

The logo for MSI GLOBAL, featuring the text "MSI GLOBAL" in yellow, bold, uppercase letters inside a blue oval.

World Economy Geopolitics Investment Strategy

OUTLOOK FOR WORLD'S MAJOR FINANCIAL MARKETS
The Impact of EU's Sovereign Risks on Turkish Economy

Presentation given by

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MSI GLOBAL, INC.
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Istanbul CFA Society
April 28, 2010

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ETHICS STATEMENT

**OUR COMPANY WAS FOUNDED IN JULY 1987 AS AN ENTIRELY
INDEPENDENT ENTITY DEDICATED TO RESEARCH ON WORLD
ECONOMY, GEOPOLITICS AND INVESTMENT STRATEGY.**

WE DON'T TRADE IN STOCKS, BONDS OR COMMODITIES.

WE DON'T TRADE IN CURRENCY MARKETS.

TOPICS TO BE COVERED

**The impact of EU's economic and financial turmoil
on Turkish economy and its asset markets.**

**World economy's transition from a cyclical upswing
to a stable and sustainable growth.**

Global flows of trade and finance.

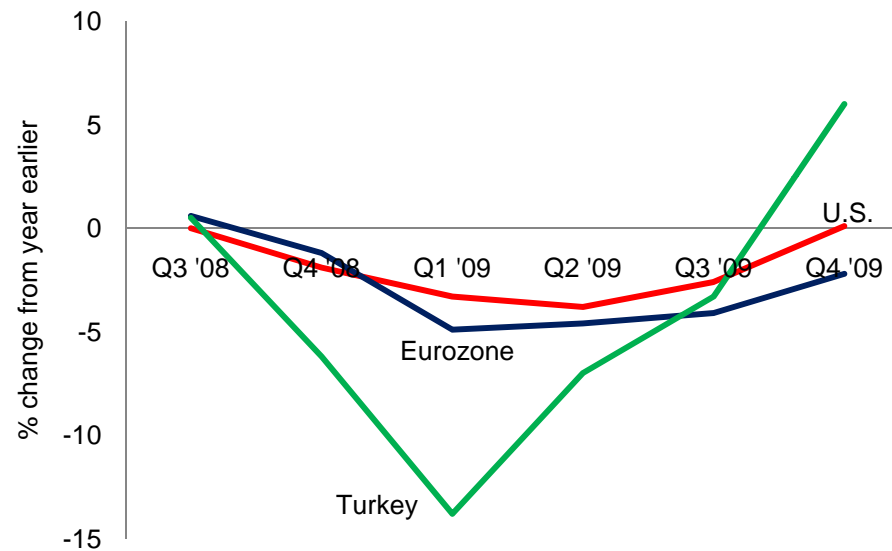
Asset markets and asset classes.

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THE CURRENT POSITION OF THE TURKISH ECONOMY.

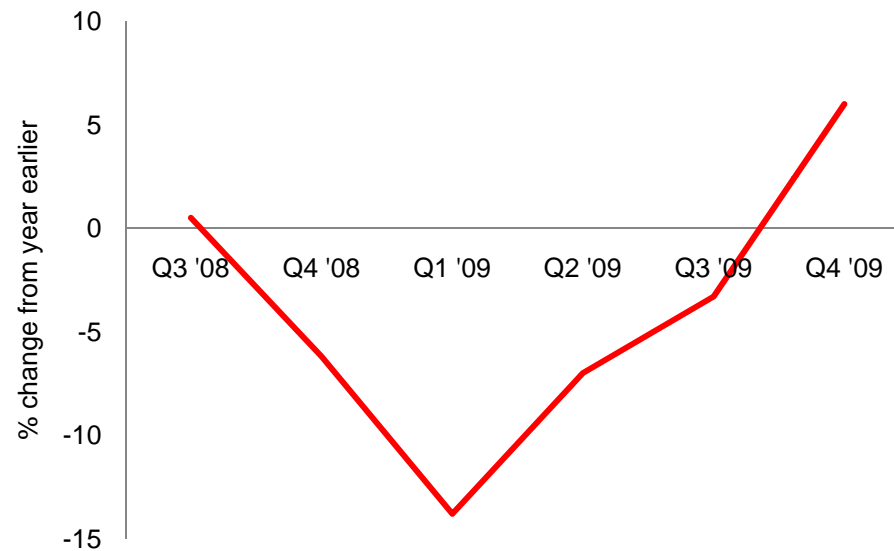
MAJOR POLICY CHALLENGES AHEAD.

Turkey Is Part of the Eurozone's Business Cycle



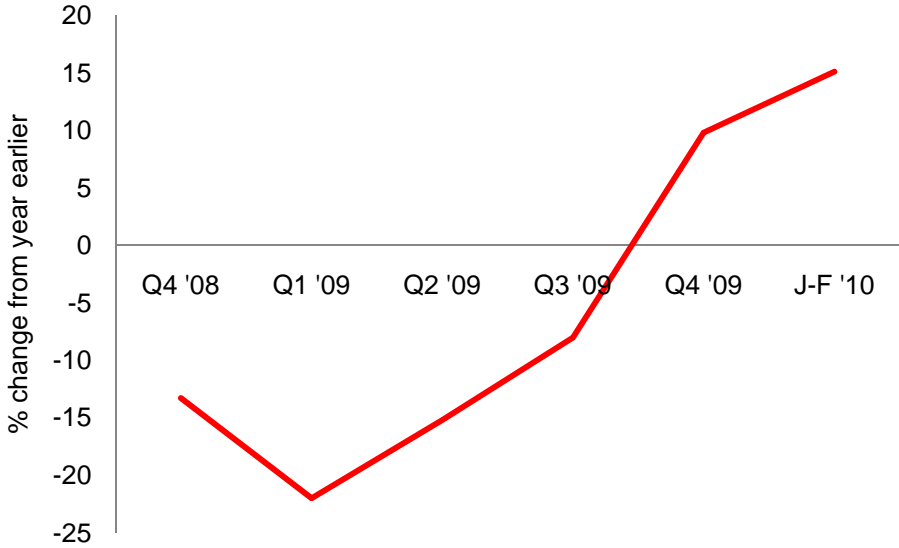
In synch with the Eurozone's cycle, but a much faster and stronger upswing.

Turkey's Strongly Recovering Economy



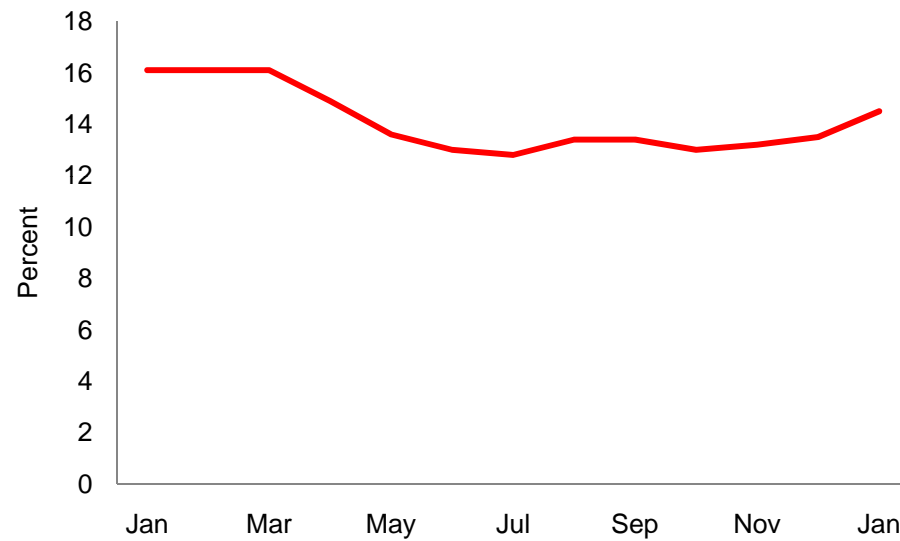
Recent data from the manufacturing sector suggest that demand and output will continue to grow in the months ahead.

