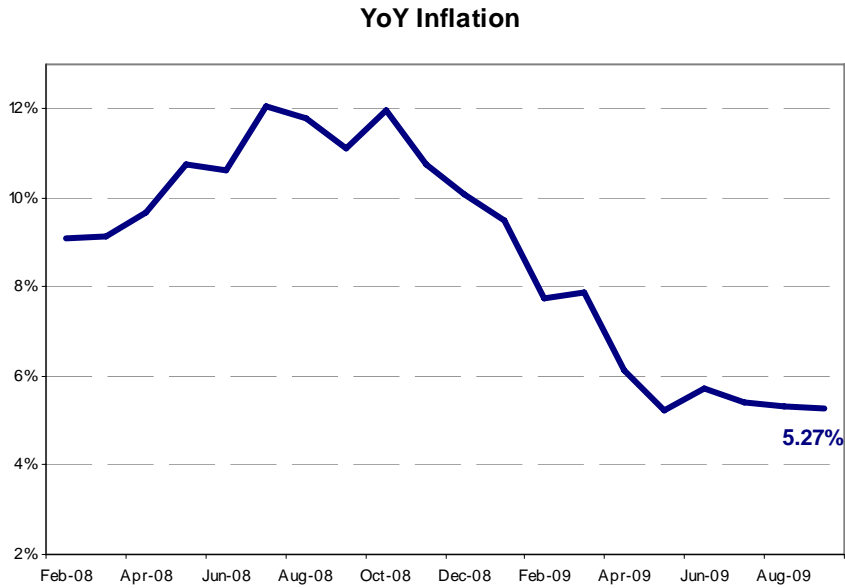
MHP leader Bahceli as expected accused the AKP and its leader of treachery and treason and threatened that the AKP cadres would be tried in the Supreme Court when they come to power. CHP leader Baykal assumed a somewhat milder profile and stated that his party would entertain it if an invitation came from the AKP to discuss the Initiative. The perfunctory opposition of the CHP or their pretext for not responding to the AKP's calls stems from their insistence that they know nothing about the content of the Initiative. Why that matters for an issue as vital as this is beyond contemplation; maybe the content is also to be discussed. And if there is any clear disagreement on the "to be announced" content of the Initiative, the CHP could exclude itself from the process pointing at sufficiently long and in depth discussions that led nowhere. It is very probable that this attitude of the CHP will mellow somewhat as the stance seems not defensible even to quite a number of CHP supporters themselves.

It is also very likely that the tone of PM Erdogan's speech implicates that he deliberately positioned himself at a point of no return and he may thus have implemented a well known strategy in certain games: constrain your own maneuvering space so as to force your rival to commit to a strategy that works for you the best. We will see how this all plays out on the daily political life but another crucial party in the game should not be ignored, the DTP that is. Their leader Ahmet Turk is on a mission to persuade Erdogan not to be hesitant on the reform front and speed up the Initiative, but the more he resorts to that methodology, the more timid the PM is likely to get for reasons of not wanting to look as the follower or excessively accommodating. The armed insurgence PKK on the other hand has adopted an openly threatening tone and reportedly claimed that their new strategy would be determined in two weeks time and that it would be shaped by the developments in the Turkish National Assembly. Their rhetoric about the possibility of a decisive war and the mention of their "futile unilateral efforts for the peace process" do not sound very conducive to the process initiated by the AKP Government. Everyone is after dictating his own terms and agenda and that does not culminate in a very promising environment for policy discussion/implementation. As the process lingers on due to search for a higher consensus, implementation may easily become less feasible. Using the mandate vs. seeking consensus may be your options under all testing decision making cases, but one option does not entail a categorical superiority over the other under all conditions. That is where craftsmanship in politics enters the picture and your gut feeling is most probably your best guide.

1.2 Macro Data

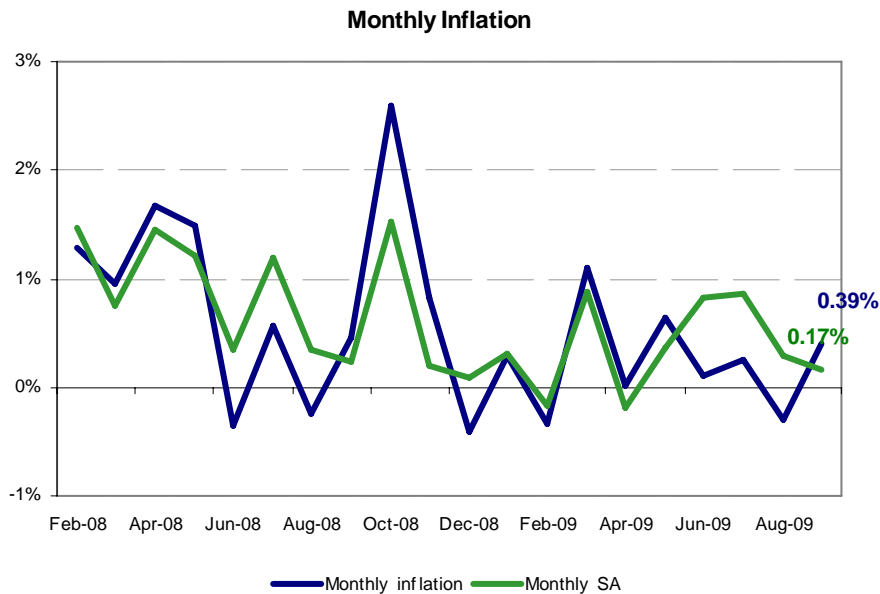
September inflation at 0.39% came lower than market’s expectation and much lower than ours and brought down the 12-month inflation figure to 5.27%. Seasonal factors do not seem to have had their usual impact and benign food inflation in particular was a significant contributor to the low monthly figure.

Figure 1.YoY Inflation



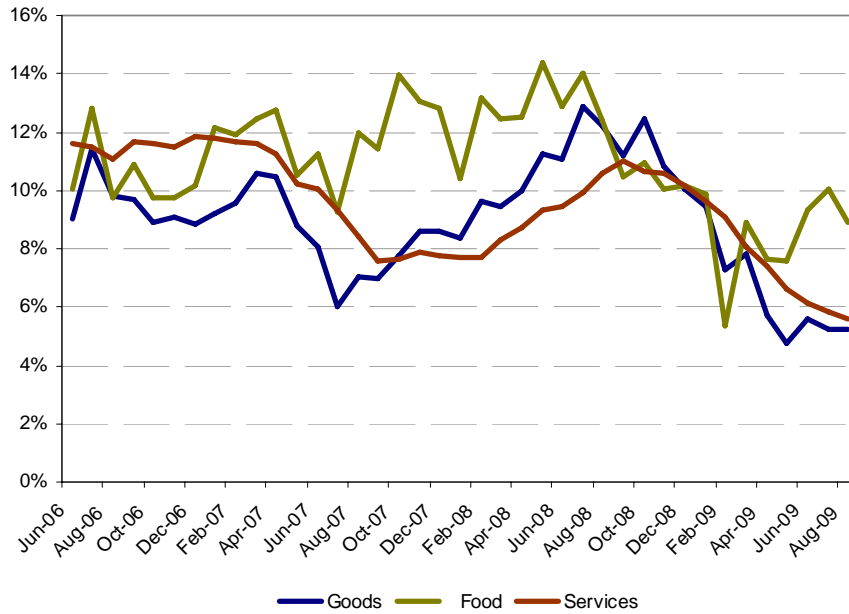
Source: TURKSTAT, Yapı Kredi Economic Research

