

## TURKEY

## PKK & ISIS Will Raise Risk Premiums In 2016

While Turkish markets greeted Fed's "dovish tightening" move with a moderate rally, I'm writing this post to remind our readers of the daunting challenges that face Turkey in the political arena, on top of a relatively large current account deficit and a huge pile of maturing F/X debt. In addition to Syria, Turkey has picked up near-permanent conflicts with Russia and Iraq, the latter of which might not be fully discounted in Turkish risk assessment reports. But, there two dark horses which are certainly not mentioned in the risk analyses for 2016 that can cause market reversals frequently.

As I write these lines more than 10K security forces, first time including armored troops of the Turkish Army, locked down 7 Kurdish cities in the Southeast on intelligence that PKK guerillas moved in them to spend the winter. A similar operation on land and air is also on-going against the traditional PKK guerrillas in rural Turkey and based in camps on Northern Iraq. Ankara's aim is to decisively defeat PKK and its extensions in the cities and then move to a new framework of Peace Process, where the terms will be dictated by Turkey. Encouraged by Russia and Iran, PKK intends to capture new Kurdish cities for its self-declared "autonomy" and if possible to broaden the insurgency to Western cities with large Kurdish minorities. In the meantime, up to 300K Kurds are reported to be left homeless or forced to migrate from their homes. While opinions differ, Kurds seem to have lost any hope of peace and equally divided between those who wish to surrender to an oppressive state, and others who seek a separate homeland. Local businesspeople claim that the economy has almost completely collapsed.

It is difficult for me to decide whether this "final sweep" would sway Kurds towards fatalism, that is a sullen resignation to state authority, or strengthen their determination to resistance. Neither can I tell you whether the Turkish security forces can purge off the PKK presence from the Kurdish cities. Please don't underestimate my words: Turkey, at least her East and Southeast remains precariously perched on a slender branch between a militarily-enforced peace and wide-spread civil unrest or broad-spread insurgency nearing civil war.

Iraq has asked Turkey to remove all its military personnel from its soil. Ankara complied only partially, by reducing its force strength in the Bashika camp near Mosul, but kept its bases in Kurdish controlled Northern Iraq with the blessing of the local authorities. Yesterday, the Bashika camp came under attack by ISIS, along with the entire Kurdish front in the vicinity. It is our impression that the four Turkish soldiers injured in the camp were not collateral damage of an attack actually targeting Kurdish peshmerga forces, but intentionally struck. Ankara used the incident for its thesis that she needs more forces in the camp to defend the existing training force. Baghdad, and more importantly White House urged Ankara to withdraw all her troops from Iraq. Opposing the pleas, Ankara stated that it is ready to send in more troops.

According to Iraqi press, supported by some pro-AKP sources in Turkey, the reinforcement of the Bashika camp was a countermove to Russia's sending S400 missile systems to Syria and bombing Turkmeni settlements. Some sources go further, claiming that Ankara wants her military to lead a Sunni attack on Mosul, and then to grab a permanent seat at the peace table. In the meantime, nobody, including American Defense Secretary Ash Carter believes that AKP is serious about fighting ISIS. The country is yet to seal the 60 mile long border segment with Syria between the towns of Jerablus and Azez. Turkey's unwanted presence raises the specter of more ISIS attacks, which would require a military response, confounding Coalition plans to rescue Mosul, or cause Iraq to move away from the American Axis towards to waiting arms of Russia, because Baghdad firmly believes that Erdogan provokes Iraqi Kurds towards independence.



I fear attacks on Turkish civilians in Iraq, or another embargo on our goods, construction/contracting services, or obstacles to transit passage of our semis.

Political risks are hard to price, in particular when we are dealing with an entity like AKP, which carefully conceals its actual goals among multiple objectives. Yet I have enough evidence to surmise that AKP's current posture in the region is to battle Iran, Iraq and Russia through proxies to the bitter end, in most cases independently of NATO or Coalition advice, to maximize her perceived interests. I doubt she has the military power (or the courage to use it), the strategic planning capacity or the intelligence resources to pull the job. Terror by PKK and ISIS will very likely become the price we will be made to pay for our adventurism. 

**MURAT UCER & ATILLA YESILADA**

Tepecik Yolu, Devran Apt.  
1/18, Etiler  
Istanbul, Turkey

Murat Ucer  
murat@istanbulanalytics.com  
+ 90.212.352.1270  
Mobile 90.532.432.5873

Atilla Yesilada  
atilla@istanbulanalytics.com  
+ 90.212.352.1271  
Mobile 90.533.216.9795

**GLOBALSOURCE PARTNERS**

708 Third Avenue  
New York, NY 10017

info@globalsourcepartners.com

+ 1.212.317.8015  
Fax 1.212.317.8318

---

Copyright 2015 GlobalSource Partners and Murat Ucer & Atilla Yesilada. All rights reserved. This research report is prepared for the use of GlobalSource Partners or Murat Ucer & Atilla Yesilada clients and may not be redistributed, reproduced, stored in a retrieval system, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of GlobalSource Partners or Murat Ucer & Atilla Yesilada. This research report is distributed simultaneously to our internal website and other portals by GlobalSource Partners or Murat Ucer & Atilla Yesilada. The information herein was obtained from various sources and is believed to be reliable but GlobalSource Partners or Murat Ucer & Atilla Yesilada does not warrant its completeness or accuracy. Neither GlobalSource Partners or Murat Ucer & Atilla Yesilada nor any officer or employee accepts any liability whatsoever for any direct, indirect or consequential damages or losses rising from any use of this report or its contents.