Turkey's Soaring Industrial Production



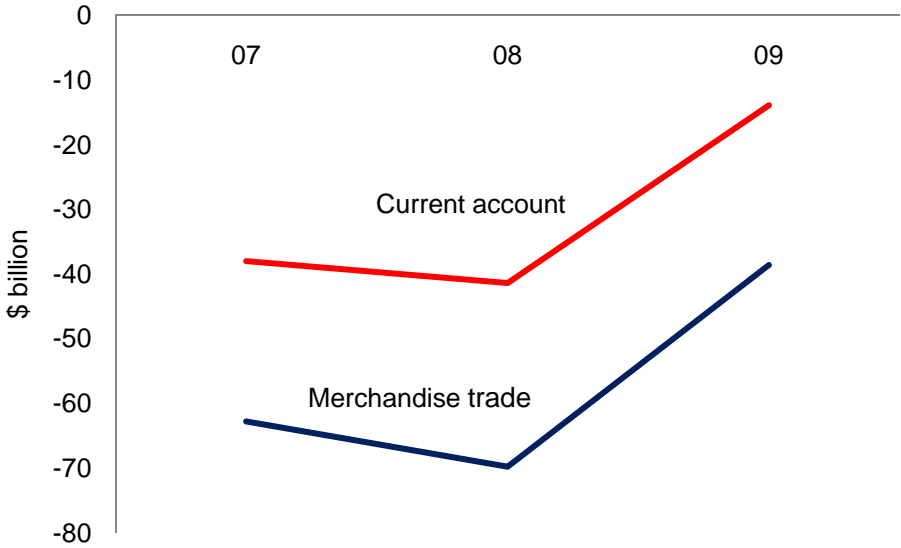
The upswing seems to have been driven by the manufacturing sector.

Turkey's Unemployment Rate



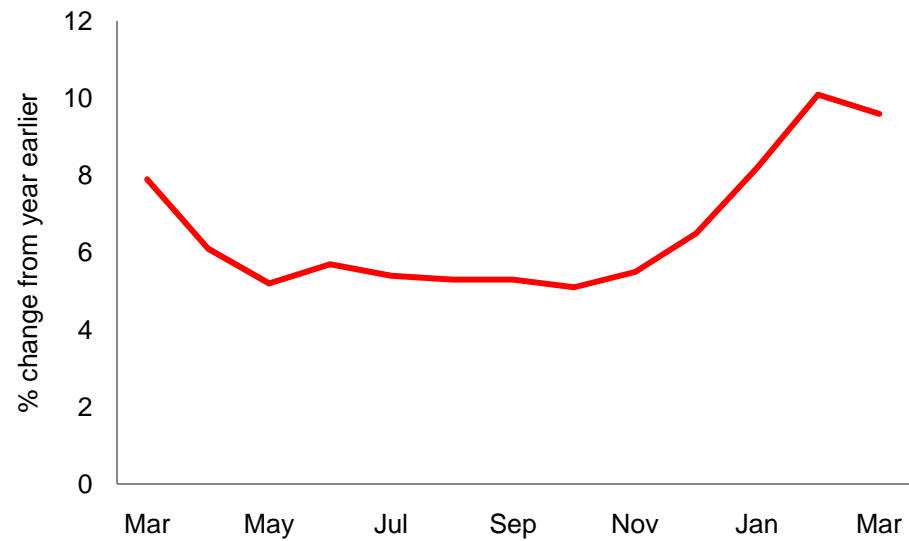
Employment is still not responding to the economy's strong rebound.

Turkey's Improving Trade Accounts



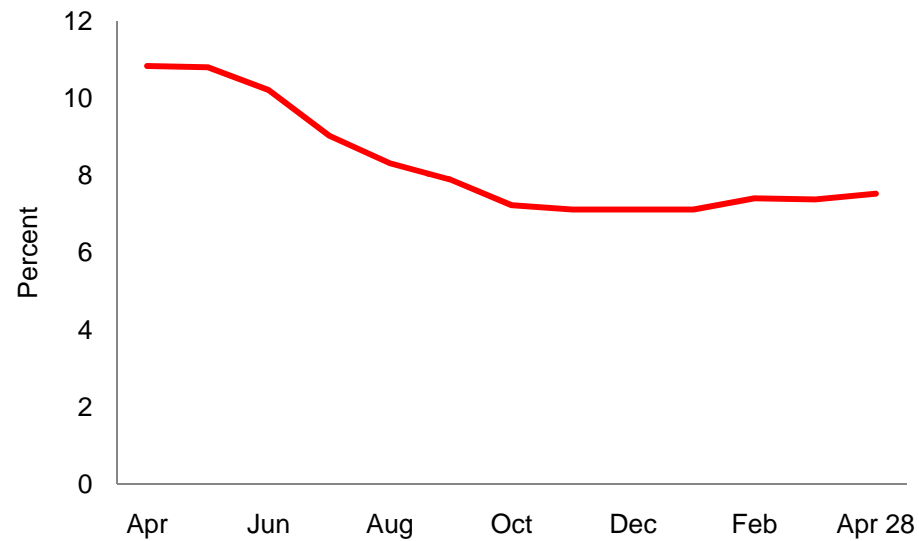
Trade accounts improving despite accelerating domestic demand.

Turkey's Consumer Prices



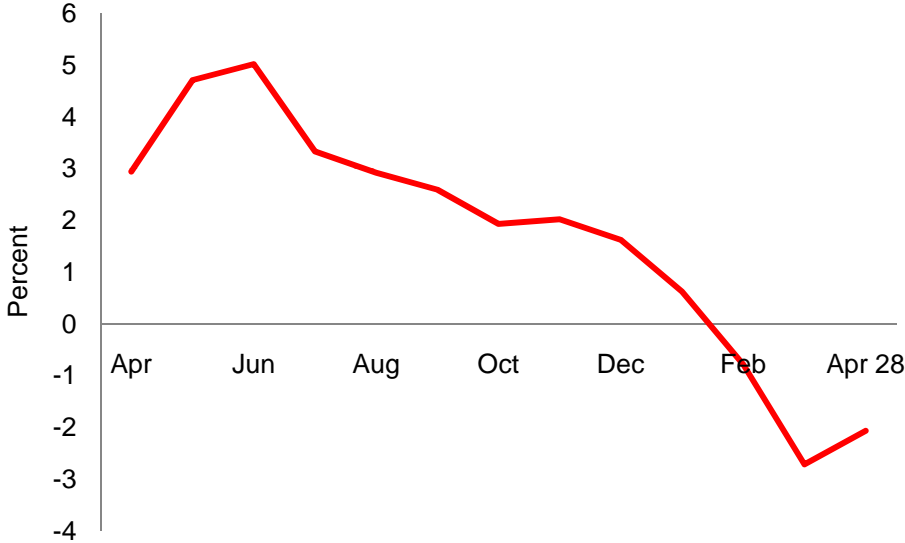
Inflation is responding to the strengthening demand.

Turkey's Short-Term Interest Rates



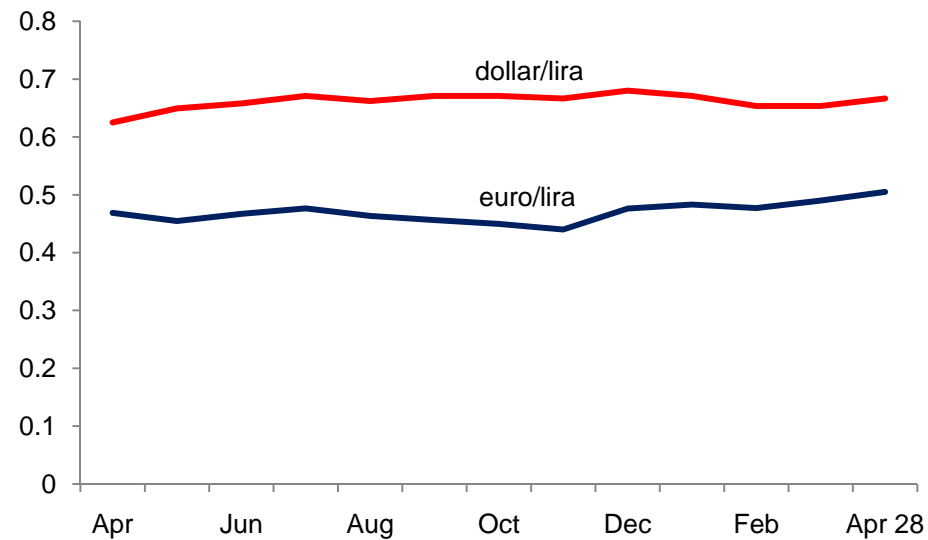
With a long-term interest rate of 4.9 percent, this is a strongly inverted yield curve.

