

VAKIFBANK TURKISH ECONOMY WEEKLY

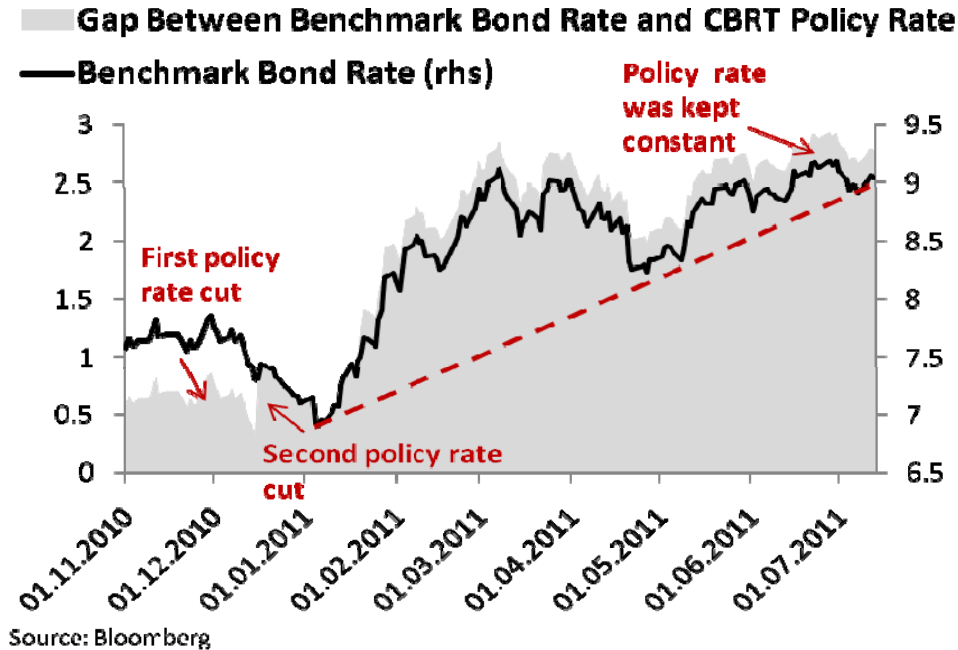
Markets and Foreign Investor's Holding Ratios



T. Vakıflar Bankası T.A.O



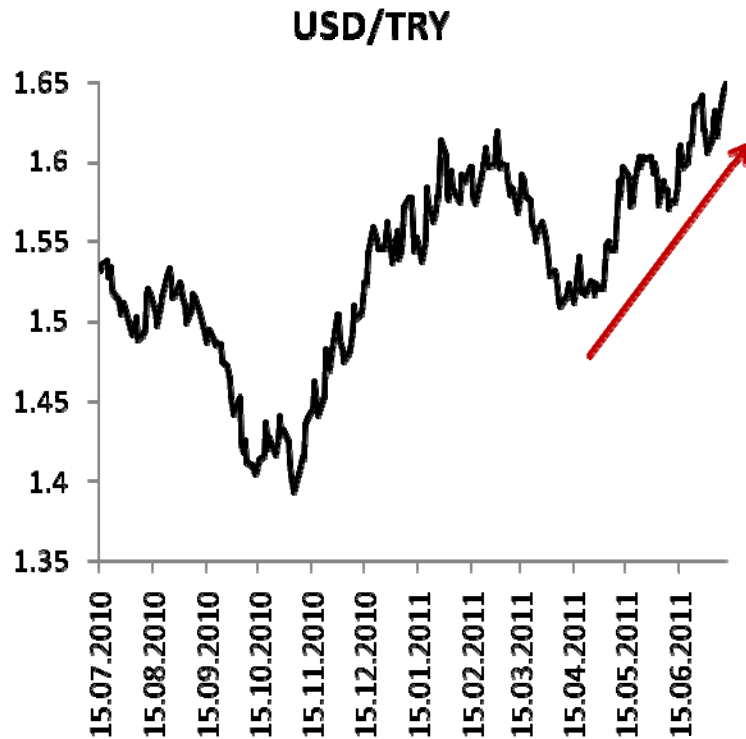
Benchmark bond rate continues to increase since the beginning of 2011...



