Markets recovered in June after debt crises shock fades…

Depreciation of the EUR continued as EUR/USD parity drilled below 1.20…

Following strong sell-off pressures in May due to multiple European debt crises and the depreciation of the EUR against the USD, the markets regained some of their power, recovering slightly. On the other hand, global markets have favorably received China's announcement of a more flexible Yuan policy, with the main focus now on the coming announcements from G-20 countries, following their meetings concerning the Euro and Yuan.

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 June 17, as widely expected. Moreover, the overnight borrowing and lending rates stood at 6.50% and 9.00%, respectively.

While it preserved its well-known expression that it would be necessary to keep policy rates at their current levels for a while and also to keep them at low levels for a longer period of time, it also paid attention to the recent positive developments on inflation and a possible downward revision of its inflation forecasts.

CBRT likely to delay its rate hike process until 2011…

On the growth side, it stated that a moderate recovery in economic activity was ongoing while capacity utilization ratios were expected to take a longer time to fully recover.

The CBRT explicitly stated that declining food and commodity prices led the Bank to revise its latest inflation forecasts downward, but did not hint whether the improvement on the inflation outlook will force it to modify its monetary policy stance.

Lower commodity prices, declines in the global risk appetite and weaker growth in Europe will also support this stance. Thus, we expect the Bank to hold the policy rate at 7.00% in 2010, with no rate hikes this year despite general expectations of rate hikes in 4Q10.

Everlasting high political tension…

We believe that the political agenda will be cozy during July. The markets will be focusing on the decision of the Constitutional Court regarding the Constitutional Amendment Package and the referendum scheduled on September 12th, 2010. Following the referendum process, the center of attention will glide on to the general elections. Depending to the outcome of the referendum, we might see an early election coming in on the agenda.

Our portfolio recommendation for July 2010…

Worries for a "double-dip" recession have resurfaced after dark clouds settled over Europe due to its severe debt crisis. In the first five months of the year sovereign debt problems in Portugal, Ireland, Greece, Spain, Hungary and lately Bulgaria led to a crisis of confidence resulting in increasing bond yield spreads and soaring CDS margins.

However, despite the abovementioned structural problems abroad, Turkish money and capital markets slightly recovered in June as the market saw an increased possibility of further ratings upgrades by international ratings agencies, bringing Turkey closer to investment grade. Moody's announced that it might increase Turkey's sovereign debt rating if the newly introduced fiscal rule is implemented into law. Given the decent macro-fundamentals and the probability that Europe's debt woes will continue, we believe the markets will be fluctuating in July.

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