Turkey's Real Short-Term Interest Rates



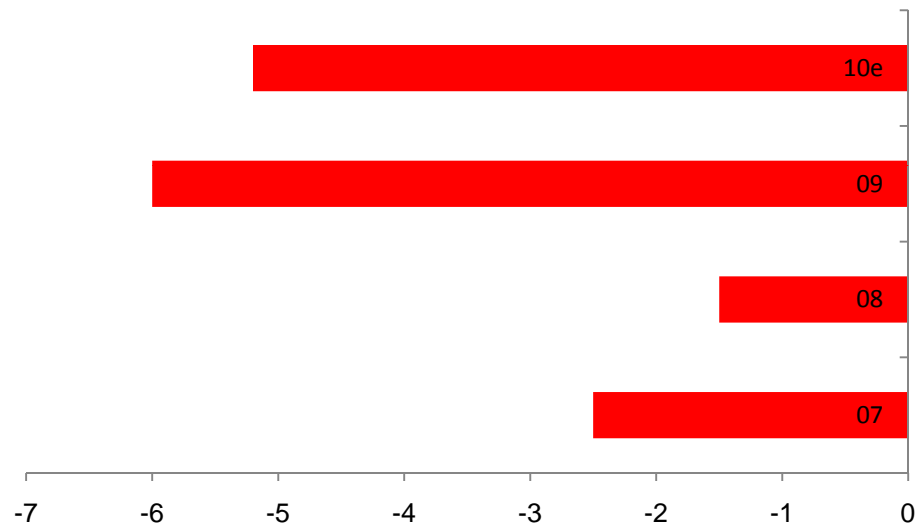
Negative real short-term interest rates indicate a very loose monetary policy.

Turkey's Lira Against the Dollar and the Euro



A substantial appreciation against the dollar (6.8 percent) and against the euro (7.3 percent) over the last twelve months.

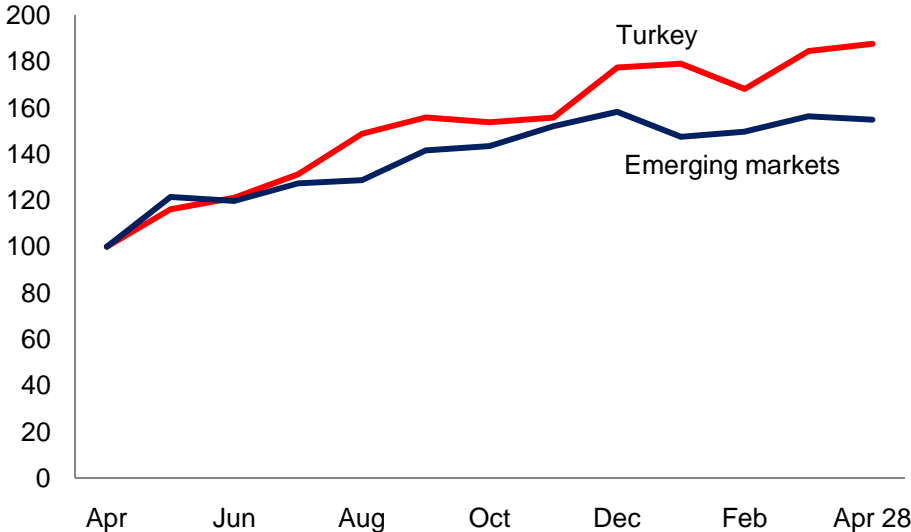
Turkey's Budget Balances



A substantial fiscal consolidation lies ahead.



Turkey's Strong Equity Price Gains



Ahead of the emerging markets' average by more than 30 percent.

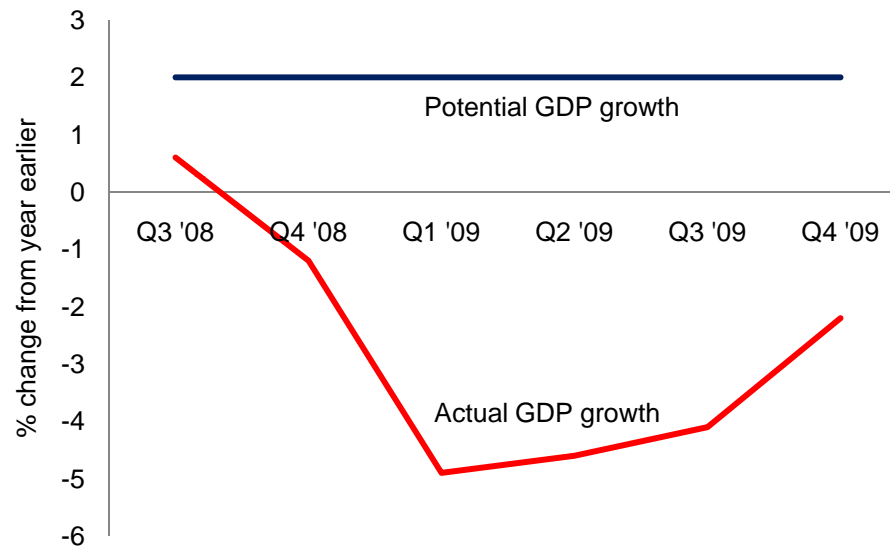
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THE CURRENT POSITION OF THE WORLD ECONOMY



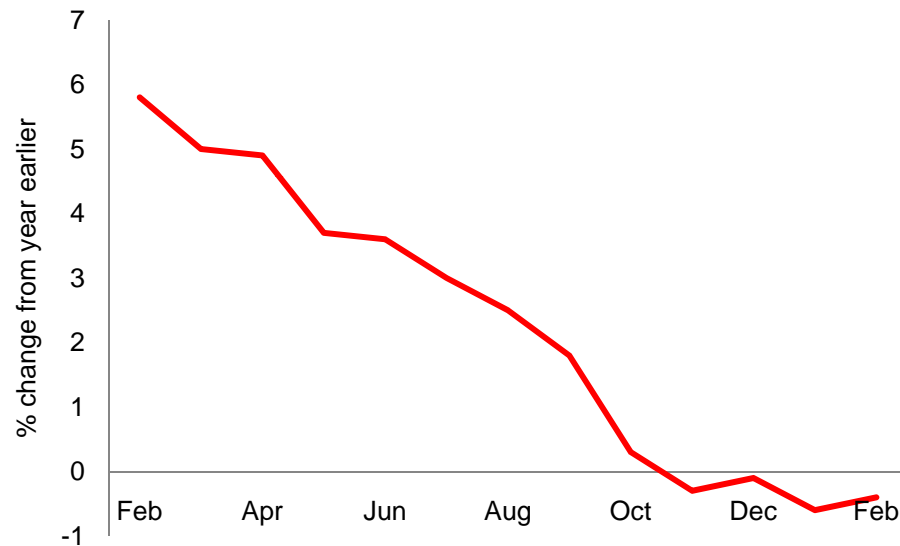
THE EUROZONE'S SLOW RECOVERY

The Euro Area's Economy Has Bottomed Out



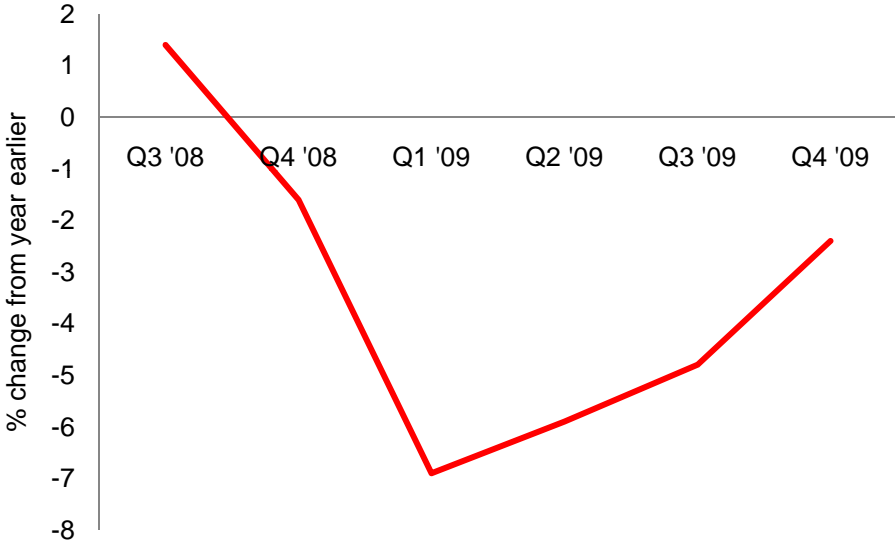
Growth prospects will continue to improve in the months ahead. Germany, France, Italy and Spain (about 75 percent of the euro area's economy) are partly driven by large stimulus packages. The ECB's credit stance also remains quite easy.

