

Boom Market Turkey – Overheating or an Investment Opportunity?

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- GDP growth 2013: 4%
- Challenge of inflation: 6.4% expected
- ISE 30 Index +58% in 2012, valuation continues to be attractive
- Investment via open-ended index certificates, turbo certificates and funds

A Positive Outlook on the Bosphorus

Economic development in Turkey continues to advance by leaps and bounds. After economic growth of 2.5% was recorded last year, Erste Group analysts anticipate approximately 4% growth this year. Compared to the euro zone, where 0.1% are currently expected, this is an enormous lead. Growth in Turkey will once again be strongly shaped by domestic demand, as not much is to be expected from the export sector. The country's low debt burden (37.2% of GDP in 2012) as well as its stable banking system argue in favor of continued positive growth rates. "From a macro-economic perspective, due to the renewed expansion in credit growth, a revival in exports and recent positive purchasing managers index data, continued solid growth is to be expected", according to Henning Eßkuchen, head of CEE Equity Research at Erste Group.

Inflation expectations for 2013 remain stable at 6.4%. In terms of Turkey's standards that is a relatively low value, considering inflation stood well above 10% a decade ago. "An eye must be kept on coming developments in inflation rates. Following a marked increase in January, we anticipate however an easing in coming months."

The monetary policy of the Turkish National Bank continues to be suspenseful. It is to be assumed that base rates will remain at around 5.5 this year. Turkey's National Bank will however closely watch developments on the inflation front.

Furthermore, credit rating agency Fitch upgraded Turkey's sovereign credit rating to 'investment grade' in November, and similar actions are to be expected on the part of Moody's and Standard & Poors this year. Turkey last enjoyed this status in 1994, which it lost at the time due to an economic crisis. Yields on 10 year government bonds already mirror the positive trend. They are currently just below 7%, whereas one year ago they were still above 9%.

Turkey's Stock Market: Potential not yet Exhausted

With a positive performance of +58%, Turkey's stock market outpaced Europe markedly in 2012. One reason for this excellent performance was ample liquidity. The subject of liquidity is more than ever an important criterion for international investors. Continued high GDP growth, low indebtedness and attractive valuations are further important arguments. In early 2013 an expected correction has occurred, as a result more favorable entry prices present themselves at present than at the end of last year. In the wake of a strong rally, the forecast for the ISE remains optimistic, even though the occasional small setback may occur in the course of this year. These possible profit taking activities by investors should only be short term and ultimately healthy developments, creating additional favorable opportunities for entry.

The ISE 100's fair value is estimated at 100,000 points by Erste Group's analysts (currently trading at approximately 79,000 points).

Investments in Turkey – Certificates and Funds

The positive outlook for Turkey's stock market naturally offers opportunities for domestic investors as well. "A direct investment in Turkey is offered by our newly issued ISE 30 open-ended index certificate, which encompasses the 30 most liquid Turkish stocks with the biggest market capitalization", explains Markus Kaller, head of Retail Sales Austria. Apart from this, the ESPA Stock Istanbul employs an active investment style, serving as a fund investment. For risk-conscious investors

there are moreover turbo-certificates, which can be used to bet on short term trends in Turkey's stock market (both on rising and falling prices).