

**ISE renewed its TL historical records in December...**

The global markets followed a volatile course in December...

Fiscal cliff talks could spark stock market volatility in December. Following the U.S. presidential elections, global markets have focused on fiscal cliff negotiations between President Obama and U.S. congressional leaders; this combined with the unsolved Euro debt problem. And with only a week left before the deadline for the United States to go over that fiscal cliff, negotiations between Democrats and Republicans have yet to end and volatility in the markets has increased. At the same time, better news has arrived from Europe and Asia. In Europe, the leaders have agreed over Greece and credit rating agencies have increased its rating. And on the Asian front, the new Japanese government plans more monetary easing to spur economic recovery, which may spark positive news in the markets.

On the domestic front, the ISE continued its bullish trend after the Fitch rating upgrade, combined with rate cut expectations from the CBRT ahead of the December 18 meeting. However, the market faced profit taking as the CBRT cut the benchmark interest rate by 25bps as expected, but surprisingly left the interest rate corridor unchanged.

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

The CBRT cut its key policy rate (1-week repo rate) by 25bp to 5.50%, as we had expected, at its December 18 meeting. However, the bank surprisingly maintained the corridor interest rate (25 bps cut had been widely expected at a lower band of the corridor) and hiked the reserve requirement ratio on FX deposits. The upper and lower bands of the interest rate corridor were left unchanged at 9.0% and 5.0%, respectively. The bank increased FX required reserve ratios by 50bps to 11.50% with maturity of up to 1-year and also increased the coefficient (ROC) for LC liabilities that can be held in gold by 0.1x for each tranche. Liquidity effects amount to USD 850 million for each move.

Our portfolio recommendations for January 2013...

In January, we expect the mood at the ISE to be dictated primarily by developments in international markets. In particular, agreement to solve the “fiscal cliff” issue would give direction to the markets.

Meanwhile, the market will focus on developments in the European debt crisis, and overall concerns regarding global economic growth.

On the domestic front, developments from alternative markets such as bond and FX markets, plus the CBRT’s January meeting will be hold attention. In light of these expectations, we believe that the market will follow a positive, though volatile course in January.

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