Figure 2.MoM Inflation



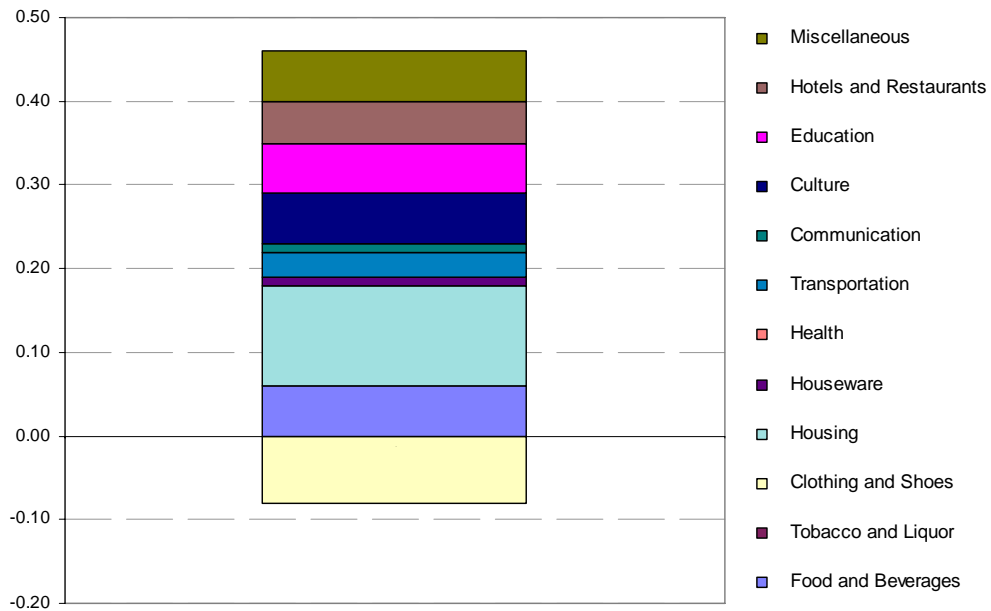
Source: TURKSTAT, Yapı Kredi Economic Research

Figure 3. EU Harmonized Goods and Services' Inflation



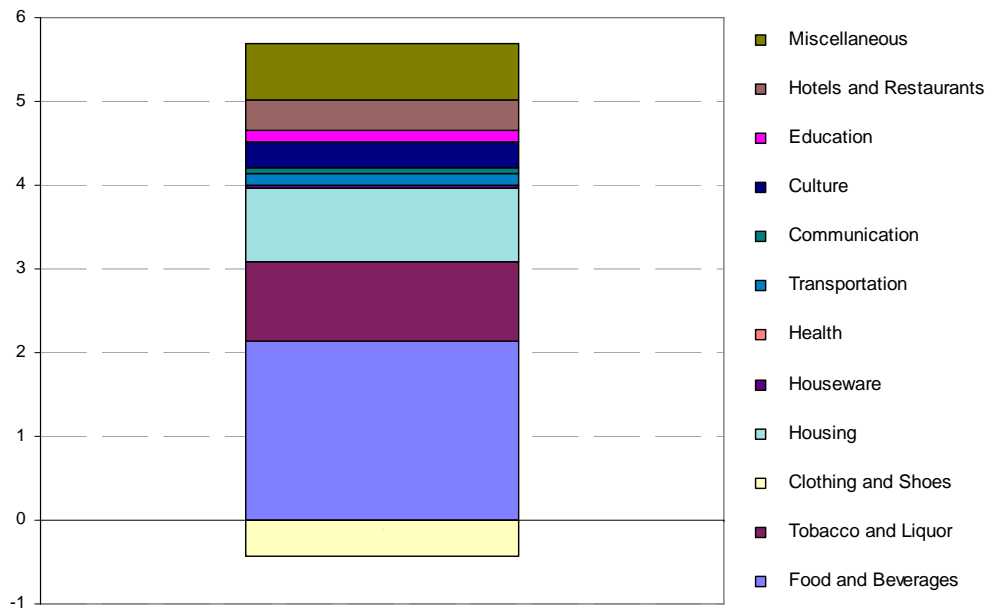
Source: CBRT

Figure 4. Contributions to Monthly Inflation



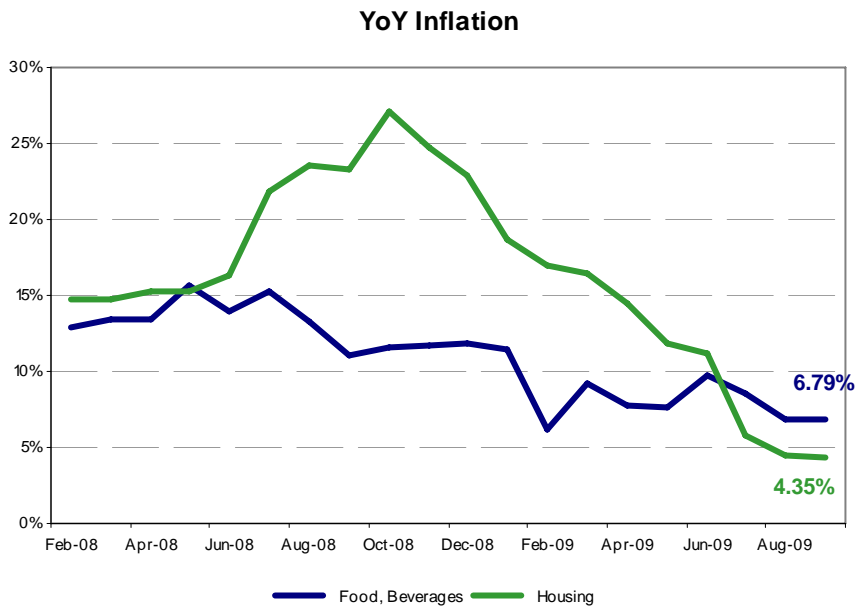
Source: TURKSTAT, Yapı Kredi Economic Research

Figure 5. Contributions to YoY Inflation



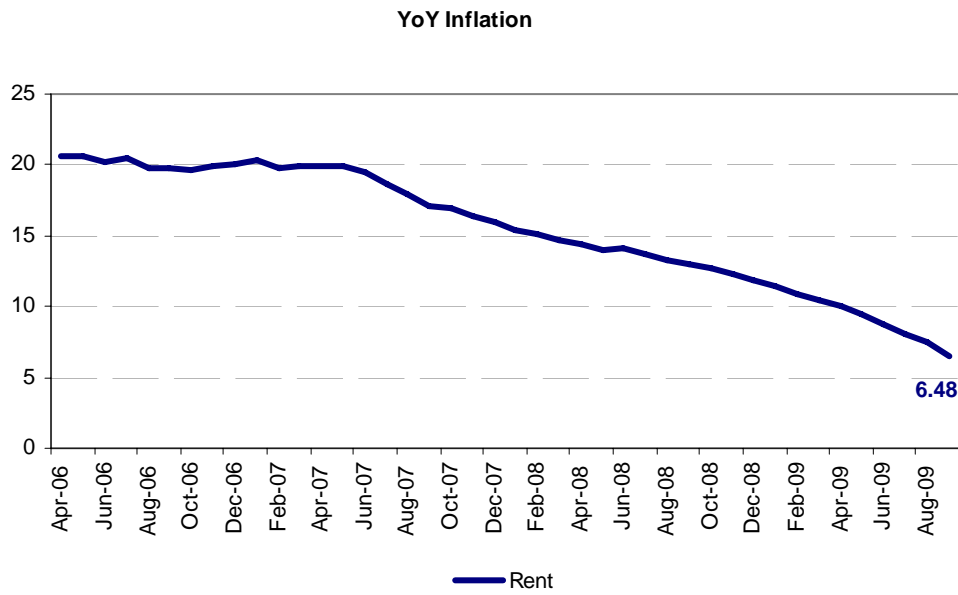
Source: TURKSTAT, Yapı Kredi Economic Research

Figure 6. Food and Beverages, and Housing Expenditure Groups' YoY Inflation



Source: TURKSTAT, Yapı Kredi Economic Research

Figure 7. Rent Inflation



Source: TURKSTAT, Yapı Kredi Economic Research

All special indices with the exception of Index A (excluding seasonal products) were down, and prospects also look promising despite the electricity price hike that will be impacting October inflation as well as the end to tax incentives that terminated as of September 30. The impact of the latter on inflation, the CBRT predicts, will be around 0.35 percentage points and that of the former around 0.6 percentage points. There should be a reservation regarding the second one though as price setters are not likely to exert full tax incidence on their prices and will probably to choose to smooth out the increase in prices over time in the absence of lacking demand. Take the hypothetical yet presumably reasonable example of these two impacts plus around 0.6 percentage point genuine inflation for October, adding up to roughly 1.6% inflation for the month of October. Given last year's humongous 2.6% inflation in October, year on year figure looks bound to be southbound to 4% levels. Staying there for a while is going to be difficult for reasons of base, but it would help immensely in establishing low inflation memory and rendering 5% levels very doable.

How if at all does this affect the CBRT's rate policy? **The minutes of the last MPC have created reasonable controversy among economists. Some opine that the tone has turned relatively hawkish, but we beg to differ.** Here are some selected pieces in the minutes document which we believe have quite dovish implications regarding policy likely to be adopted.

