

VAKIFBANK TURKISH ECONOMY WEEKLY

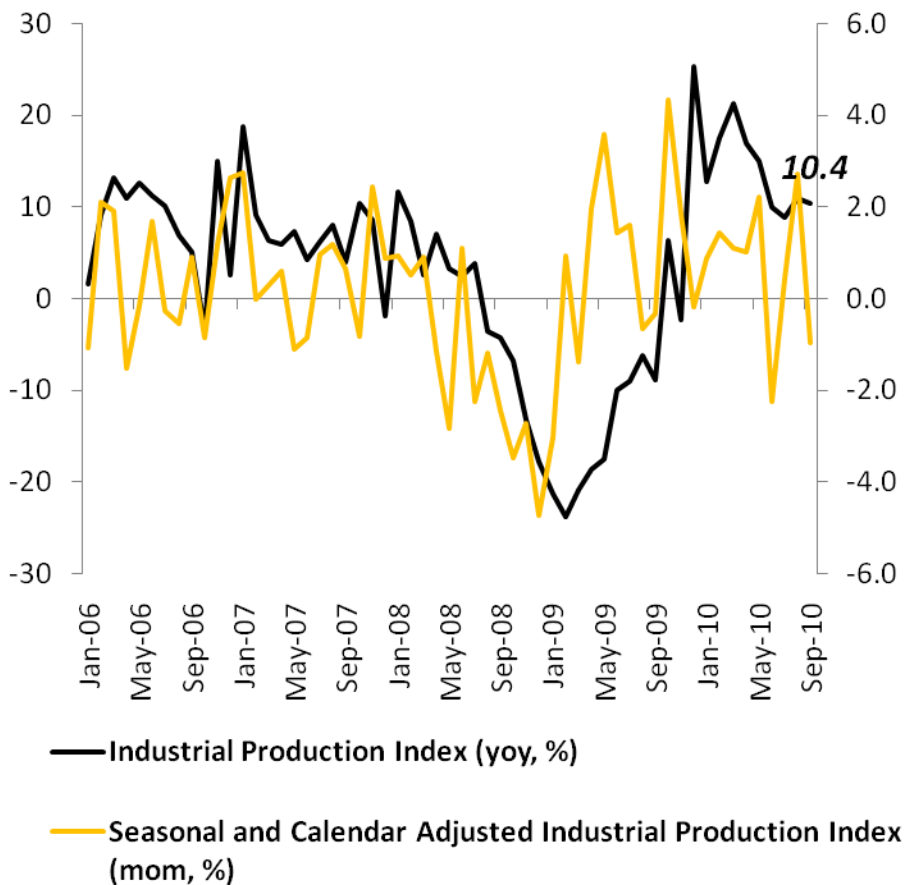
**Economic activity is moderating
in the second half of 2010**



T. Vakıflar Bankası T.A.O



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



- 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.

