

VAKIFBANK TURKISH ECONOMY WEEKLY

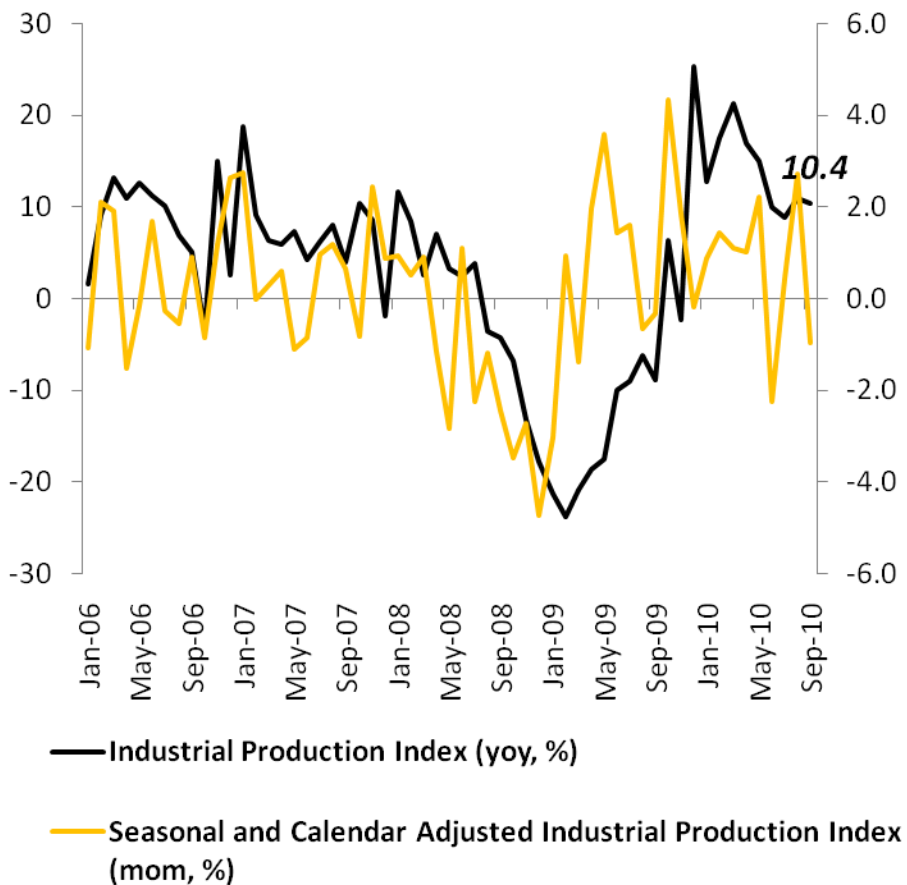
**Economic activity is moderating
in the second half of 2010**



T. Vakıflar Bankası T.A.O



Industrial production (IP) rose by 10.4% yoy in September 2010



Source: CBRT

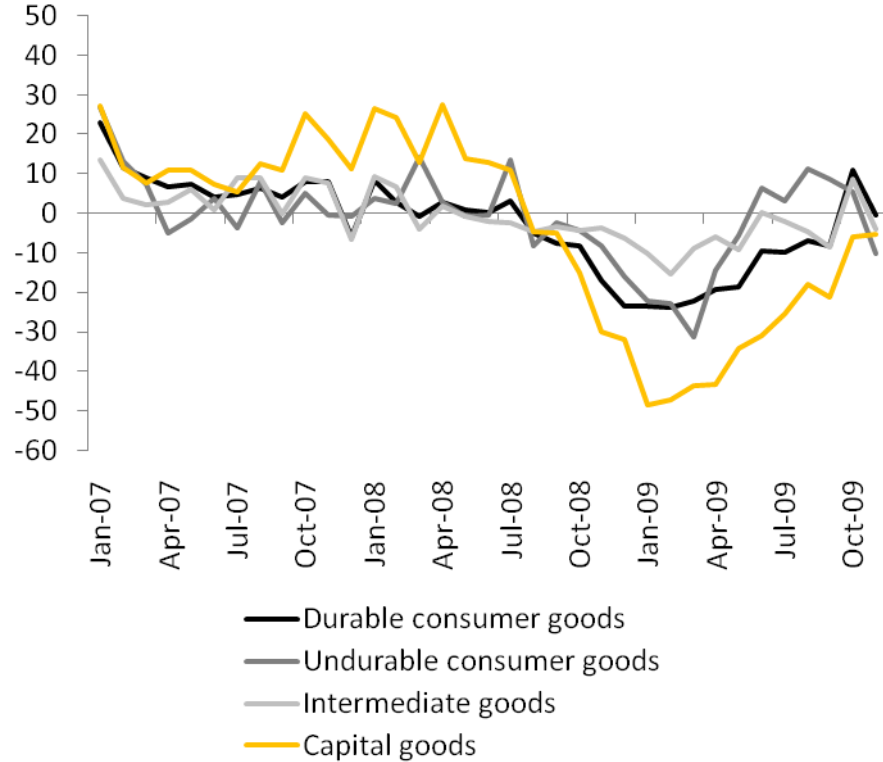
- Industrial production index (IP) increased 10.4% on the yearly basis and fell 1% mom in September.
- On the other hand, seasonal and calendar adjusted IP rose by 13.4% yoy, but it slowed down by 0.4% on the monthly basis.
- With the end of the strong basis effect the yearly increase of the IP is to turn into single digit numbers in the coming months.
- On the other hand, the good performance of IP in the third quarter forms an upward bias on our third quarter GDP forecast.

