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The Market is Talking, is the IMF Listening?

Turkish Equities

Highlights:

- **Turkey's economy has been hit hard by the horrific September 11 attacks. Damage to tourism is likely, worries for export growth have grown and reduced global appetite for risk has hit the Treasury's ability to borrow.**
- **Unsurprisingly, Turkey had to shelve an ill-timed Eurobond bid. The Treasury continues to face punishing rates for its TRL based borrowing.**
- **Disappointing September inflation is likely to keep rates high. Higher inflation does not bode well for prospective inflation targeting either.**
- **The battered currency has weakened further. If the currency continues to weaken at this pace, there is a real risk of hyper-inflation.**
- **With TRL borrowing drying up, we believe the government can get through if the banks can continue to absorb fx linked issues. Banks will walk a tightrope to roll over syndicated loans and maintain deposits.**
- **A sizeable new IMF package looks increasingly necessary. It's not just a question of how much, but when? If necessary, the IMF must be ready to bring forward the inevitable new package. Delays could mean the difference between holding things together and picking up the pieces.**
- **We maintain our return to defensives stance re-introduced post the September 11 attacks. In our view it's not a time for top down portfolios of holding companies and banks. We recommend a blend of pure defensives & battered but viable higher beta picks. We are now slightly underweight the market.**
- **We prefer Anadolu Efes, Tupras, Migros & Trakya Cam as good value defensives. Our non-defensive picks are Eregli, Hurriyet and Akcansa due to extremely depressed valuations and low threats to viability.**

Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

CONTENTS

Reports Recently Published

Migros	Upside Surprise in 2001 IAS Accounts	27/09/01
Anadolu Efes	Reassuringly Defensive	27/09/01

1. Action List

With the struggling economy facing a more difficult outlook post September 11, the battered currency dipping further still, and the reduced global appetite for risk - the outlook for Turkish stocks remains poor. We stick with our recommendation that although many stocks looks extremely cheap, the level of risks argues it's not the time to simply own the country (ie banks and holding companies). We recommend a blend of core defensives and deep discount and viable higher beta stocks. We think a portfolio should include:

- **Brewer** *Anadolu Efes* **as a core defensive with, we believe, excellent long term growth prospects.**
- **We** ***like leading retailer*** *Migros and* **near monopoly refiner** *Tupras* **as good places to park cash while offering reasonable upside. Less liquid** *Trakya Cam* **also offers value & defensive characteristics.**
- *Eregli and Hurriyet* **as high reward picks which looks unlikely to get sustainably cheaper (less liquid Akcansa also fits the bill).**

Anadolu Efes: Reassuringly Defensive

Tourism is not a major negative for Anadolu

- We believe Anadolu is on track to meet our target of only a 1.5% fall in 2001 Turkish volumes. With GDP & TRL tumbling, this would be a good result.
- International volumes are moving ahead strongly. Overall volumes should rise 13% with scarcely any erosion in EBITDA margins.
- …yet with ongoing currency weakness hitting the entire $ P&L we've cut 2001 EBITDA 3.5%.
- Foreign tourists account for only about 7% of Anadolu's volumes. Even with a 20% fall in 2002, this would only cut 1.4% from volumes.
- With the lower 02 base, this leads us to cut our 2002 EBITDA estimate by 6.5%. This is small beer and we could prove too cautious.
- We believe Anadolu has unquestionably been one of the best performers in this difficult environment, falling tourism in 2002 shouldn't change that.
- Global peers trade at 17.5x 2002 EPS & 7.6x EV/EBITDA. Anadolu trades at 18.4x EPS and 6.7X EV/EBITDA. We think it's deserving.

Migros: Upside Surprise in 2000 IAS Accounts

Migros was much more profitable in 2000 than expected

- Koc Holding's 2000 IAS consolidated accounts had implied Migros posted a 3.4% net margin, nearly double our 1.8% estimate. Preliminary and unconsolidated IAS accounts finally released by Migros confirm this.
- On domestic revenues of $1.008bn (vs our estimate of $975mn), Migros shows a net profit of $34mn vs our estimate of $17.9mn. This implies a trailing P/E of 14.1x (2001E P/E of 16.9x).
- The bulk of the outperformance was from the tax line (net positive), but the bulk of the profit & loss was better than expected.
- Gross margins hit 19.2% vs our 17.7% estimate. The operating loss was equal to only 0.6% of sales vs our estimate of 1.9% and pre tax income was $32.6mn vs our estimate of $29.4mn (excluding losses in associates).
- We await the full results which are regrettably some weeks away. Still, these results do reassure that even with inflation falling in 2000, Migros was more profitable than expected.

- We avoid raising our 2001 estimates for now. We already had expected net profit of $28.4mn in 01 while the present environment remains very difficult. There were no signs of improvement in demand in September.
- All told, Migros' use of supplier cash leaves it a solid place to park investor cash. If things remain tough, Migros should hold its own, while we doubt it would miss out should the market re-rate.

Eregli Demi Celik – Still a Steal

Erdemir is more defensive than the market thinks

- Among our industrial picks, Erdemir provides a secular case with its depressed valuation and positive operating cash flow.
- Despite about 21% drop in steel prices and about 10% shrinkage in domestic sales which had better pricing than exports, Erdemir should be able to stay in positive cash flow territory.
- Domestic pricing power in line with international steel prices, improving margins as a result of devaluation of Turkish Lira (about one third of inputs are local currency denominated) and excessively depressed valuation, 5.3x and 3.2x EV/EBITDA in 2001E and 02E, make us maintain our Buy recommendation in Erdemir.
- We think that Erdemir shares should act as a low beta stock in a bear market, but would give the full exposure to the market re-rating.

Hurriyet – Maybe No Hurry

We like Hurriyet despite perceptions of risk at its parent

- In our view Hurriyet is the most undervalued franchise in Turkey as it offers an excellent brand which alone accounts for 40% of all newspaper ads in Turkey.
- In our view present valuations offer an excellent opportunity to build long term positions in a stock worth owning both for possible re-rating and for long term growth.
- Yes it's been dragged down by fears associated with the cash needs of its parent, but regardless of the issues at the parent level we think cash generative Hurriyet will weather the crisis.
- We do not think it will get sustainably cheaper. It's the Dogan group's most valuable asset – and we believe it's excessively undervalued.

2. Turkish Economics

We've raised our year end TRL/USD to 1.8mn

It remains difficult to gauge the effect of the recent tragedy on Turkey until the US reaction becomes clear. Even prior to the event, Turkey was in deep recession. Depending on the nature of possible US retaliation and Turkish involvement in a military campaign, we expect to revise our GDP growth, inflation, and fiscal estimates for this year, 2002 and beyond. With the subsequent move in the currency, we have already raised our year end 2001TRL/USD rate to 1.8mn. For the current account, we now expect a surplus of just 2.7% of GDP in 2002.

Attacks Raise Turkish Risks

Our US and Eurozone economists believe that the risks to global growth have increased, and consumer confidence in the US and Europe may weaken sharply over the next few months. Increased risk aversion, weaker global demand for exports, and declining tourism can all negatively impact the Turkish economy.

