

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.
- Eurozone, October CPI figures.
- Eurozone, September unemployment rate 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 ADP employment figures.
- 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:

Gone Fitching Good morning, the ISE closed yesterday just 60 pts shy of its all time high of 71,777, at 71,717 (+1.43%) on a volume of TRY 1.5bn. Investors muted Moody's warnings that a rating upgrade would be strained by Turkey's chronic current account deficit, where it does not foresee short term improvement, and by the resilience of the economy to external shocks. The benchmark bonds closed slightly lower at 7.16%, and the USD regressed to 1.7950 against the TRY, and is currently trading at 1.7966. We expect investors to continue riding the Fitch upgrade bandwagon until the agency makes a statement, which would most likely come between November 5-8. And fresh out of the oven, Garanti Bank (GARANT. TI; Outperformed) announced a better than expected 3Q12 profit of TRY 733mn, versus the market's consensus of TRY 653mn and our estimate of TRY 695mn. Today, we expect the positive mood to continue, and for the Index to set a new record. The September foreign trade balance will be announced at 08:00GMT, and our expectation is for a USD 4.9bn deficit, versus the market's expectation of a TRY 6.1bn deficit.

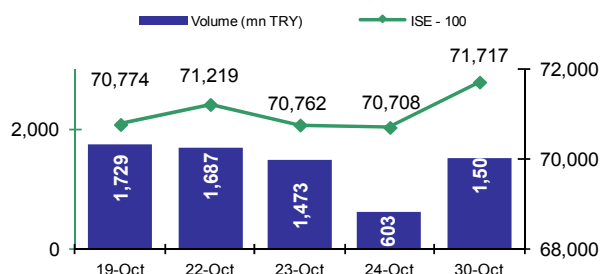
Money Market:

The lira was positive as the local currency gained 0.37% to close at 1.7966. Additionally, the TRY appreciated by 0.41% against the basket composed of \$0.50 and €0.50. Meanwhile, the local fixed income market was bullish. The two-year benchmark bond traded within a tight range of 7.15% - 7.18%, ending at 7.16%, thus 1bps below its previous finish.

Domestic Headlines:

Moody's affirms Turkey's credit rating at Ba1, maintaining a positive outlook In an evaluation published yesterday, Turkey's credit strengths are listed as its large and dynamic economy with increasingly diverse trade links, and a well-entrenched macro framework, including a track record of primary fiscal surpluses with favorable debt dynamics. Meanwhile, substantial external vulnerabilities, including a large current account deficit, forecast to decline to 7.8% of GDP this year from 10% in 2011, and to 7.4% of GDP next year by Moody's, are considered credit challenges. Recall that Moody's upgraded Turkey's rating to Ba1 (one level below investment grade) with a positive outlook in June on the back of positive developments in public finances and policy actions having the potential to address external imbalances. According to Moody's, greater resilience to balance of payments shocks is a prerequisite for shifting Turkey to investment grade. This may take the form of structurally reducing CAD, increasing foreign exchange reserves, or reducing the private sector's external borrowing. On the other hand, positive outlook on the rating would likely be moved to stable if progress on addressing external vulnerabilities were to be reversed, while a notable deterioration in public finances may result in a downward movement in the outlook, or, in extremis, in the rating itself.

While we find the overall tone of the statement positive, we still do not expect an upgrade to investment grade in the remainder of the year, as the agencies will likely await further current account deficit improvement to more sustainable levels, despite all positive developments on other fronts.



Indices (TRY)	Previous	Last	Chg.	YTD
ISE-100	70,708	71,717	1.43%	39.89%
ISE-30	87,539	88,993	1.66%	44.24%
ISE-Financial	103,319	105,013	1.64%	48.02%
ISE-Industrial	58,923	59,527	1.03%	23.39%
ISE-Services	44,870	45,230	0.80%	31.87%

Advances		Declines		Most Active	
Stocks	(%)	Stocks	(%)	Stocks	Vol (TR)
YAPRK	10.61	BRKSN	-12.39	GARAN	252,492,747
MERIT	10.00	ASCEL	-8.05	VAKBN	160,698,844
MERIT	10.00	KUYAS	-7.22	HALKB	108,639,025
MERIT	10.00	SODSN	-7.06	ISCTR	100,645,712
ALGYO	6.90	METAL	-6.85	YKBNK	88,210,122

Money Market	Previous	Last	Pr. Mn	YE11
O/N Repo (%)	5.20	5.00	8.03	10.55
Euro Bond (30 year, \$)	189.50	189.88	170.50	164.00
Bond (Benchmark, %)	7.17	7.16	7.56	11.14

Currency	Previous	Last	Chg.	YTD
US\$	1.8065	1.7985	-0.44%	-4.87%
Euro	2.3375	2.3305	-0.30%	-4.78%
Euro/Dolar	1.2902	1.29696	0.52%	0.22%

Commodity	Previous	Last	Chg.	YTD
Oil (Brent spot, \$)	109.2	109.3	0.12%	2.00%
Oil (NYMEX future, \$)	85.5	86.1	0.63%	-13.63%
Gold (Ounce, \$)	1,709.5	1,711.7	0.13%	9.35%
Silver (XAG, \$)	31.8	31.9	0.41%	13.67%

Şeker Funds	Previous	Last*	Chg.	YTD
Şekerbank A T. Shares	0.269302	0.270770	0.55%	21.55%
Şekerbank B T. Bond&Bill	0.019739	0.019741	0.01%	1.50%
Şekerbank B T. Liquid	0.819312	0.819422	0.01%	6.52%
Şeker Yat. A T. Mix	0.015219	0.015262	0.28%	-3.56%
Şeker Yat. B T. Gold	0.017593	0.017605	0.07%	-0.72%
Şekerbank B T. Short T. Bond&Bill	0.010112	0.010113	0.01%	-

*Prices as of 31-Oct-12

September trade figures due at 10:00 (8:00 London time) At USD 4.9bn, our forecast for monthly deficit stands below the USD 6.1bn market consensus. By our forecasts, excluding revisions, the 12-month rolling trade deficit would decline to USD 87.5bn from USD 93.0bn registered in August. We expect some 0.2bn of gold imports for September, with high gold exports of around USD 1.5bn due to demand from Iran, which has been supportive of a better adjustment in trade balance in recent months.

