Şeker Invest

BIST decoupled positively amid continuing volatility in January

Volatility has prevailed in January…

The CBRT has held interest rates steady at 7.50%...

FOMC members agree that following rate increases should be gradual

We expect local markets to decouple positively from peers and search for a balance in February

We maintain our portfolio recommendations for February…

Having come through the Fed's rate increase decision with little disruption in December, markets have started the year with a sharp downturn due to increasing worries on global growth, through fears of a Chinese hard-landing and devaluation of Yuan. Worries on increasing oil supplies with the removal of sanctions on Iran added to the volatility of the markets, lowering oil prices to below-US$30 levels, which were already undergoing a downtrend down to concerns on global growth. Trying to resist this downturn in global markets, the BIST tested below-70,000 index levels as we were entering the last week of the month. The US$/TRY also tested 3.05s; increasing local terror incidents giving way to the decline in the currency's value.

The CBRT maintained its policy rates steady at its January meeting, on account of the volatility in global markets. The statements of the MPC meeting minutes were largely maintained, however the one that read that the monetary policy simplification steps would begin with the next meeting were removed.

The FOMC minutes revealed that a majority of its members agreed that the necessary conditions for the rate increase have materialized. Some members stated that the decision was a close call, as the inflation rate was still lower than desired. The minutes revealed that all of the FOMC members have however agreed on the decision of hiking rates. The FOMC members also underlined that the pace of monetary normalization should be tied to macroeconomic development.

Markets will continue to focus on Chinese macroeconomic data and developments, and will keep a keen eye on oil prices and the course of the commodity markets in general in February. Occasional speeches of Fed Presidents and inflation data from the US will also be closely followed. In addition to these, domestically, we will also be monitoring the CBRT's policy decision, Fitch's rating review, and developments on the geopolitical front.

Volatility is projected to lose momentum in February and markets are expected to search for a balance. Should the oil prices stabilize at around US$30 levels, the recovery is expected to gain strength. We expect Turkish markets to decouple from their emerging markets peers in February as well, as Turkey maintains its growth story while other emerging economies' prospects are shadowed somewhat by worries on growth slowing down. Should this be coupled with a decline in benchmark interest rates, reactionary buying at the BIST could strengthen with banks leading the upturn.

In light of these expectations, we maintain our portfolio coverage of 65% in bonds, 15% in FX, and 20% in equities.