Sectors of IP exhibited good performance in September compared to the same period of last year

Table- Sectors of Industrial Production

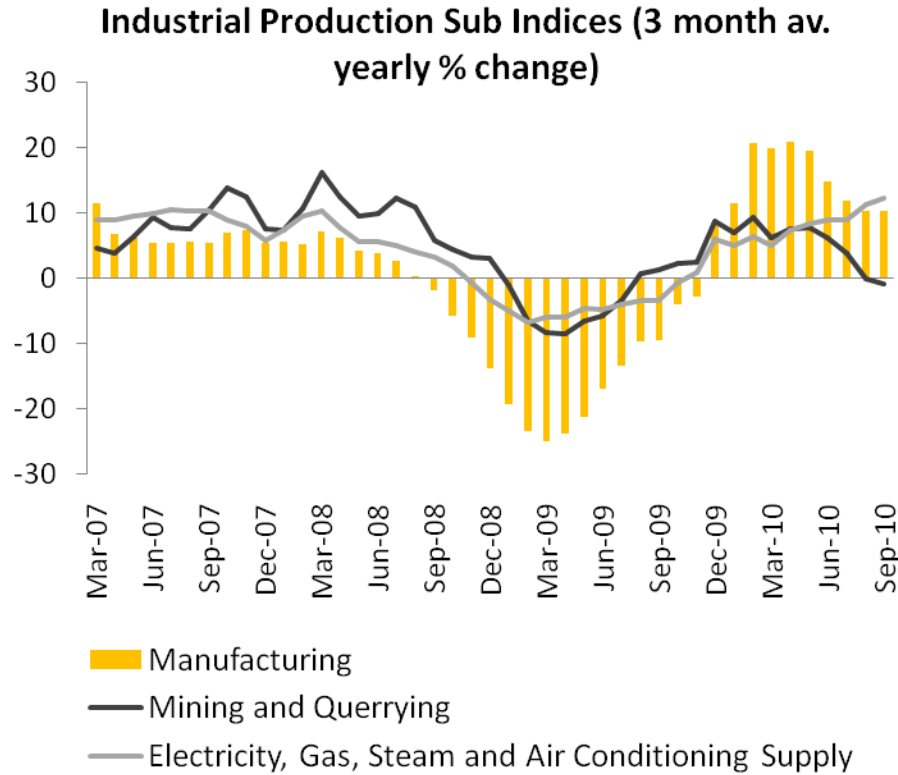
Sectors	YoY%	
	2009	2010
Petroleum Products	-32.5	7.2
Textile	-11.1	4.7
Food products	-13.5	12.9
Chemicals	5.5	8
Basic metals	-11.5	11.2
Other non-metallic mineral products	-14.4	15.3
Motor Vehicles	-14.2	19.4
Machinery and Equipment	6.1	22.1
Wearing apparel	-12.3	3.8