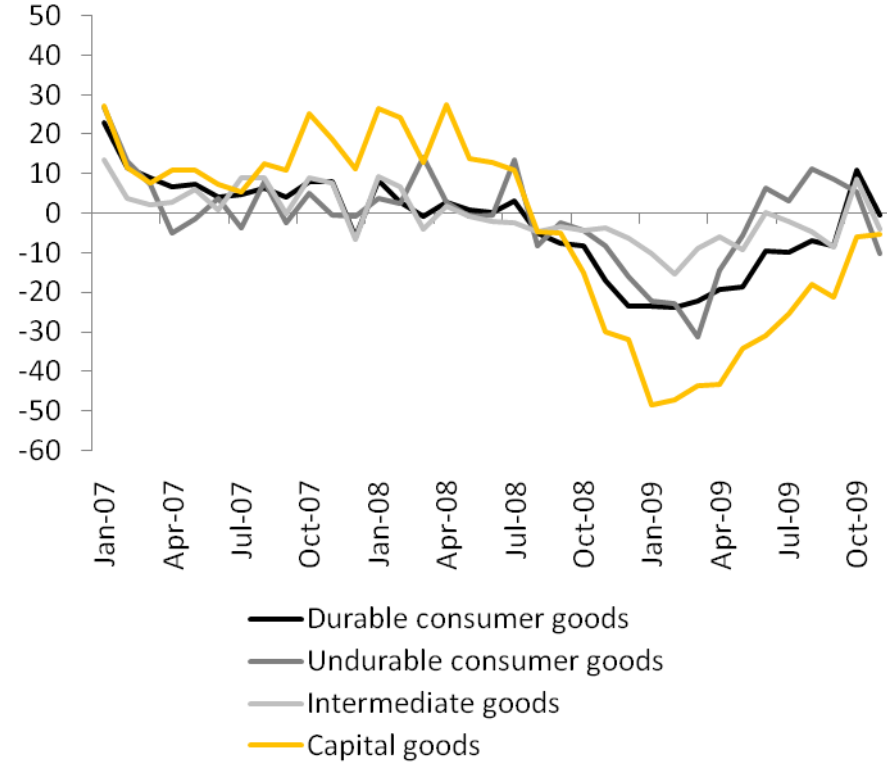
Source: CBRT

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

Table- Sectors of Industrial Production

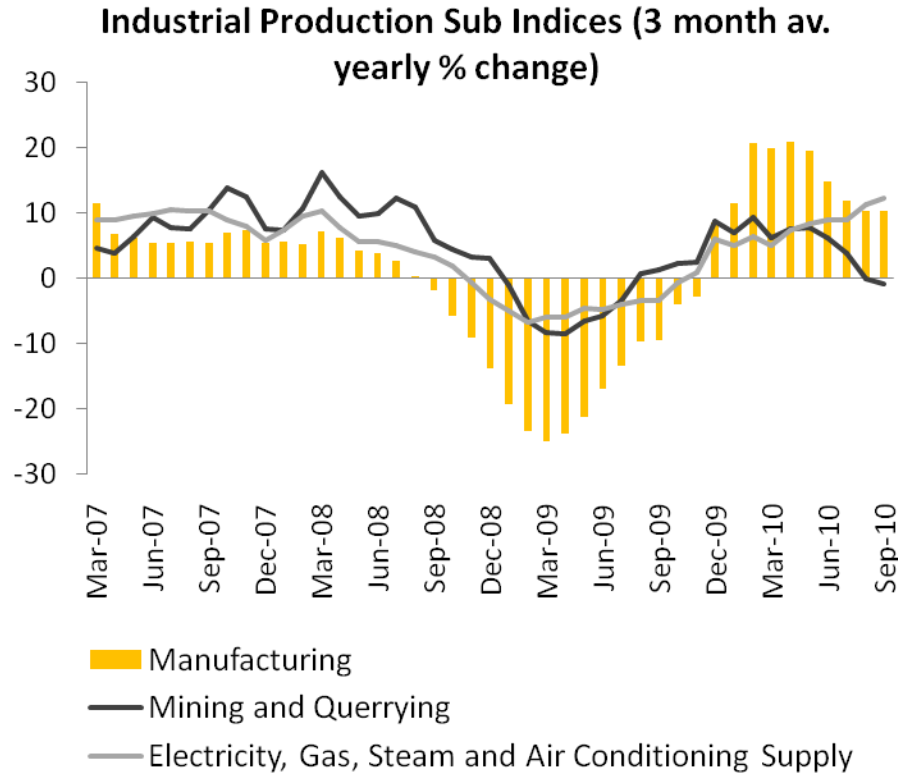
Sectors	YoY%	
	2009	2010
Petroleum Products	-32.5	7.2
Textile	-11.1	4.7
Food products	-13.5	12.9
Chemicals	5.5	8
Basic metals	-11.5	11.2
Other non-metallic mineral products	-14.4	15.3
Motor Vehicles	-14.2	19.4
Machinery and Equipment	6.1	22.1
Wearing apparel	-12.3	3.8

