VAKIFBANK WEEKLY ECONOMICS REPORT

Revision: 2012 Interest Rate and Exchange Rate Forecasts

VakıfBank

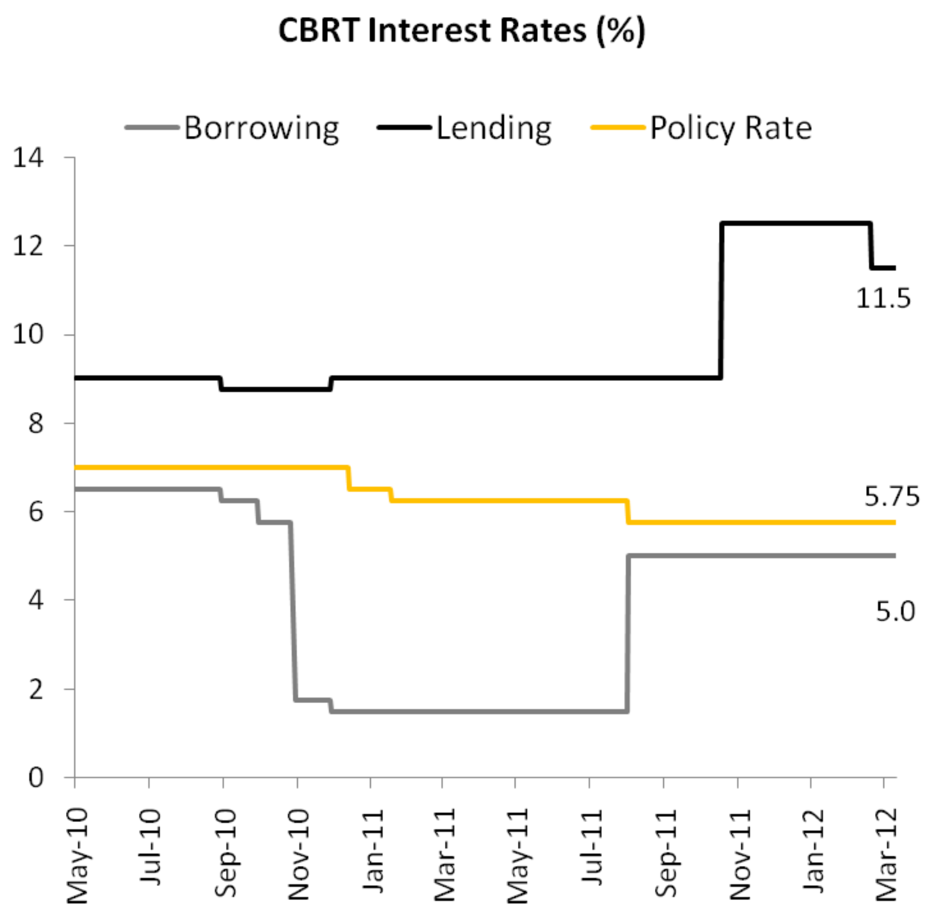
T. Vakıflar Bankası T.A.O

27 April 2012

No: 15

Vakıfbank Economic Research

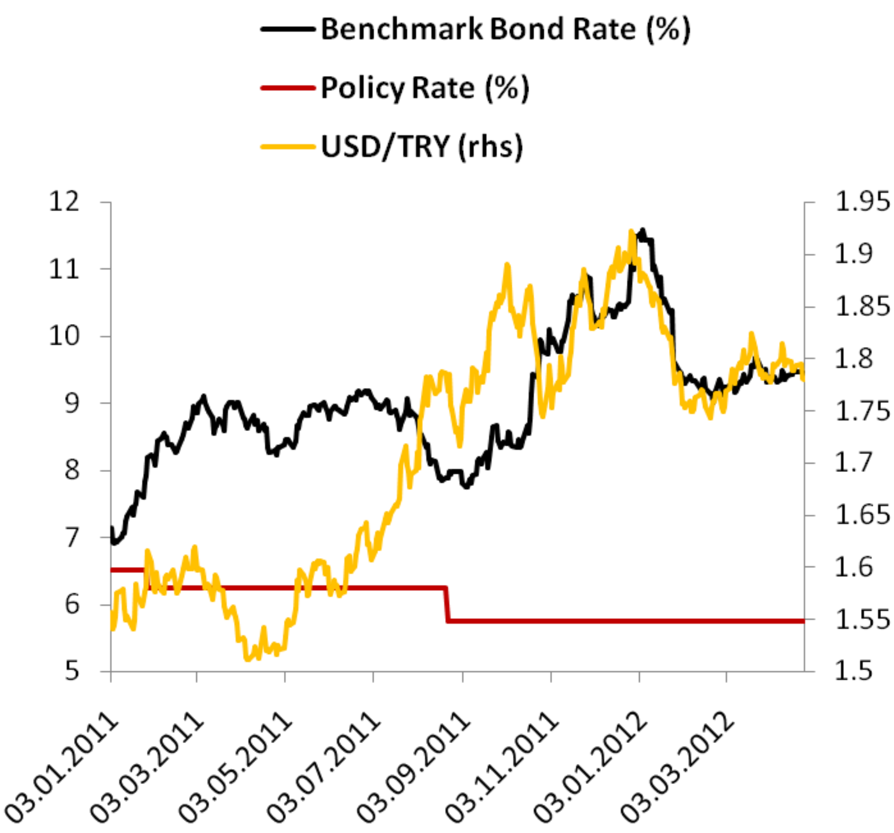
We estimate that CBRT policy rate will be at 5.75% by the end of 2012..



Source: CBRT

- CBRT recently emphasized its’ hawkish stance against inflationary pressures in its April Inflation Report.
- Also declared a clear and stark commitment for its’ 2012 year-end inflation forecast and gave the signal of a further tightening in the monetary policy in case of an unexpected increase in inflation.
- CBRT stated that it will preserve its flexible monetary policy under the current circumstances and that it will be cautious against the global vulnerabilities.
