

Rising in the political tension caused selling pressure on markets....***FED signaled that its exit strategy began...***

FED and ECB kept their benchmark interest rates at their historic low levels. However, concerns regarding the Greek State's default continued to weigh on the global markets. In addition, the FED raised the discount rate on loans made directly to banks by a quarter of a percentage point, to 0.75% from 0.50% which was understood by the markets as a starting signal of the exit strategy. FED repeated that US interest rates will remain at exceptionally low levels for an "extended period" in spite of the sluggish economic recovery it's latest meeting on the 24th of February.

Rating upgrades continued. JCR and S&P upgraded Turkey's rating by one notch...

Turkey continued to be popular among international credit agencies. At the beginning of February, Japanese credit rating agency, JCR, upgraded Turkey's sovereign debt by one notch to "BB", two notches below the investment grade. Finally, S&P upgraded Turkey's rating by one notch to "BB", two notches below the investment grade. S&P also upgraded Turkey's long-term foreign currency sovereign borrowing outlook by one notch to "BB", two notches below the investment grade. The agency left Turkey's outlook at positive stating that a possible upgrade can occur within 12 to 24 months. S&P argued that Turkish economy became more resilient to external shocks. We believe that rating upgrades were not surprising following previous Fitch and Moody's upgrades. Other European Countries' such as Greece continued to see their sovereign ratings downgraded. Although such an upgrade should normally support Turkish assets, we do not consider the positive outlook to trigger another one notch upgrade soon, given the rising tension in domestic politics originated from the conflict between the Turkey's judiciary system and the government.

The CBRT kept the policy rate at 6.50% in January...

The CBRT kept the policy rate at 6.50% in January as widely expected. Accordingly, the overnight borrowing and lending rates stood at 6.50% and 9.00%, respectively. While a long pause period for the policy rate is ahead, the hottest issue is the timing for the CBRT to restart interest rate increases. As the economy recovers, inflation will become more important in 2010.

While the IMF deal is still on hold, it will be difficult for the CBRT to manage rising inflation expectations in 2H10 without hiking policy rates. At this point, only an IMF program will allow the CBRT to keep its rates longer on hold and we expect a 150 bps rate hike in 2011.

Ambiguity regarding the IMF agreement...

February did not bring more than ambiguity regarding the IMF deal. Deputy Prime minister Babacan has stated that no agreement has been reached with the International Monetary Fund and there are no stated intentions when to finalize the agreement. On the other hand, Deputy Prime Minister Babacan has denied newspaper reports that there won't be a conclusion to loan talks with the International Monetary Fund until May. During the previous month, PM Erdogan's comments had renewed hopes. Turkey prefers a 2 year standby agreement which would cover the 2011 election period. We previously revised our macroeconomic outlook under an IMF deal with financing facilities of USD 20-25 billion, although preserving the right to review the macro indicators following the official announcement of the deal's detail, attentive fiscal framework and the type of financing facilities.

The ISE which has diverged this time negatively positively from its peers...

Turkey's credit rating upgrades by Standard & Poor's and JCR following Fitch and Moody's on the previous month could not sustain the ISE Index over 55,000 thresholds. The ISE has switched into a bearish trend and diverged negatively this time from its peers during February 2010 because of the increasing internal political tension, and the undetermined and postponed IMF agreement. We believe that during March 2010, the ISE would still focus on the external markets shaped by the FED's new strategy, fears over the Euro Zone due to the Greek default. The ISE will also focus this time whether the political tension will decrease or not. Thus, we expect the ISE index to continue on a fluctuating trend during March 2010. In light of the abovementioned developments we are not revising the distribution of our investment portfolio consisting of 30% of equity, 50% of treasury bonds, and 20% of FX.

Our portfolio recommendation for March...