Despite so many unknowns, we think it would be useful to run through the risks and rewards and provide a tentative guide to what might happen.

- **Risks of External Balance**

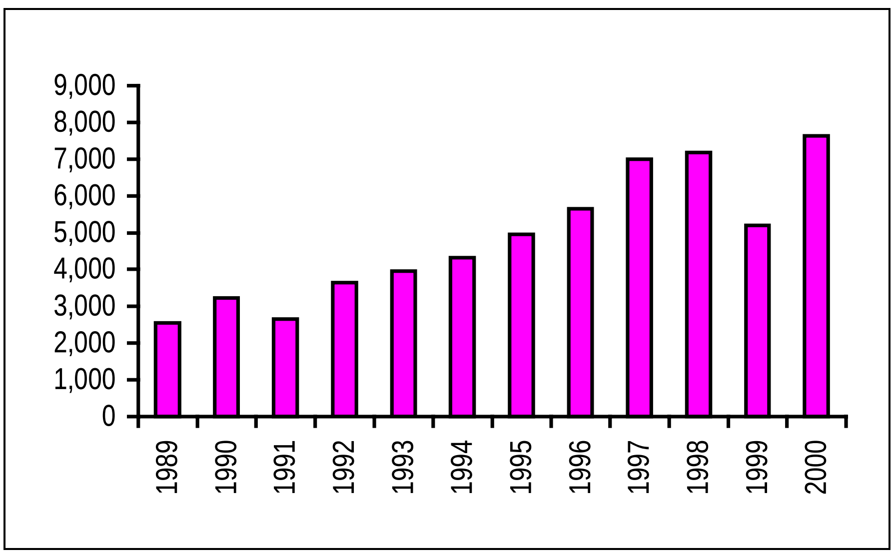
July Export Growth was already surprisingly weak

First, Turkey's export growth is highly leveraged to growth in the EU and US, which account for about 53% and 11% of total exports, respectively. Turkey's direct exposure to the Middle East, in terms of exports, appears to be limited (7.8% in 2000). Merrill Lynch economists covering the US and EU believe that the recent events have heightened the risk of global recession. While we think Turkish exports will continue to get support from the sharp drop in the Turkish lira since February, weakening external demand could slow export growth. On a positive note, the euro's strength against the USD is good news for Turkish exporters, given that nearly two-thirds of Turkish exports are destined to EU+EFTA and EU candidate countries.

2002 will now be a difficult year for tourism

Second, history suggests that the decline in tourism revenues on the back of political/military events of this nature could be significant for Turkey.

Chart 1: Tourism Revenues (mn USD)



Source: State Institute of Statistics

In our view, the country's tourism receipts are likely to be significantly negatively affected by the recent tragedy (and potential US retaliation). The magnitude of the decline in tourism revenues will depend on the scale, location and duration of a US military campaign. Turkey, as a NATO member and long-time US ally, is likely to play a significant role, either through direct participation or by allowing the US to use its air bases, which are already used by US military jets. Therefore, regardless of whether Turkey is a party to the potential conflict or not, the tourism sector is likely to suffer.

During the Gulf War, Tourism revenues fell 18%

The Gulf War in 1990-91, when Turkey's tourism revenues fell by 18% YoY, is one obvious example. The number of American tourists, who have per capita spending of nearly twice the average tourist coming to Turkey, fell by about 62% in 1991. Considering that Turkey has attracted over half a million US tourists in 2000 (about 5% of total tourist arrivals), the impact of a similar decline in tourism receipts is likely to be much more significant, both in absolute and relative terms because the sector is much more significant now. Tourism revenues are expected to be about USD9bn this year, nearly three times tourism receipts in 1990. Hence, a 20% decline in revenues could mean USD1.8bn or 1.1% of GDP decline in Turkey's services income.

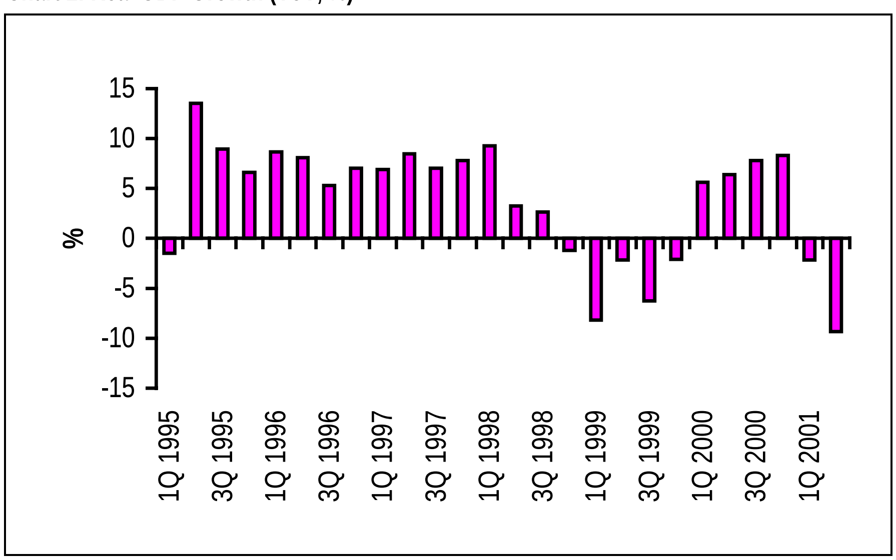
Prospective FDI flows are much less likely

Finally, up until recently, we were looking for increased FDI inflows, driven primarily by the M&A activity in the banking sector and privatisation (from 2002 onwards). However, the much-needed FDI and portfolio capital inflows might not materialise if global risk aversion stays high. Also, the expected global economic slowdown may constrain FDI inflows. It is encouraging to see the sale of Demirbank, one of the 18 troubled banks, to HSBC concluded. Yet this is overshadowed by the increased uncertainty, a relatively bigger deal (Garantibank-Intesa) which has been postponed.

■ Risks to Economic Recovery

Well before last week's events, Turkey had entered a deep recession. In the second quarter of this year, real GDP contracted 9.4% YoY (GNP plunged 11.8%), the largest contraction since WWII. Prior to last week's terrorist attack, there were some signs of a slight moderation in the pace of economic contraction in July and August, yet there remained little reason for optimism. However, the recent events make us much more cautious at this point.