- Our current expectation for CBRT’s policy rate for 2012 year-end is at 5.75%.
- Besides, we don’t exclude the possibility of changes in the interest rate corridor or required reserves in accordance with the dynamics of financial markets.

Treasury benchmark bond yield remained volatile in Q1 2012…



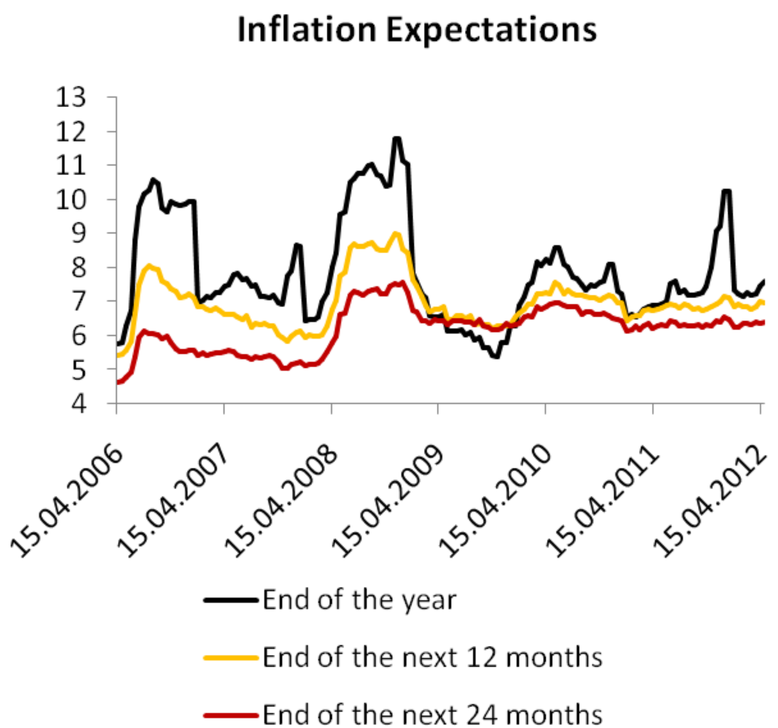
Source: CBRT, Bloomberg

- While the 2Y Treasury benchmark bond yield increased to 11.5% in January 2012, it was 9.8% in average in the first quarter of 2012.
- The concerns about European debt problems, movements of the exchange rate, fragilities for the short term inflation outlook and the monetary policy of CBRT have been effective on the volatile movement of benchmark bond yield.
- In addition, positive budget and debt performance of Turkey supported the bond market.