16..... In this respect, the Committee members stated that the improvement in credit conditions would not in itself be enough to end the easing cycle. Yet, given the increased perceptions that the economy had reached a turning point, it was concluded that a slowdown in the pace of rate cuts might be considered, keeping the options open depending on incoming information.

17. Overall, the Committee has reiterated that it would be necessary for monetary policy to maintain an easing bias for a long period of time. The size and the duration of the rate cuts would depend on the pace of the recovery in economic activity.

*18. Another factor affecting the outlook for monetary policy would be changes in risk perceptions. The global crisis has highlighted the resilience of the Turkish financial system, leading to an improvement of our relative creditworthiness. Provided that the global risk appetite continues to improve in the forthcoming period, this could lead to a **decline in imported inflation through the portfolio channel, increasing the probability of significantly undershooting the inflation targets**. Under such circumstances, the Central Bank of Turkey (CBT) would react by extending the easing cycle more than was envisaged in the Inflation Report.*

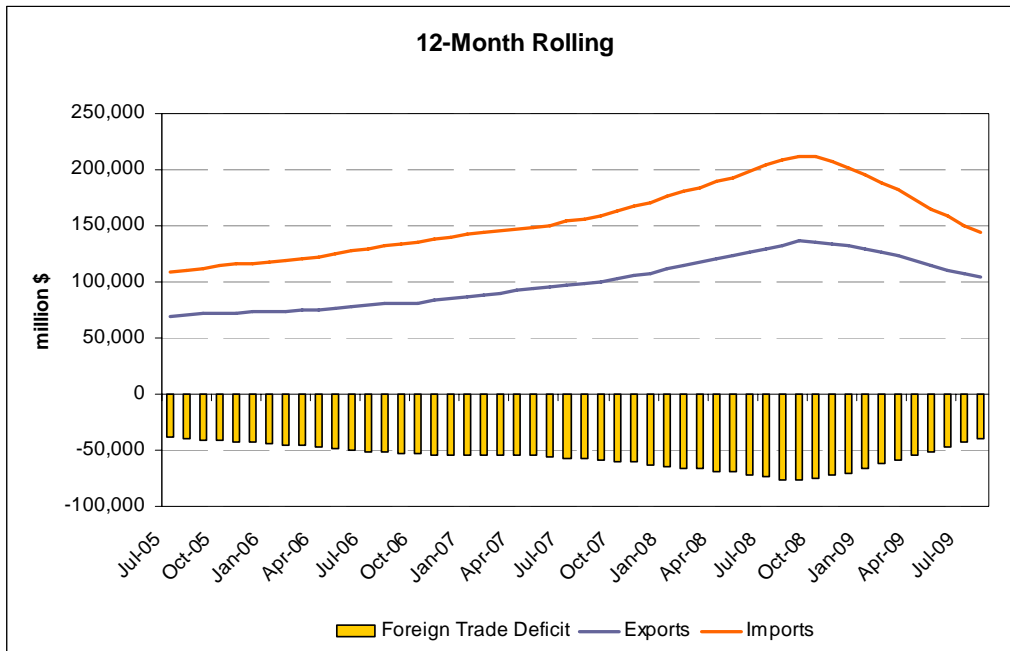
*19. An important factor that may affect the risk premium is fiscal policy. Should the framework outlined in the Medium Term Program be supported by structural adjustments which enhance fiscal discipline, the improvements in sovereign credit risk might continue, which in turn, would increase the probability of a further decline in interest rates. **In sum, further improvements in the risk premium may lead to a longer rate cut cycle.***

20.Prudent monetary policy is necessary but not sufficient to maintain the resilience of the economy against the global crisis. Therefore, strengthening the commitment to fiscal discipline and the structural reform agenda is also critical for facilitating expectations management and for supporting the effectiveness of the monetary policy decisions. In this respect, timely implementation of the structural reforms envisaged by the Medium Term Program and European Union accession process remains to be of utmost importance.

What do we make of the minutes notes above? Easing tendency will continue as relatively more benign credit conditions will not be enough to end the cycle the Committee asserts, but cutting some more and staying flat for an extended time period, does that correspond to a continuation in the easing cycle? In other words, not resorting to hikes for an extended time period a la Fed may also be taken as continuation of the easing cycle and it may be more or less over with cuts in about say two months. Or does it mean continuing to cut for an extended period albeit by smaller amounts i.e. by 25 bps? Difficult to say; in principle, even the current stance may be corresponding to tight monetary policy given the significant output gap and the huge deviation of inflation from the targeted level and easing bias may virtually mean cutting. **We believe the CBRT will be quite responsive to conditions regarding credits and economic activity and we stick to our call for a total of 50 bps cuts for the remainder of the year admitting that the risk remains on the downside for more cuts.**

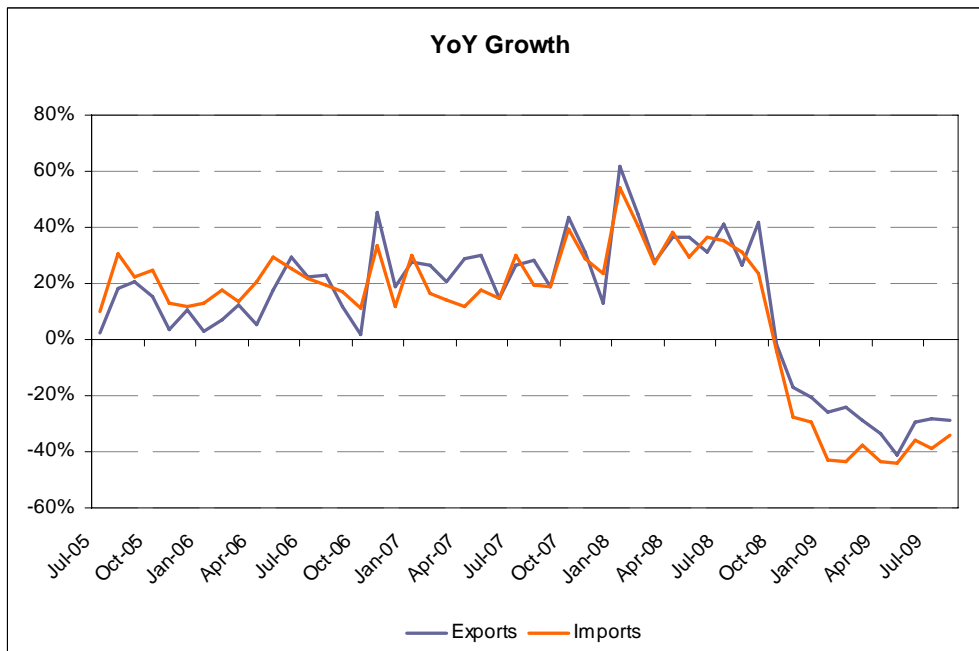
Foreign trade deficit for the month of August came at USD 4.9 billion bringing the 12-month rolling figure down to USD 39.6 billion from 43.0 billion a month ago and precipitously from 75.3 billion 10 months ago. The reduction has been unabated so far but expect the pace to mellow down with the base effect kicking in as of the last quarter of the year.