Chart 2: Real GDP Growth (YoY, %)

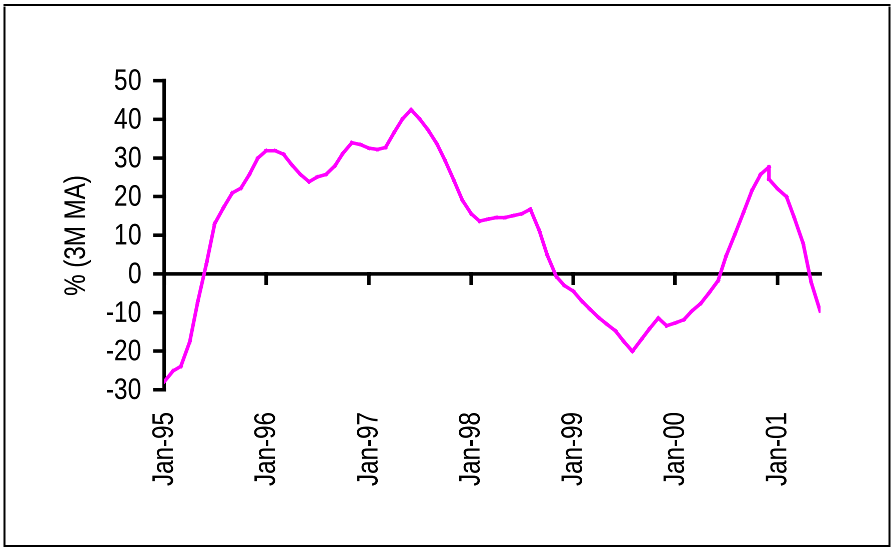


Source: State Institute of Statistics

The risk of deeper recession & delayed recovery is very real

In our view, the risk of a deeper recession in 2001 (we are currently looking for 6.4% contraction in GDP) and delayed recovery is very real (our current GDP growth forecast for 2002 is 3.8%) for several reasons. **First**, consumer and business confidence, already depressed due to devaluation and rising unemployment, may not recover in the face of an extended period of uncertainty. Military action in the region is likely to make both consumers and investors more cautious in the short run. **Second**, the banking system remains weak and the recent events are unlikely to enhance its access to the much needed syndicated loans market. **Finally** heightened US/EU recession risks could act as a drag on net exports and output, reducing the contribution from net exports of goods and services.

Chart 3: Commercial Bank Claims on Private Sector (Inflation Adjusted, 3MMA)



Source: Central Bank of Turkey

Therefore, it seems reasonable to think that expectations of economic recovery in early 2002 will need to be reassessed in the light of last week's tragic events.

- **Risks to Public Finances**

The government is hoping for a strong rebound in the Turkish economy in 2002. We think there is now a significant downside risk to the government's 4-5% growth projection for 2002. Against this background, the government is likely to find it hard stick to its very ambitious fiscal targets for 2002. We believe that the underlying fiscal stance will remain broadly unchanged because this is critical for debt sustainability. However, the government may opt for a slight fiscal loosening relative to the original targets. A consolidated public sector primary surplus of (broad IMF definition) of 5% of GDP seems more likely compared to the original target of 6.5%. The privatisation programme for this year appears to have been put on hold, but the government is hoping to revive it in 2002. This would be a very positive development but lower appetite for emerging market assets could constrain these efforts.

2001 Debt Redemptions have adequate funding, but 2002 remains a question

Finally, investor concerns about Turkey continue to be focused on the domestic debt rollovers in 2002. The Turkish Treasury has yet to come up with a financing schedule. Even assuming an additional facility from the IMF (or rescheduling of the 2002 redemptions to the Fund), our projections indicate that Turkey will need to continue restructuring debt held by state-owned banks as well as hoping for the rollover of 100% debt due to private sector. This strategy raises question marks about the pace of bank rehabilitation.

Turkey has made a significant headway in addressing the weakness in its banking system. However, the latest developments may make the liquidation of SDIF-administered banks somewhat harder. **Unless private commercial banks are able to maintain their international credit lines, domestic debt rollovers will become more challenging next year**, putting more pressure on the government to delay the liquidation/downsizing of these banks. In our view, one of the biggest challenges will be sustaining the reform effort on the banking side while using them to rollover the domestic debt.

Turkey is one of the largest borrowers among emerging markets (only second to Argentina). Despite improved global liquidity, the cost of private international financing may also increase not only because of the increased risk aversion but also because of investor fears regarding Turkey's debt sustainability.

Increased Geopolitical Importance

Turkey's increased geopolitical importance argues the IMF could be more generous

Whilst September 11 has increased downside risks to the Turkish macroeconomic outlook, Turkey's increased geopolitical importance has improved prospects of additional international support.

Turkey's geopolitical importance is obvious, with its borders to Iran, Iraq, Syria and the Caucasus. Turkey is a NATO member, it participated in the Gulf War coalition, and the US has a large military presence in Turkey, which has been used as a staging post for operations in Iraq. If, as Colin Powell has implied, the US plans a globally coordinated and sustained onslaught against terrorism, then we believe Turkey is going to be a critical ally. That means it is going to be vital to have economic and political stability in the country, neither of which is currently present. Indeed, as we highlighted above, the immediate impact of the crisis is likely to exacerbate Turkey's economic woes. In particular, we believe the longer the Turkish economy remains weak, the greater the pressure the existing government, and the stronger is the position of less secular opposition parties. Geopolitical considerations therefore argue for more significant financial and economic support for Turkey.

Obviously, all of this remains highly uncertain. But three examples of how this might work come to mind:

- Turkey already has an IMF programme. But, as things currently stand, Turkey is actually due to make payments to the IMF in 2002 of USD 6.5bn. This flow of funds is an obvious subject for potential revision. In addition to rescheduling the payments due to the IMF for one year, a new arrangement could also be designed which might incorporate additional funding for Turkey.
- There could also be some consideration of debt relief programmes, such as for sovereign-to-sovereign credit. There is already a precedent for this. In early 1991, the US President asked (and Congress approved) the cancellation of military aid loans totalling USD6.8bn in recognition of Egypt's participation in the Gulf War.
- Even more speculatively, might not the US see the virtues of a Brady-type restructuring of Turkish debt? The geopolitical benefits of a more substantial US backing for Turkey would be obvious.

All this is potentially relevant because we believe the No.1 worry that has been preoccupying the equity market has been the apparent unsustainability of Turkish debt. Near-term increases in global risk aversion won't help the market, and it remains highly vulnerable to any heightened tensions in the region. The Treasury has already cancelled a planned road show for a Eurobond issue in September (its 2002 bond-refinancing requirement is estimated at about USD2.8bn). But, longer term, the geopolitical equation might just have changed fundamentally.