The Euro Area's Bank Lending to the Private Sector



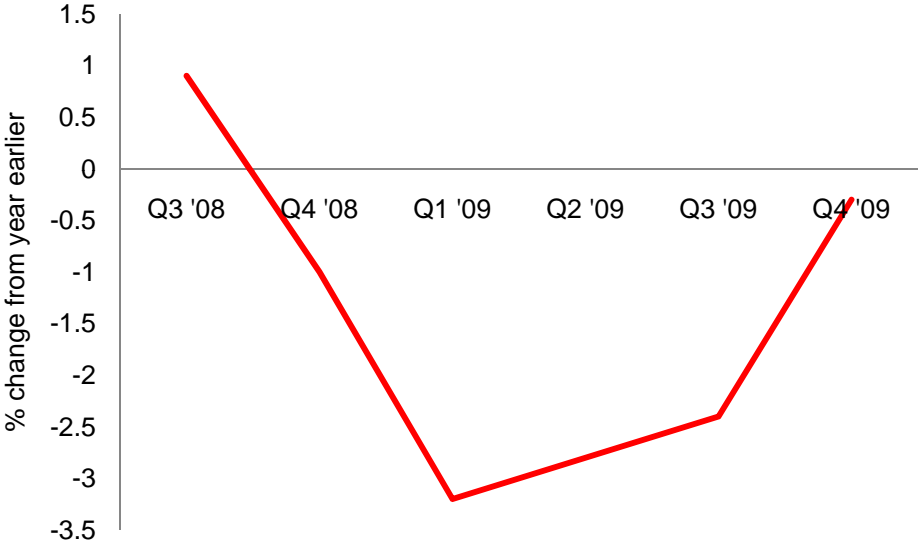
A free-fall of bank lending will make it difficult for the ECB to contemplate an early exit from its current policy stance.

Germany's Election-Led Recovery



Elections can do wonderful things for an economy.

France's Balanced Recovery

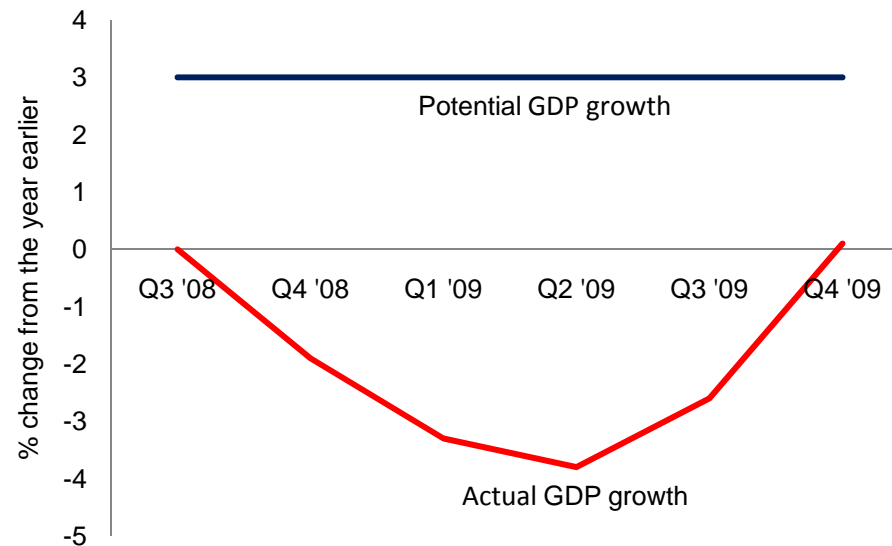


Improving net exports have lent support to the recovery.



AMERICA'S "V-SHAPE" RECOVERY?

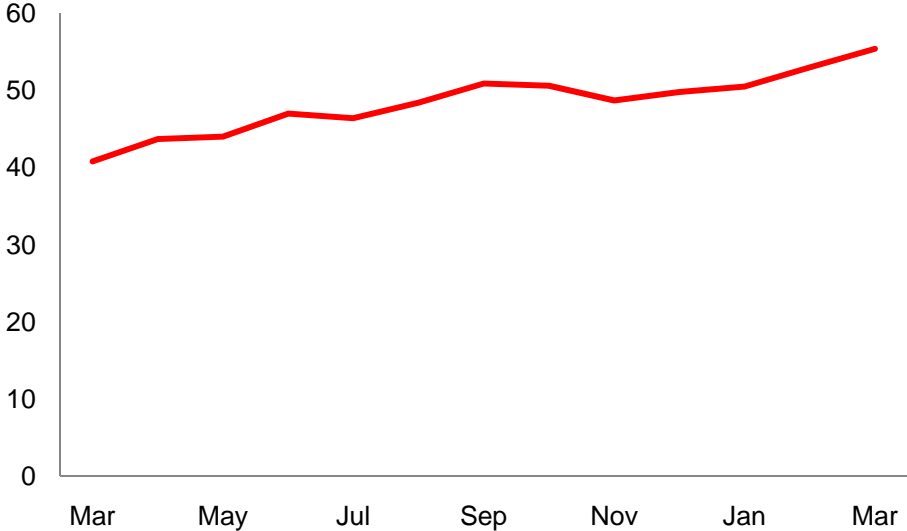
America's Actual and Potential Economic Growth



**Rebuilding of inventories has driven the early stages of recovery.
Rising household incomes, improving labor market conditions
and the strengthening financial system are underpinning the recovery.**

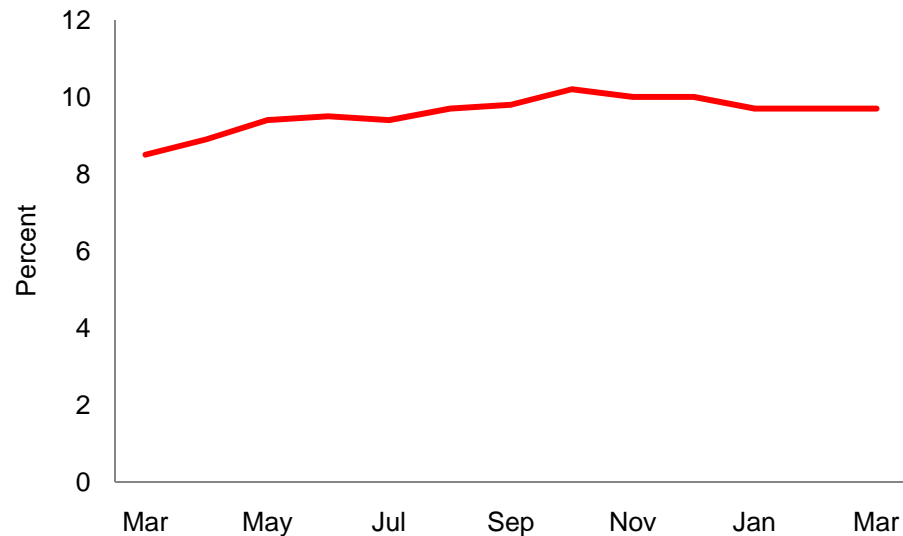


ISM's Service Sector Index



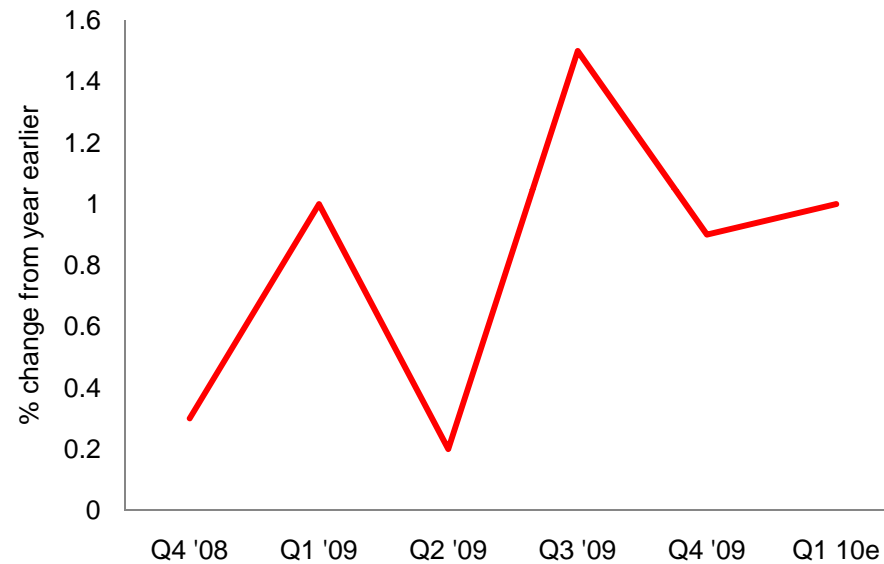
A steadily accelerating climb.