Figure 8. Foreign Trade 12-Month Rolling



Source: TURKSTAT, Yapı Kredi Economic Research

Figure 9. Exports & Imports YoY Growth

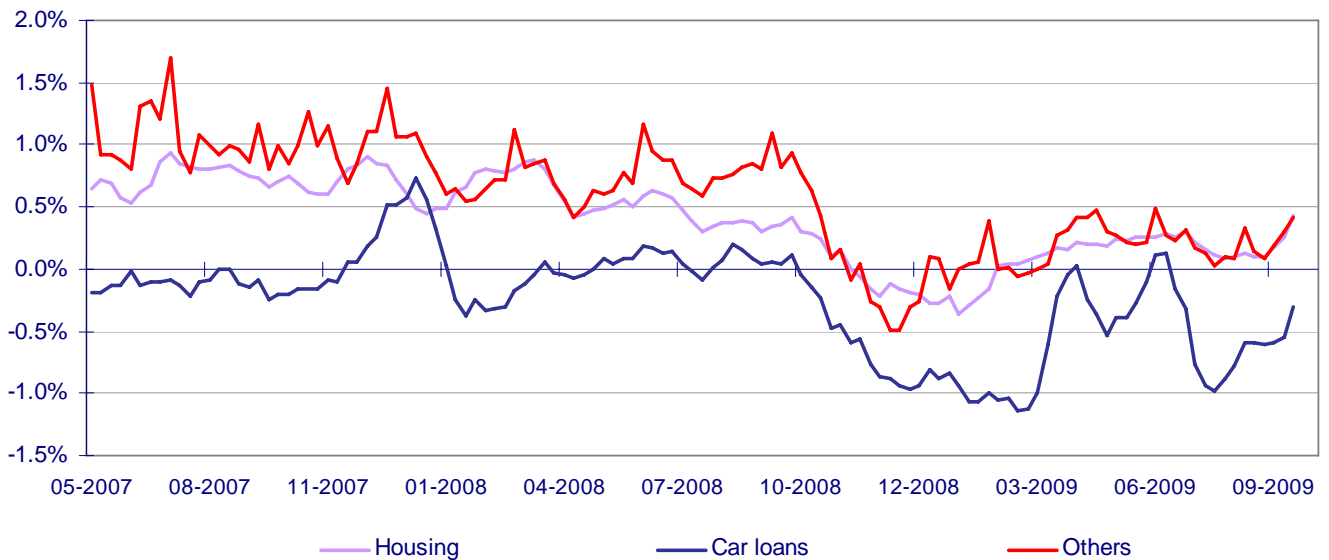


Source: TURKSTAT, Yapı Kredi Economic Research

1.3 Weekly Data (all weekly data terminate at September 18, 2009 while consumer credits are one extra week updated)

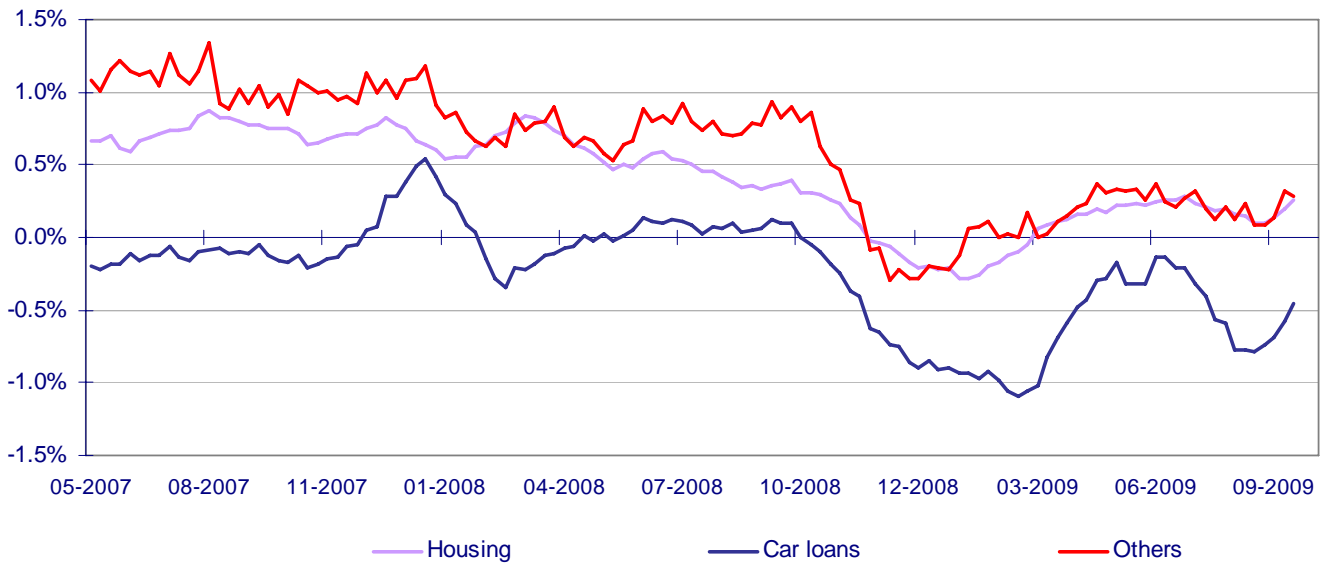
Auto loans continue their free fall and nothing surprising there but **housing loans that had been displaying a very aggressive potential for upward trend formation with three digit increases in the last three data weeks suddenly put on the breaks with a mere increase of TL 39 million.** Commercial credit volume was down from a week ago and is below its level at the end-November level in 2008. Taking into account the inflation from that period onward and the fact that the rollovers since then included interest payments, it is not difficult to conclude that credit extension has been dismal or at best not growth-serving put mildly.

Figure 10. Consumer Credit Volume (*)



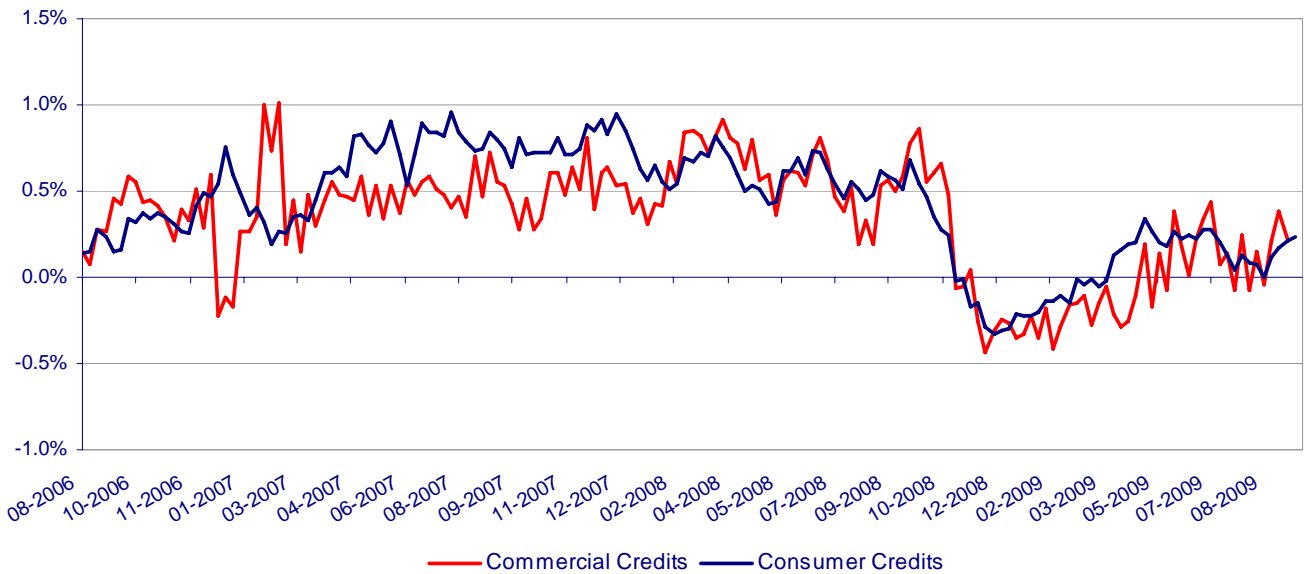
Source: Central Bank of Turkey, Yapı Kredi Economic Research
 (*)Weekly % change of 4W moving average

Figure 11. Consumer Credit Volume (*)



Source: Central Bank of Turkey, Yapı Kredi Economic Research
 (*)Weekly % change of 8W moving average