- After policy rate cuts in December and January, purchase was seen in Turkey's Bond Market and benchmark bond yield has decreased fastly.
- After policy rate was kept constant, benchmark bond rate started to increase. Moreover, gap between the benchmark bond rate and CBRT policy rate has increased sharply.

- Benchmark bond rate has increased since the beginning of 2011, because high current account deficit continues, increasing required reserve ratio caused concerns about banking profitability, risk appetite decreased in global markets and investors move away from risky assets.
- On the other hand in the last CBRT's meeting policy rate was kept constant which was parallel to market consensus, and this caused a limited decrease in the benchmark bond rate.
- However, increasing concerns about developed countries, decreasing risk appetite and CBRT's policy rate decision may support upward movement on benchmark bond rate.

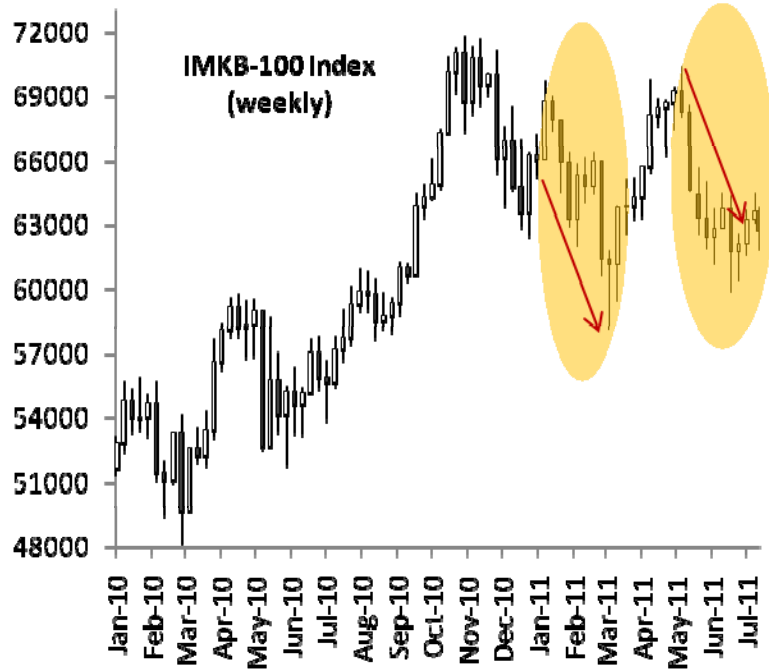
USD/TRY moves upwardly for the last three months...



Source: Reuters

- ✔ High current account deficit, high inflation rate and CBRT's stable interest rate decision caused weakness in the TRY.
- ✔ Moreover, measures taken to reduce the current account deficit were not effective as expected and this causes expectations for the new measures and pressures on TRY.
- ✔ Fragilities in Euro Zone increase the value of dollar against euro and decrease the global risk appetite. These resulted in decrease in the demand for TRY as a currency of the EM.
- ✔ CBRT decreased the daily amount of foreign exchange to be purchased in auctions from USD 50 million to USD 40 million by taking into account the recent increases in the USD/TRY.

IMKB 100 index in 2011...