We revised our forecast for the Treasury bencmark bond yield…

- Upside risks on the year-end forecast of Treasury benchmark bond yield increased.
- In this context, we analyzed the factors which can be effective on the movement of the benchmark bond yield in the coming months.

Inflationary developments:



Source: CBRT

- Lagged effects of the upward movements of exchange rates on inflation and increasing oil prices by the effect of supply concerns negatively affected the inflation outlook.
- Increases in the electricity and natural gas prices and upward movements of food prices due to base effects increased the upside pressures on inflation.
- These factors caused deterioration in the year-end CPI expectations and this caused a selling pressure in the bond market.

Monetary Policy of CBRT:

Weighted Average of TL and FX Required Reserves			
	29.04.2011	30.09.2011	28.10.2011
TL	13.3	12.5	10.5
FX	11.8	10.25	10.25

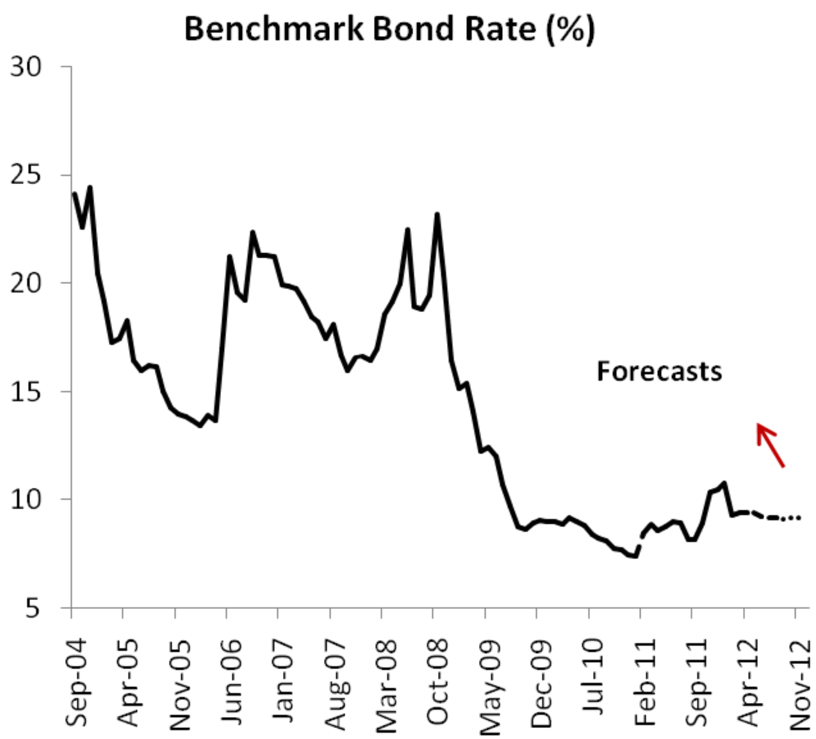
Source: CBRT

- CBRT has upwardly affected the market rates by using different policy tools since the last quarter of 2011.
- Due to inflationary pressures and decrease in growth-side concerns, CBRT gives hawkish messages.

Global Developments:

- Although recent macroeconomic data indicate an improvement in economic activity in US, fragilities in the employment market continues.
- The current outlook of the US economy caused the FED to continue low interest rate policy.
- ECB remains to be cautious too, about its monetary policy since the uncertainities about European economy continue.
- On the other hand, although some central banks of the developing countries continue to decrease policy rates, increasing inflationary pressures force central banks to implement tight monetary policies.

