

### Agenda

#### 29 Monday

- National Holiday - Domestic markets closed.

#### 30 Tuesday

- BoJ to announce interest rate decisions.
- Eurozone, October business climate indicator.
- U.S., October CB consumer confidence.

#### 31 Wednesday

- Treasury to announce domestic borrowing strategy for November-January.
- Treasury to pay down TRY 0.9bn (USD 0.5bn) in debt.
- TurkStat to announce foreign trade figures for September.
- U.S., October ADP employment figures.

#### 01 Thursday

- Turkey, October PMI manufacturing figures.
- TEA to release export figures for October.
- ICC to announce Istanbul inflation for October.
- Eurozone, September unemployment rate figures.
- U.S., jobless claims.
- U.S., October ISM non-manufacturing index figures.

#### 02 Friday

- Eurozone, October PMI manufacturing figures.
- U.S., October unemployment rate figures.
- U.S., September factory orders figures.

#### Outlook:

So Where Did we Leave Off? Having been away celebrating Eid, and using the festival to kick back, we note that we start the day pretty much where we left off, with the US flat and the European markets slightly up, only with our friends across the pond closed for another day due to Sandy. And so the ISE will start today from 70,708. On Wednesday, the benchmark bonds closed at 7.17%, and the USD is currently trading at 1.8053. Today, we expect a flat to negative opening at the ISE, and there are no domestic data releases to watch out for. On the international front, investors will be following the Merkel-Hollande-Lagarde meeting, as well as awaiting the BOJ decision on whether to expand its asset purchase program or not.

#### Money Market:

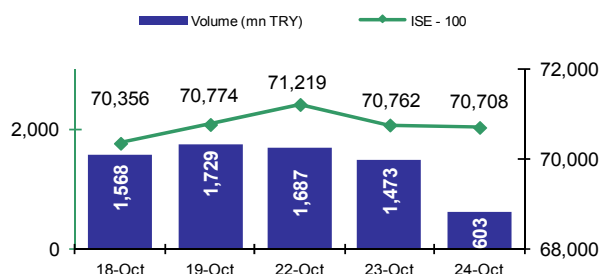
The lira was bearish on Wednesday as the local currency weakened 0.11% to close at 1.8032. Meanwhile, the local fixed income market was positive. The two-year benchmark bond traded within a range of 7.16% - 7.19%, ending at 7.17%, thus 5bps below its previous finish.

#### Domestic Headlines:

**CBRT seems optimistic on 2013 inflation** CBRT's Governor Erdem Basçi introduced the last inflation report of the year. Accordingly, the inflation forecast for end-2012 is revised upward to 7.4% (mid-point of 6.9% and 7.9% band) from the previous 6.2%. Our inflation forecast stands at 7.1%, lower compared to the mid-point of the CBRT's forecast range this year. The bank expects a notable decline in annual inflation in the last quarter, adding the downside risks to its inflation forecast. The decline may be more pronounced as the unprocessed food prices exhibit a significantly better course compared to seasonal averages according to the CBRT. In other words, 7% food group inflation assumption of the CBRT may remain pessimistic in the upcoming months according to the report.

Meanwhile, the forecast for end-2013 is revised to 5.3% (mid-point of 3.8% and 6.8% band) from 5.1% assuming that the previously decided adjustment to the special consumption tax on tobacco is applied in January 2013. This adjustment would add some 1.2 percentage points to annual inflation, by our calculations. And yet the Bank believes that aggregate demand conditions and a decline in core inflation indicators would provide support to headline inflation in declining to 5.3% by end-2013. We find the forecast for end-2013 optimistic, and forecast annual inflation of around 7.5% by end-2013. We believe that the CBRT seeks to anchor medium-term inflation expectations by keeping its 2013 forecast low. Therefore, the market may price in notably higher inflation for 2013 following the tax changes on tobacco in January. The CBRT believes that inflation will converge to the 5% inflation target in the medium term. Note that the revised forecasts are same with the government forecasts in its Medium Term Program published on October 9<sup>th</sup>.

