

TURKISH BULLETIN

Corentin de Ricaud + 90 212 293 00 32

e-mail: corentin.dericaud@bnpparibas.com

ECONOMY & MARKET

MARKETS

At Wednesday's close, market situation was:

1-week repo rate or Policy Rate		TRY/USD
6.50%		1.5619
Most actively traded T-Bills		
Date	Maturity	C/Rate
12/01/11	25/04/12	7.06%
ISE-100 index		ISE- 100 Ref \$
67,924		43,488

Auctions between Dec. 22nd 10 – Jan 12th 11

Issue	Mat.	Bid TRL mn	Sales TRL mn	Net sales mn	Ann. Comp Yield
12.01.11	07.11.12	5,603	-	1,327	7.01%
12.01.11	25.10.17	2,382	-	1,091	7.68%

CBT published its 2011 Monetary Policy highlights: financial stability is at risks due to the widening current account deficit fuelled by the decoupling between foreign & domestic demands and by credit expansion. In order to manage those risks, the Bank will keep on using liquidity measures in addition to short term interest rates (policy rate cuts). It could revise reserve requirement ratios for both TL and foreign currency deposits to encourage maturity extension and curb credit expansion. Otherwise, daily auction amounts for FX purchases will be increased to US\$50mn from US\$40mn, while optional purchases will disappear. The Bank will also purchase TL2.5bn of Treasury bonds in 2011 to replace the maturing bonds in its portfolio. Inflation target remains unchanged at 5.5%.

Inflation: Consumer price index decreased by -0.3%/m/m in Dec10, which led to a year-on-year rate of 6.4% in 2010, down by 90bps compared to Nov10 and by 10bps compared to 2009. CPI decrease in Dec10 is mainly due to the slight drop in food (-2.7% m/m) prices.
- Production Price Index increased by 1.3%/m/m, bringing the y/y increase to 8.87%/y/y. The increase was led by the surge in manufacturing (+2.0%/m/m) prices.

Treasury funding program for Jan11: both domestic and external debt service will reach TL31.0bn (TL28.6bn domestic including

TL25.3bn to the markets), to be financed by new borrowings of TL25.1bn. The TL5.9bn gap between redemption and financing will be funded with primary balance surplus, privatization receipts and other means of financing.

Treasury issued a US\$1.0bn Eurobond at a 6.25% yield and maturing in 2041. Mandated banks were Barclays Capital, JP Morgan and Deutsche Bank. The bond attracted an order book at an amount of more than five times its issue size.

Budget 2011 has been approved by the Parliament. Budget Deficit is expected to amount to TL33.5bn while primary balance surplus to reach TL14.0bn.

Cash Budget: Treasury posted a cash budget deficit of TL12.4bn in Dec10, up 5.8%/y/y, while cash primary deficit increased by 10.5%/y/y to TL11.2bn.

Foreign Trade Deficit came in at US\$7.7bn in Nov10, up by 107% on y/y terms. 12-month rolling deficit increased to US\$67.8bn, up from US\$63.8bn posted last month.

- Exports were recorded at a level of US\$9.4bn in Nov10, up by 6.6%/y/y compared to Nov09. Imports increased by 36%/y/y to US\$17.1bn.

- Preliminary data shows that exports increased by 22.6%/y/y in Dec10 to US\$11.6bn.

Current Account posted a deficit of US\$5.9bn in Nov10 (vs. deficit of US\$3.7bn in Oct10).

- 12 month rolling current account deficit increased to US\$44.9bn from US\$40.8bn last month, leading to a year-end CA deficit forecast of approx. 6.4% of GDP.

Capital Account posted a surplus of US\$6.1bn in Nov10 (vs. US\$5.3bn in Oct10) mainly with the support of banks' borrowing from abroad and portfolio inflows into the equity & debt markets.

- Net FDI flows in Nov10 reached US\$553mn (vs. FDI inflow of US\$208mn in Nov09 and inflow of US\$577mn in Oct10).

