

Agenda

31 Monday

- US markets will be early close.

01 Tuesday

- Domestic and International markets closed.

02 Wednesday

- Fed to release FOMC meeting minutes.
- US, December ISM manufacturing index figures.
- Germany, December CPI and PMI figures.
- Eurozone, December PMI figures.

03 Thursday

- TurkStat to announce inflation figures for December.
- US, ADP unemployment report.
- U.S., jobless claims figures.
- Germany, December unemployment figures.

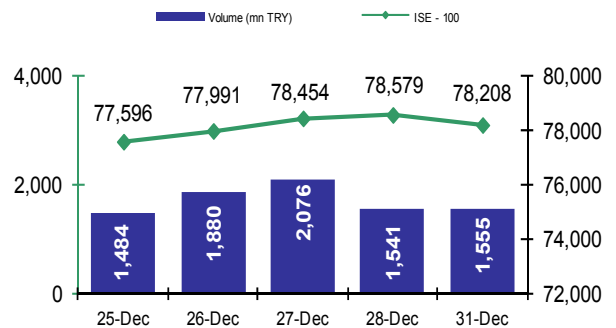
04 Friday

- CBRT to announce Price Developments Report for December.
- US, December unemployment figures.
- Germany and Eurozone, December PMI composite.

Outlook:

The ISE closed the last trading day of 2012 down 0.47% at 78,208 on a volume of TRY 1.6bn. The ISE 100 was the year's second best performing index in the world, returning a 53% gain to investors, led by Banking stocks, which rose 65%. Meanwhile, the Turkish bonds declined 4.83% to 6.15% for the year, being the best performer among EM peers, while the TRY rose 5.9% per USD to close the year at 1.7819, also being the third biggest gainer among the EMs. Looking at the statistics of 2012 we clearly observe that the Turkish markets ranked among the world's favorites.

Today, we expect a positive opening as the fiscal cliff woes appear to be behind us. Meanwhile, December PMI figures will make their New Year debut at 08:00GMT.



Money Market:

The lira was positive on Monday as the local currency gained 0.38% to close at 1.7819. Additionally, the lira appreciated by 0.44% against the basket composed of \$0.50 and €0.50. Meanwhile, the local fixed income market was flat. The two year benchmark bond traded within a tight range of 6.15% - 6.18%, ending at 6.15%.

Headlines:

Tax changes on tobacco products to have less inflationary effect than expected. The government has introduced tax changes on tobacco products effective yesterday. Accordingly, the proportional tax rate has risen to 65.25% from 65.00%. Recall that it had previously been planned to be increased to 69%. On the other hand, the minimum lump sum tax per cigarette was increased to TRY 0.1575 from TRY 0.1450. In addition, the government introduced an additional lump-sum tax of TRY 0.09 per package. We calculate that cigarette companies should raise cigarette prices in the CPI basket by some 8.8% to maintain their share in lira terms. This would have an inflationary effect of 0.4 percentage points, less than some 1 percentage point with a 69% proportional tax rate. Hence, we revise our end-2013 CPI inflation forecast to 7.0% from the previous 7.6%. The removal of uncertainty over taxes is a positive factor supporting the CBRT's policy of low rates, and hence also supporting low rates in the bond market.

TurkStat to release December's inflation figures at 10:00 (8:00 London time) tomorrow. At 0.5%, our monthly inflation forecast is slightly above the market consensus of 0.39%. Our monthly forecast corresponds to a decline in annual inflation to 6.3% from 6.4% registered in November. Despite forecasting a monthly rise in food prices in December, the Istanbul Chamber of Commerce points to stable food group prices in December, which increases the downside risk to our forecast.