The forecast revisions in the new inflation report assume that flexible and cautious monetary policy will prevail in the upcoming period due to risks related to pricing behavior and uncertainty regarding financial flows in both directions. The CBRT seems not to abandon the flexibility provided by the interest rate corridor, but to be using it with the Reserve Option Mechanism (ROM) as a complementary tool. >>>



Indices (TRY)	Previous	Last	Chg.	YTD
ISE-100	70,762	70,708	-0.08%	37.92%
ISE-30	87,685	87,539	-0.17%	41.88%
ISE-Financial	103,464	103,319	-0.14%	45.63%
ISE-Industrial	58,842	58,923	0.14%	22.14%
ISE-Services	44,804	44,870	0.15%	30.82%

Advances		Declines		Most Active	
Stocks	(%)	Stocks	(%)	Stocks	Vol (TR)
TSPOR	7.69	UZERB	-4.00	VAKBN	99,494,075
EUROM	7.69	MNDRS	-3.28	GARAN	98,456,098
ASYO	6.25	EMNIS	-3.05	ISCTR	48,452,865
TCRYO	5.83	KUYAS	-3.00	HALKB	45,736,972
HITITY	5.65	DOBUR	-2.93	AKBNK	31,699,066

Money Market	Previous	Last	Pr. Mn	YE11
O/N Repo (%)	5.01	5.16	8.03	10.55
Euro Bond (30 year, \$)	189.50	189.50	171.20	164.00
Bond (Benchmark, %)	7.18	7.22	7.56	11.14

Currency	Previous	Last	Chg.	YTD
US\$	1.7945	1.8025	0.45%	-4.65%
Euro	2.3435	2.339	-0.19%	-4.43%
Euro/Dolar	1.3061	1.29687	-0.70%	0.21%

Commodity	Previous	Last	Chg.	YTD
Oil (Brent spot, \$)	109.6	108.2	-1.29%	0.97%
Oil (NYMEX future, \$)	88.7	86.9	-1.93%	-12.76%
Gold (Ounce, \$)	1,728.4	1,710.5	-1.04%	9.27%
Silver (XAG, \$)	32.4	31.9	-1.70%	13.43%

Şeker Funds	Previous	Last*	Chg.	YTD
Şekerbank A T. Shares	0.269730	0.269302	-0.16%	20.89%
Şekerbank B T. Bond&Bill	0.019741	0.019739	-0.01%	1.49%
Şekerbank B T. Liquid	0.818692	0.819312	0.08%	6.50%
Şeker Yat. A T. Mix	0.015229	0.015219	-0.07%	-3.83%
Şeker Yat. B T. Gold	0.017608	0.017593	-0.09%	-0.78%
Şekerbank B T. Short T. Bond&Bill	0.010106	0.010112	0.06%	-

\*Prices as of 30-Oct-12

>>> As for 2013, Governor Basçi said that the monetary policy would be undertaken with predictable and measured steps.

An increase in the average oil price assumption (from USD 110 to USD 112) for 2012, upward revision in import price assumption and developments in the lira since July's report caused a 0.4 pp rise in the 2012 forecast, while the widened output gap forecasts dropped 0.1 pp from the inflation forecast. Meanwhile, the recent adjustments in special consumption taxes and natural gas/energy price hikes have added 0.9 pps to the inflation forecast. On the other hand, the oil price assumption for the next year is revised upward to USD 107 from USD 100 in July's report. As for credit growth, the annual credit growth rate assumption is maintained at 14% for end-2012. The annual food group inflation assumption of 7.0% has been maintained, with the CBRT noting that it provides downside risk to their inflation forecast for this year.

All in all, the CBRT continued its balanced stance on inflation, growth and current account deficit, maintaining its cautious stance. The revision to the 2012 forecast would imply that the Bank will not likely tighten monetary policy by any means until year-end to achieve lower inflation, barring extreme depreciation pressure on the lira. Indeed, such a revision had already been priced-in. However, we want to add that upon a question, Governor Erdem Basçi said that average funding costs may technically decline to a range of 5.5-5.75% depending on their decisions on market liquidity. Because, the one-month repo auction rate may decline to below 5.75%, which may support low levels at the short end of the yield curve.

#### Company News:

**Ford Otosan (FROTO.TI; Market Perform):** The Ford Automotive Company has announced closing its two factories in the UK, and shifting its Ford Transit production solely to Ford Otosan's factory in Turkey. Thus, FROTO. TI will be the sole producer of Ford's Transit models. (Positive).

**According to daily Radikal,** the ground survey work of the third Istanbul airport to be constructed on the Black Sea coast has commenced. The airport, yet to be tendered, will have an area of 63 mn m2.

