

ISE-100 index hits all-time record high...

Results of the European Banks' stress test were far better than expected...

Following its severe debt crises, Europe and the rest of the world markets had focused on the results of the European banks' stress test. 7 European banks out of 91 were tested as "not strong enough" to withstand another recession, far less than expected. Even though the main criticisms were fears that eagerly expected stress tests were "not strong enough", the positive results help the markets to feel the relief. As Q2 earnings announcements in the US are now in full swing we had been observing fluctuating trades on an uptrend.

The Fiscal Rule delayed to October...

Expected rating upgrades from international rating agencies were delayed due to the postponement of the Fiscal Rule until the new legislation period in October, 2010. Even though the possibility of the keenly-awaited Fiscal Rule, which was expected to replace as an anchor and an alternative to an IMF program, to become effective before 2011 was emaciated, markets reaction was rather limited.

The CBRT kept the policy rate on hold...

The Central Bank of the Republic of Turkey (CBRT) kept its 1-week repo rate at 7.00% at its regular Monetary Policy Committee (MPC) meeting on July 15, as widely expected. Moreover, the overnight borrowing and lending rates stood at 6.50% and 9.00%, respectively.

CBRT's monetary tightening cycle further delayed to 2H11...

At the third quarterly inflation report of the year, the Central Bank of the Republic of Turkey (CBRT) made a considerable downward revision of its short-term inflation forecast, on the back of declining food and commodity prices, as widely expected. In addition, the Bank remained confident on the inflation outlook in the medium-term and affirmed its medium-term inflation target of 5%. More importantly, it softened its monetary stance by explicitly stating that it anticipates entering the monetary tightening cycle by gradually hiking the policy rate in 1H11, later than its previous estimate of 4Q10.

Referendum to take place in 12th of September...

Turkish Constitutional Court annulled a handful parts of the proposed constitutional changes, allowing the reform package to be taken to a referendum in 12 September thus abrogating the early election arguments. The main annulment was related to electoral regulations for the members of Constitutional Court and the Judges and Prosecutors Supreme Council. The annulled clauses would be removed from the package as it becomes a subject to the referendum.

Our portfolio recommendation for August 2010...

The main observations of the last trading month can be summarized as follows:

- Positive resolution from global markets due to high beta;
- ISE benefiting from hot money inflows to the emerging markets;
- Referendum process in the domestic politics;
- Postponement of the fiscal rule;
- Q2 earnings expectations;
- Stock switches from financials to industrials;

We see that markets seem to be relying heavily on earnings pronouncements being good and being the main catalyst to push the markets forward in a bullish sentiment. Even though we expect the market to continue its fluctuating uptrend stance we see a reduced possibility to see another 10% hike in the ISE and expect a mild correction in the upcoming periods.

In light of the abovementioned developments we are maintaining our portfolio's 20% in equity, 50% in treasury bonds, and 30% in FX weights.