

ISE maintained high levels in November...

Ireland has unsettled markets...

The global markets continued their upward trend, following the Fed's decision to pump an extra \$600bn into the US economy. On the other hand, concerns regarding Ireland's budget and financial crisis and the opening of bailout talks with the IMF and EU, coupled with the expectation of possible rate hikes from China in order to slow down its economy resulted in the slumps seen in markets.

The Monetary Policy Committee (MPC) kept the policy rate unchanged at 7.0%, in line with the market consensus and our forecast. However, it cut the O/N borrowing rate by an astonishing 400 bps to 1.75%, while keeping O/N lending rate at 8.75%.

The Central Bank cut 400 bps off its technical rate...

With this announcement, the MPC underlined the negative effects of accelerated capital inflows on the economy due to rapid credit growth and deterioration in the current account balance, as well as risks to financial stability. The committee stated that in order to encourage longer maturities in TRY markets, the O/N repo rate could be allowed to temporarily deviate with the current policy rate.

The committee expected that inflation would be on a declining path in the forthcoming period, while core inflation indicators would remain consistent with the medium-term targets. Therefore, the committee also repeated that, "it would be necessary to maintain policy rates at current levels for some time, and to keep them at low levels for a long period". We believe that the Central Bank of Turkey (CBT) will hold its policy rate constant until 2H11 and complete its exit strategy (increasing the reserve requirements) by year-end 2010.

The CBT increased TL reserve requirement ratio...

The CBT increased its TL reserve requirement ratio from 5.5% to the pre-crisis level of 6.0%. The move will withdraw TRY 2.1 billion in liquidity from the market on November 26. Currently, the banking sector (as a total) is in need of TL liquidity. As of November 10, the amount of funds provided by the CBT under open market operations will stand at TRY 5.2 billion.

Our portfolio recommendations for December 2010...

The Fed's decision to buy more government securities to stimulate the economy led to increased expectations of greater foreign capital inflows to emerging markets (including Turkey). Thus, the ISE maintained its bullish trend in November. However, jitters over Portugal and Spain's debts concerns and banking crises following Ireland have put a dampener on the ISE.

In conclusion, we expect a fluctuating trend in December, depending on inter-national and domestic news flow, following a 17% MoM increase in September and October and a flat trend in November.

In light of these expectations, we reduce the weight of FX from 40% to 20% and increase the weight of equities from 20% to 40% and maintain government securities at 40%.