

July 18, 2016

Panic Over Turkey's Failed Coup

Today, Turkish equities are down nearly 9% as investors try to make sense of what exactly is happening to the country. We expect Turkish strongman Recep Erdogan will clean house and consolidate power. But as the panic subsides, we expect equities to recover.

The purge from Friday's failed coup attempt continues. At least 9,000 police officers have been suspended and 7,500 members of the judiciary and the military have been arrested. The alacrity of Erdogan's retribution campaign has some European officials suggesting that Erdogan "staged the coup" as a pretext for accruing more power.

More than two hundred people were killed in Friday's coup attempt, including Erdogan's campaign manager Erol Olcak, his 16 year-old son and the brother of one of Erdogan's chief advisors along with 60 police officers and at least 145 civilians.

Compelling analysis from [Al Monitor](#) suggests the coup attempt was slapped together at the last minute. Specifically, the July 14 indictment of "Gulen movement" members within the TSK, the Turkish Armed Forces, sparked the move. Note, Fetullah Gulen is the Islamic cleric and former ally of Erdogan who lives in exile in Pennsylvania). Sources claimed that mass arrests would have soon followed, directly impacting the outcome of the Supreme Military Council of August 1-4. The council is where promotions and appointments are made within the TSK. Thus, the coup plan was initiated ahead of schedule.

The Turkish military, once a bastion of Kemalist secularism, has been a rival, but has experienced diminishing power next to Erdogan. Reportedly, the military has been reluctant to support operations outside the country, especially Syria. And with sporadic [riots](#) breaking out over the potential naturalization of nearly 300K Syrian refugees, it is plausible that a Gulenist faction within the military attempted to seize power. During their brief takeover of Turkish television, coup leaders called themselves the "Peace Council."

On Saturday Erdogan publicly addressed President Obama, saying Gulen must be turned over to Turkey. His prime minister said failure to do so was essentially an act of war. Meanwhile, Labor Minister Suleyman Soylu went so far as to say, "The United States is behind the coup." The fact that U.S. servicemen's family members were ordered out of Turkey in March citing security concerns probably serves to feed that popular suspicion.

BRETTON WOODS RESEARCH, LLC

We expect relations between Washington and Ankara to remain frosty for the duration of the Obama presidency.

Of course, Erdogan knows the Obama riddled history with regime change. Some examples include the ouster of Muhammad Morsi in Egypt, Moammar Gaddafi in Libya, Viktor Yanukovich in Ukraine, and almost Bashar Al Assad in Syria.

What were the coup leaders trying to change? Were they dissatisfied with Erdogan's recent fence mending with Israel, Russia and Syria? It's certainly possible. Perhaps the State Department was as well.

As the coup began, the silence from Turkey's NATO allies was deafening. Only after it was clear that the coup was failing (about two hours into the action) did the White House issue a statement of support for Erdogan and his Administration as "the democratically elected government of Turkey."

Notably, Incirlik Air Base, which hosts most of the 2,500 American servicemen stationed in Turkey along with NATO's largest storage facility of nuclear weapons in Europe, including fifty B61 Hydrogen bombs, was arguably put at risk. Early on, power was cut to the base. Force Protection Condition Delta, the highest alert status, was called. Local authorities denied movement in and out of the base and U.S. Air Force planes were prohibited from taking off or landing.

Yesterday, base commander, General Bekir Ercan Van, along with nine other Turkish officers were arrested for supporting the coup, as planes from Incirlik reportedly provided air-to-air refueling for F-16 fighter jets that were used by coup participants.

There is now concern that Erdogan will go too far in delivering retribution -- i.e. he will further clamp down on the media, gut the judiciary, and wipe away more checks on the executive -- and emerge a dictator. John Kerry has even hinted Turkey's standing in NATO might be jeopardized, saying "NATO also has a requirement with respect to democracy." Indeed, following Kerry's comments, there was a big spike in Turkish CDS prices and yields on sovereign debt.

But we would fade these market moves and view such diplomatic pronouncements as window dressing. Although we do not expect Erdogan to abandon democracy or the right to vote, realpolitik has kept open Turkey's NATO seat through several undemocratic regime changes, including military coups in 1960, 1971, and 1980. Greater power for Erdogan is unlikely to derail that. And with the stepped-up attacks by ISIS on Turkey, including the recent attack on Istanbul's airport, we see Erdogan incentivized to remain aligned with NATO.

Bretton Woods Research

BRETTON WOODS RESEARCH, LLC

© 2006-2016 Bretton Woods Research, LLC. All rights reserved. No portion of this report may be reproduced in any form without prior written consent. The information has been compiled from sources we believe to be reliable but we do not hold ourselves responsible for its correctness. Opinions are presented without guarantee.

Domestic Reports, Global Reports, and Supply-Side Portfolio (collectively referred to hereafter as "Bretton Woods Research"), is published as an investment newsletter for subscribers, and it includes opinions as to buying, selling and holding various securities. However, the publishers of Bretton Woods Research are not broker/dealers or investment advisers, and they do not provide investment advice or recommendations directed to any particular subscriber or in view of the particular circumstances of any particular person. The information provided by Bretton Woods Research is obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Subscribers to Bretton Woods Research or any other persons who buy, sell or hold securities should do so with caution and consult with a broker or investment adviser before doing so. Bretton Woods Research does NOT receive compensation from any of the companies featured in our newsletters.

The publishers, owner, agents, and employees of Bretton Woods Research, LLC, may own, buy or sell the exchange traded funds and other securities or financial products discussed in Domestic Reports, Global Reports, and Supply-Side Portfolio ("Bretton Woods Research"). Bretton Woods Research and its publishers, owners and agents, are not liable for any losses or damages, monetary or otherwise, that result from the content of Bretton Woods Research. Disclosure: The publisher and owner of Bretton Woods Research, LLC, may own, buy or sell the exchange traded funds currently listed in Supply-Side Portfolio's current list of recommendations and may purchase or sell some of the shares of the companies held by these ETFs. Bretton Woods Research and its publishers, owners and agents, are not liable for any losses or damages, monetary or otherwise, that result from the content of Bretton Woods Research.

Past results are not necessarily indicative of future performance. Performance figures are based on actual recommendations made by Bretton Woods Research. Due to the time critical nature of stock trading, brokerage fees, and the activity of other subscribers, Bretton Woods Research cannot guarantee that subscribers will mirror the performance stated on our track records or promotions. Performance numbers shown are based on trades subscribers could enter. The trade results posted for Bretton Woods Research are hypothetical but reflect changes and positions with the last available prices. Investors may receive greater or lesser returns based on their trading experience and market price fluctuations.