

The bullish ISE trend is continuing...

Global markets followed the bullish trend in January...

Increased expectations regarding global liquidity will continue in 2013, due to central banks' asset buyback programs supportive of a risk appetite increase in global markets. In addition to European Central Bank's (ECB) problematic members' assets buyback program and the FED's monthly USD 45bn long-term bonds buyback program, together with the current CMO buyback program amounting USD40 bn, Bank of Japan (BOJ) has announced a new monthly asset buyback program amounting to USD 145 bn starting in 2014. Furthermore, The US Congress' postponement decision of the debt ceiling debate till May sparked further global risk appetite. Thus, thanks to excess liquidity, global equity markets rallied in the first month of 2013.

On the domestic front, the ISE continued its bullish trend in January stemming from expectations of a second rating upgrade to IG (investment grade) from Moody's after Fitch's rating upgrade of Nov. 5. The upside movement at the ISE is mainly driven by the banking sector, which has higher 4Q bottom line expectations. Furthermore, the local fixed income and FX markets supported the equity index rally in January.

The CBRT has cut the corridor interest rate by 25 bps...

The CBRT shifted the interest rate corridor downwards by 25 bps at its January 22 meeting. The committee cut the O/N borrowing and lending rates by 25 bps to 4.75% and 8.75%, respectively, while maintaining the policy rate at 5.50%. Meanwhile, the CBRT has increased reserve requirement ratios (RRRs) for short-term TRY deposits of up to 1 year by 25bps and FX deposits of up to 1 year by 0.5pps. On the other hand, the bank increased reserve option coefficients (ROCs) for gold by 0.1 pp for all slices, and expects a USD 0.9bn increase in gold reserves should banks use the facility at previous ratios. The MPC foresees greater than envisaged credit growth in an accelerating capital inflow environment as the reason for keeping interest rates at low levels and sustaining continued macro-prudential measures.

Our portfolio recommendations for February 2013...

The ISE-100 Index accelerated its bullish trend in the second half of 2012, and refreshed its TRY base record to 78,202, thus providing a cumulative return of 52.5% YoY. Additionally, the ISE 100 Index maintained its bullish trend in January to reach 85,005 as of January 24, 2013. However, the ISE faced with profit taking in last week of January following the strong rally in last month. The volatility in the market may increase due to the announcement from Moody's regarding Turkey's rating upgrade while the markets focus 4Q release in February.
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Meanwhile, the market will focus on developments in the European debt crisis, as well as those surrounding the US automatic spending cuts and debt-ceiling, delayed to February and May, respectively.

On the domestic front, the market will focus on developments in the exchange rate and loan growth rates, which are closely followed by the CBRT. In light of these, we predict a volatile course for the market in February.

We maintain our 60% government securities, 10% FX and 30% equity portfolio coverage.

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