The U.S. Unemployment Rate



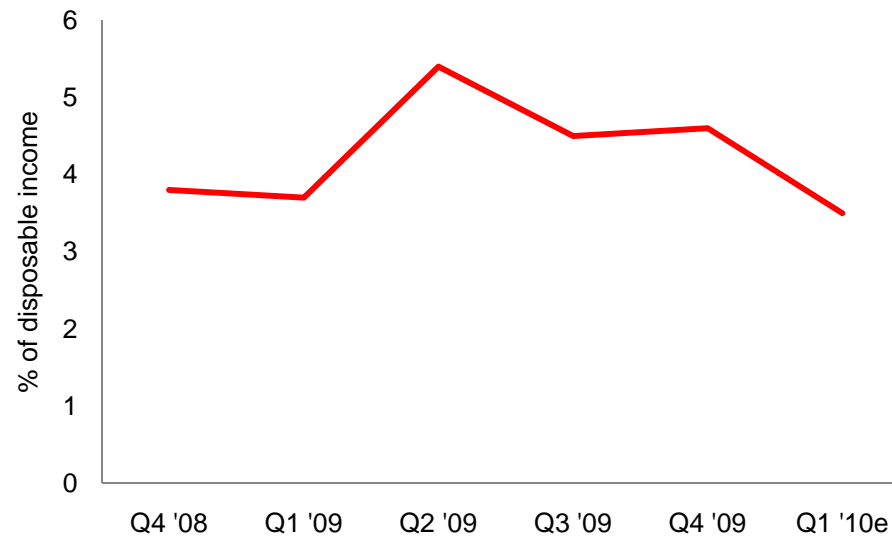
Rising employment because firms can no longer respond to increasing demand by boosting productivity growth. A sustained GDP growth of 2.5-3.0 percent is necessary for a steadily declining unemployment rate.

Real Disposable Household Incomes in the U.S.



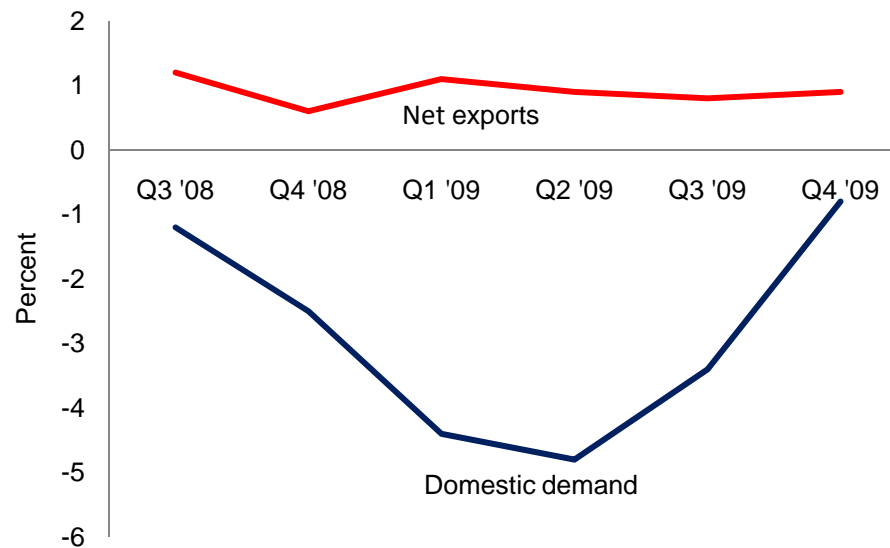
After-tax income gains are still quite weak.

U.S. Households' Savings Rate



Households' savings balances are being drawn down as consumer confidence continues to recover.

U.S. Net Exports Are Still Making a Positive Contribution to Aggregate Demand



$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{X} - \text{M}$$

$$\text{DOMESTIC DEMAND} = \text{C} + \text{I} + \text{G}$$

$$\text{TRADE BALANCE} = \text{X} - \text{M}$$

THE FED'S CRISIS MANAGEMENT

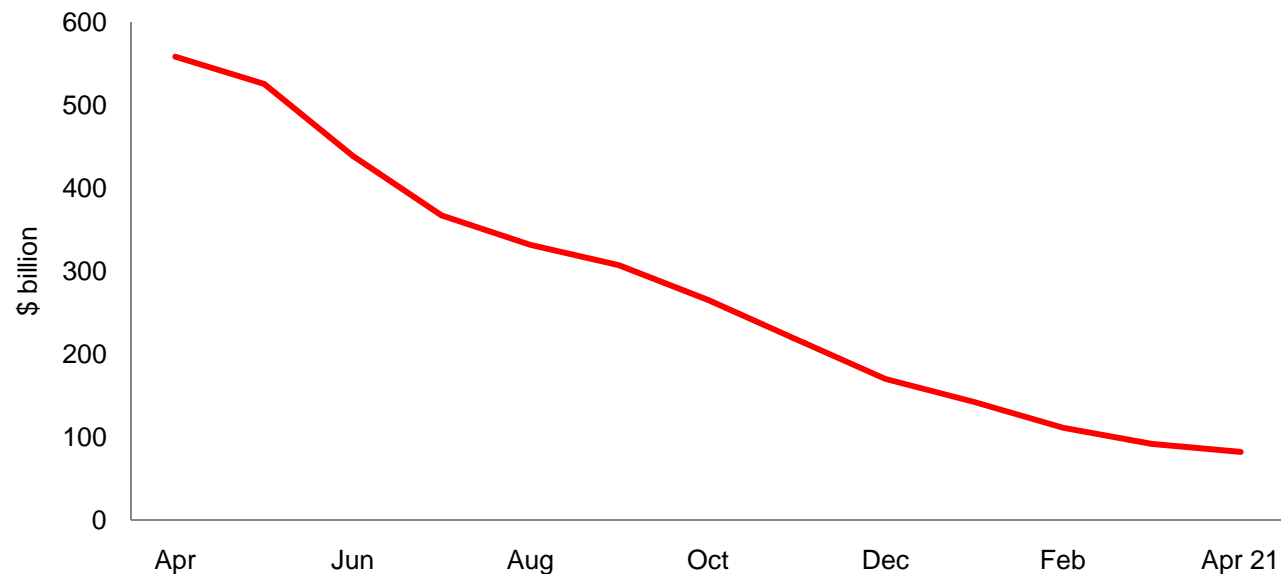
Providing ample liquidity.

Extending the range of instruments acceptable as collateral.

Increasing the number of financial institutions eligible for Fed's loans.

Creating new and more flexible lending facilities.

