

Concerns regarding the Greek State's default continues...

Even though Turkey decided to move on without the IMF, the markets showed some strength March...

FED and ECB continued to keep their benchmark interest rates at their historic low levels. Policy makers at the ECB and the BOE voted to keep the interest rates at record lows in order to maintain the momentum of the economic recovery. However, concerns regarding the Greek State's default continued to weigh on the global markets.

No IMF deal after all...

The Turkish Treasury announced that following the semi-annual IMF-WB meetings the IMF staff would visit Turkey during April 24-25 in order to complete the works within the Article 4 consultation (general review for all IMF members). The Turkish government decided to carry on with its medium-term economic program without IMF funding. Given positive sentiments around the globe, initial reaction from the markets will be limited. Yet, we will revise our macro outlook accordingly. Given the deteriorations in the inflation outlook, we now expect the CBRT to hike its policy rates this year while the annual GDP growth will be lower than our current estimate of 4.5%.

The CBRT kept the policy rate at 6.50% in March with softer tone as widely expected...

The CBRT kept the policy rate at 6.50% at its regular Monetary Policy Committee (MPC) meeting on Thursday, as widely expected. Accordingly, the overnight borrowing and lending rates stood at 6.50% and 9.00%, respectively. The CBRT continued to manage expectations through a relatively softer tone on its dovish stance as it explicitly stated for the first time that the deterioration on the inflation estimates start to affect the general pricing behavior. Thus, the CBRT will tighten the policy rate earlier than anticipated. On the inflation front, annual CPI would ease temporarily below 10% in March and rise above the target again until 4Q10 due to one-off price hikes. It will approach the target in 1Q11.

However, rising headline inflation in 1H10 along with the absence of IMF funding is likely to lead the CBRT to revisit its stance on the rate decision earlier than its expectations. We expect 200bps rate hike in 2H10 following the officials' announcement on no IMF deal.

The ruling party AKP revealed its new constitutional amendment package of 26 articles, three of which were provisional. As widely expected, the package makes party closure cases more difficult and modifies the composition and appointment process of the members of the Constitutional Court (CC) and of the Supreme Board of Judges and Prosecutors (HSYK).

AKP's constitutional amendments to shape and shake the judiciary system...

The ruling party possesses 337 seats, well short of the two-thirds of the parliament (367) required to pass constitutional changes. On the other hand, if 330 deputies approve the constitutional amendments, the package needs to be taken to a referendum. This would take place 60 days after its approval.

Most important of all, the opposition parties are willing to bring the amendment to the constitutional court which will have the final decision on the subject. In case of a closure case the ruling party will call for early elections to refresh its popularity while strengthening its hand. Clearly, politics has become more complicated even by Turkish standards and it is very difficult to predict the evolution of the crisis. The domestic politics will continue to put pressure on the markets.

ISE continued its bullish trend in March despite the complications...

ISE-100 Index showed some strength in March and made an attempt to bounce over 57,000 thresholds even though Turkey decided to move on without an IMF program and despite the decision of the AKP to bring the new constitutional amendment package to the assembly in spite of the opposition party's objection on the matter. We believe that during April 2010, the ISE would continue its fluctuating trend and focus on the internal issues especially the developments from constitutional amendment debate as well as on the external markets shaped by the FED's new exit strategy and news from the Euro-Zone. 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 April...