

TURKISH BULLETIN

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ECONOMY & MARKETS

MARKETS

At Tuesday's close, market situation was:

1-week repo rate or Policy Rate		TRY/USD
6.25%		1.5695
Most actively traded T-Bills		
Date	Maturity	C/Rate
17/05/11	20/02/13	8.89%
ISE-100 index		ISE- 100 Ref \$
62,186		39,621

Treasury

Result of the Auction conducted on June 7th

Issue	Mat.	Bid TL mn	Sales TL mn	Ann. Comp Yield
07.06.11	20.02.13	4.128.4	945.6	8.95%

In non-competitive sales held ahead of the auction, TL590mn and TL1.1bn were sold to primary dealers and public institutions, respectively. Treasury also issued 3-year fixed coupon bond where net sales and average compound yield were at TL608mn and 9.44%. Including non-competitive sales held ahead of the auction, total sales in fixed coupon bond reached TL1.8bn.

Treasury maintained 74.6% monthly roll-over ratio projection as in previous borrowing strategy note and shall redeem TL28bn in June – August period, of which TL24.3bn will be redeemed to market. To cover these redemptions, Treasury plans to borrow TL21.1bn over the next three months by holding eight auctions.

Treasury announced **cash surplus** of TL3.103bn (US\$1.96bn) and a primary cash surplus of TL7bn in May. April cash surplus was TL1.43bn and primary cash surplus TL4.05bn. The strong performance stems from the initial receipts of the “tax amnesty”, estimated TL3bn as of May 31st. TL13.5bn expected to be collected for 2011.

Central government **primary surplus** was TL2.8bn (13.5% lower y/y), and budget surplus was TL2.8bn. VAT collections on imports imply a slowdown in imports.

April trade deficit came in at US\$9.1bn, bringing 12-month rolling trade deficit to US\$87.2bn up from US\$83.7bn in March (63% y/y increase). Jan-Apr trade deficit: US\$33.7bn (86% y/y increase), exports: US\$43.3bn (23% y/y increase), imports: US\$77bn (44% y/y increase) 12 moth rolling trade deficit: US\$87.2bn (Mar11:US\$83.7bn – 63% y/y increase).

At the same token, **CA deficit** came in at US\$7.7bn in April. 12-month rolling CA deficit increased to US\$63.4bn from US\$60bn in March. With a y/y increase of 206% CA deficit in the first four months reached US\$29.6bn.

May CPI inflation came in at 2.42% m/m corresponding to a 7.17% y/y increase, up from April's 4.26%. Food prices increased 4.7% m/m, 12.61% y/y. Producer prices rose by 0.15% m/m and brought y/y inflation to 9.63% up from previous month's 8.21%

April Industrial Production growth came in at 8.3% y/y; third consecutive slowdown in the following March's %10.2.

Manufacturing PMI declined to 50.6 in May, down from 52.7 in April, this is the lowest PMI value taken since Sept. 2010. New export orders index reached 50.3, up from 49.6 in April.

Public receivables stood at TL36.55bn in total in the restructuring scheme for revenue administration. TL13.5bn of this amount is due 2011; the restructured amount would be used for reducing debt.

International passenger traffic in Istanbul Ataturk Airport increased by 12.2% y/y in May: In cumulative terms, by 12.4% y/y in January-May 2011 period. THY utilizes Ataturk Airport as its main hub.

Unemployment rate was 10.8% in March falling by 0.7pp and non-farm unemployment rate fell by 0.8pp to 13.4%.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Election Results: Justice and Development Party (AKP) will be ruling on the 3rd consecutive term. AKP's votes increased to 49.9% with 3 point increase compared to the 2007 elections, the party now holds less seats, i.e 326 in the parliament, below the 330 seats threshold to make constitutional amendments through public referendum. The main opposition, the Republican People's Party (CHP) had 25.9% of votes, an increase of 5% compared to the previous elections and the Nationalist Movement Party (MHP) got 13% of the votes. Another winner was BDP (Pro-Kurdish) with 6.6% of votes entering the elections through independent candidates to overcome 10% national threshold.