Source: Turkstat

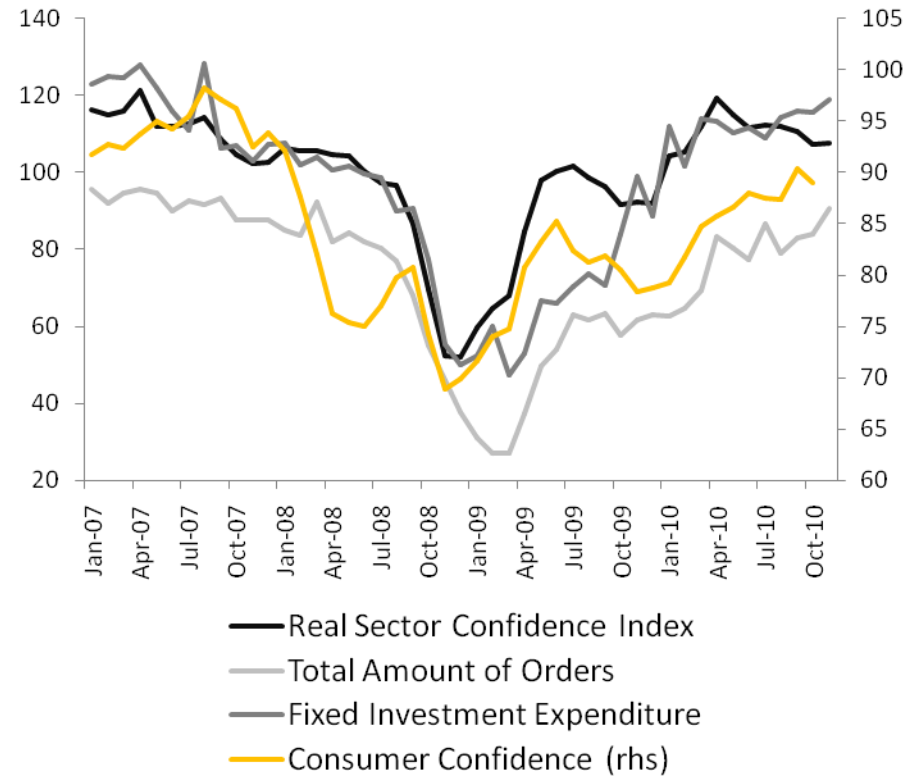


- ✔ In September the highest increase occurred in the machinery and equipment sector.
- ✔ The yearly comparison of the IP sectors shows a much positive climate in September 2010.
- ✔ But, the fact that the capital goods production is below its pre-crisis levels, might threaten the sustainability of the positive performance of IP in the coming period.

Manufacturing is stronger than total IP, but real sector and consumer confidence imply a moderation in economic activity