3. October Calendar of Events

Sizeable Syndicated Bank Rollovers in October

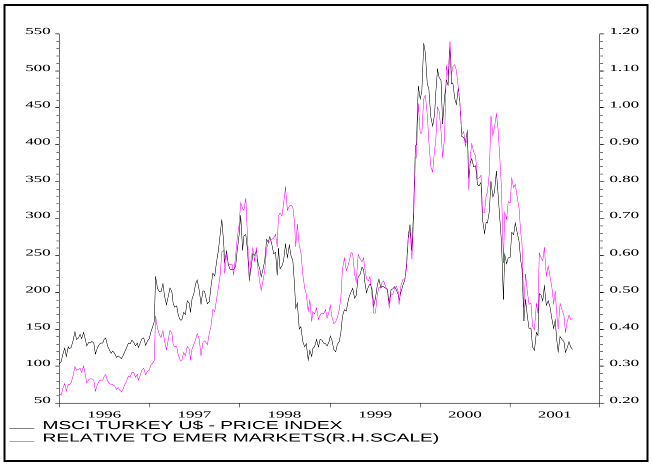
Table 1: October Calendar of Events

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
		September inflation MoM CPI 5.9% WPI 5.4% Domestic debt redemption $1.04bn		Yapi Kredi Bank syndication redemption $300mn
8	9	10	11	12
Aug industrial Output July: -11.3 Private Pension Scheme becomes effective		Domestic debt redemption: $1.1bn	High Planning Council meets to set 2002 targets and 2002 budget	IMF board meeting? Akbank syndication repayment ($350mn)
15	16	17	18	19
Deadline for Iktisatbank-Unicredito deal EU anti-dumping ruling on Turkish TV manufacturers		2002 budget to be submitted to the parliament Deadline for Novabank-Sitebank deal Domestic debt redemption $708mn	Capacity utilisation rate Aug: 71.4%	September domestic debt stock Aug: USD74.2bn
22	23	24	25	26
September Primary Balance Aug: USD1.4bn		Domestic debt redemption $895mn		Trade Balance July: USD-992mn Garantibank syndication redemption $225mn
29	30	31		
Domestic debt redemption $287mn		Domestic debt redemption $382mn		

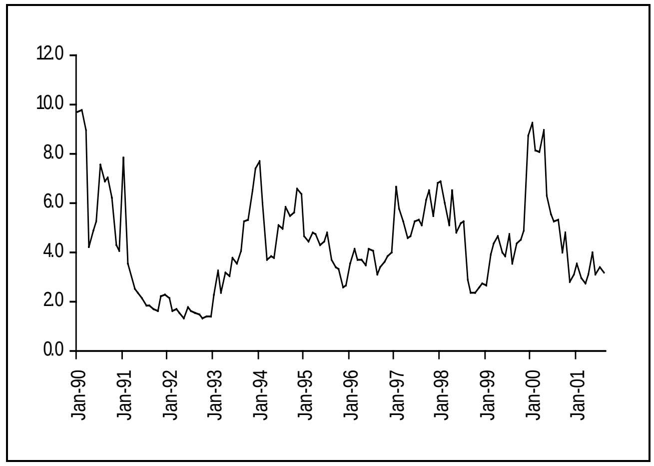
Source: Turkey's Central Bank, State Institute of Statistics, Treasury, Ministry of Finance & Merrill Lynch Estimates

Turkey - Stockmarket Indicators

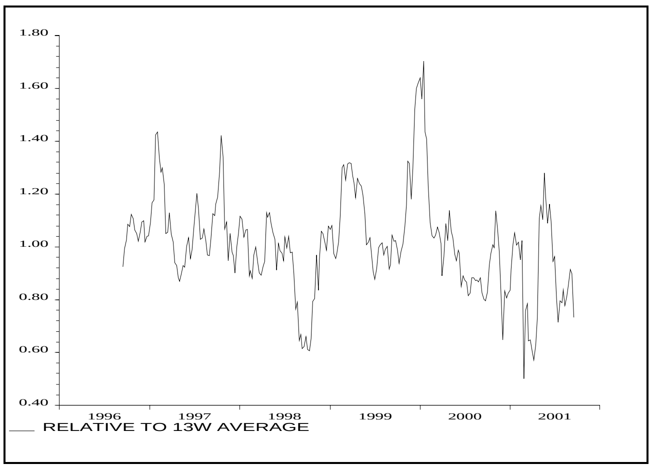
Stockmarket Performance (USD terms)



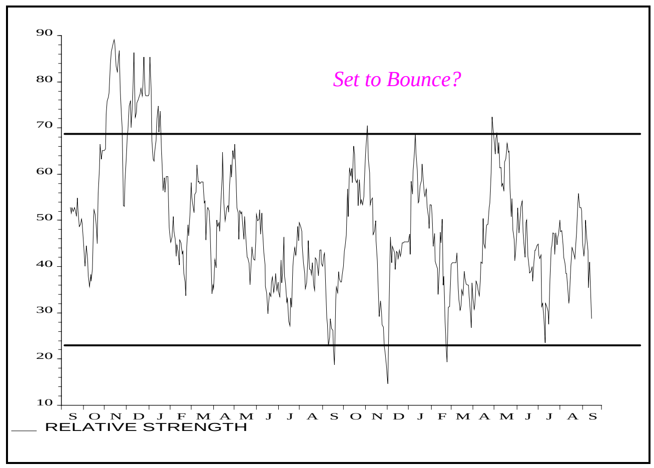
Market Price: Book Ratio



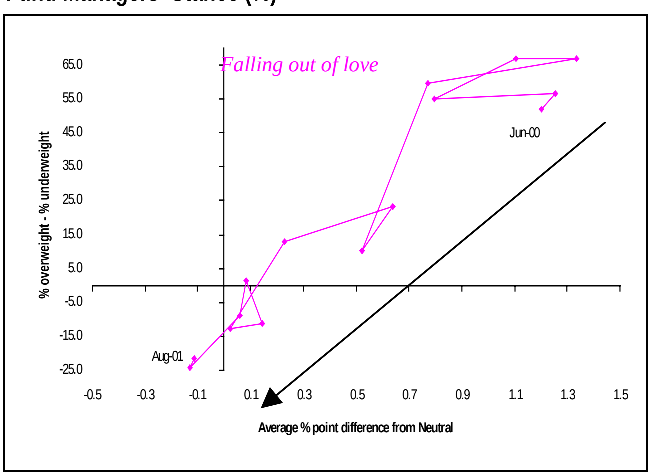
Market Deviation from 13-Week Average



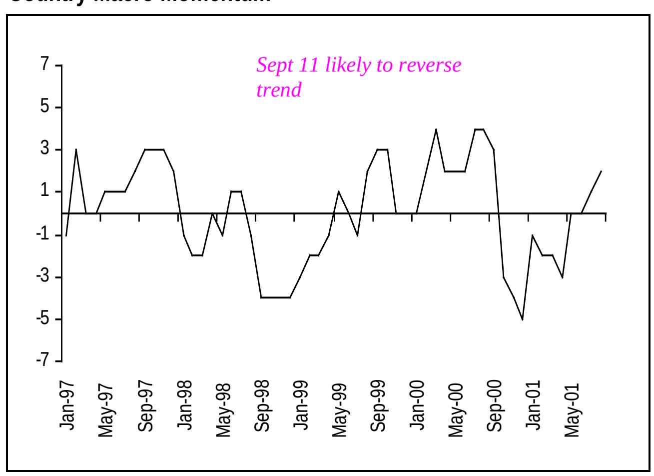
14-Day Relative Strength Indicator



Fund Managers' Stance (%)