Fitch noted that in addition to political stability, a potential upgrade to investment grade depends on securing sustainable growth consistent with macroeconomic stability. Fitch underlined that the economy needs a slowdown in demand calling for post-election fiscal policy tightening measures which would be beneficial in helping to take some heat out of the economy and providing support to Central Bank.

Moody's stated that a rapid deterioration in the current account deficit is the key risk factor in Turkey at the moment and added that Turkey's rating could come under downward pressure if the growing current account deficit becomes more difficult to finance.

Moody's changed Turkish banking sector outlook to stable in a report on banking sectors of developing European countries, together with the outlook of Russia, Poland, Czech Republic, Azerbaijan and Uzbekistan banking systems.

S&P stated that a potential upgrade of Turkey's sovereign ratings would depend on the re-elected government's fiscal and monetary policy choices and the impact on the country's widening current account deficit. S&P rates Turkey two notches below investment grade and has a positive outlook on its rating.

GDP Growth State Minister Babacan said that the GDP growth in 2011 may be 6%, higher than the target set at 4.5% and the budget deficit may be lower than the previously estimated levels.

SECTOR NEWS & PRIVATISATION

Privatisation:

Privatization Administration extended the deadline for the winners of the electricity distribution tenders to pay the tender price by 3-months, with the condition of additional 2% deposits.

PA has initiated the tender process for the privatization of 5 HEPP (21MW in total). July 29th is set as the deadline to submit bids.

10 companies received tender specification for BOTAS natural gas contract tender including Aygaz, Enerjisa (SAHOL-Verbund JV), Zorlu Group, Aksa Dogalgaz, Lukoil, Gazport (Palmet), Enerco, Avrasya, Shell and Bosphorus. Botas will receive bids until Sept 8th for the contracts that will expire on 1.01.2026. Enerjisa and Aygaz are interested in these contracts as the groups are already consuming natural gas in their electricity plants.

SOCAR (State Oil Company of the Azerbaijan Republic) has reiterated its interest in the IGDAS (Municipality of Istanbul's Nat Gas grid) privatization (100% of the 25 year operating rights concession through block sale expected to be held in 2H11). More than 10 firms are planning to bid for IGDAS with the possible participation of Oyak Group (Turkey), Aksa NG Distribution, MMEKA (Turkey), Colakoglu Group (Turkey), Koc Holding through Aygaz, Sabanci Holding, Qatar National Asset Fund (Qatar), Marubeni (Japan) and Bosphorus Gas (Turkey, Russia).

Energy

The state company TEIAS announced that electricity consumption exhibited a 5.4% growth in May, climbing to 17.6bn kWh, In the first five month, the consumption increased by 10.8% to 92.2bn kWh.

Banking: BRSA released that banking sector's profit declined by 19.3% y/y to TL6.9bn the first 4-month period. Total assets enlarged by 24.7% y/y (6.9% compared to end-2010) to TL1.07trln while sector's loans increased by 36% y/y to 574 billion TL in Jan-Apr. period.

Mortgages: banks which bypass 25%- 75% LTV ratio in mortgages by lending the down payment via consumer loans will be fined by BRSA.

Lebanese Bank – Bank Audi is reportedly interested in Tekstilbank. The bank had acquired a subsidiary of Commerzbank in Monaco in September. Total assets of Bank Audi is US\$28.9bn while total assets of Tekstilbank is TL2.7bn as of 1Q11. Tekstilbank denied the news.

Capital Markets Board became in charge of all leveraged FX, commodity and metal transactions. The rogue trading activity without a decent supervision had been going on for many years.

SDIF (State Deposits Insurance Fund) will reportedly increase the current maximum for

deposit guarantee from TL50k to €50k (TL115k) or even to European average of €100k. Currently, 27% of deposits are under SDIF's guarantee and number of accounts below €100k threshold is 39.4% of total deposits. In the 1Q11, banks paid TL201mn to the scheme. Total burden on the system will double to TL1.6bn if guarantee is increased to TL230k.

