Markets still under heavy pressure due to ongoing debt concerns…

Global financial crisis lingers but changes dimensions…

We are still suffering from the effects of the 2008 global financial crisis, but its dimensions are changing. In 2008, we were talking about the default risk of world-renowned companies such as Lehman Brothers, GM, AIG, etc. and the efforts of governments to bail them out. But today, governments, especially ones with huge budget deficits and debts (Greece topping the list with other debtor Eurozone nations and even the USA) themselves are waiting to be bailed out. On the other hand, the global economy has been losing momentum with the US cooling the most, for the last couple of months.

Second bailout package for Greece…

The ongoing Greek debt crisis has continued to stay on the top of the agenda for the last few months and the risk on contagion to other EU nations still weighs on the market sentiment, putting pressure on all asset classes. After the first Greek bailout package, amounting to €110 billion was insufficient, European leaders clinched a new rescue plan worth €109 billion to keep the debt crisis from engulfing the much-larger economies of the EU.

CBRT left the benchmark unchanged at 6.25%…

The MPC of the CBRT kept the policy rate unchanged at (6.25%) in July, as expected. The CBRT giving no hawkish signals and sounding as dovish as ever combined with the increasing concerns about the widening current account deficit paved the way for the TRY to reach its weakest ever against the euro/dollar basket. Following the fast-moving depreciation of the TRY, the CBRT took the stage and decreased reserve requirement ratios (RRR) on long-term FX liabilities. The Bank also halted FX buying auctions ($30 million daily). Both decisions are positive for the Lira, which has been under heavy pressure, but not enough for changing the trend, alone.

July was another month of sell-offs…

The lack of new catalysts on the domestic front after the general elections, combined with Europe's sovereign-debt woes led investors to keep cautious during most of July. Particularly in the second half of the month, increasing tensions in FX due to the ongoing concerns about the record high current account deficit put additional pressure on the stock market by lowering the profit expectations of ISE-listed companies.

Our portfolio recommendations for August 2011

We expect the market to continue focusing on the recent volatility in the TL due to the deterioration in external balance and possible measures to be taken by the government to cool down the overheating economy. Meanwhile, the 2Q11 financial results that have already started to be released will be in the spotlight during August. Fears about the potential spread of the Eurozone debt crisis, prolonged talks on raising the debt ceiling in the US and comments and actions from credit rating agencies will all fill the agenda abroad, as well as the global macro data, particularly in the US. 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 market has been oversold and we think that investors should utilize these opportunities by being selective, particularly in stock market.

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