U.S. Banking System's Borrowed Reserves

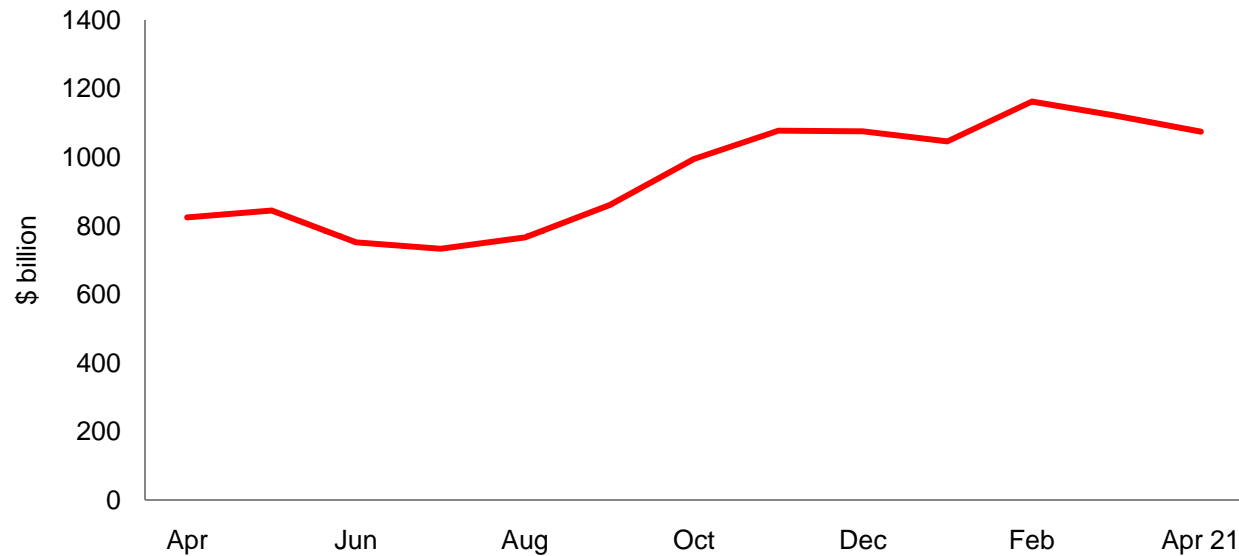


Under normal circumstances, borrowed reserves usually fluctuate around monthly averages of \$200 million.

At the peak of the crisis in November of 2008, they reached an unprecedented level of \$698.8 billion.

They were down to \$82 billion at the last reserve reporting period on April 21, 2010.

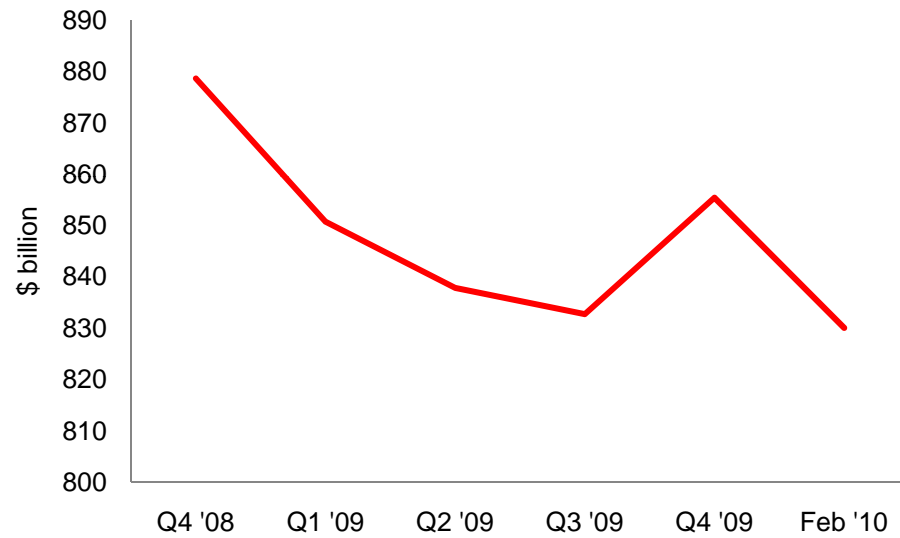
U.S. Banking System's Excess Reserves



Excess reserves – also called loanable funds – normally amount to monthly averages of \$1.5 billion.

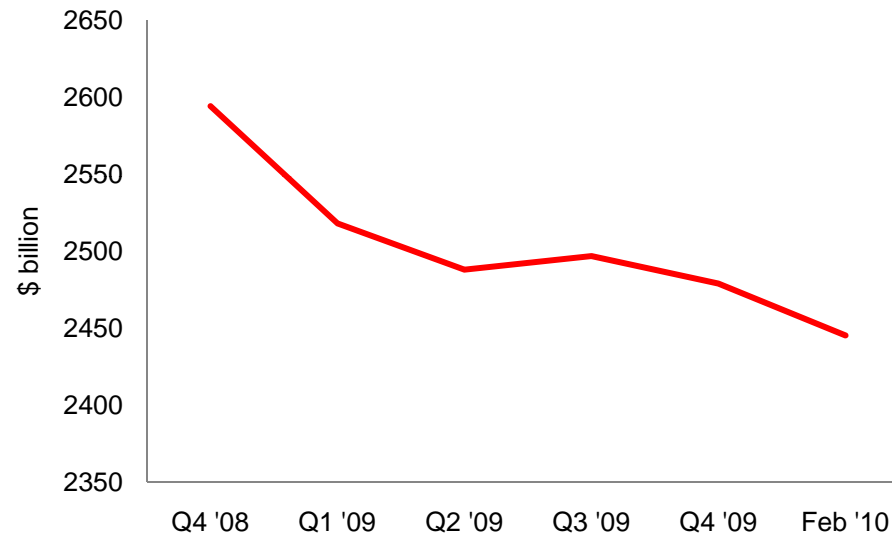
They stood at \$1.1 trillion at the last reserve reporting period on April 21, 2010.

Consumer Loans Extended by U.S. Commercial Banks



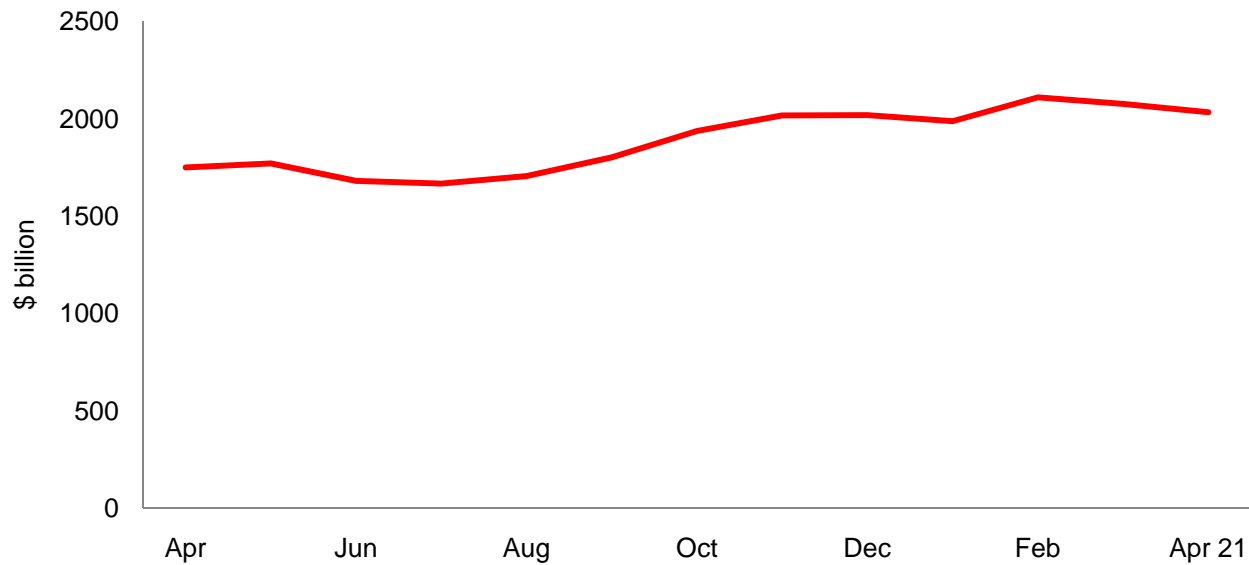
Banks' consumer lending is still declining.