- Inflows into the equity market continued with a strong figure of US\$0.7bn in Nov10. Debt securities registered an inflow of US\$1.2bn, leading to year-to-date total inflows into the fixed income market of US\$15.6bn.

- Corporates were net debt borrowers with an almost 100% roll-over ratio while Banks continued to drawdown their FX deposits abroad and tapped foreign markets with US\$1.0bn of net short-term borrowing in Nov10.

- "Net error and omission" item came in with an inflow of US\$2.1bn. CBT's reserves increased by US\$2.4bn.

Industrial production increased by 9.1%/y/y in Nov10 and by 13%/y/y in 11M10. Main contributors were the automotive and chemical industries.

Gross External Debt increased by around US\$16.0bn (of which US\$12.0bn is due to exchange rate effect) in 3rdQ10 to US\$282.3bn (of which 63.3% belongs to the Private sector).

Capacity Utilization Rate slightly declined in Dec10 to 75.6% from 75.89% the previous month.

Manufacturing PMI stood at 56.4 in Dec10, flat compared to Nov10.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

General Elections: according to a very recent opinion poll, ruling AKP's vote share would stand at 45.4% while main opposition CHP would be positioned second with 30.7% while nationalist MHP would be at 14% and pro-Kurdish BDP at 6.5%, below the threshold for

parliamentary representation. Such a vote distribution would grant 304 seats to the AKP, above the majority threshold (276) but below the three-fifth majority (330) necessary to modify the Constitution.

SECTOR NEWS & PRIVATISATION

Tourism: number of foreign tourists visiting Turkey increased by 6.2%/y/y to 1.5mn in Nov10, and by 6.25% in 11M10 whereas tourism revenues fell by 3.4%/y/y in the same period.

Aviation: total passenger number increased by 8.9%/y/y to 6.4mn in Dec10, and by 20.1%/y/y to 102.7mn in 2010.

Media: according to the new broadcasting law, a foreign entity will be allowed to own a stake in up to two TV channels and be able to raise its ownership in local companies from the 25% current limit to 50%.

Banking sector's results came in at TL1.6bn in Nov10 down by 5% m/m and at TL20.4bn in 11M10, up by 8%/y/y.

Electricity Market: consumption increased by 8% in 2010 to reach 209 TWh. Share of private producers to electricity generation increased to 25% in 2010 from 22% in 2009 (excluding BOTs/BOs). Share of Natural gas in power generation stood at 45.5% in 2010 while share of hydro power surged to 24.5% from 18.5%

in 2009, mainly thanks to strong precipitation this year. Average spot prices decreased by 17%% in 2010 mainly due to lower natural gas prices, higher share of hydro in power generation and new capacities installed by the Private Sector (+22%/y/y). Regulated prices slightly increased by 6%.

Power: Unit signed an EPC contract with Ansaldo Energia for its 850MW gas-fired power plant in Gebze. The Italy-based company will also take a 40% stake in the Project Company "Yeni Elektrik".

Renewable Energy Law was voted by the Turkish Assembly, introducing feed-in-tariffs in US\$, meaning US\$7.3cents/KWh for wind & hydro energies (US\$11cents/KWh for wind if turbines are manufactured locally), US\$13.3cents/KWh for Solar and US\$10.5cents/KWh for geothermal. The tariffs are applicable for a period of 10 years to every plant that became or will become operational in the 2005-2015 period.

Nuclear Power: Japan and Turkey signed a Memorandum of Understanding to cooperate

in the construction of a 5,600MW nuclear power plant in Sinop.

Electricity Distribution: EMRA has determined the new target theft/loss levels for each distribution region for the 2011-2015 period. New targets set for 2011 are higher than in 2010 for most regions which is seen as a positive element since the difference between target and recorded levels of theft/loss ratios are recorded as profit by the Companies.

- Aksa Elektrik completed the takeover of 100% shares of Firat electricity distribution region, of which the Company had won the privatisation tender with the highest bid of US\$230mn in 2010. Firat Electricity Grid, with 677,000 subscribers, had a total sales volume of 2.4bn KWh in 2010.