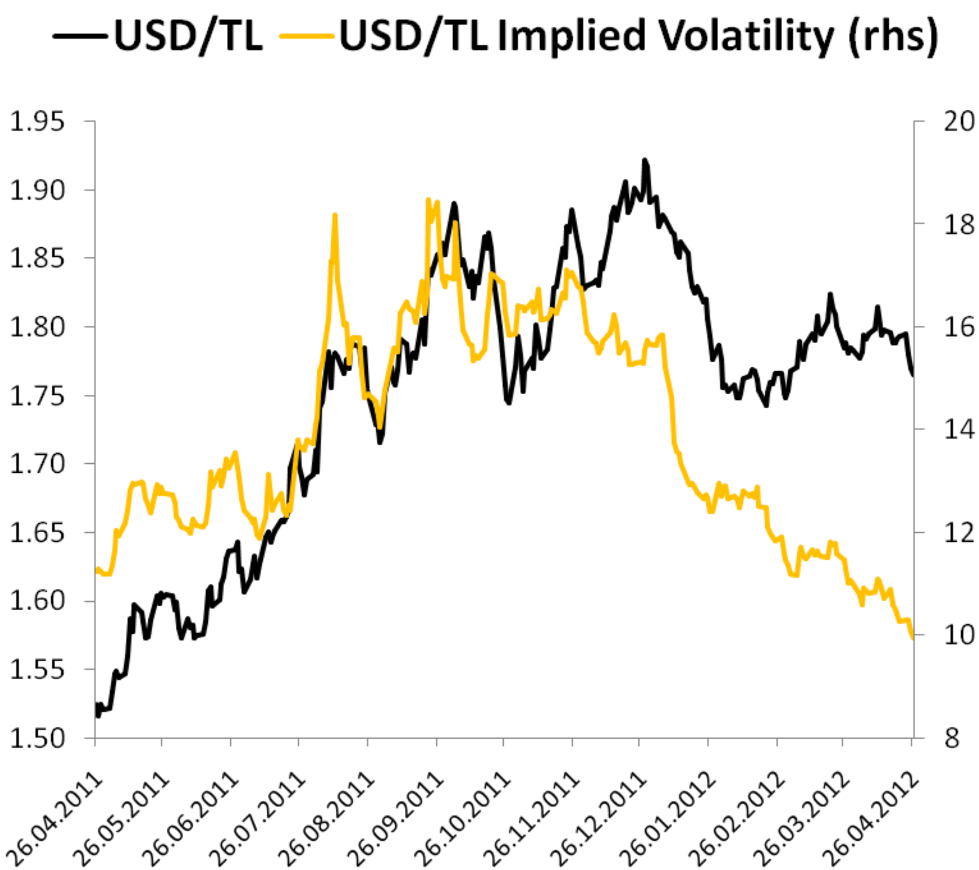
We revised our forecast for the Treasury benchmark bond yield to 9.15% for the end of 2012...



Source: VakıfBank

- Under the consideration of developments that were mentioned in the previous slights, risks on our forecast for the year-end level of the Treasury benchmark bond yield increased.
- Model results indicate that benchmark bond rate will move around 9.4% in the second quarter of 2012 and then it will gradually decrease until last quarter mainly due to downward movement of inflation.
- We expect that benchmark bond yield will increase on a limited scale in the last quarter of 2012.
- Hence, we expect that benchmark bond yield will be 9.15% by the end of 2012.