Source: Turkstat

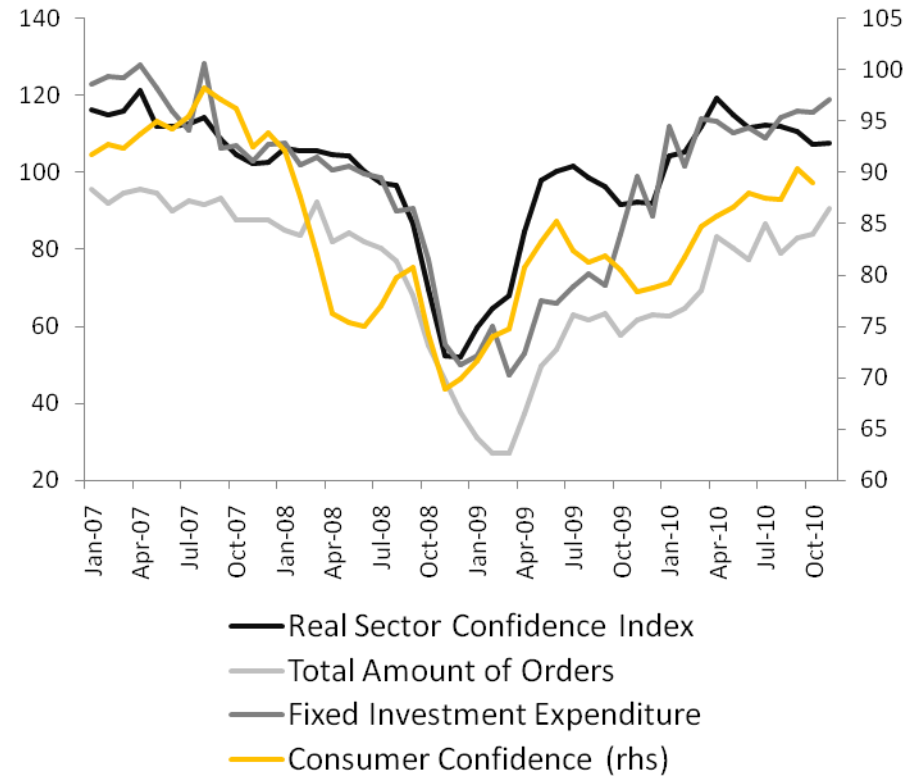


- ✔ In September the highest increase occurred in the machinery and equipment sector.
- ✔ The yearly comparison of the IP sectors shows a much positive climate in September 2010.
- ✔ But, the fact that the capital goods production is below its pre-crisis levels, might threaten the sustainability of the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