Source: TurkStat

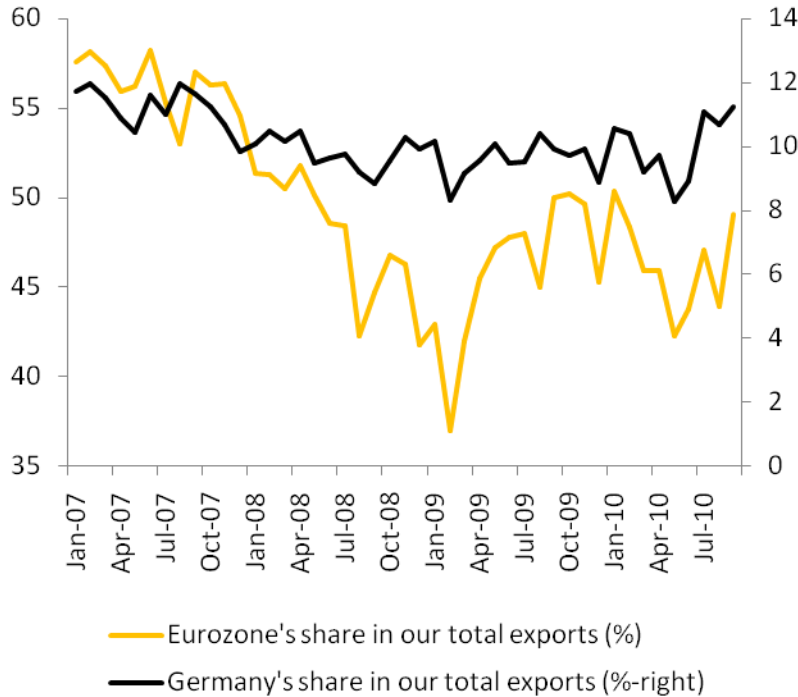


Source: CBRT

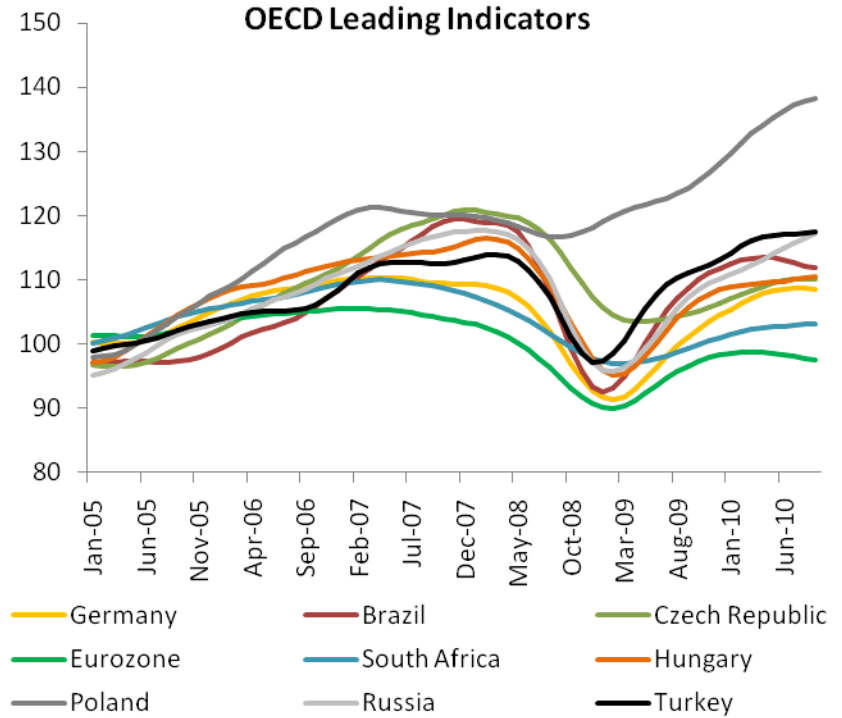
📌 Manufacturing sector production has a more optimistic and stable outlook than total industry, with a 10.9% yearly increase in September. 3 month average of manufacturing index indicates a slowdown but has not turned negative yet. Seasonally and work day adjusted sub indices of total IP have a similar trend too. And all sub indices obviously lost momentum in September.

📌 Real sector and consumer confidence are both moderating which shows a weakening in economic activity.