Total Consumer Loans in the United States



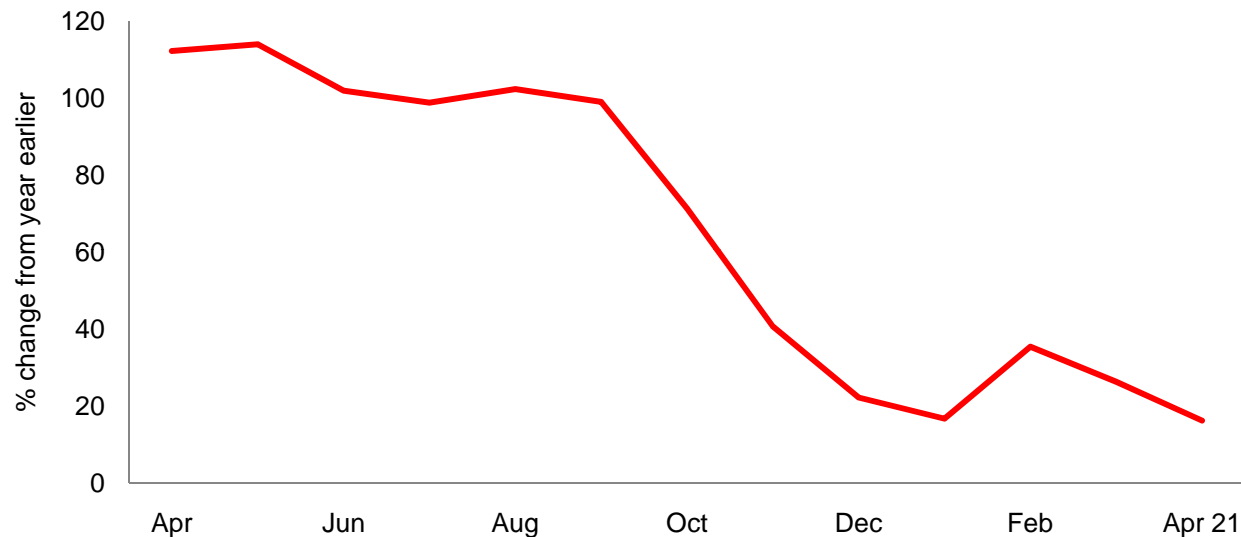
Excess liquidity should lead to the recovery of consumer lending.

The Fed's Monetary Base (M0)



The Fed's monetary base has more than doubled from the pre-crisis levels.

The Fed's Monetary Base (M0)



The rate of expansion of the Fed's balance sheet has slowed down considerably.

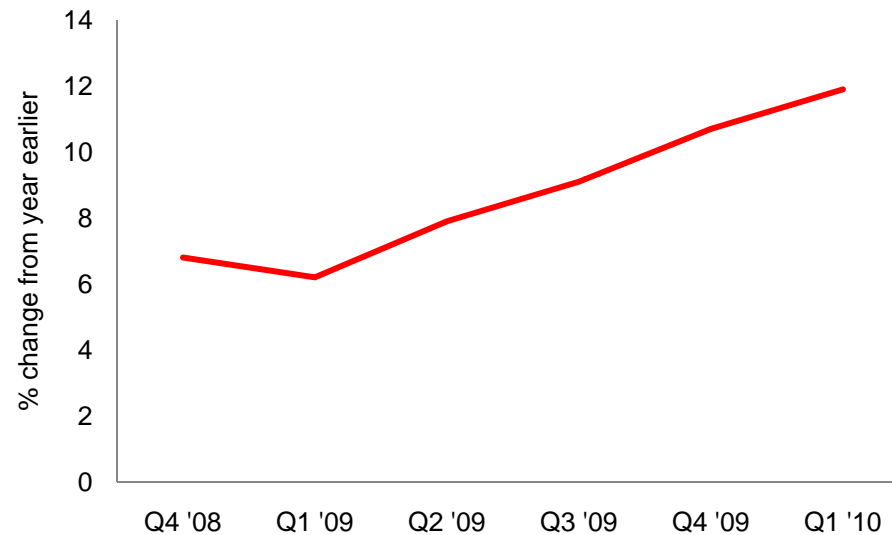
But it is still growing at an annual rate of 16 percent.

A growth rate of 3-4 percent is considered "normal," because it is generally consistent with non-inflationary economic growth.



MAJOR ASIAN ECONOMIES

China's Rebounding Economic Growth



China's \$585 billion (13 percent of GDP) stimulus package was designed to provide a fast-acting support to the economy, and to generate growth based on consumption and investments.

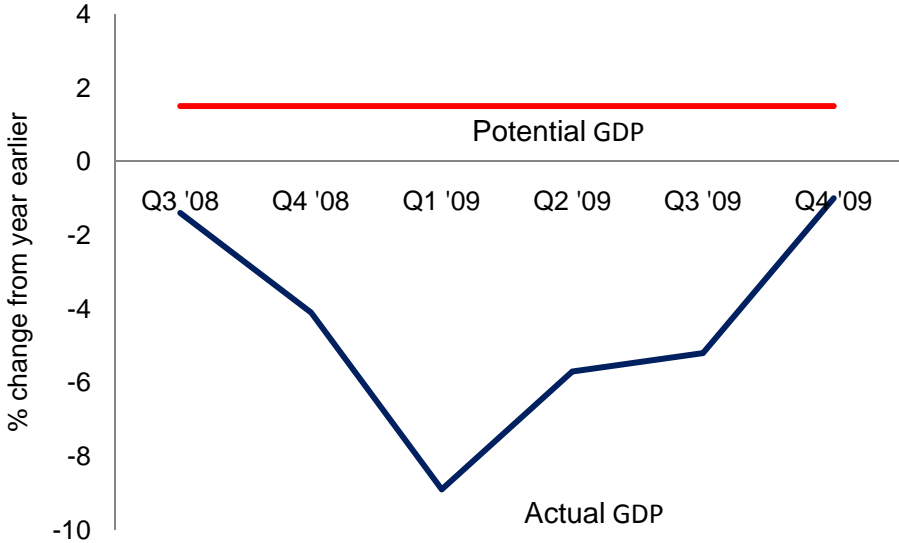
HOW MUCH WILL CHINA HELP THE REST OF THE WORLD?

CHINA IS A MAJOR IMPORTER OF FOOD, ENERGY, RAW MATERIALS AND PRODUCTS AND SERVICES OF VERY ADVANCED (DUAL USE) TECHNOLOGY.

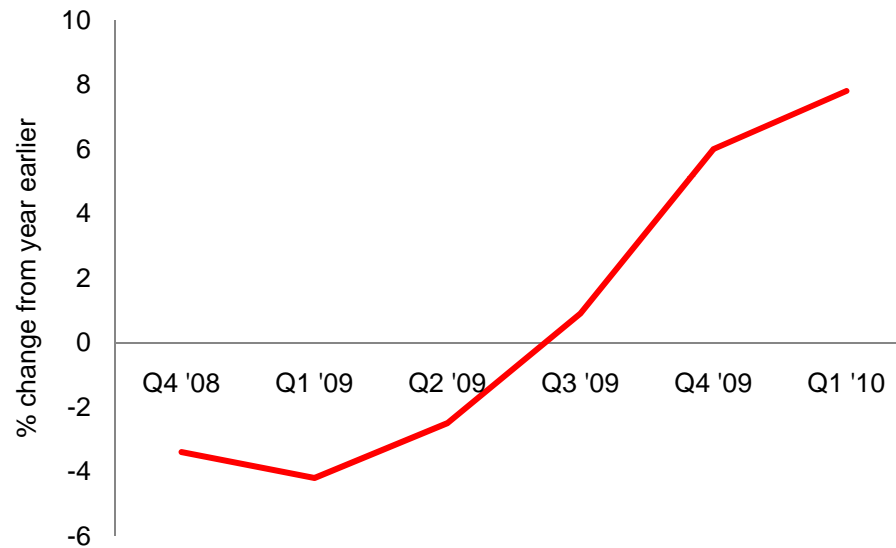
HELPED BY YEARS OF SOARING FOREIGN DIRECT INVESTMENTS AND TECHNOLOGY TRANSFERS, CHINA HAS ALREADY DEVELOPED A BROAD RANGE OF IMPORT-COMPETING INDUSTRIES.