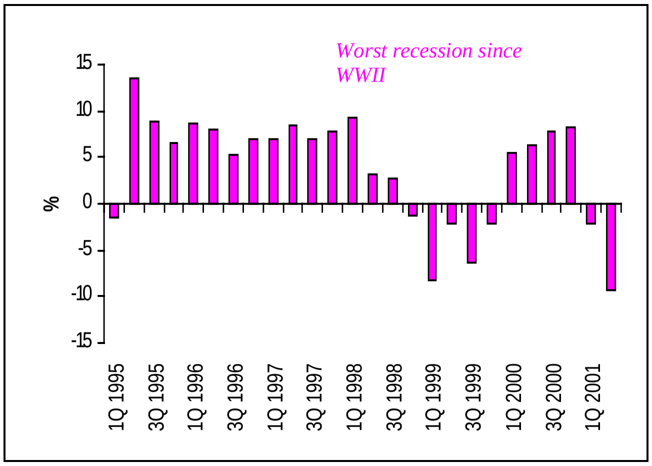


Country Macro Momentum

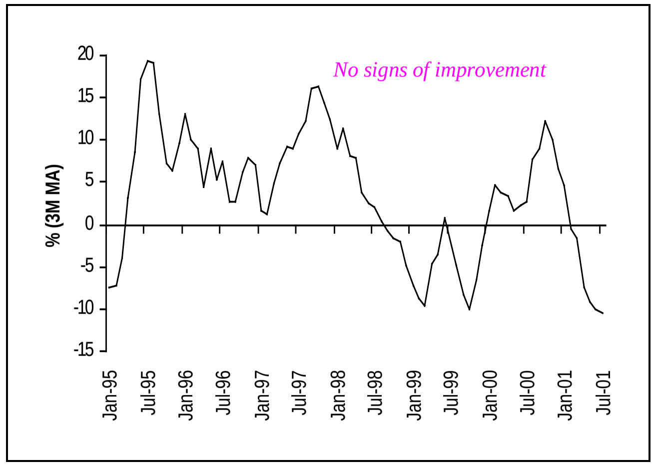


Turkey - Main Economic Indicators

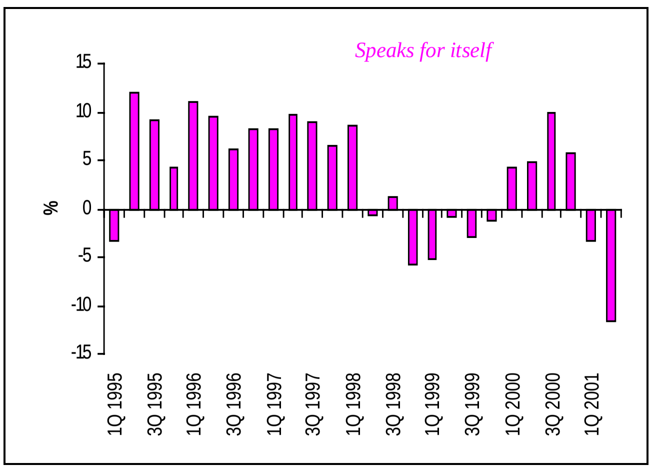
Real GDP Growth (%, YoY)



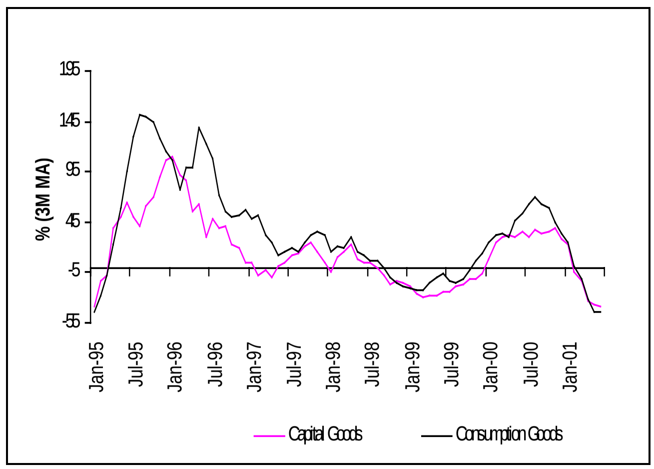
Industrial Output Growth (%, 3M MA)



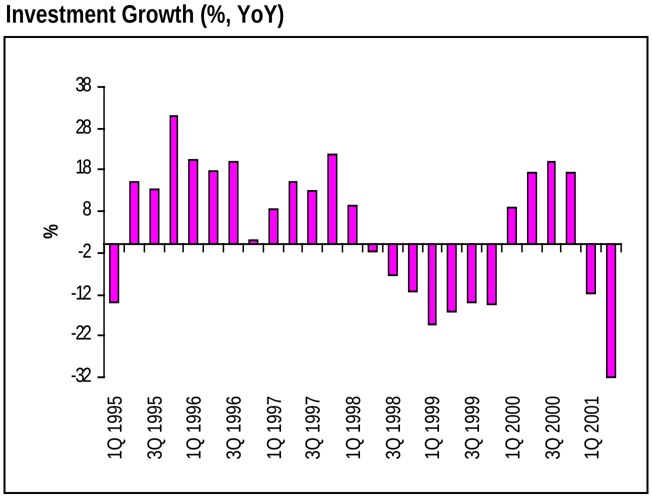
Private Consumption Growth (%, YoY)



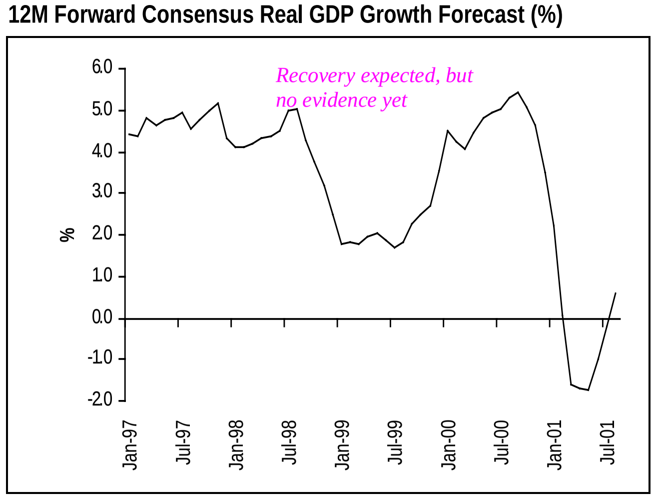
Import Growth – By Category (%, 3M MA)



Investment Growth (%, YoY)

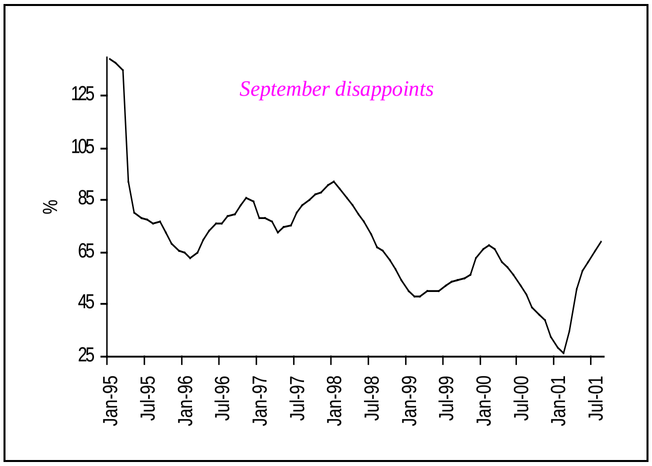


12M Forward Consensus Real GDP Growth Forecast (%)

