

Data Snapshot

Growth & Trade Balance:

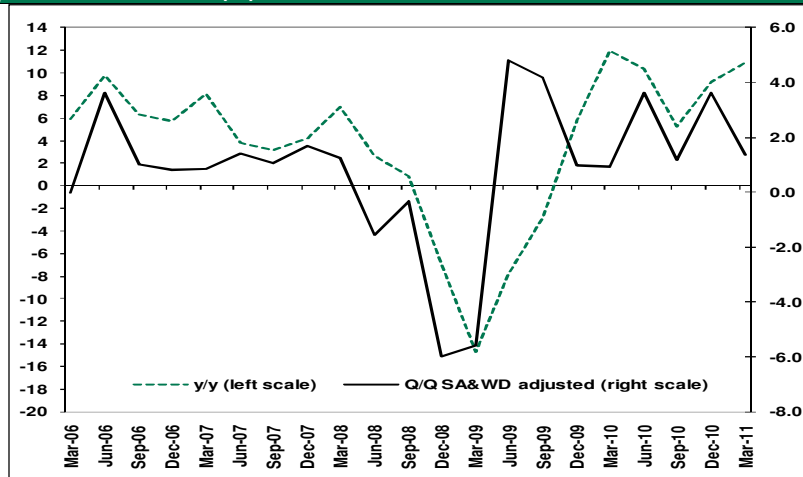
Data releases support the need for additional monetary tightening

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Two important data releases showed that there has been no particular improvement in the trade deficit as of May and economy boomed in the first quarter.

Turkish economic output surged 11.0% YoY in real terms in the first quarter of the year, against the market consensus of 9.6%, while our forecast was 10.2%. In working day and seasonally adjusted terms, the economy grew 1.4% QoQ in the first quarter, after expanding 3.6% in Q4 2010. It is the 8th consecutive quarterly increase in real output in WD and SA terms since Q2 2009.

Graph 1: GDP Growth (%)



Source: TurkStat

The growth came completely from domestic demand in Q1, a pattern observed in Q4 2010. In real terms, private consumption rose 12.1% YoY in Q1, while private investment surged 38.3% YoY. Though private consumption accelerated compared to Q4 2010, private investment displayed some slowdown in Q1 but remained at elevated levels. On the other hand, public consumption and investment rose 6.7% and 4.9% YoY respectively in the first quarter.

In terms of the contributions, domestic demand made 16.2 pp to 11.0% growth. Meanwhile, growth retreated by 0.3 pp by stock changes and 5.5 pp by net foreign demand, as exports rose 7.7% YoY compared to the 27% YoY rise in imports in Q1.

Table 1: GDP Growth Rates (%)

	Q1	
	2011	2010
Expenditure (Demand) Side		
Domestic Demand 1/	16.8	9.2
Private Consumption	12.1	7.5
Public Consumption	6.7	0.6
Gross Fixed Capital Formation	33.6	16.8
Public	4.9	13.6
Private	38.3	17.3
Change in Stocks 1/	-0.3	8.4
Foreign Demand 1/	-5.5	-5.7
Gross Domestic Product	11.0	12.0

1/ Contribution to GDP growth (as percentage of the preceding period's GDP).

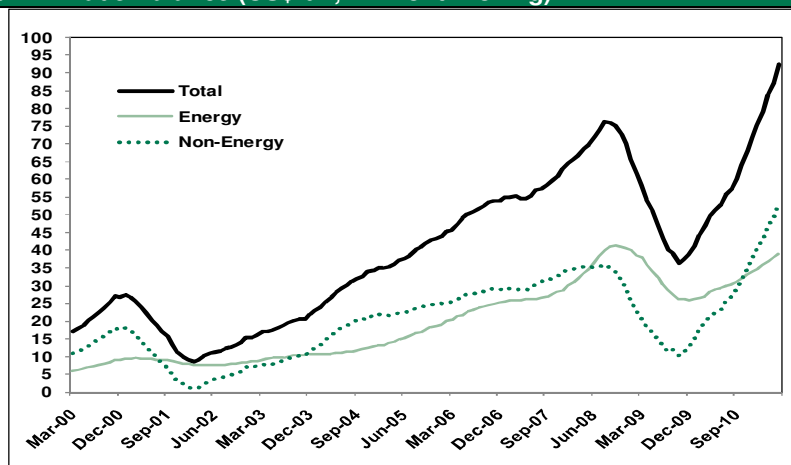
Source: TurkStat

In terms of production, agricultural, industrial and service outputs rose 4.1%, 12.3% and 10.2% YoY in Q1 respectively in real terms. Construction sector output surged by 14.8% YoY supported by low interest rates, while wholesale and retail trade output increased 17.2% YoY. On the other hand, financial intermediation activities expanded 9.1% YoY in Q1.