Automotive

Sales in the automotive sector have continued to increase, triggered by the import-based vehicles. Domestic light vehicle sales increased by 36% y/y to 80.5K in May 2011 (+4% m/m, 56.3% y/y growth in 5M11). Vehicle imports surpassed vehicle exports in the first 4- months of the year. The Gov't may consider imposing additional tax on vehicles, if the trade deficit of the sector continues.

Steel total crude steel production increased by 14% y/y to 2.89mn tonnes in May; in cumulative terms to 13.6mn tonnes (up by 23.4% y/y in Jan–May11 period.) The main reason is the entrance of new flat steel capacity.

COMPANY NEWS

TEB tender call for Turk Ekonomi Bankasi shares commenced on June 2nd and shall end on June 17. Deadline for the tender offer at TRL2.21 per share is June 17, 2011.

Garanti Bank plans to sell the 20% stake they hold in Eureko Sigorta, V the bank's insurance subsidiary, to Eureko B.V for a price of €70mn.

Finansbank signed an agreement with the European Investment Bank (EIB) to obtain €150mn, in two tranches of €75mn with 7 years maturity and another €75mn with 12 years maturity; the loan will be used to finance SME and energy investments.

Finansbank is to apply to the Capital Markets Board and BRSA to issue a TL1bn 360-day bank bond.

Kuwait Finance House's Turkish affiliate **Kuveyt Turk's** planning to go public. Their IPO in 2008 was cancelled on the back of the global financial crisis.

Akbank applied to the Capital Markets Board to issue up to TL4bn bank bond/bill with the different maturities.

Vakifbank applied to CMB to issue a TL1.5bn bank bond/bill with the different maturities.

Denizbank has mandated Bank of America Merrill Lynch, Citi, HSBC and JP Morgan for its Eurobond issue.

DMG (Dogan Media Group) settled for TL128.7mn to avoid a tax penalty of TL863mn. As a result, total tax settlement reached TL988mn to avoid a tax penalty of TL4.166mn.

Digiturk: According to a news article (which refers to La Tribune), French Canal Plus proposed US\$1bn for 47% of Digiturk shares, owned by US fund Providence Equity Partners. Accordingly, 100% of Digiturk, a Cukurova Group company, is valued at US\$2.2bn.

Turkcell announced that there has been 63% devaluation in Belarus in the 2Q11 and made a warning that its net profit may be negatively affected by the FX loss of its affiliate BeST which is expected to record US\$150-200mn net FX losses.

Turkish Airlines denied reports that it negotiated with Spanair's shareholders to purchase a 49% stake in the company. THY passenger numbers in Jan-May increased by 10.4% to 12mn. Available-seat-Km and the revenue-passenger-Km climbed by 23.1% and 18.2% in the same period.

TAV Airports announced that they placed a bid at the Medina Airport tender with a consortium of Saudi Oger and Al Rajhi Holding Group in which the winner is expected to be announced in late July. TAV is interested in the sale of Athens Airport, owned by Greek State (55%) and German Hochtief (40%). (€420mn revenue in 2008)

Ford Otosan export volume in the first 5-month increased by 36% to 90K vehicles. The company will produce a new LCV model in Turkey with an additional US\$630mn + €205mn investment and its annual capacity will increase to 400,000 from 320,000.

Aksa Akrilik (AKSA) and Dow Chemical Company's Dow Europe GmbH signed a memorandum of understanding to establish a JV to manufacture carbon fiber and derivatives.

STRAS SOCAR & Turcas Rafineri A.S has appointed Unicredit as sole financial advisor for the Aegean refinery project (10mn tonnes/yr. capacity). The refinery, construction is expected to start in 1H12 and to be concluded in 2H14.

Migros reached an agreement with Gozde Finansal Hizmetler and Bizim Toptan (Yildiz Holding companies) to sell its discount "Sok" stores for TL600mn. Sok has 1,230 stores with a total sales area of 236,000 sqm in 70 cities throughout Turkey, representing one quarter of Migros' total sales area. The discount retailer generated TL1.2bn of revenues in 2010, 18.8% of Migros' consolidated revenues.