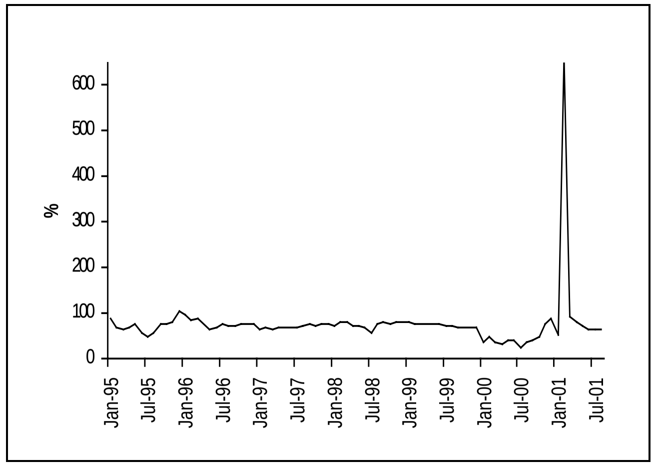


Turkey - Main Economic Indicators

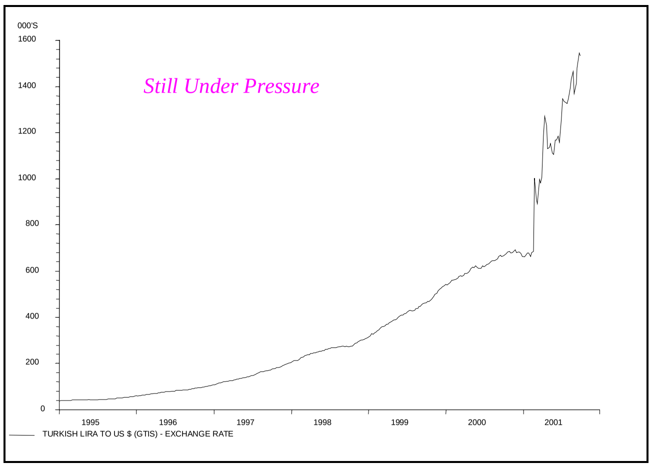
Inflation Rate (%, YoY)



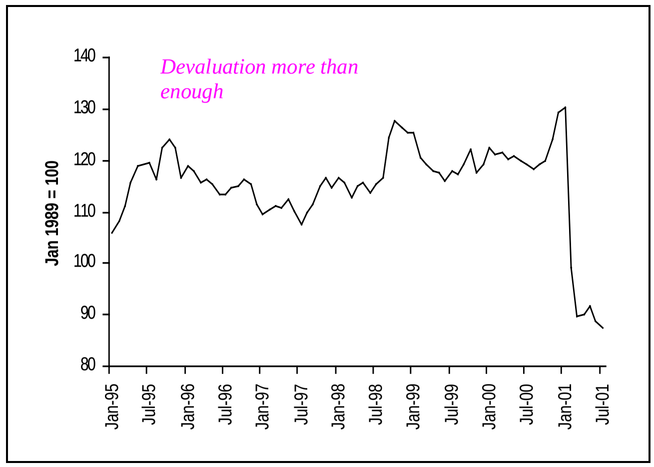
Short-Term Interest Rates (%)



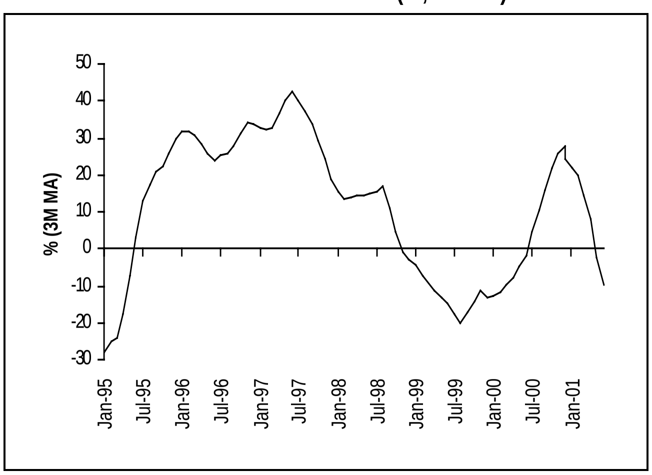
Exchange Rate (USD)



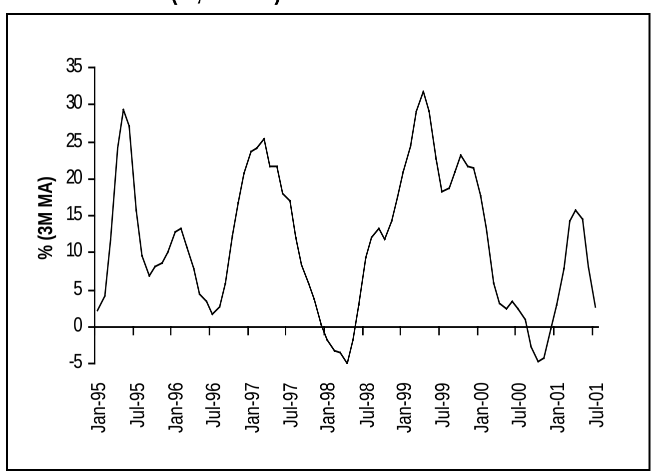
Real Exchange Rate (USD)



Real Growth of Credit to Private Sector (%, 3M MA)

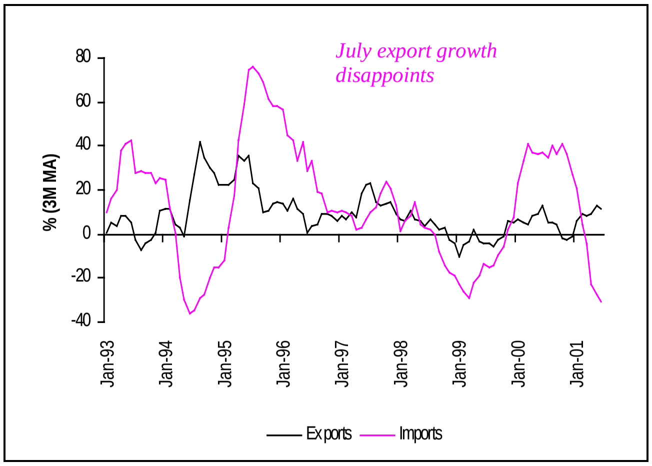


Real M2 Growth (%, 3M MA)