Oil Refinery: Petkim reached an agreement with the Socar-Turcas consortium to rent a 1.4mn m2 area within its own site for 49 years at a fare of US\$3.0mn per year (to be annually increased at Libor +1%) The land will be used by the consortium for its refinery project.

Gas: Botas's General Manager announced that they were planning to transfer import purchase contracts for 6bn cubic meters of gas to private parties in 2011.

- Gazprom plans to increase its natural gas wholesale tariffs by 2.8% to US\$327 per cubic meters in 1stQ11.

- Socar&Turcas Petrokimya, 100% subsidiary of Socar&Turcas Enerji, received a 30-year wholesale gas license from the Regulator. The Company might be interested in the NG import contracts to be tendered out in 2011.

Privatization

Gas Distribution: IGDAS, Istanbul's gas distribution company, is planned to be privatized through block sale in April 2011.

M&A

Insurance: Germany's Insurance Company HDI-Gerling is looking at two acquisitions that would increase its share in the Turkish insurance market.

- According to "Les Echos", Dexia is to sale its insurance subsidiary Deniz Emeklik, with an estimated evaluation of €200mn-€300mn.

Dogan Holding has completed the sale of its 54.14% stake in Petrol Ofisi to OMV by finalizing legal requirements and payment procedures. The Holding is to receive €1.0bn in cash.

Dogan Yayin Holding: Goldman Sachs is reported to have initiated a separate sale process for Hürriyet. TPG, KKR and Time Warner are said to have been short-listed for the Holding's asset sale process. Initial bids will be called on Feb the 1st.

Turkcell is said to have taken the tendering documents for the sale of 51% of Telecom Srbija. The deadline for handing offers has been set for Feb 21st.

Celebi Holding is interested in the management of Macau International Airport (5mn passengers per annum) together with Nas Aviation Services India.

Stock Exchange: international investors were net sellers on the Istanbul Stock Exchange with US\$489mn in Dec10. Foreign investors placed US\$6.6bn buy orders vs. US\$7.1bn sell orders. Akbank and Tüpras were the most bought stocks while Garanti and IsBank were the most sold ones. Total inflow in 2010 declined US\$2.1bn

Debt Capital Market: Sekerbank has applied to BRSA for a TL500mn & 2.5-year bond issue.

- BRSA approved Isbank's TL5.0bn bond issue.

- AkBank plans to issue a US\$1.5bn Eurobond, following the US\$1.0bn Eurobond already issued in July10.

- Withholding taxes on Eurobonds have been decreased in line with maturities: tax on bonds above five years maturity declined to 0% (up to 1 year remained at 10%, 1-3years was set at 7% and 3-5 years at 3%). Taxes on all TL domestic bonds have been set at 1%.

COMPANY NEWS

Akenerji's 70MW Feke II hydro-electric power plant just started its operations.

Company's installed capacity now amounts to 659MW.

Dogan Yayin Holding: Council of State approved the injunction request for the tax fine of TL1.24bn (TL0.92bn + TL0.32bn) filed by Dogan TV. The Court will hold sessions to further discuss the tax issue.

Sky Airlines, a low-cost airline company which runs flights with major European cities, plans to initiate domestic flights. The Company targets 1mn passenger and TL150mn revenues in 2011.

Tüpras obtained a TL2.4bn (US\$1.8bn) investment incentive certificate for its residuum upgrade project at the Izmit plant. The certificate grants customs duty and VAT exemptions for the imported parts, lower

corporate taxes, and social insurance payment support.

Turkish Airlines and its fully owned subsidiary, THY Teknik and Turkish Aviation and Aerospace Company (TUSAS) will form a new company to manufacture and provide aircraft cabin equipments. Turkish Airlines will have a 30% stake, THY Teknik a 21% stake and TUSAS a 49% stake in the new company.

- Number of passengers increased in 2010 by 16%/y/y to reach 29.1mn.

- The Company intends to acquire the remaining 51% of the Bosnian Airline Company "B&H Airlines" in which he already owns 49%. The Company runs 4 aircrafts.