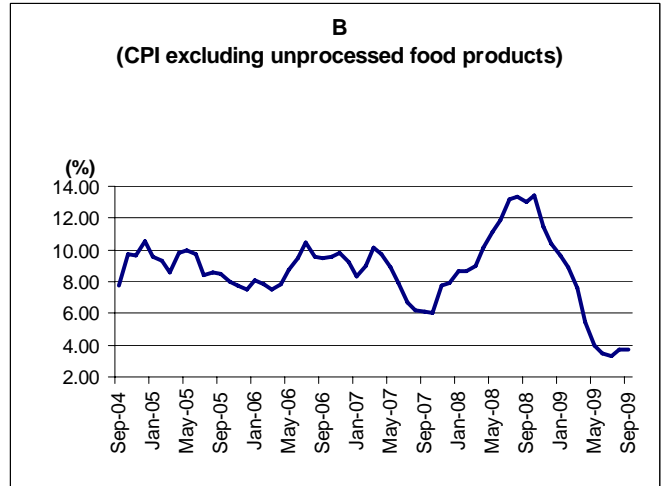
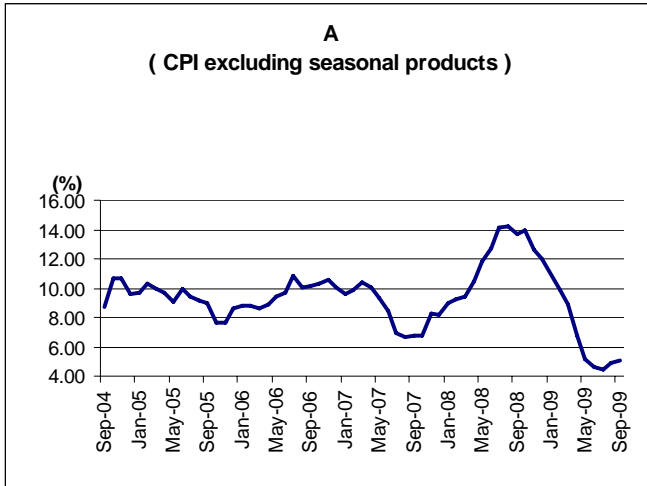
Figure 12. Commercial & Consumer Credit Volume (*)



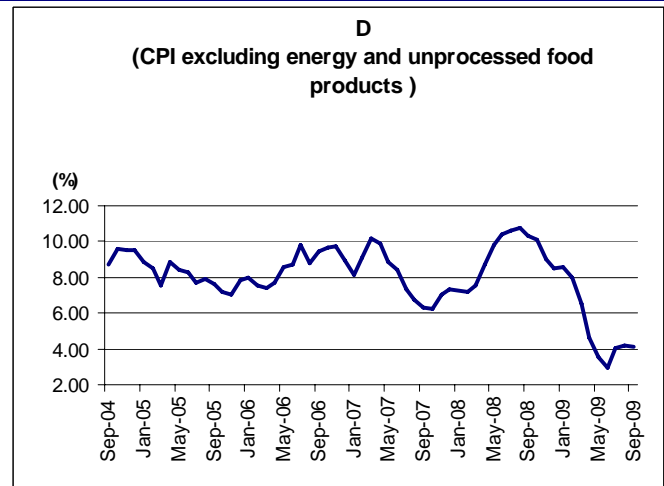
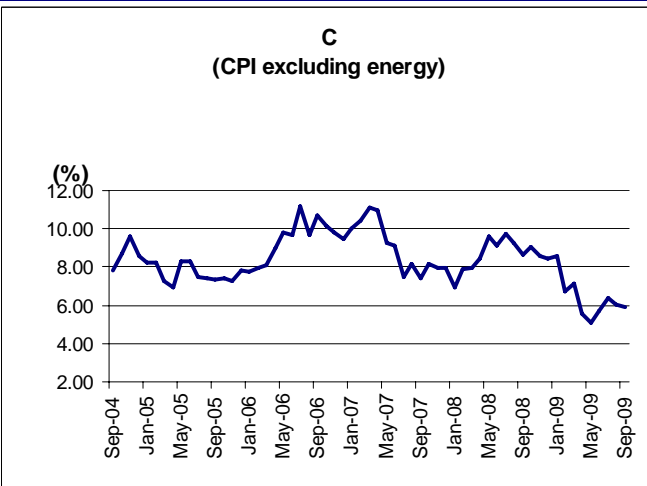
Source: Central Bank of Turkey, Yapı Kredi Economic Research
 (*)Weekly % change of 6W moving average

1.4 Appendix

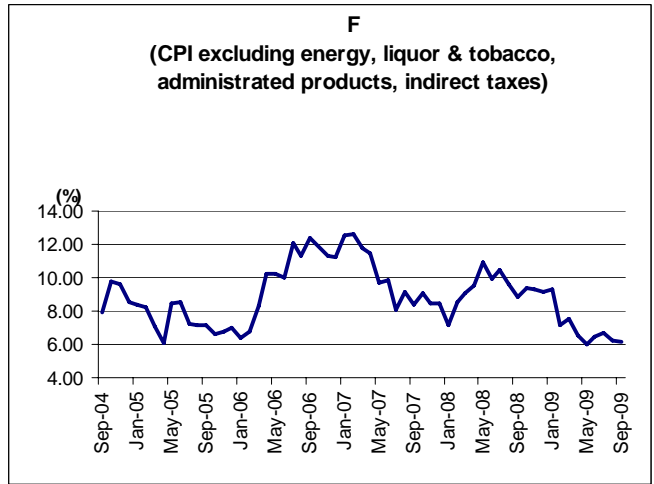
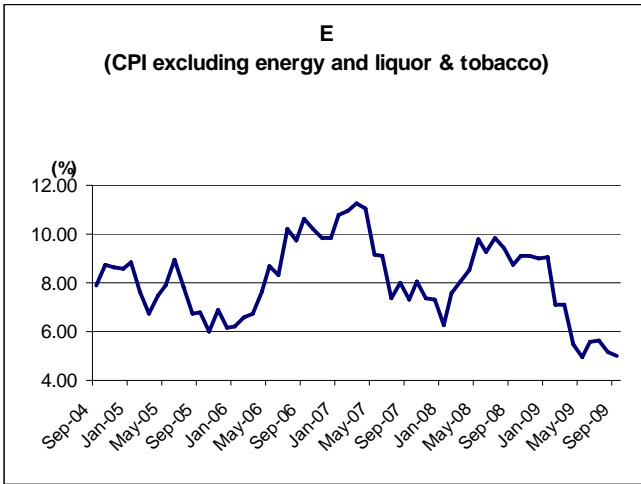
Special CPI



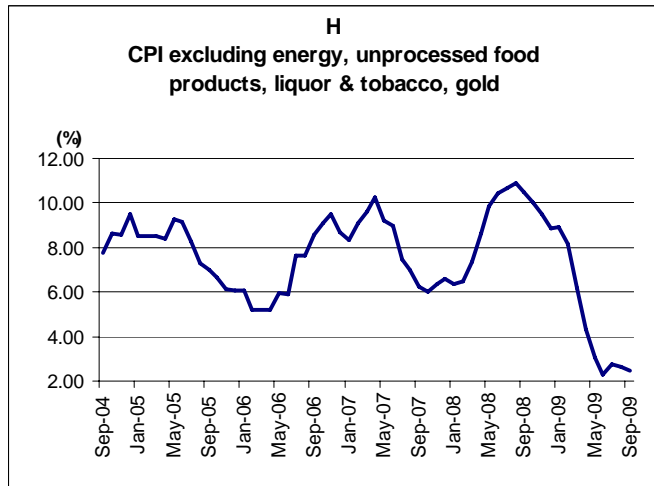
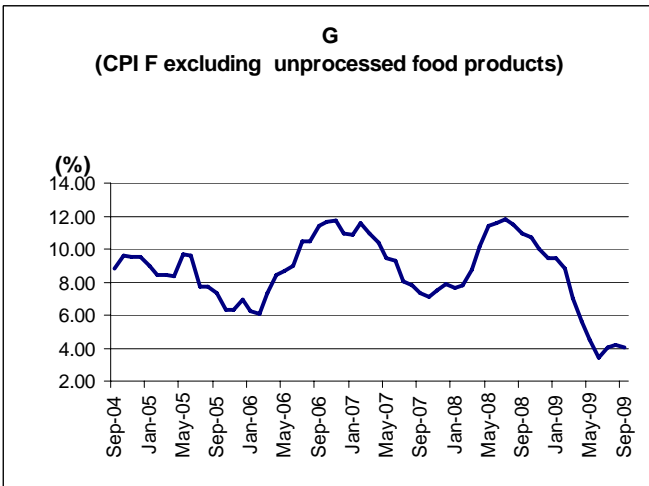
Source: TURKSTAT, Yapı Kredi Economic Research



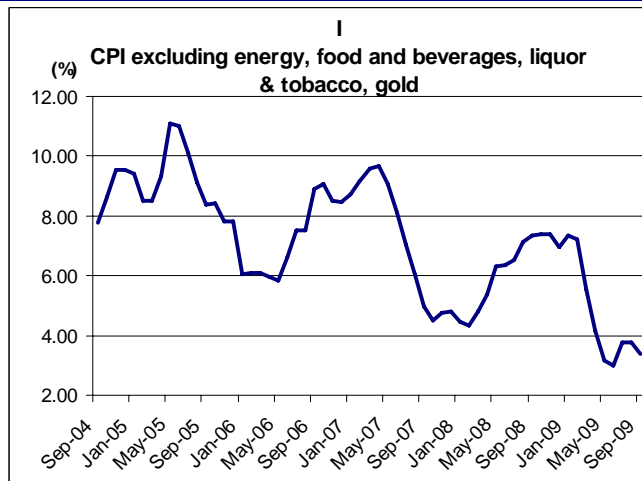
Source: TURKSTAT, Yapı Kredi Economic Research