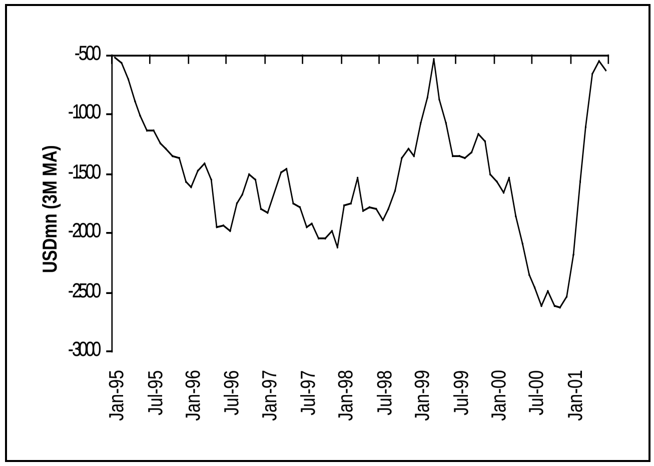


Turkey - Main Economic Indicators

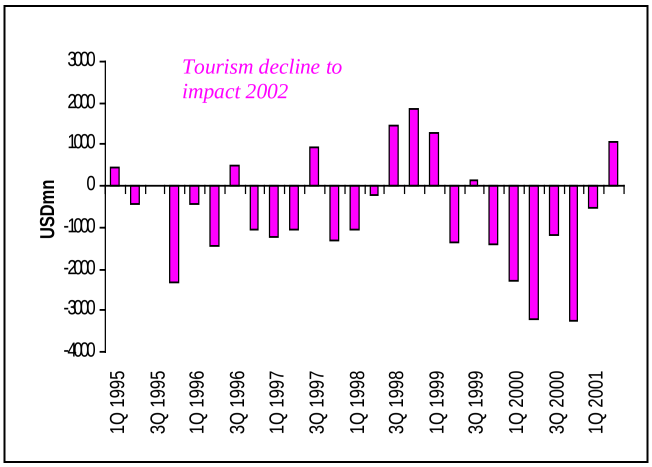
Export and Import Growth (%, 3M MA)



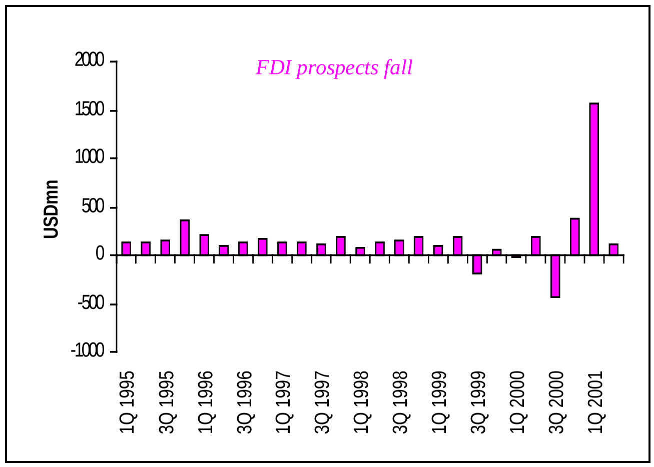
Trade Balance (USDmn, 3M MA)



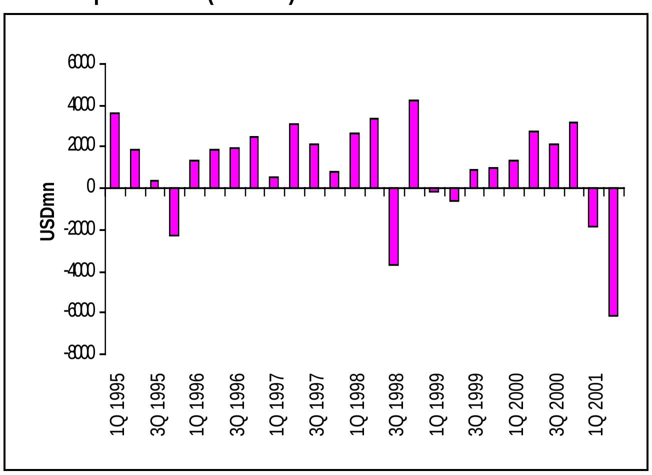
Current Account (USDmn)



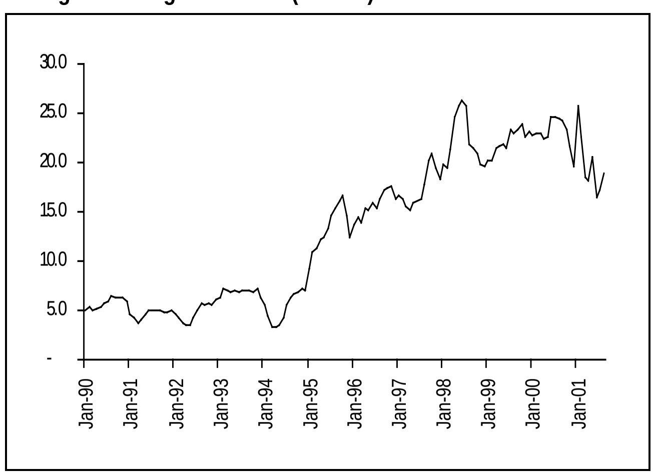
Net Direct Investment (USDmn)



Other Capital Flows (USDmn)



Foreign Exchange Reserves (USDbn)



