

### ISE faced with another sell-off in December...

**Global markets maintained its bullish trend...**

Quantitative Easing and bond buying programs of the Fed and ECB engendered a bullish market trend in global markets last month amid sovereign debt crises in the Euro-zone. In addition, European and US markets reached two-year record levels of trading.

**The MPC cut benchmark interest rate by 50 bps and increased RRR...**

The Monetary Policy Committee (MPC) cut the policy rate (1-week repo rate) by 50 bps to 6.50%. The committee also slashed the O/N borrowing rate by 25 bps to 1.50%, after a whopping four-point cut in November, while the O/N lending rate was raised from 8.75% to 9.00%. In addition, the committee increased the cost of funds provided for primary dealers via repo transactions by 25 bps to 8.00%.

According to the new regulation, the reserve requirement ratio (RRR) on demand deposits and time deposits with maturities of up to one month was raised by 200 bps to 8.0%, while the RRR for time deposits with maturities between 1-6 months was raised by 100 bps to 7.0%. On the other hand, the RRR on time deposits with a maturity of more than 1 year was cut from 6.0% to 5.0%. In addition to the changes, the Bank included the funds provided from repo transactions (excluding repos with other banks and the CBRT) under the coverage of reserve requirement application.

**The BRSA reregulated the minimum payments ...**

The Banking Regulation and Supervision Agency decided that loan to value ratios for residential and commercial mortgages cannot be above 75% and 50% respectively. In addition, the value of the real estate must be determined by companies authorized by the BRSA or Capital Markets Board. On the other hand, BRSA put strict rules on minimum payment requirements on credit card debt. Accordingly, minimum payment for term debt will be as follows: Minimum payment will be at least 25% of term debt for credit cards with a limit up to TRY 15k. 30% for credit cards with a limit up to but excluding TRY 20k. 40% for credit cards with a limit including and above TRY 20k.

**The Minister of Finance plans to reduce withholding taxes on Turkish private sector bonds ...**

The Minister of Finance plans to reduce withholding taxes on Turkish private sector bonds with a maturity of more than 5 years and issued abroad from 10% to 0%, between 3-5 years from 10% to 5% and kept less than 3 years at 10%. In addition that the banking and insurance transactions tax on private sector TL denominated bonds issued in Turkey cut from 5% to 1%.

**Our portfolio recommendations for January 2011...**

Even though the global markets were on a bullish trend last month, thanks to quantitative easing programs of central banks, Turkish equity markets faced a strong correction due to recent actions taken by policy makers i.e. Central Bank's policy rate cut and RRR hikes. The new measures taken by the CBRT caused an outflow of short-term portfolio investments, thus leading to a correction in the ISE while the Lira dropped against major currencies.

Following the recent actions and regulations, we believe that during the first month of 2011, the ISE would be monitoring the Euro-zone debt crises, results of the quantitative easing programs of the global central banks along with domestic issues such as possible announcements of new regulations and the effects of the existing actions taken by the policy makers. That said we expect the ISE to move on a fluctuating pattern as market players will be on a wait-and-see period deciding which positions to take and altering their portfolios accordingly.

**We maintain our coverage of 40% government securities, 20% FX and 40% equity portfolio.**