Source: TURKSTAT, Yapı Kredi Economic Research



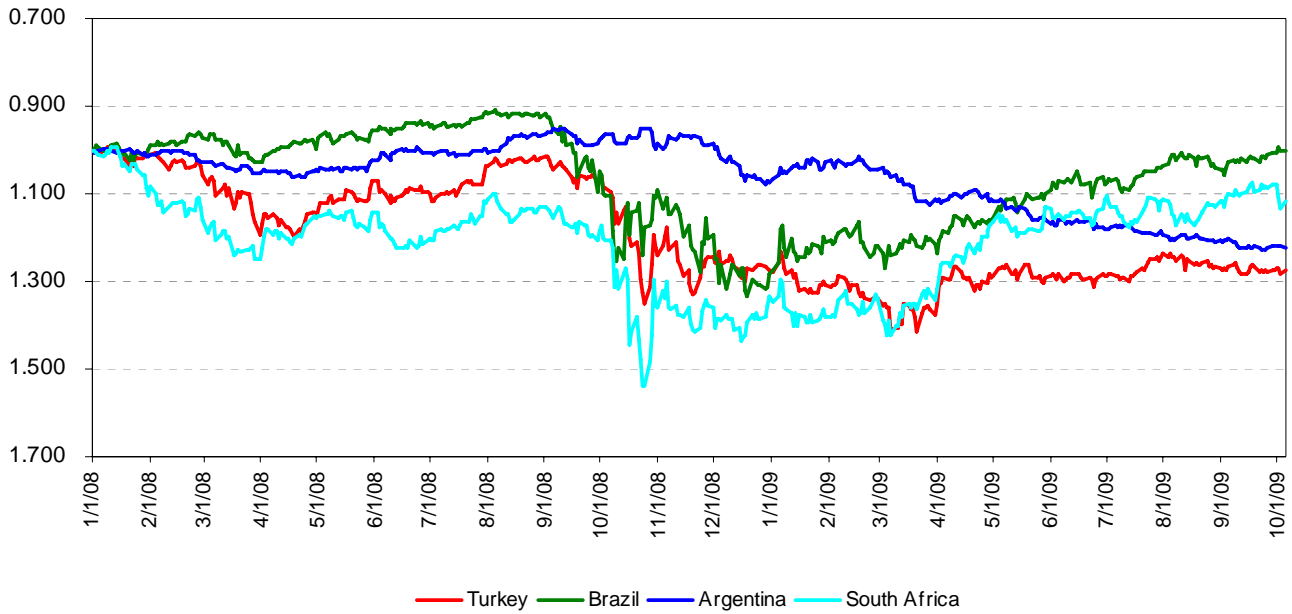
Source: TURKSTAT, Yapı Kredi Economic Research



Source: TURKSTAT, Yapı Kredi Economic Research

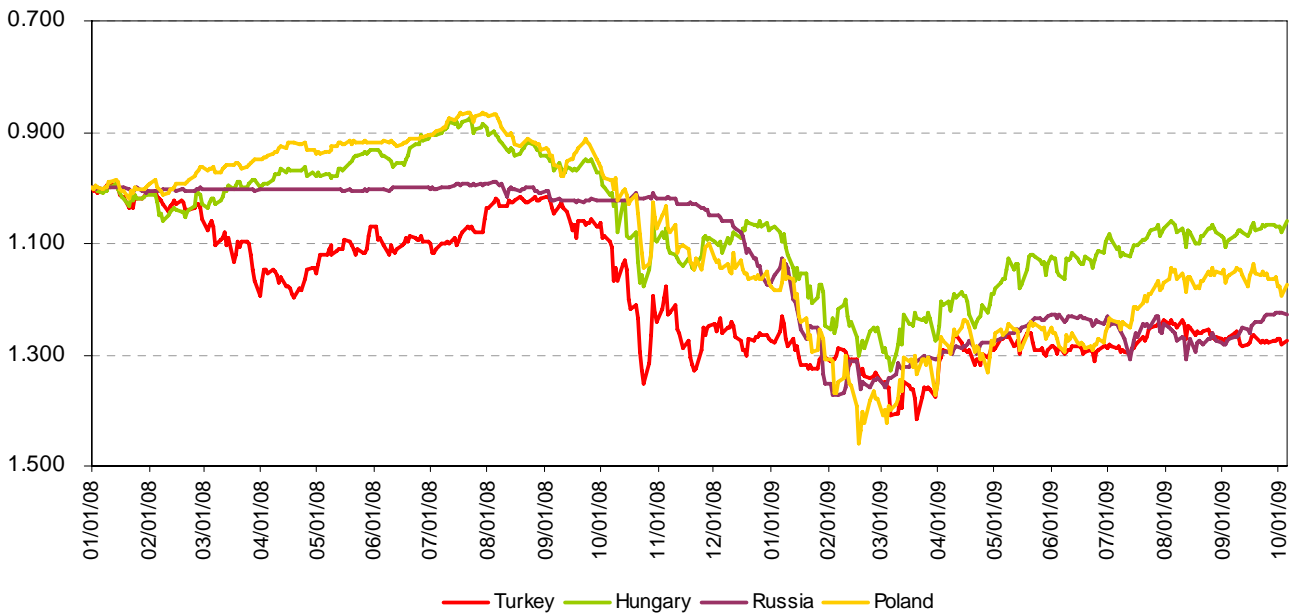
Currency Performances

Figure 13. Turkey, South Africa, Latin America 1/Jan/2008=1.00 (*)



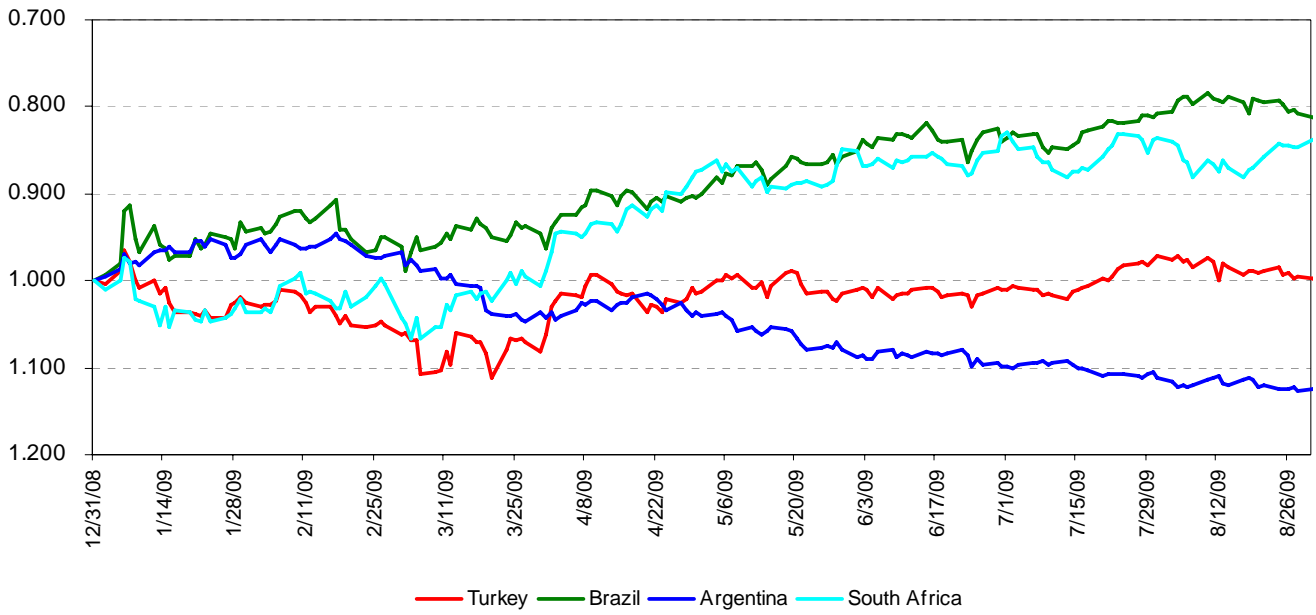
Source: Reuters, Yapı Kredi Economic Research