Appendix II

Table 2: Macroeconomic Forecasts

	Czech R.	Egypt	Greece	Hungary	Israel	Poland	Russia	South Africa	Turkey
2000									
GDP (USD bn)	51.1	95.4	111.8	48.2	110.3	162.4	250.9	126.0	199.6
Real GDP Growth (%)	3.1	5.1	4.1	5.2	6.0	4.0	8.3	3.1	7.2
Average Inflation (%)	3.9	2.8	3.2	9.8	1.1	10.1	20.8	7.0	54.9
End-Year Inflation (%)	4.0	2.8	3.9	10.1	0.0	8.5	20.2	8.5	39.0
Trade Balance (USD bn)	-3.2	-11.5	-18.3	-2.5	-7.3	-13.2	60.7	3.2	-26.7
Trade Balance (% GDP)	-6.4	-12.0	-16.4	-5.1	-6.6	-8.1	24.2	2.5	-13.4
Current Account (USD bn)	-2.3	-1.2	-2.7	-1.8	-1.7	-9.9	46.3	-0.4	-9.8
Current Account (% GDP)	-4.6	-1.2	-2.4	-3.8	-1.6	-6.1	18.5	-0.3	-4.9
Budget Deficit (USD bn)	-2.5	-4.6	-1.5	-1.6	-0.7	-5.4	6.2	-3.0	-20.5
Budget Deficit (% GDP)	-4.9	-4.8	-1.3	-3.4	-0.6	-3.4	2.5	-2.4	-10.3
Average Exchange Rate (USD)	37.4	3.43	365.7	273.1	4.08	4.22	28.1	6.9	626,079
End-Year Exchange Rate (USD)	36.9	3.47	361.8	280.8	4.04	4.10	28.5	7.6	671,765
2001									
GDP (USD bn)	53.1	91.5	114.7	52.5	108.4	170.7	296.4	115.8	148.2
Real GDP Growth (%)	2.9	3.0	4.2	3.2	0.5	1.5	5.0	2.4	-6.4
Average Inflation (%)	5.1	2.4	4.0	9.4	2.4	5.3	21.9	4.3	54.2
End-Year Inflation (%)	5.5	2.2	3.9	7.8	2.8	5.1	19.5	6.0	69.7
Trade Balance (USD bn)	-4.2	-9.4	-20.1	-2.3	-6.6	-11.7	53.8	3.1	-13.4
Trade Balance (% GDP)	-7.9	-10.2	-17.5	-4.4	-6.1	-6.8	18.1	2.7	-9.0
Current Account (USD bn)	-3.2	0.0	-5.4	-1.9	-3.3	-8.0	36.9	0.1	4.0
Current Account (% GDP)	-6.0	0.0	-4.7	-3.6	-3.0	-4.7	12.4	0.1	2.7
Budget Deficit (USD bn)	-5.1	-4.6	0.0	-1.8	-2.8	-5.3	0.9	-2.7	-23.8
Budget Deficit (% GDP)	-9.7	-5.1	0.0	-3.5	-2.5	-3.1	0.3	-2.3	-16.1
Average Exchange Rate (USD)	38.9	3.77	386.4	282.7	4.27	4.29	29.0	8.2	1,290,000
End-Year Exchange Rate (USD)	39.2	3.90	387.2	282.6	4.50	4.35	30.0	9.0	1,800,000
2002									
GDP (USD bn)	57.7	84.5	127.3	59.1	106.4	171.5	335.4	124.9	157.6
Real GDP Growth (%)	3.5	2.8	4.0	4.5	3.7	2.4	3.9	2.6	3.8
Average Inflation (%)	5.0	3.1	3.7	6.6	1.7	5.2	18.3	4.8	58.0
End-Year Inflation (%)	5.0	4.1	2.8	5.9	2.8	4.5	17.9	5.5	48.0
Trade Balance (USD bn)	-4.2	-9.8	-22.0	-1.9	-7.2	-12.2	34.5	3.7	-19.9
Trade Balance (% GDP)	-7.2	-11.5	-17.3	-3.2	-6.7	-7.1	16.1	2.9	-12.6
Current Account (USD bn)	-2.8	-1.8	-7.0	-1.9	-3.3	-9.0	34.5	-0.1	-2.0
Current Account (% GDP)	-4.9	-2.1	-5.5	-3.3	-3.1	-5.3	10.3	-0.1	-1.2
Budget Deficit (USD bn)	-3.1	-4.2	-0.1	-2.0	-2.8	-9.3	2.5	-2.7	-27.0
Budget Deficit (% GDP)	-5.3	-5.0	-0.1	-3.3	-2.7	-5.5	0.8	-2.2	-14.5
Average Exchange Rate (USD)	38.9	4.33	375.3	280.1	4.59	4.60	31.5	8.20	2,125,000
End-Year Exchange Rate (USD)	39.1	4.48	370.4	277.5	4.65	4.67	33.0	8.30	2,400,000

Source: Merrill Lynch Emerging Europe Equity Research. Russian budget data uses international definition: privatisation receipts and net sales of state gold reserves are treated as deficit financing. Turkish and Polish balance of payments figures include luggage trade. Polish budget excludes privatisation revenues. Turkish trade deficit is based on trade returns, not balance of payments returns. Czech budget refers to the public sector. Egyptian forecasts refer to fiscal years.

Table: Stocks Mentioned in this Report

Stock Name	Symbol	Price	Opinion	QRQ	Ft
Akcansa Cimento Sanayi Ve Ticaret	AKCMF	5400.00	Buy	D-1-1-9	q
Anadolu Efes	AEBMF	26000.00	Accumulate	D-2-1-9	q
Hurriyet Gazetecilik	HURRF	2025.00	Buy	D-1-1-9	q
Eregli Demir Celik	EREGF	13250.00	Buy	D-1-1-9	q
Trakya Cam Sanayii A.S.	TKYCF	3700.00	Accumulate	D-2-2-7	q
Migros Turk A.S.	MGRTF	84000.00	Accumulate	D-2-1-7	q
Tupras Petrol Rafinerileri A.S.	TUPRF	0.01	Buy	D-1-2-8	q@

Source: Merrill Lynch

Appendix III – Turkey Sources and Notes

Market Indicators

Stockmarket Performance: Datastream.

Market Price:Book Ratio: IFC, Investable Index. Based on the latest available 12 month results of the companies included in the index.

14 Day Relative Strength Indicator: Datastream. Compares daily share price increases to share price decreases to ascertain the direction of momentum. Can be used as an overbought (>70)/oversold (<30) indicator.

Market Deviation from 13-Week Average: Datastream. We use this as a simple overbought/oversold indicator.

Global Emerging Markets Funds' Stance: eMergingPortfolio.com. We take raw data on GEM funds country allocations (net of cash) and compare them to the neutral stance implied by MSCI market capitalisations.

Macro Momentum: Merrill Lynch. Our composite measure of economic performance. Please see the introduction to this publication for an explanation of the methodology.

Main Economic Indicators

Real GDP Growth: Central Bank of Turkey. Constant prices, YoY change.

Industrial Output Growth: Datastream, Reuters. Year-on-year growth rate, smoothed with a three-month moving average.

Private Consumption Growth: Central Bank of Turkey. Constant prices, YoY change.

Import Growth – By Category: Central Bank of Turkey. Year-on-year growth rate, smoothed with a three-month moving average.

Investment Growth: Central Bank of Turkey. Constant prices.

12M Forward Consensus Growth Forecast: Consensus Economics. 12 month forward forecast computed as moving average of current year and next year.

Inflation Rate: State Institute of Statistics, Reuters. Year-on-year change in CPI.

Short-Term Interest Rates: Central Bank of Turkey. Weighted average overnight interbank rate. Average for the month.

Exchange Rate: Datastream. Exchange rate versus USD.

Real Exchange Rate: Datastream, Merrill Lynch. Real exchange rate versus USD, using CPI indices.

Real Growth of Credit to Private Sector: Central Bank of Turkey. Monetary sector's claims on private sector. YoY change, smoothed with a 3M MA. Adjusted to consumer price inflation by Merrill Lynch.

Real M2 Growth: Central Bank of Turkey. YoY change, smoothed with a 3M MA. Adjusted to consumer price inflation by Merrill Lynch.

Export and Import Growth: Central Bank of Turkey. Year-on-year growth rate, smoothed with a three-month moving average.

Trade Balance: Central Bank of Turkey. Three-month moving average.

Current Account: Central Bank of Turkey.

Net Direct Investment: Central Bank of Turkey.

Other Capital Flows: Central Bank of Turkey.

Foreign Exchange Reserves: Central Bank of Turkey.

[TUPRF] MLPF&S or one of its affiliates was a manager of the most recent offering of securities of this company within the last three years.

[AEBMF, HURRF, EREGF, TKYCF, MGRTF, TUPRF] The securities of the company are not listed but trade over-the-counter in the United States. In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale. MLPF&S or its affiliates usually make a market in the securities of this company.

Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

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