

Financial markets started 2012 with recovery efforts...**Europe became immune to rate cuts...**

After completing the year 2011 with the **concerns** regarding the European debt crisis, global markets agenda still dominated by Europe. As stock markets recovered with the European Central Bank (ECB)'s 489 billion Euros of liquidity support to the banks with low interest rates in three years maturity at the end of December, risks continued to be ignored during the month of January and positive developments have priced in. Credit rating agency S&P's downgrading of nine European Union countries including France, Spain and Italy, regarded as an expected move and did not pose a significant obstacle to the upward movement in the markets. Although risk appetite increased with the new year, Greece is again taking a place as a risk factor with the debates regarding the deletion and restructuring of its debt. This relative optimism abroad, together with the positive mood in foreign exchange and interest rate front, supported ISE index at some extend.

MPC maintains flexibility...

The Monetary Policy Committee (MPC) kept the policy rate (one-week repo rate) unchanged at 5.75%. The walls of the interest rate corridor, O/N lending and borrowing rate, were also maintained at 5.00% and 12.50% respectively. According to the CBRT Rebalancing in the economy continues and the current account deficit will continue to decline gradually. The CBRT reiterated that tight monetary conditions will prevail for a while in order to keep the inflation outlook in line with medium-term targets. On the other hand, the CBRT preserves its flexibility of adjusting the amount of funding provided through one-week repo funding due to the uncertainties with regard to the global economy.

CBRT removes regular FX selling auctions...

CBRT halted regular FX selling auctions, in which it sells USD 50mn. The CBRT removed regular FX selling auctions starting 25th January, thanks to improvement in the current account balances and sudden changes in global conditions (increased risk appetite in our words). Instead of regular auctions, the bank will continue to use intraday FX selling auctions if needed, in which the bank will sell USD 50mn in each auction and a maximum daily amount of USD 500mn until the next MPC meeting (February 21st).

ISE followed the global markets' recover efforts...

Thanks to the recovery efforts in global markets stemming from increased risk appetite with new year combining with the relief in domestic FX and bond markets supported the ISE in January. The continuation of the recovery depends on the policies that will be followed by the CBRT as well as the news flow from abroad, mainly regarding the measures to be taken in order to overcome the European debt crisis.

Our portfolio recommendations for February 2012

The global markets preferred to ignore the the risks of ongoing debt crisis and its implications in the beginning of the new year thanks to the ECB's strong liquidity support to the Eurozone bank and relatively strong macro data, mainly in US. But we believe that volatility which prevailed in most of 2011, may return to the financial markets once the market participants turn their attention towards ongoing concerns over contagion and the Eurozone debt crisis again. In this context, we advise our investors to keep their cautious stance, particularly in the stock market.

We maintain our portfolio coverage of 60% in government securities, 10% in FX and 30% in equities.