Figure 14. Turkey, Eastern Europe 1/Jan/2008=1.00 (*)



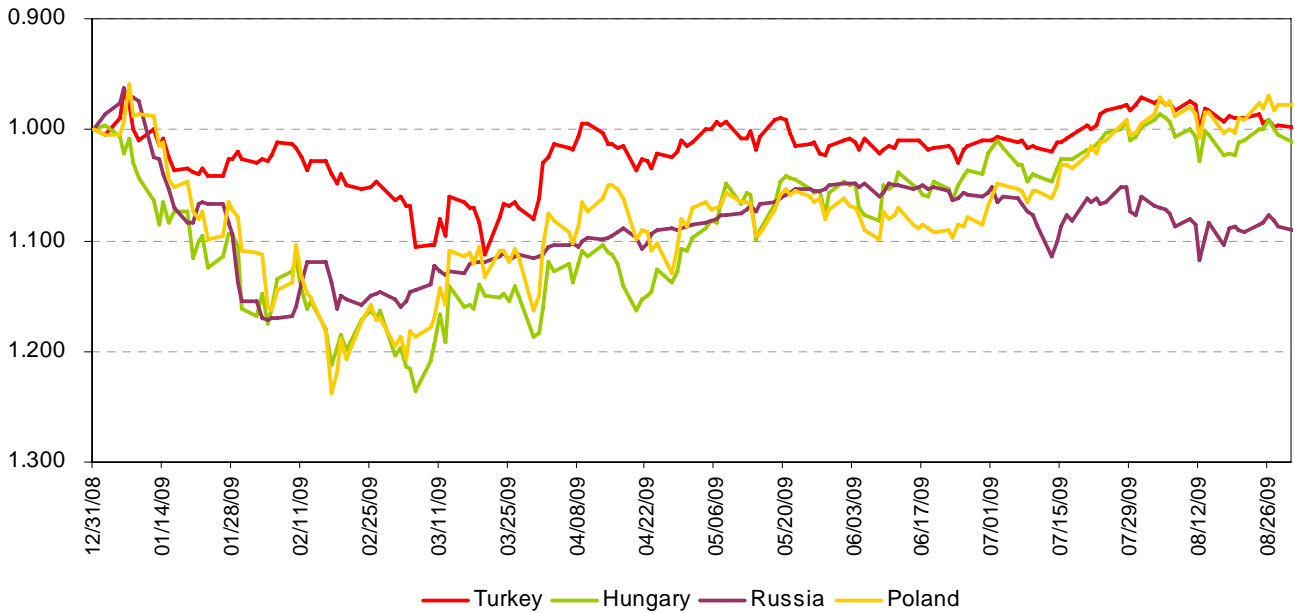
Source: Reuters, Yapı Kredi Economic Research

Figure 15. Turkey, South Africa, Latin America 1/Jan/2009=1.00 (*)



Source: Reuters, Yapı Kredi Economic Research

Figure 16. Turkey, Eastern Europe 1/Jan/2009=1.00 (*)

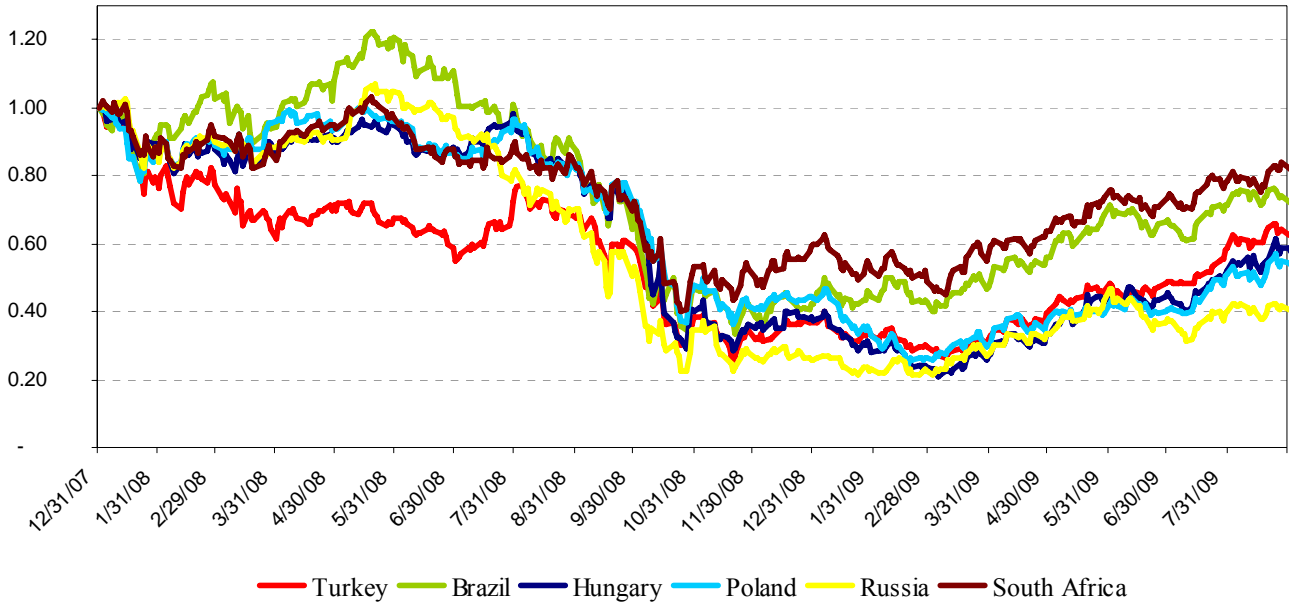


Source: Reuters, Yapı Kredi Economic Research

(*) Currency performances are calculated against a basket consisting of 0,5 USD+0,5 EUR to neutralize movements of the USD/EUR rate. Y axes in the graphs are inverted. Hence downward move of the curve means depreciation of the currency

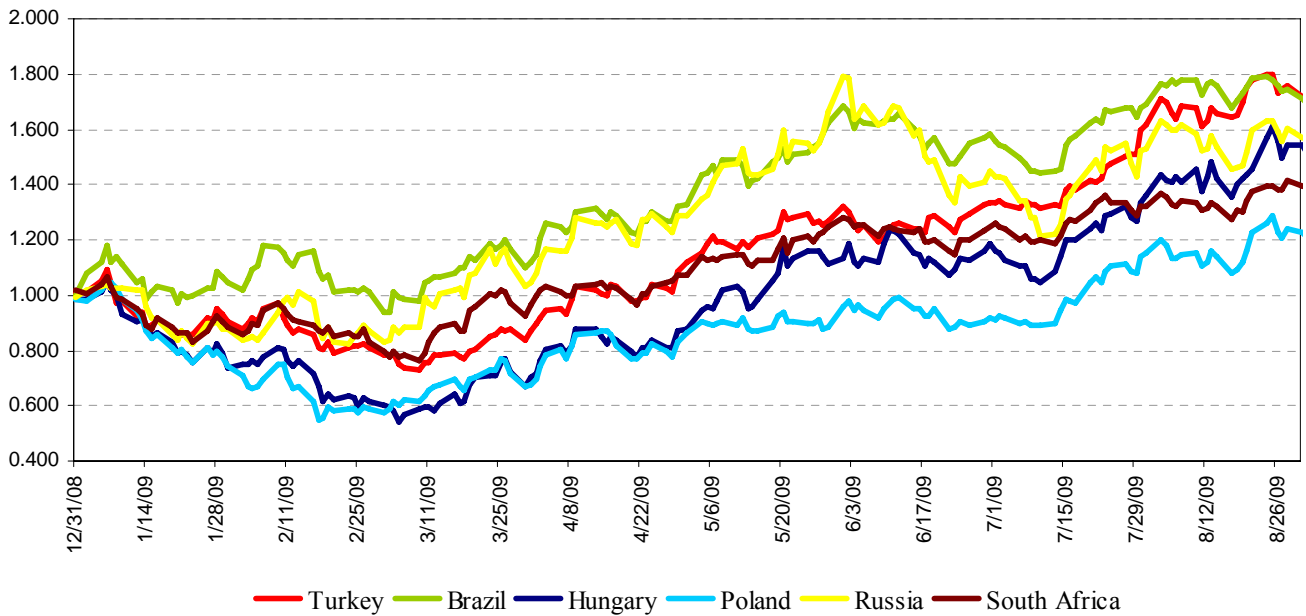
MSCI

Figure 17. MSCI Turkey versus Other Selected Emerging Markets (12/31/2007=1.00)