Foreign demand might have a negative impact on Turkish IP performance



Source: CBRT

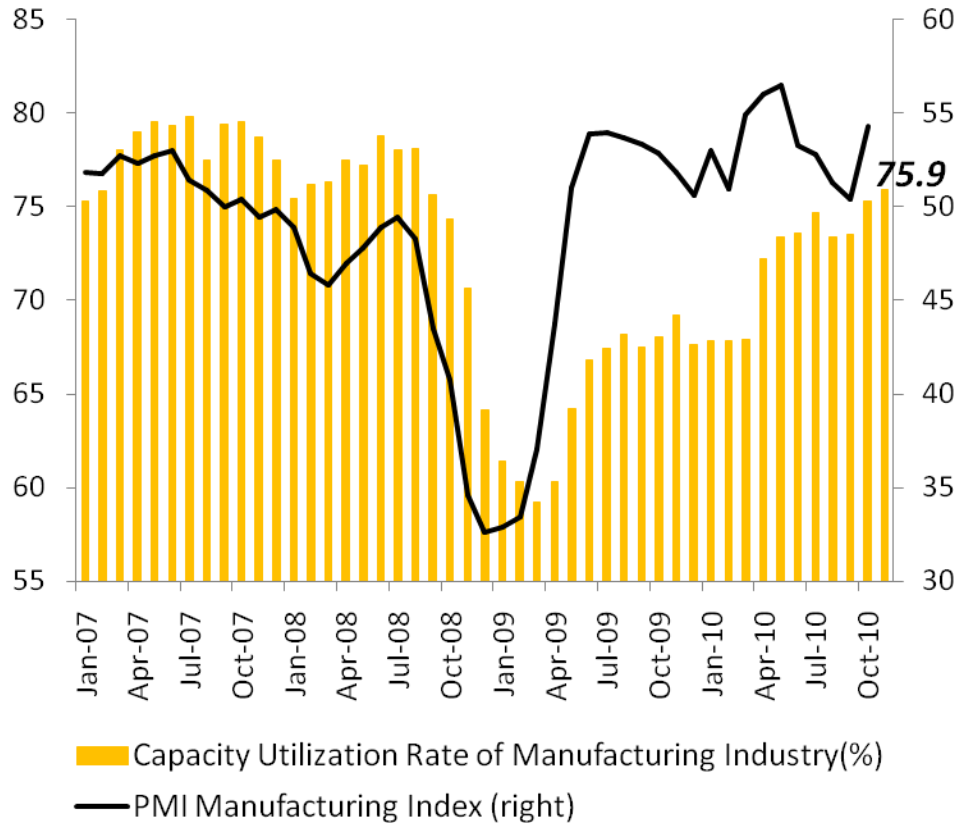


Source: Bloomberg

📌 According to the OECD Leading Indicators, Eurozone index is below the pre-crisis levels. And it is evident that EM economies which have already reached the pre-crisis levels of OECD leading indicators, have a relatively better outlook than the developed economies.

📌 The slower performance of Eurozone economy which have a 49% share in Turkish exports might have negative impact on Turkish IP and exports.

Despite the increasing strength of PMI manufacturing capacity utilization is still below pre-crisis levels



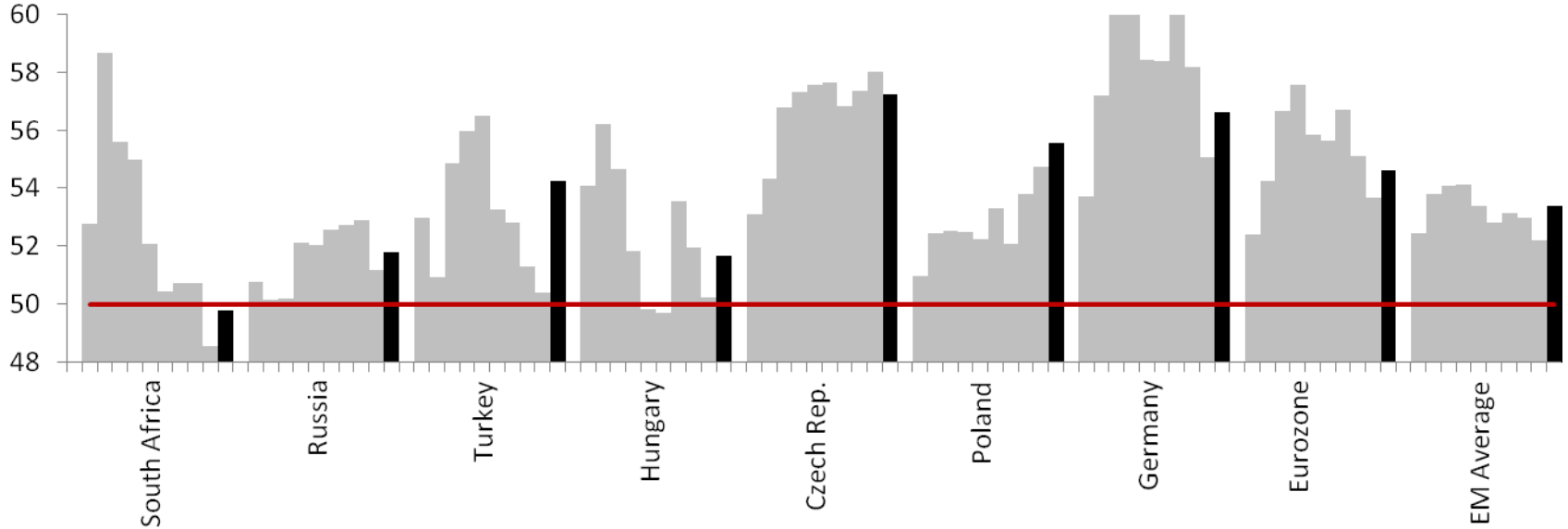
Capacity utilization rate is at 75.9% by November 2010, but it is still below pre-crisis levels. This complies with the low levels of capital goods production.

The bounce of the PMI manufacturing in October draws a positive outlook about fourth quarter IP performance. But the low correlation between the two data should not be overlooked.