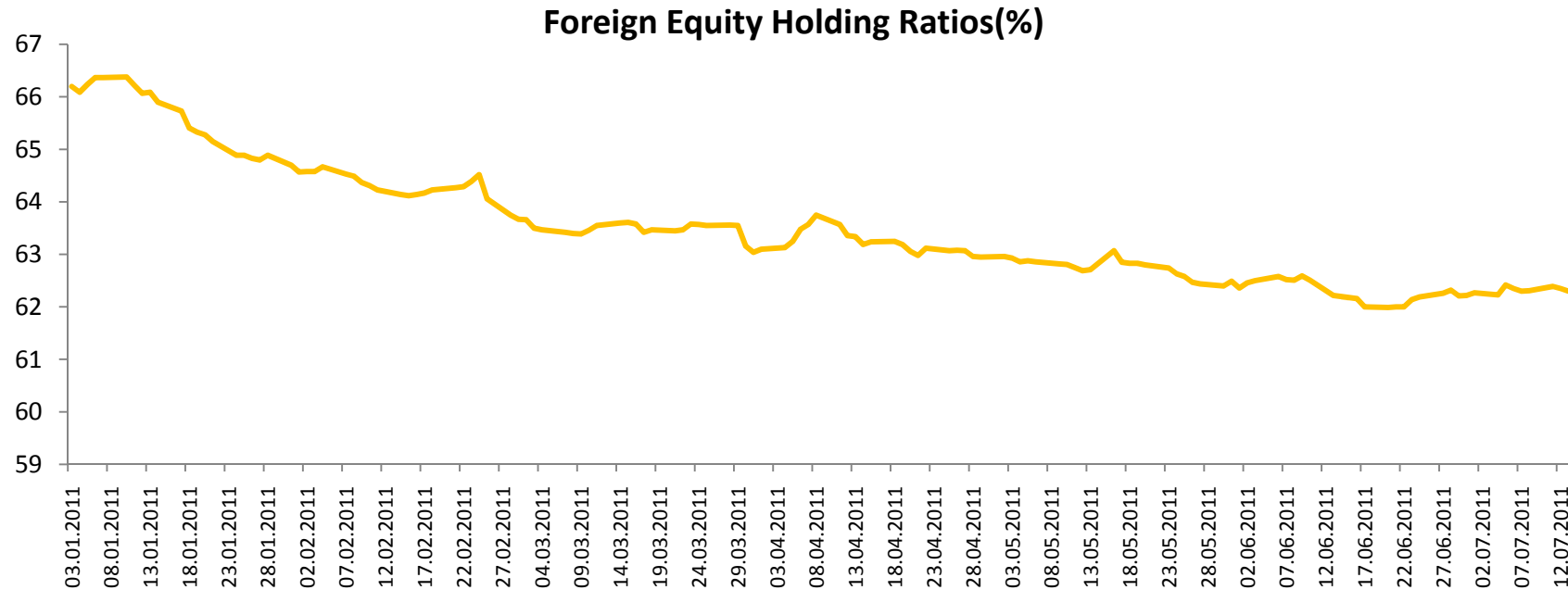


Source: Bloomberg




- ✔ After CBRT's signal of cutting in interest rates in the last months of 2010, the decrease in benchmark interest rate to its lowest level in the history and the positive atmosphere in global economies led to an increase in IMKB-100 index at the beginning of the 2011.
- ✔ However, in the first half of 2011 the 25 basis point cut in interest rate and the increase in required reserve ratio led to some concerns in banking sector. Hence, increased sell-off in banking shares led to decreases in IMKB banking index.
- ✔ As well as the sectoral decreases in index, increasing oil prices with the effect of unrets in Middle East caused to concerns about inflation and current account deficit. Hence IMKB-100 index moved downwardly during the eight weeks in the beginning of 2011.

- ✔ After these decreases, in the first week of May 2011, index examined the 70.000 level and reached to 70.335 which was the highest level in 2011.
- ✔ However this increase turned downward again because of high current account deficit and the concerns about Greece. As a result index decreased by 11.8% and reached to 62.072.
- ✔ On the other hand, realization of trade deficit under the expectations and inflation rate above expectations affected the index limitedly. Hence index started to follow a horizontal course.