After the release, we do not revise our GDP growth forecast for 2011 at 5.7% after 8.9% expansion in 2010.

Meanwhile, the trade deficit came in at USD 10.1bn for May, above our above-consensus forecast of USD 9.8bn (market consensus: USD 9.6bn). The deficit compares unfavorably with the USD 4.9bn trade deficit recorded in May 2010. Exports rose 11.7% YoY to USD 10.9bn in May, while imports grew 42.6% YoY to USD 21bn, outpacing exports. However, in WD and SA terms, imports declined 2.4% MoM in May, less than 7% MoM decline in exports. Even looking from this perspective does not help.

The 12-month rolling trade deficit widened to a new record in May (USD 92.4bn from USD 87.3bn from April). The main part of the widening (USD 5.1bn) comes from the widening in the non-energy component (USD 3.9bn).

Graph 2: Trade Balance (US\$ bn; 12-month rolling)

Source: TurkStat

Table 2: Foreign Trade (US\$ bn)

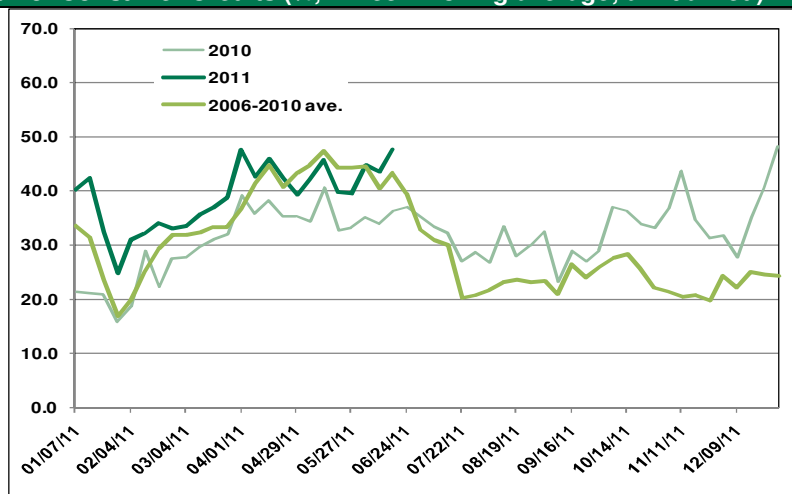
	May		Year-to-date		12-month rolling	
	2011	2010	2011	2010	May	Apr
Trade Deficit	10.1	4.9	43.8	23.0	92.4	87.3
Energy	3.8	2.6	17.9	12.9	39.0	37.8
Non-Energy	6.2	2.3	25.9	10.0	53.4	49.5
Exports	10.9	9.8	54.3	45.2	123.0	121.8
12-month; %	11.7	33.4	20.1	14.7
Imports	21.0	14.7	98.0	68.2	215.4	209.1
12-month; %	42.6	35.5	43.8	36.7
o/w: Energy	4.4	2.9	20.5	14.5	44.6	43.1
12-month; %	49.8	35.6	41.8	31.9
Non-Energy	16.6	11.8	77.5	53.7	170.8	166.0
12-month; %	40.9	35.5	44.3	38.1

Source: TurkStat

Looking into the details, capital goods imports (up 73.2% YoY), intermediate goods imports (up 37.4%) and consumption goods imports (up 38.3% YoY) did not display a slowdown in May.

Today's data releases imply that the economy grew at full speed in Q1 and that the trade deficit is widening parallel to the Turkish growth model which is dependent on imports. In our view, as growth indicators remained strong in Q2, though we observe some slowdown, the implication is that the Turkish economy needs rate hikes to slowdown the widening in the current account deficit as tightening by other measures such as reserve requirement ratio hikes have not yet provided the desired results. The TRY 56bn liquidity as of June 28, provided by the CBRT through weekly repo auctions makes, in a way, the effect of RRR hikes are limited on the credit growth. In fact, as of June 17, consumer credits are expanding above the levels desired by the CBRT. In the last three weeks to June 17, the 4-week annualized growth rate for consumer credits exceeded the 2006-2010 average as shown in the graph below.

Graph 3: Consumer Credits (%; 4-week moving average; annualized)



Source: BRSA, Seker Securities

In our view, the CBRT will likely wait for more data as to the results of its current policy mix. Given the fact that the CBRT acts in coordination with other economic institutions with regard to the financial stability, and it is focused on the core inflation indicators instead of headline, the Bank is likely to postpone rate hikes until the 4th quarter even if the imbalance between foreign and domestic demand stands. A major outflow from the country poses risks to our rate call however. We forecast a total 100 bps policy rate increase in Q4. Before rate hikes, if the Lira continues to depreciate, the CBRT is likely to decrease the amount of daily FX buying auctions from USD 30mn or remove the auctions completely.

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