Source: Reuters, Yapı Kredi Economic Research

Figure 18. MSCI Turkey versus Other Selected Emerging Markets (12/31/2008=1.00)



Source: Reuters, Yapı Kredi Economic Research

Banking Sector - Highlights of the BRSA's Weekly Data						Change (%)			
Funding - TRY mn	2008	Jul-09	Aug-09	18-Sep-09	25-Sep-09	Chg.WoW 25-Sep / 18-Sep	Chg.MoM Sep-09 / Aug-09	Chg.QoQ 3Q09 / 2Q09	Chg.YTD 25-Sep-09 / Dec-08
1) Deposits	445,439	466,692	464,728	467,558	470,956	0.7%	1.3%	1.7%	5.7%
<i>- Deposit Breakdown</i>									
i) TL Deposits	288,433	300,863	296,977	299,280	300,350	0.4%	1.1%	0.8%	4.1%
- TL Demand Deposits	37,503	43,200	37,221	39,678	38,872	-2.0%	4.4%	-2.6%	3.7%
- TL Time Deposits	250,930	257,663	259,756	259,602	261,478	0.7%	0.7%	1.4%	4.2%
ii) FX Deposits (US\$ mn)	104,873	112,878	112,585	114,607	115,204	0.5%	2.3%	7.0%	9.9%
- FX Demand Deposits (US\$ mn)	15,835	18,788	19,361	19,760	19,905	0.7%	2.8%	10.6%	25.7%
- FX Time Deposits (US\$ mn)	89,038	94,090	93,223	94,847	95,299	0.5%	2.2%	6.3%	7.0%
2) Funds from Domestic Banks	3,987	4,913	4,838	4,464	4,344	-2.7%	-10.2%	-15.4%	9.0%
3) Funds from Foreign Banks	78,153	70,166	70,965	69,646	70,493	1.2%	-0.7%	-4.1%	-9.8%
4) Shareholders Equity	85,816	100,559	100,939	101,124	101,693	0.6%	0.7%	4.9%	18.5%
Total Liab. and Shrs. Equity*	706,949	730,453	737,691	739,211	744,609	0.7%	0.9%	0.8%	5.3%
<i>*Weekly "Total Liab. and Shrs. Equity" figures are Strategic Planning and Research estimates</i>									
Placements - TRY mn	2008	Jul-09	Aug-09	18-Sep-09	25-Sep-09	Chg.WoW 25-Sep / 18-Sep	Chg.MoM Sep-09 / Aug-09	Chg.QoQ 3Q09 / 2Q09	Chg.YTD 25-Sep-09 / Dec-08
1) Liquid Assets	41,830	40,471	38,821	36,465	38,740	6.2%	-0.2%	-2.4%	-7.4%
2) Due from Banks	30,458	37,425	37,700	34,339	36,088	5.1%	-4.3%	-2.6%	18.5%
3) Loans	353,120	350,794	348,933	350,859	350,991	0.0%	0.6%	-0.5%	-0.6%
<i>- Loan Breakdown</i>									
TL Loans	247,671	252,487	249,750	251,323	251,131	-0.1%	0.6%	-0.3%	1.4%
FX Loans (US\$ mn)	70,436	66,916	66,566	67,790	67,432	-0.5%	1.3%	2.4%	-4.3%
4) Non-Performing Loans (Net)	2,366	3,433	3,567	3,505	3,562	1.6%	-0.1%	10.1%	50.5%
5) Securities Portfolio	192,812	225,282	234,946	237,961	237,313	-0.3%	1.0%	7.6%	23.1%
- TL Securities	144,876	177,175	186,154	189,395	189,075	-0.2%	1.6%	10.0%	30.5%
- FX Securities (US\$ mn)	32,019	32,746	32,746	33,076	32,573	-1.5%	-0.5%	2.7%	1.7%
6) Other Assets	86,363	73,048	73,724	76,082	77,915	2.4%	5.7%	-8.6%	-9.8%
Total Assets*	706,949	730,453	737,691	739,211	744,609	0.7%	0.9%	0.8%	5.3%
<i>*Weekly "Total Assets" figures are Strategic Planning and Research estimates</i>									
Other Indicators - TRY mn	2008	Jul-09	Aug-09	18-Sep-09	25-Sep-09	Chg.WoW 25-Sep / 18-Sep	Chg.MoM Sep-09 / Aug-09	Chg.QoQ 3Q09 / 2Q09	Chg.YTD 25-Sep-09 / Dec-08
FX Pos. - Balance Sht.-(US\$ mn)	-4,153	-10,188	-10,079	-11,812	-11,855	0.4%	17.6%	42.0%	185.5%
Foreign Exchange Net General Position (US\$ mn)	-82	579	915	346	398	15.2%	-56.4%	9.5%	-584.9%
Securities Held Under Custody (Nominal)	101,399	103,656	102,287	101,111	100,879	-0.2%	-1.4%	-1.3%	-0.5%
- Residents (Nominal)	72,849	76,521	75,020	73,991	73,782	-0.3%	-1.7%	-2.3%	1.3%
- Non-Residents (Nominal)	28,551	27,137	27,267	27,121	27,096	-0.1%	-0.6%	1.7%	-5.1%
TRY/US\$ rate - (period-end)	1.4971	1.4691	1.4900	1.4683	1.4809	0.9%	-0.6%	-3.4%	-1.7%
Ratios	2008	Jul-09	Aug-09	18-Sep-09	25-Sep-09	Chg.WoW 25-Sep / 18-Sep	Chg.MoM Sep-09 / Aug-09	Chg.QoQ 3Q09 / 2Q09	Chg.YTD 25-Sep-09 / Dec-08
Loan Structure									
TL Loans/Total Loans	70.1%	72.0%	71.6%	71.6%	71.5%	-0.1	0.0	0.2	1.4
Consumer Loans/Total Loans	23.1%	23.9%	24.1%	24.2%	24.3%	0.0	0.2	0.6	1.2
Home Loans/Consumer Loans	46.3%	46.3%	46.4%	46.5%	46.5%	0.0	0.1	0.2	0.2
Auto Loans/Consumer Loans	6.6%	5.3%	5.2%	5.1%	5.1%	0.0	-0.1	-0.5	-1.6
Personal Need Loans/Consumer Loans	47.1%	48.4%	48.4%	48.4%	48.5%	0.1	0.0	0.3	1.4
Credit Card Loans/Total Loans	9.5%	10.1%	10.0%	9.9%	10.0%	0.0	-0.1	0.1	0.5
Commercial Installment Loans/Total Loans	10.7%	10.1%	10.0%	9.9%	9.9%	0.0	-0.1	-0.2	-0.8
Corporate & Commercial Loans/Total Loans	56.8%	56.0%	55.9%	55.9%	55.9%	0.0	0.0	-0.5	-0.9
Asset Quality									
NPL Ratio	3.4%	4.9%	5.1%	5.2%	5.2%	0.0	0.1	0.6	1.9
NPL Provision Rate	80.8%	81.1%	81.0%	81.9%	81.7%	-0.2	0.6	0.6	0.8
Consumer Loan NPL Rate	2.2%	3.8%	3.9%	4.0%	4.0%	0.0	0.1	0.6	1.8
Credit Card NPL Rate	6.7%	9.6%	9.7%	10.2%	10.2%	0.0	0.5	1.3	3.6
Commercial Installment Loans NPL Rate	4.5%	7.6%	7.6%	8.0%	8.2%	0.2	0.6	1.5	3.8
Corporate / Commercial Loans NPL Rate	3.1%	4.0%	4.3%	4.3%	4.3%	0.0	0.0	0.3	1.2
Other Key Ratios									
Off-balance Sheet Liab./Total Assets	63.9%	67.4%	66.9%	71.2%	74.5%	3.3	7.6	9.5	10.6
FX Balan. Sheet Pos./Shrs. Equity	-7.2%	-14.9%	-14.9%	-17.2%	-17.3%	-0.1	-2.4	-4.1	-10.0
Sec. Under Custody (Residents)/Sec. Under Custody (Total)	71.8%	73.8%	73.3%	73.2%	73.1%	0.0	-0.2	-0.8	1.3

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