

**US credit outlook and Eurozone debt concerns shook markets...**
***S&P downgraded  
US outlook to  
negative...***

The international credit rating agency, Standard and Poor's affirmed its AAA rating for US sovereign debt, but cut its long-term outlook from stable to negative. The global markets fell sharply following the negative outlook decision. In addition, debt concerns in the Eurozone prevented uptrend in markets.

The news flow on the domestic front was crowded in April. Among them, the credit rating agency Moody's said that the latest increase in RRR is positive for the credit ratings of banks in Turkey, as the recent RRR hikes will likely direct banks to long-term resources and decrease the maturity mismatch in their balance sheets. Moody's announcement was welcomed by the markets. On the other hand, S&P affirmed Turkey's credit rating at BB and maintained its positive outlook for the rating. As for the general elections, the reversal of the decision by Supreme Election Board to ban participation of some independent candidates to the elections removed the risk of a political crisis as we approach the elections.

***The CBRT's  
monetary policy  
unlikely to change  
with Erdem Basci  
as the new  
governor...***

Erdem Basci was appointed as the new governor of the CBRT. Basci is believed to be the one behind the new unconventional monetary policy. With the appointment of a candidate familiar with the current policy, market players have avoided having someone unfamiliar with the CBRT's policies. While we find the appointment of Basci positive, his appointment created a marginal market impact as most market players also saw Basci as the most likely governor.

***RRR was  
increased  
surprisingly by  
CBRT...***

The CBRT kept the policy rate unchanged at 6.25% in line with the market consensus and our in-house forecast, in April. Meanwhile, contrary to market expectations, the bank increased RRRs on FX demand deposits and time deposits up to 1 year from 11% to 12%. For TRY based demand deposits and time deposits with maturities up to 1 month (including 1 month), the CBRT increased RRRs from 15% to 16%. According to the Bank, the RRR move will withdraw USD 1.4bn and TRY 1.5bn from the market. No major market impact should be expected as this amount is low. After this surprising move, we do not rule out any further RRR hikes until the elections in June 12 due to the fact that there is no meaningful slow down in credit growth yet.

As for rate hikes, the bank showed a dovish approach to inflation as it is said that annual inflation will end the year slightly above the target of 5.5%, and that it would not intervene due to the primary effects of high energy prices on inflation.

We believe that the political unrest in the MENA region, especially the escalating unrest in our neighbor, Syria, will be closely monitored by markets participants. In particular, the risks to oil prices will affect the direction of markets.

***Our portfolio  
recommendations  
for May 2011...***

The ISE decoupled itself from global markets on the back of better-than-expected economic releases and declining concerns on the Central Banks' news monetary policy mix in April. We expect the positive mood to continue in May. Especially, we believe that expectations regarding the results of the general elections in June might continue to be priced-in. Meanwhile, the 1Q11 financial results have already started to be released, thus, better than expected earnings announcements should support stock performances. Finally, we believe that market participants will closely monitor the MPC meeting to be held on May 25.

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