Company News:

Fenerbahçe (FENER.TI; N/C) and **Ford Otosan (FROTO; TI; Market Perform)** are to distribute a 22.12% and 65% cash dividend, respectively beginning today. On the other hand, the new shares of **Galatasaray (GSRAY.TI; N/C)** will be closed today.

Garanti (GARAN.TI, Outperform) has published its 3Q12 results, where net income came in at TRY 733mn (up 2% QoQ and 52% YoY), thus beating the CNBC-e consensus estimate of TRY 653 and our estimate of TRY 695m. Looking at the details, at first sight we see that better-than-expected earnings are driven by higher trading gains booked during the quarter (mainly driven by trading on TRY fixed securities). Loan growth came in at 2% QoQ and 10% YoY, with deposit growth of 3% QoQ and 12% YoY. Faster deposit growth has so far helped GARAN to improve its LDR by 1ppt to 99.0%. Meanwhile, asset quality evolution looks better than that of the sector with an NPL ratio of 2.0% (+18bps, vs. a quarter ago), vs. the sector's 2.9% NPL ratio. As guided by Garanti management, CAR appears better under the Basel II calculation, at 17.79%, vs. 16.58% in 2Q12. Details to follow. (Positive).

Istanbul Mayor Kadir Topbas has confirmed that Istanbul's third major airport would be built 50 kilometers to the north of the city on the Black Sea coast. Topbas added that the airport would feature 5 or 6 runways and have a 100 million passenger capacity in the short term, and ultimately 150 million. We suggest that this may impact **Turkish Airlines (THYAO.TI; Outperform)** positively because of high demand and intensive traffic at the existing Ataturk Airport. However, **TAV Airports Holding (TAVHL.TI; Outperform)** may be affected negatively, since it is uncertain whether it would win the third airport tender.

Positive news for **Turkish Airlines (THYAO; TI; Outperform)** and **TAV Airports Holding (TAVHL.TI; Outperform)**. According to General Directorate of Civil Aviation data, 7,136 aircraft landed and took-off from Istanbul Ataturk Airport, with the passenger number reaching 770,534 between >>>

World Indices					
America	Previous	Last	Chg.	YTD	
Dow Jones (US)	13,107	13,107	0.00%	7.28%	
Nasdaq (US)	2,988	2,988	0.00%	14.69%	
S&P 500 (US)	1,412	1,412	0.00%	12.27%	
Bovespa (Brasil)	57,177	57,684	0.89%	1.64%	
Merval (Argentina)	2,333	2,321	-0.52%	-5.77%	
Mexico Bolsa (Mexico)	41,837	41,817	-0.05%	12.78%	

Europe	Previous	Last	Chg.	YTD	
Dax (Germany)	7,203	7,284	1.13%	23.50%	
FTSE 100 (UK)	5,795	5,850	0.95%	4.98%	
CAC 40 (France)	3,409	3,459	1.48%	9.48%	
WSE WIG (Poland)	43,177	43,240	0.15%	15.01%	
Prague (Czech Republic)	959	970	1.10%	6.41%	
Budapest (Hungary)	19,110	19,193	0.43%	13.07%	
RTSI (Rusya)	1,427	1,433	0.42%	3.80%	

Asia/Africa	Previous	Last	Chg.	YTD	
Nikkei (Japan)	8,933.06	8,929	-0.04%	5.61%	
Hang Seng (Hong Kong)	21,511.10	21,429	-0.38%	16.05%	
Shanghai Comp. (China)	2,066.21	2,059	-0.35%	-6.09%	
KOSPI (South Korea)	1,891.43	1,892	0.00%	3.60%	
JSE Africa All Shr.(S.Africa)	36,993	37,147	0.42%	16.14%	

Turkdex (Set. Price)	Previous	Last	Chg.	YTD	
INX100 (OCTOBER 12)	70.850	71.375	0.74%	37.06%	
INX30 (OCTOBER 12)	87.700	89.000	1.48%	42.74%	
USD (OCTOBER 12)	1.806	1.798	-0.44%	-6.18%	
EURO (OCTOBER 12)	2.337	2.334	-0.13%	-5.95%	
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)	99.175	99.135	-0.04%	1.95%	

Portfolio Recommend.	Inclusio Date	Inclusio Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	5.84	9.68	65.8%	27.7%
TAV Airports Holding	08.01.10	4.75	8.66	82.3%	39.7%
Garanti Bank	04.05.12	6.40	8.36	30.6%	8.0%
Turkish Airlines	01.06.12	2.52	4.10	62.7%	25.0%
Turkcell	04.05.12	8.83	10.85	22.9%	1.6%
Aksa Akriklik	10.01.12	3.90	4.67	19.7%	-16.8%
TSKB	21.09.12	1.93	2.07	7.3%	0.2%
Aygaz	24.08.12	8.44	8.24	-2.4%	-10.0%
Portfolio Yield					91.0%

*Starting date of portfolio 30/11/2004

>>> 23-29 October. We will see these results in TAV and THY's October traffic data.

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