Source: Turkstat, CBRT

The continuation of the upward movement in Turkish PMI will be important in the coming months for growth prospects

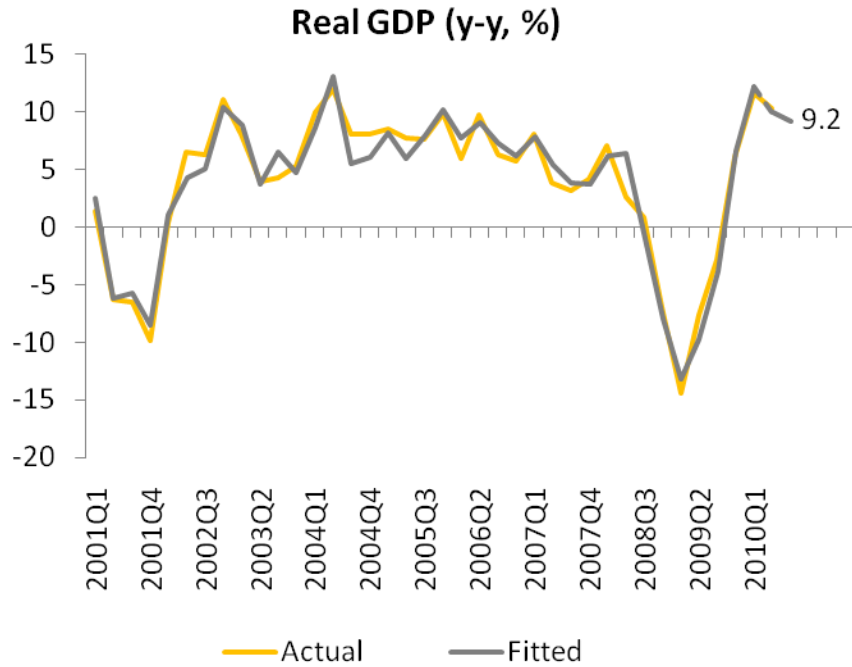
PMI Manufacturing Index (January-October 2010)



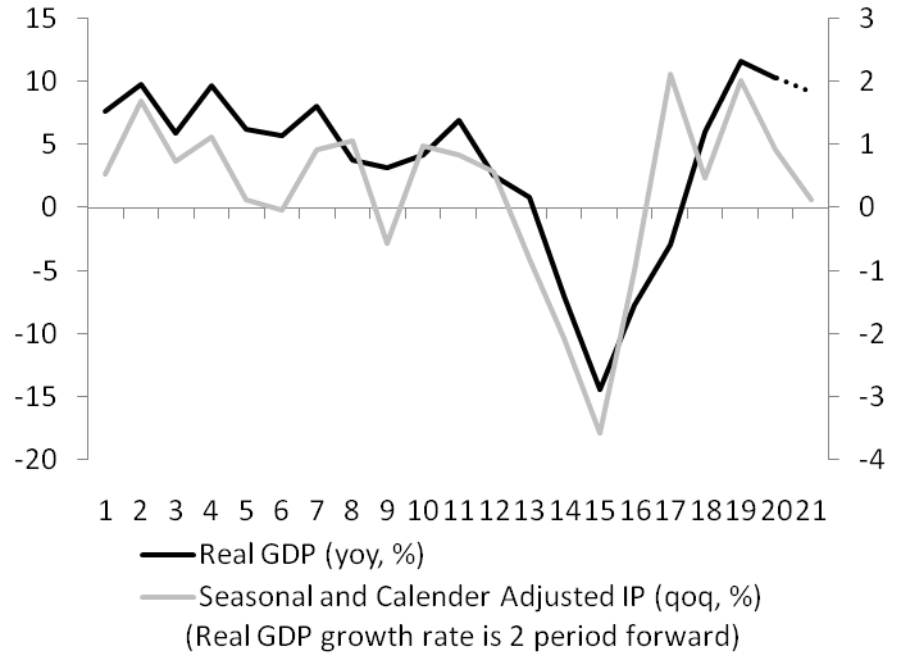
Source: Bloomberg

- ✓ The comparison of Turkish PMI manufacturing with other countries shows that the PMI indices have recently turned upwards in October.
- ✓ It is important to note that the Turkish PMI index stayed above the threshold level of 50 even in the downward movements and had a much noticeable bounce in October than other countries.
- ✓ The remarkable performance of German PMI index is important for Turkish economy, as it is the major export market of Turkey.

We revise our 2010 growth forecast to 8.0% from 6.8%



Source: TurkStat, Vakifbank



Source: CBRT, Vakifbank

- ✓ After the strong performance of IP in the first half of 2010, the 10.1% increase in third quarter shows that economic activity is moderating.
- ✓ We are expecting the real GDP growth rate to be 9.2% in the third quarter.
- ✓ And as a result of the weakening basis effect we expect the fourth quarter real GDP growth to be 1.6% .
- ✓ Consequently, we are revising our 2010 growth forecast to 8.0% from 6.8%.

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