Indices (TRY)	Previous	Last	Chg.	YTD
ISE-100	78,579	78,208	-0.47%	52.55%
ISE-30	98,230	97,728	-0.51%	58.40%
ISE-Financial	114,748	113,627	-0.98%	60.16%
ISE-Industrial	64,578	64,637	0.09%	33.98%
ISE-Services	49,669	49,947	0.56%	45.62%

Advances		Declines		Most Active	
Stocks	(%)	Stocks	(%)	Stocks	Vol (TR)
UZERB	19.75	HALKS	-12.24	GARAN	197,338,247
OSTIM	19.31	LTHOL	-7.23	ISCTR	97,814,992
MATAS	13.11	KARSN	-4.72	HALKB	93,976,249
TTRAK	9.39	EMNIS	-4.28	TCELL	82,722,784
BRKSN	6.61	MMCAS	-3.42	AKBNK	76,507,917

Money Market	Previous	Last	Pr. Mn	YE11
O/N Repo (%)	5.00	5.25	5.08	10.55
Euro Bond (30 year, \$)	196.63	196.38	164.00	164.00
Bond (Benchmark, %)	6.15	6.15	5.93	11.14

Currency	Previous	Last	Chg.	YTD
US\$	1.7885	1.7855	-0.17%	-5.55%
Euro	2.3635	2.3595	-0.17%	-3.60%
Euro/Dolar	1.3219	1.32115	-0.05%	2.09%

Commodity	Previous	Last	Chg.	YTD
Oil (Brent spot, \$)	110.4	110.3	-0.06%	2.95%
Oil (NYMEX future, \$)	90.8	90.7	-0.17%	-9.04%
Gold (Ounce, \$)	1,656.3	1,662.7	0.38%	6.21%
Silver (XAG, \$)	30.0	30.1	0.40%	7.24%

Şeker Funds	Previous	Last*	Chg.	YTD
Şekerbank A T. Shares	0.281502	0.280249	-0.45%	25.80%
Şekerbank B T. Bond&Bill	0.019597	0.019597	0.00%	0.76%
Şekerbank B T. Liquid	0.825529	0.825663	0.02%	7.33%
Şeker Yat. A T. Mix	0.015572	0.015547	-0.16%	-1.76%
Şeker Yat. B T. Gold	0.016954	0.016940	-0.08%	-4.47%
Şekerbank B T. Short T. Bond&Bill	0.010187	0.010189	0.02%	-

The withholding rates of interest earnings from deposit&participation accounts have been reallocated in terms of maturity. Accordingly, the rate of deposits with maturity of between of 6-12 months has been reduced to 12% from 15%. Furthermore, the rate for those with maturity of over 12 months has been reduced to 10% from 15%. On the other hand the withholding rates of interest earnings from foreign exchange deposit accounts have been increased gradually. Additionally, the new regulation enables account holders to withdraw up to 50% of their deposits without incurring a penalty, and to receive accrued interest.

The long-awaited property-related VAT increase was released on the last day of the year. According to the new regulation, the tax rate would be set according to the land value of the project. If the land's sqm2 value is below TRY500, VAT will be at 1%, between TRY500-TRY1,000 VAT will be at 8% and thereafter at 18%. Recall that residential apartment units smaller than 150 m2 were subject to 1% VAT, while all other real estate is subject to 18% VAT. It is clear that this bill would affect REIT stocks negatively, especially housing developers such as **Sinpas REIT (SNGYO.TI; Outperform)** and **Emlak Konut REIT (EKGYO.TI; Outperform)**. Yet recall that this bill has been under discussion for a couple of months, and is thus mostly priced in.

Company News:

Is Bank (ISCTR.TI; Market Perform) has received a tax fine of TRY 68mn for the 2007 and 2008 period. Since the fine is small, we expect only a slightly negative effect on the stock.

Tofas (TOASO.TI; Outperform) has announced that production would continue in two shifts due the ongoing low demand from the Euro-zone, which spells negative news for the stock.