We keep our exchange rate forecasts for 2012 year-end…

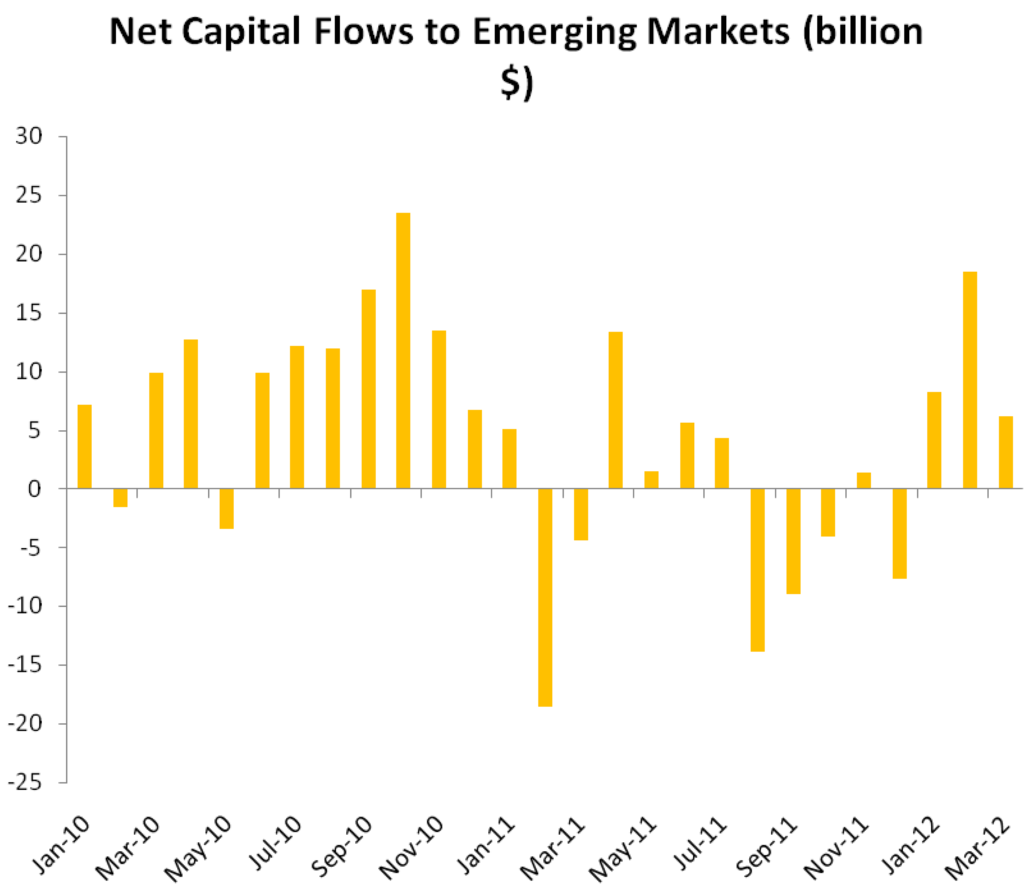


Source: Bloomberg

- USD/TRY which was above 1.92 at the end of 2011, followed downward trend by mid-February.
- Then the exchange rate has stabilized at around 1.77 - 1.80 band.
- With the appreciation of TYR against the dollar and euro, implied volatility has decreased.
- To sum up, TRY has moved in line with our expectations. And we see no strong reason to change our 2012 exchange rate forecasts .

USD/TRY	1.70
EUR/TRY	2.40
Basket (0.5$ + 0.5€)	2.05

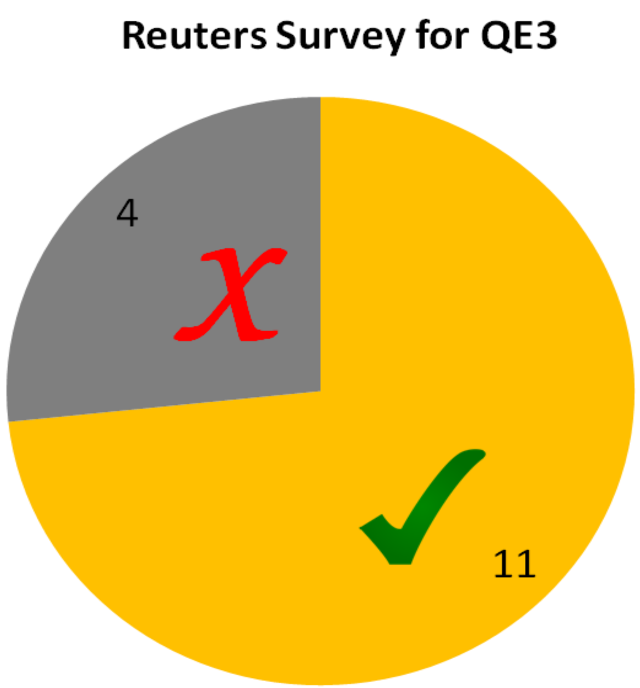
Net capital flows to EM was strong in Q1 2012…