**CHINA IS AIMING AT A SUBSTANTIAL CHANGE IN THE COMPOSITION OF ITS ECONOMIC GROWTH:
IT WANTS AN ECONOMIC ACTIVITY PREDOMINANTLY
BASED ON DOMESTIC DEMAND.**

Japan is Emerging From a Long Recession

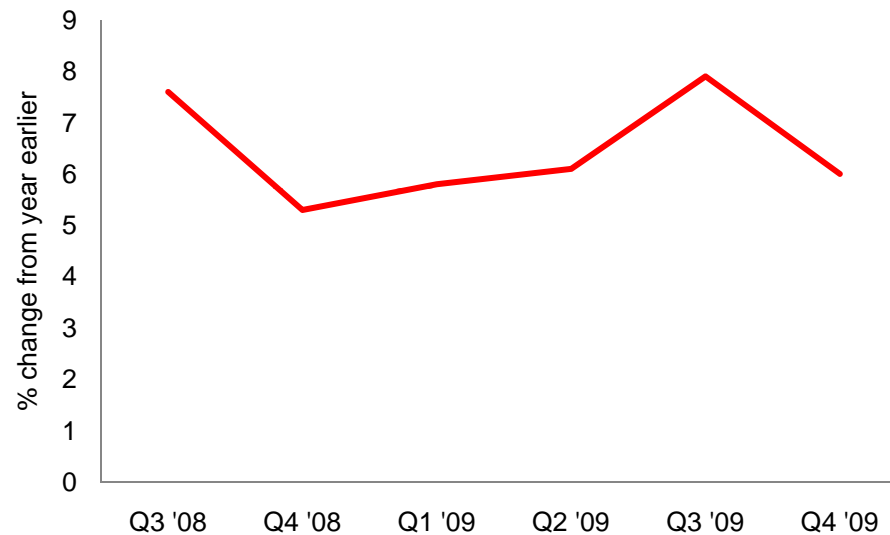


South Korea's Strong and Balanced Cyclical Rebound



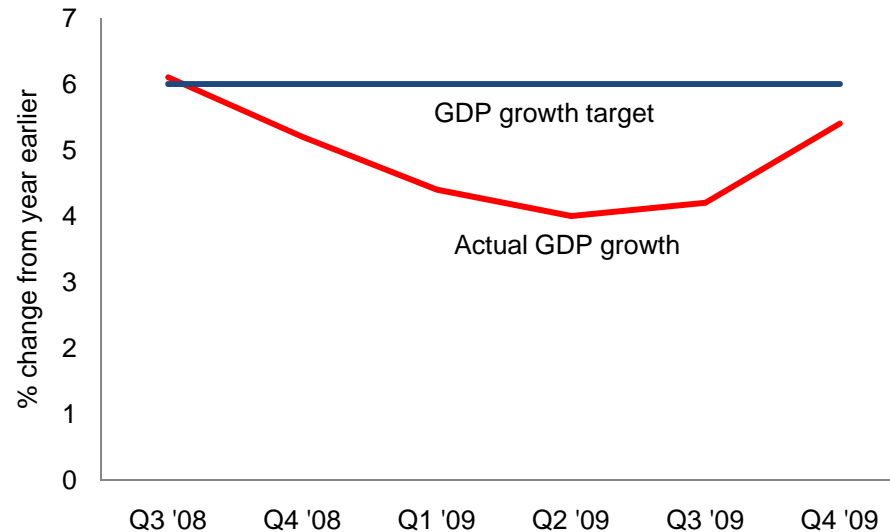
A huge, \$100 billion (15 percent of GDP), stimulus package has set the economy on the fastest expansion path in the last six years.

India's Accelerating Inflation Is a Threat to Economic Growth



Loose fiscal and monetary policies are reflecting the government's determination to support fast economic growth. Accelerating inflation and reliance on foreign capital inflows will compromise the quest for 8-9 percent growth rates.

Indonesia's Strong Support to Domestic Demand

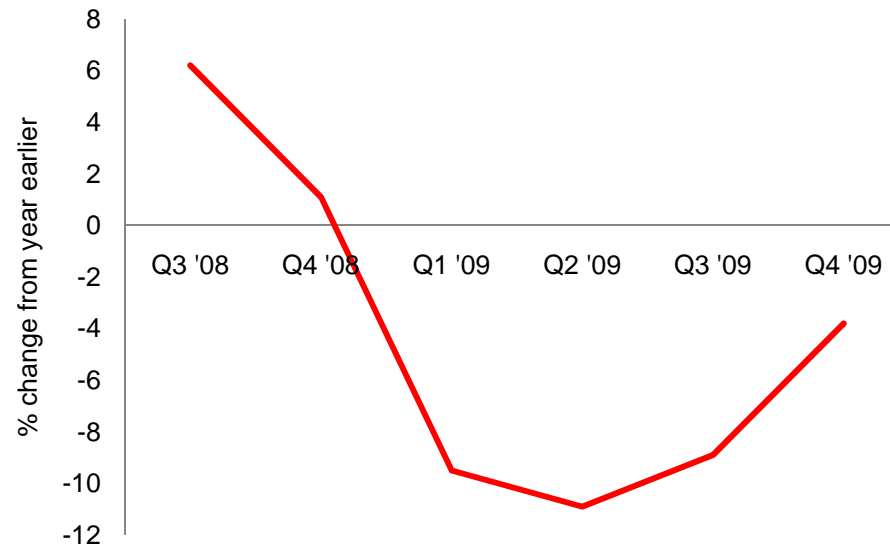


Indonesia has supported domestic demand without any apparent damage to price stability, public sector accounts and trade balance. There is some room for further stimulus to get the economy back to the targeted growth path of 6 percent.



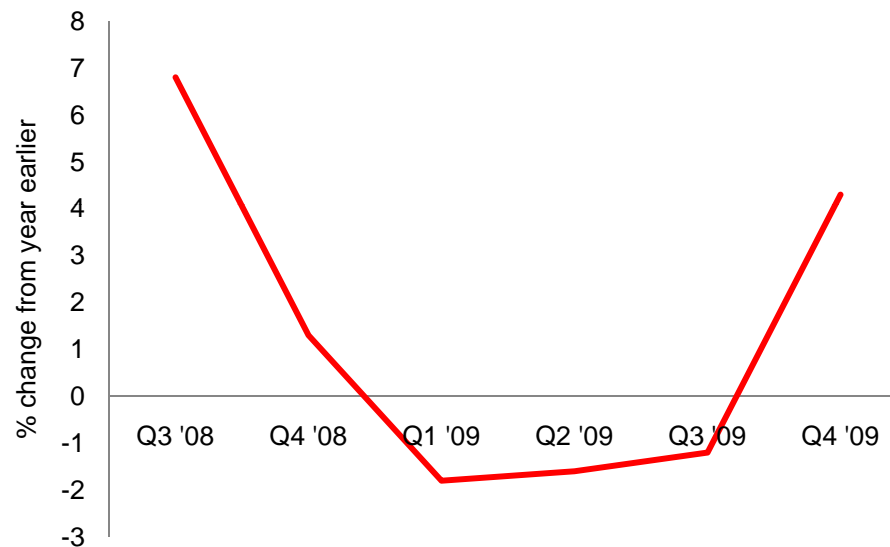
THE REST OF BRIICs

Russia's Stimulus Package Is Beginning to Work



Failure to diversify its economic activity means that Russia's fortunes remain tied to energy and raw materials. Large public works projects and other stimulus measures are beginning to rev up the economy.

Brazil's Election-Led Recovery



As a big commodity producer, Brazil stands to greatly benefit from the global economic recovery.

Monetary and fiscal policies will have to be tightened after next October elections.



GLOBAL TRADE AND CAPITAL FLOWS

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BALANCE OF PAYMENTS = CURRENT ACCOUNT + CAPITAL ACCOUNT = 0

CURRENT ACCOUNT = - CAPITAL ACCOUNT

BALANCE OF PAYMENTS OF THE WORLD = 0

CURRENT ACCOUNT BALANCES
(\$ billion)

| | Pacific Rim | United States | European Union |
|-----------|--------------------|----------------------|-----------------------|
| 06 | 525.9 | -880.0 | -90.0 |
| 07 | 732.0 | -752.0 | -110.0 |
| 08 | 621.7 | -697.0 | -135.0 |
| 09 | 637.0 | -517.0 | -138.0 |

TRANSITION TO A STABLE AND SUSTAINABLE GROWTH

Errors of monetary policy are possible, especially in countries whose economies are just bottoming out, or are in the very early stages of recovery.

Investors should favor asset markets where economies are already on the recovery path, and where stimulus packages are being reviewed.

**Equities and commodities are our preferred asset classes.
Fixed-income instruments will experience a serious downward correction.**