Zorlu Energy (ZOREN.TI; Market Perform) has assumed a 100% stake in Zorlu Dogal Elektrik for TRY 230mn from Zorlu Holding. Note that Zorlu Dogal Elektrik's production capacity is 142.6 MW via seven hydro power plants (112.6 MW) and two geothermal power plants (30 MW). Zorlu Energy currently has an installed generation capacity of 804 MW via its five domestic natural gas power plants (493 MW), a domestic wind turbine power plant (135 MW adjusted for the 83.7% direct stake), one natural gas power plant abroad (170 MW) and one wind PP abroad (6 MW). Thus, the company's total installed capacity has risen to 946.6 MW. Recall that Zorlu Energy had transferred Zorlu Dogal Electric to Zorlu Group Companies for USD 42.7mn in 2009. Thus, Zorlu Energy has bought back Zorlu Dogal Electric.

Emlak Konut REIT (EKGYO.TI; Outperform) has obtained a partial construction permit for its Istanbul Project and Bulvar 2016 Project revenue sharing project consisting of 925 and 69 units, respectively. Emlak Konut REIT has also stated that the tender for land in Istanbul's Basaksehir Ikitelli district would be held on January 30, 2013.

Dogus Otomotiv (DOAS.TI; Market Perform) has decided to increase its capital ceiling from TRY 275mn to TRY 660mn.

World Indices					
America	Previous	Last	Chg.	YTD	
Dow Jones (US)	12,938	13,104	1.28%	7.26%	
Nasdaq (US)	2,960	3,020	2.00%	15.91%	
S&P 500 (US)	1,402	1,426	1.69%	13.41%	
Bovespa (Brasil)	60,416	60,952	0.89%	7.40%	
Merval (Argentina)	2,839	2,854	0.53%	15.90%	
Mexico Bolsa (Mexico)	43,722	43,706	-0.04%	17.88%	
Europe	Previous	Last	Chg.	YTD	
Dax (Germany)	7,612	7,612	0.00%	29.06%	
FTSE 100 (UK)	5,925	5,898	-0.47%	5.84%	
CAC 40 (France)	3,620	3,641	0.58%	15.23%	
WSE WIG (Poland)	47,461	47,461	0.00%	26.24%	
Prague (Czech Republic)	1,039	1,039	0.00%	14.01%	
Budapest (Hungary)	18,173	18,173	0.00%	7.06%	
RTSI (Rusya)	1,530	1,530	0.00%	10.86%	
Asia/Africa	Previous	Last	Chg.	YTD	
Nikkei (Japan)	10,323	10,323	0.00%	22.09%	
Hang Seng (Hong Kong)	22,667	22,657	-0.04%	22.70%	
Shanghai Comp. (China)	2,206	2,233	1.24%	1.86%	
KOSPI (South Korea)	1,987	1,987	0.00%	8.85%	
JSE Africa All Shr.(S.Africa)	39,385	39,250	-0.34%	22.71%	
Turkdex (Set. Price)	Previous	Last	Chg.	YTD	
INX100 (DECEMBER 12)	79.250	77.950	-1.64%	49.69%	
INX30 (DECEMBER 12)	98.350	97.325	-1.04%	56.09%	
USD (DECEMBER 12)	1.788	1.786	-0.08%	-6.78%	
EURO (DECEMBER 12)	2.362	2.357	-0.23%	-5.02%	
COTTON (DECEMBER 12)	3.750	3.275	-12.67%	-14.82%	
WHEAT (DECEMBER 12)	0.720	0.732	1.67%	17.87%	
GOLD (DECEMBER 12)	95.530	95.560	0.03%	-1.73%	
Portfolio	Inclusio	Last	Chg.	ISE	
Recommend.	Date	Price	Close	(%)	Relative
TAV Airports Holding	08.01.10	4.75	9.12	92.0%	35.0%
Koza Gold	26.12.12	41.70	43.00	3.1%	2.3%
Garanti Bank	04.05.12	6.40	9.26	44.7%	9.7%
Turkish Airlines	01.06.12	2.52	6.26	148.4%	75.0%
Turkcell	04.05.12	8.83	11.55	30.8%	-0.8%
Aksa Akriilik	10.01.12	3.90	5.14	31.8%	-16.0%
TSKB	21.09.12	1.93	2.29	18.7%	1.7%
Aygaz	24.08.12	8.44	9.44	11.8%	-5.5%
Portfolio Yield					104.2%

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