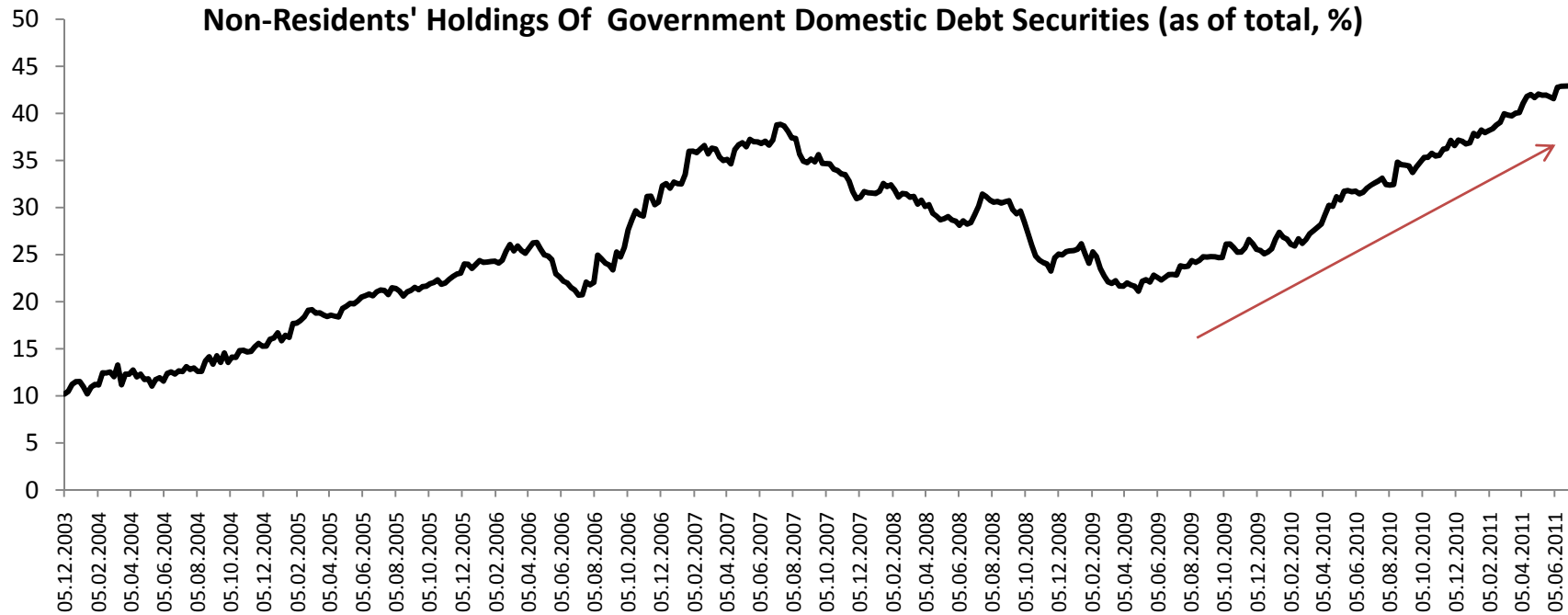
Foreign equity ratio ratio decreased from 66.4% to 62.2% ...






Source: Central Registry Agency

-  Uncertainty about debt ceiling negotiations in US and fiscal problems in Greece, Spain and Italy have caused increasing in risk perception. Raising volatility in global financial market have affected domestic equity market adversely.
-  Foreign equity holding ratio decreased from 66.4% to 62.2% in January 2011 – July 2011 period.
-  Foreign equity ratio which has been in horizontal trend in recent weeks, would move depending on investor's risk appetites

Non-residents hold about 42 percent of the stock of government domestic debt...



Source: CBRT

-  The share of the non-residents' holdings of government domestic started to increase in the second half of the 2008.
-  Non-residents hold about 42 percent of the stock of government domestic debt.
-  Currently, growing demand for government domestic debt by non-residents is affected by expectation for CBRT's monetary policy decisions.

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