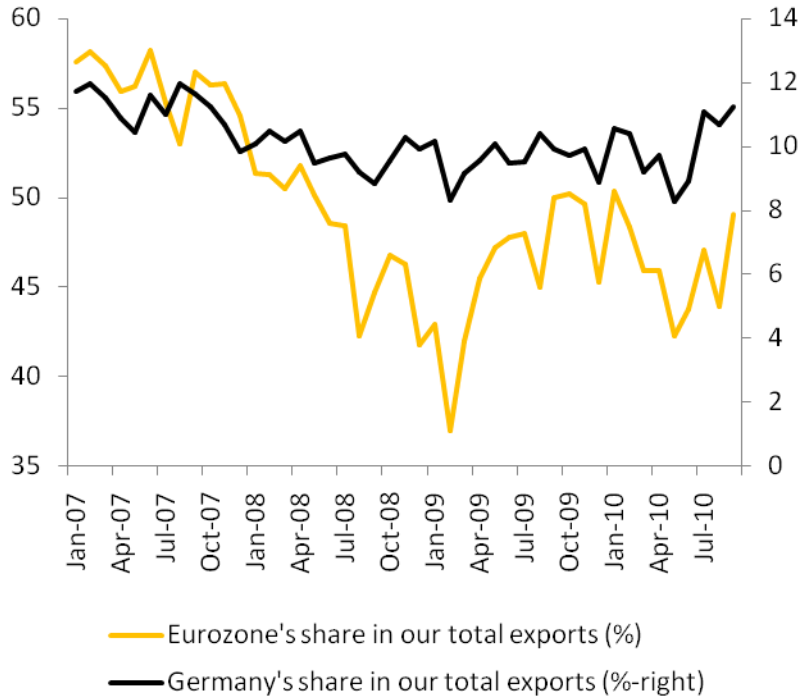


Source: CBRT

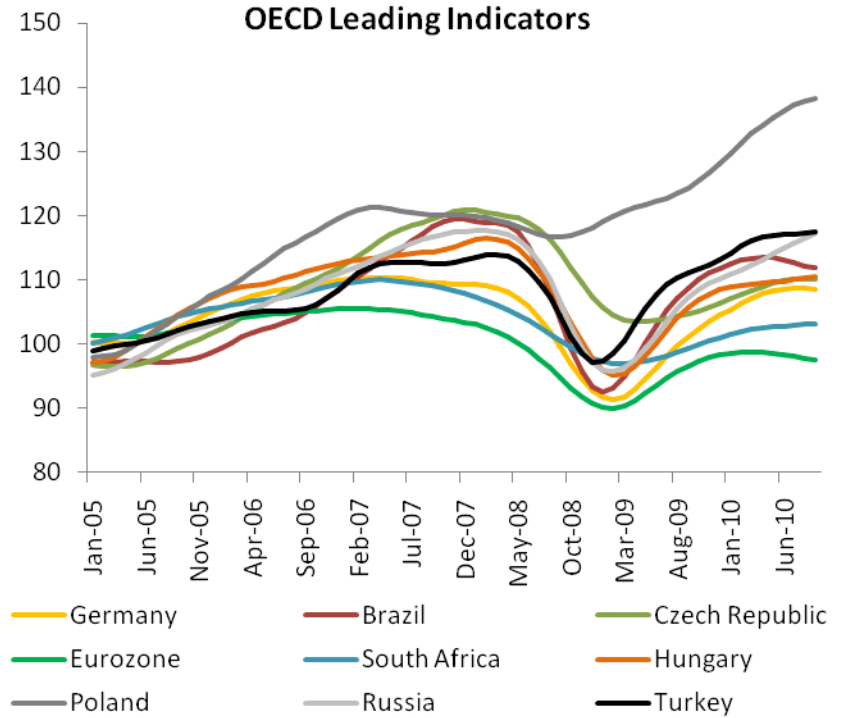
Manufacturing sector production has a more optimistic and stable outlook than total industry, with a 10.9% yearly increase in September. 3 month average of manufacturing index indicates a slowdown but has not turned negative yet. Seasonally and work day adjusted sub indices of total IP have a similar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