**Turkish Airlines (THYAO.TI; Outperform)** has cancelled all flights to New York and Washington due to severe weather conditions.

**Final bids for the motorways and bridges tender are to be received tomorrow** (October 31, 2012) by 16:00 Turkish time. Recall that five firms have applied for pre-qualification.>>>

World Indices					
America	Previous	Last	Chg.	YTD	
Dow Jones (US)	13,107.20	13,107	0.00%	7.28%	
Nasdaq (US)	2,987.95	2,988	0.00%	14.69%	
S&P 500 (US)	1,411.94	1,412	0.00%	12.27%	
Bovespa (Brasil)	57,836.78	57,177	-1.14%	0.74%	
Merval (Argentina)	2,376.49	2,333	-1.84%	-5.27%	
Mexico Bolsa (Mexico)	41,836.92	41,837	0.00%	12.84%	

Europe	Previous	Last	Chg.	YTD	
Dax (Germany)	7,200.23	7,203	0.04%	22.12%	
FTSE 100 (UK)	5,806.71	5,795	-0.20%	4.00%	
CAC 40 (France)	3,411.53	3,409	-0.08%	7.88%	
WSE WIG (Poland)	43,264.17	43,177	-0.20%	14.85%	
Prague (Czech Republic)	964	959	-0.54%	5.25%	
Budapest (Hungary)	18,885.87	19,110	1.19%	12.58%	
RTSI (Rusya)	1,442.48	1,427	-1.08%	3.36%	

Asia/Africa	Previous	Last	Chg.	YTD	
Nikkei (Japan)	9,055.20	8,933.06	-1.35%	5.65%	
Hang Seng (Hong Kong)	21,545.60	21,511.1	-0.16%	16.50%	
Shanghai Comp. (China)	2,101.58	2,066.21	-1.68%	-5.76%	
KOSPI (South Korea)	1,924.50	1,891.43	-1.72%	3.60%	
JSE Africa All Shr.(S.Africa)	36,871.71	36,993	0.33%	15.65%	

Turkdex (Set. Price)	Previous	Last	Chg.	YTD	
INX100 (OCTOBER 12)	70.850	70.850	0.00%	36.05%	
INX30 (OCTOBER 12)	87.700	87.700	0.00%	40.66%	
USD (OCTOBER 12)	1.808	1.806	-0.11%	-5.77%	
EURO (OCTOBER 12)	2.342	2.337	-0.21%	-5.82%	
COTTON (OCTOBER 12)	3.495	3.495	0.00%	-9.10%	
WHEAT (DECEMBER 12)	0.700	0.700	0.00%	12.72%	
GOLD (OCTOBER 12)	99.280	99.175	-0.11%	1.99%	

Portfolio Recommend.	Inclusio Date	Inclusio Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	5.84	9.36	60.3%	25.2%
TAV Airports Holding	08.01.10	4.75	8.58	80.6%	40.4%
Garanti Bank	04.05.12	6.40	8.22	28.4%	7.7%
Turkish Airlines	01.06.12	2.52	4.06	61.1%	25.5%
Turkcell	04.05.12	8.83	10.90	23.4%	3.5%
Aksa Akriklik	10.01.12	3.90	4.70	20.5%	-15.1%
TSKB	21.09.12	1.93	2.08	7.8%	2.1%
Aygaz	24.08.12	8.44	8.12	-3.8%	-10.1%
Portfolio Yield					92.1%

\*Starting date of portfolio 30/11/2004

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1-Vinci Concessions Holding A.S.,

2-Zorlu Holding A.S. (Zorlu Energy's parent company (ZOREN.TI)-OHL Concesiones S.A. Joint Venture Group.

3-Nurol Holding A.S.- MV Holding A.S.- Alsim Alarko Sanayi Tesisleri ve Ticaret A.S. (Alarko Holding's (ALARK.TI) subsidiary)-Kalyon Insaat Sanayi ve Ticaret A.S.-Fernas Insaat A.S. Joint Venture Group.,

4-Autostrade Per; Italia S.P.A.-Dogus Holding A.S.-Makyol Insaat Sanayi Turizm ve Ticaret A.S.-Akfen Holding A.S. (AKFEN.TI) Joint Venture Group.

5-Koc Holding A.S. (KCHOL.TI)-JEM Group Berhad-Gozde Girişim Sermayesi Yatırım Ortaklığı A.S.(GOZDE.TI) Joint Venture Group.

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