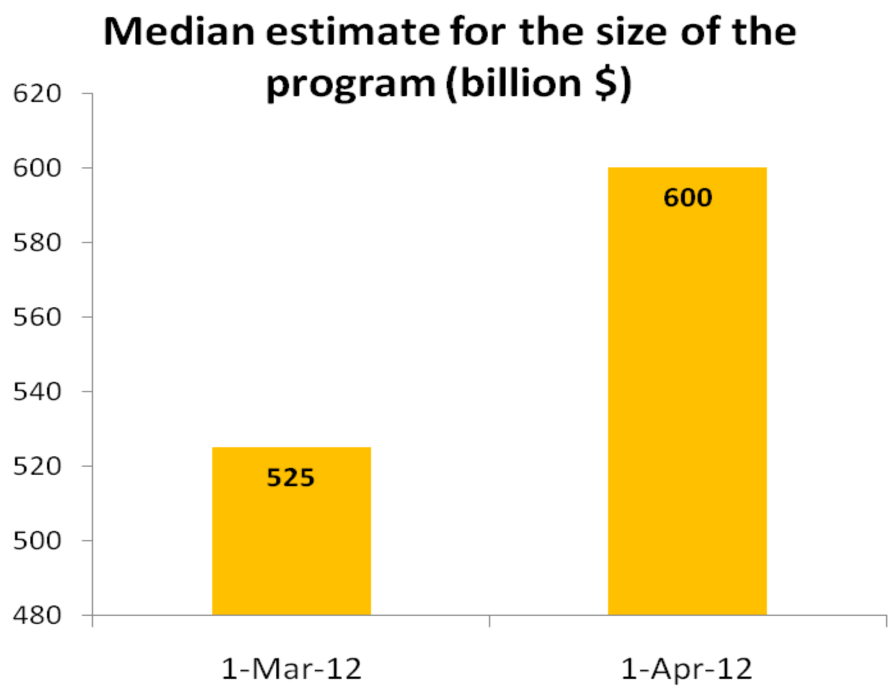


Source: IMF

- The uncertainties regarding the European sovereign debt crisis and the deteriorated global risk perceptions caused capital outflows from emerging economies.
- Greek default was averted with the debt restructuring thus, capital inflows to developing countries has re-accelerated.
- Growing capital inflows have helped the appreciation of the TRY.

Expectation of new liquidity measures has increased...





Source: Reuters

- Reuters survey of primary dealers shows 11 out of 15 believe the Fed will eventually announce QE3.
- The median estimate for the size of the program is $600 billion.
- Sovereign debt problems in Spain and Italy and weak employment in US has caused the increasing risk perceptions in global markets.
- Increasing expectations of new global liquidity measures support our view about the foreign exchange rate.

Serkan ÖZCAN
Chief Economist
+ 90 312 455 7087
serkan.ozcan@vakifbank.com.tr

Nazan KILIÇ
Economist
+ 90 212 398 1902
nazan.kilic@vakifbank.com.tr

Ümit ÜNSAL
Economist
+ 90 212 398 1899
umit.unsal@vakifbank.com.tr

Emine Özgü ÖZEN
Economist
+ 90 212 398 1890
emineozgu.ozen@vakifbank.com.tr

T. Vakiflar Bankasi T.A.O
www.vakifbank.com.tr

Vakifbank Economic Research
ekonomik.arastirmalar@vakifbank.com.tr

The information in this report has been obtained by Turkiye Vakiflar Bankası T.A.O. from sources believed to be reliable. However, Turkiye Vakiflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.