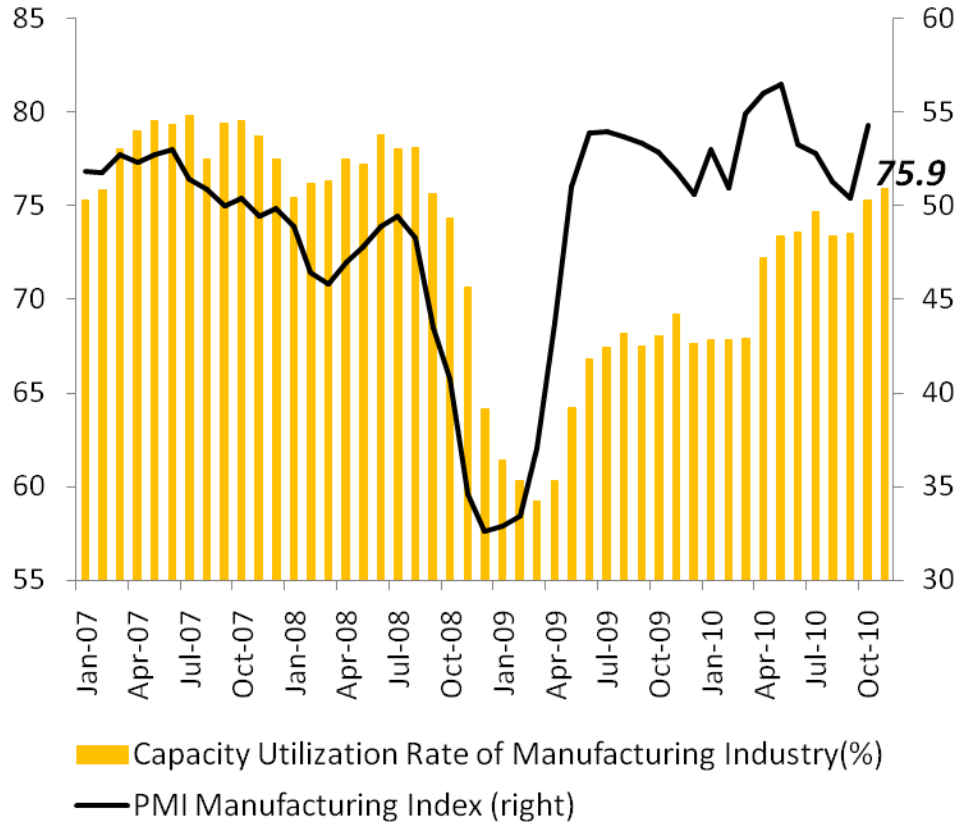


Source: Bloomberg

📌 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.

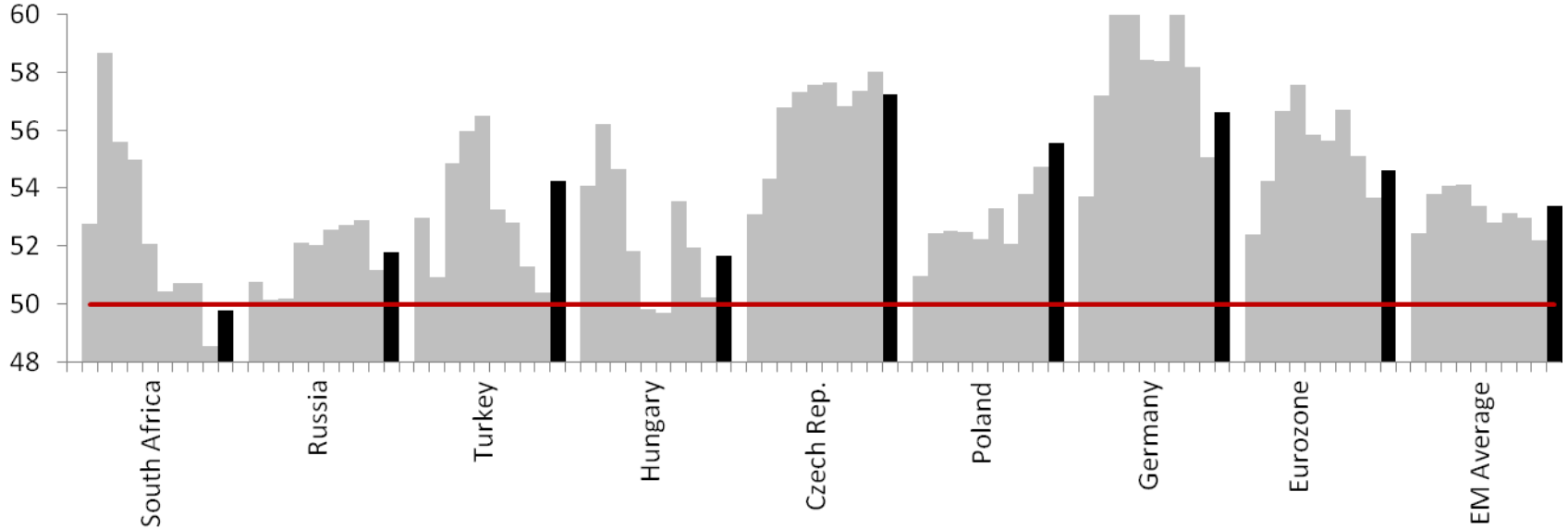


The bounce of the PMI manufacturing in October draws a positive outlook about fourth quarter IP performance. But the low correlation between the two data should not be overlooked.

