

ISE decoupled itself from the global markets and faced a sell-off in January...

Global markets maintained their bullish trend...

Despite the sovereign debt crises in the Euro-zone, the Fed and ECB's quantitative easing and bond buying programs brought on a more bullish trend in European and US markets. In addition, better than expected company earnings in the US supported the rise.

The MPC cut the benchmark interest rate by 25 bps...

Following the US and EU decided to continue the course of quantitative easing, Central Bank added a "financial stability" target to its "inflation targeting policy" due to the concerns that a hot money inflow would increase the current account deficit in Turkey. Thus the bank maintained its new policy mix in February by rate cut (25 bps) and increase in RRR (200 bps).

CBRT increased RRRs...

Despite the CBRT Governor Durmus Yilmaz's comments, the bank surprised markets when the Monetary Policy Committee cut the policy rate (one-week repo rate) by 25 bps to 6.25%.

The CBRT increased the reserve requirement ratio (RRR) on TRY-based savings deposits with maturities of up to three months by 200 bps. The new reserve requirements will be as follows: 10% for saving deposits with a maturity of up to and including 1-month (previously 8%); 9% for deposits with a maturity between 1-3 months (previously 7%); 7% for deposits with a maturity between 3-6 months (unchanged); 6% for deposits with a maturity up to one year (unchanged); 5% for deposits with a maturity of one year and above (unchanged); 9% for liabilities except deposits and participation funds (previously 8%); 12% for demand deposits, notice deposits and private current accounts (previously 8%).

New CBRT governor and general elections will be closely followed...

As the current CBRT Governor Durmus Yilmaz's term is coming to end in April, we think that market participants will closely follow the assignment of a new governor. In addition, expectations for the general elections scheduled for June 2011 will gradually begin to be priced in by the market in February.

Other developments that markets will follow in February would be the timing of a ratings upgrade to investment grade by any international rating agencies.

Our portfolio recommendations for February 2011...

In January, the global market continued its bullish trend thanks to the quantitative easing programs of the US and Europe, however, the ISE decoupled itself from the global markets and faced a correction due to the expectation that despite the Central Bank's policy rate cut, RRR hikes will have a negative impact on the bottom-line of the banking sector. Thus, the decline in the banking index was the main contributor to the overall decline at the ISE.

We expect the ISE in February will monitor the effects of the Central Bank's recent RRR hikes and focus on the results of the Central Bank's monetary policy meeting which will be held on February 15, 2011. In addition, the news flow from the US and Europe will continue to impact the direction of the ISE in February.

We maintain our portfolio coverage of 40% in government securities, 20% in FX and 40% in equities.