Global markets search for a reaction...

EU leaders is to put forward a comprehensive plan to address the debt crisis...

The ongoing debt crisis in Europe and efforts for the solution of this has continued to stay on the top of the agenda for October. Pressure on all asset classes in the recent months, stemming from the risk on contagion of the debt crisis to other EU nations moderated a little bit in October thanks to the rising hopes that the EU leaders will put forward a comprehensive plan to address the debt crisis in the region. However, the volatility remained in the markets due to the arising disputes between EU countries regarding the different opinions about the way to overcome the crisis. On the other hand, losing momentum in the global economy also limited the market sentiment.

Medium Term was announced last month ……

Medium Term Program (2012-2014) was announced last month. The government had pushed up its growth forecast to 7.5% from the original 4.5% stated in the previous MTP from October last year. As for inflation, due to exchange rate pass-through, the government expects annual CPI inflation to overshoot the 5.5% official target and hit 7.8% at year-end. That said, the government believes that the deterioration in inflation is temporary and that annual inflation will converge towards the 5% inflation target in 2012 and beyond during the program horizon. The government expects the current account deficit (CAD) to improve to USD 65.4bn (8.0% of GDP) in 2012 after seeing USD 71.7bn (9.4% of GDP) this year.

CBRT increased the O/N lending rate to 12.5%…

The CBRT kept the policy rate (one-week repo rate) unchanged at 5.75%. On the other hand, the Committee increased the O/N lending rate to 12.5% (up 350 bps) and the interest rate on borrowing facilities provided for primary dealers via repo transactions to 12.0% (up 400 bps). In addition, the late liquidity window lending rate increased to 15.5 % (up 350 bps). Meanwhile, the bank kept O/N borrowing rates unchanged. Though the MPC announcement implies that the widening O/N rate corridor was on account of preventing any deterioration in medium-term inflation expectations, we believe that the move is to prevent further depreciation in the Lira. The bank aims at attracting foreign investors to the O/N market in our view.

ISE underperformed its peers…

Despite the ongoing high volatility, we saw some reactionary buying in global markets from a year-low levels in October with the help of the positive mood especially in European markets related with the possible rescue plan that may emerge from European leaders' meeting. But ISE underperformed its peers in October after a relatively strong performance in September due to the easing CAD pressures on the back of an expected slowdown and S&P's upgrade of local currency rating to investment grade.

Our portfolio recommendations for November 2011

Following the reactionary buying in October, stabilization efforts should keep on going in global markets in November. However we believe that volatility will continue in the On the domestic front, the measures taken by the CBRT to defend the Turkish Lira and the increasing tension in the bond market will determine the mood on ISE. We expect high volatility to remain in the market regarding the abovementioned risks and advise our investors to keep their cautious stance. However, we believe that there will be some opportunities despite the low risk appetite, since the worldwide stock markets has been oversold and we think that investors should utilize these opportunities by being selective, particularly in stock market.

We make a minor change in our portfolio coverage by increasing government securities to 50%, and decreasing FX to 10% while keeping 40% weight in equities.