Source: Turkstat, CBRT

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

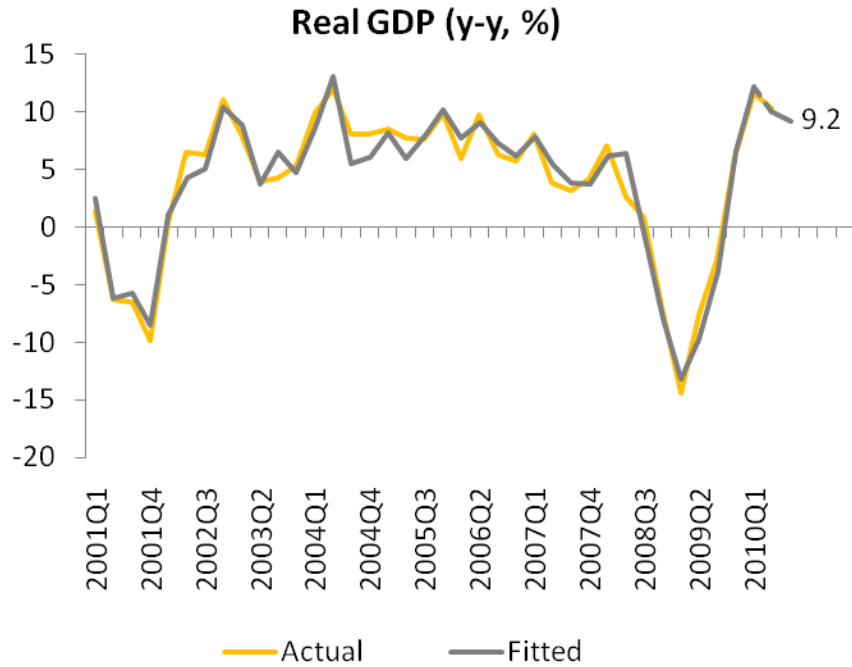
PMI Manufacturing Index (January-October 2010)



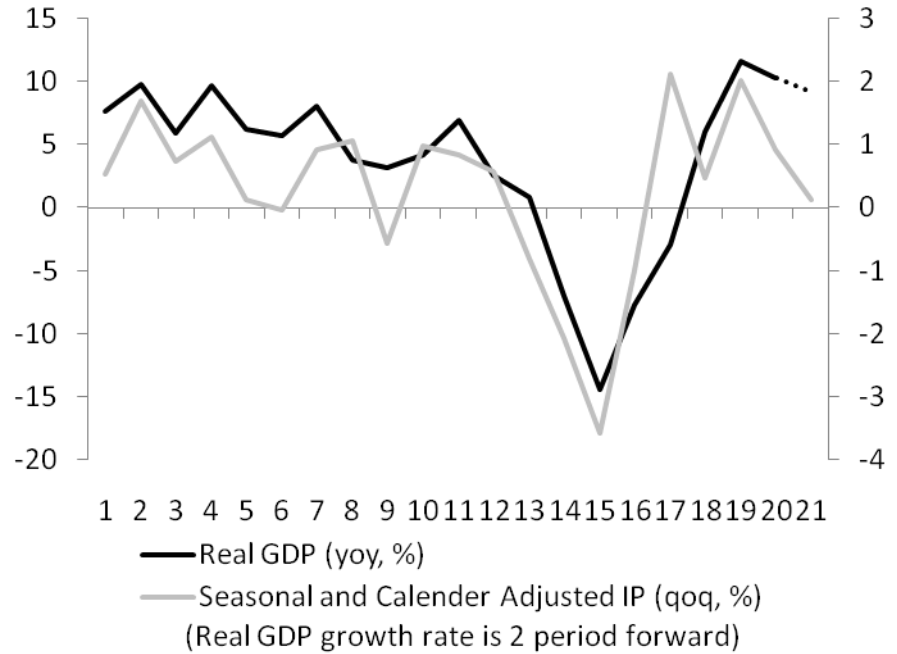
Source: Bloomberg

- ✓** 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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