

The CBRT kept the policy rate at 6.50% in April in a decided to gradually tighten liquidity...

ISE rose to historic highs in April...

The CBRT kept the policy rate at 6.50% at its regular Monetary Policy Committee meeting on April 13, as generally expected. Overnight borrowing and lending rates stand at 6.50% and 9.00%, respectively.

In its short MPC statement, they stated that the committee decided to gradually withdraw its liquidity measures and reiterated that it would be necessary to keep policy rates at their current low levels for a while. The CBRT remains firm on its dovish stance on monetary policy despite some softer tone expectations.

As we expect, the bank will tighten liquidity (by abolishing the 3-month repo funding facility, reducing repo auctions and raising reserve ratios if needed) before raising policy rates. In this sense we expect the CBRT to enter into the rate hiking cycle in 3Q10 with rate hikes totaling 200bps this year.

Following its regular Monetary Policy Committee meeting in April, CBRT revealed its long-awaited exit strategy from its monetary policy measures taken during the crisis. The process will be gradual and market-friendly.

The Exit Strategy, Market-friendly one...

The CBRT first aims to reduce the more than adequate liquidity provided by the bank by lessening the amount of its repo funding. Secondly, as the liquidity shortage becomes permanent, technical rate adjustments will be gradually introduced in two phases. So, technical rate adjustments are on the pipeline although their timetable has not been revealed.

We expect the CBRT to fully shift to the new system in 3Q10 when it enters the rate hiking cycle. In the meantime, market participants will be busy digesting and familiarizing themselves with the new framework.

Global markets maintained its bullish trend...

FED, BOE, ECB and BOJ continued to hold their benchmark interest rates at 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 economic recovery. However, concerns regarding possible Greek debt defaults continued to weigh on the global markets.

The package of constitutional amendment recently offered to the National Assembly by AKP...

The constitutional amendment package was recently proposed to the National Assembly by the ruling AK Party. The party possesses 337 seats, well short of the two-thirds majority (367) needed to pass constitutional amendments. On the other hand, if 330 MPs approve the constitutional amendments, the package will 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.

At this stage, it seems that the constitutional amendment package has become the focal point on Turkey's current political agenda and will be one of the main drivers on how the market reaches a consensus in the next several months. Domestic politics will continue to put pressure on the markets.

ISE rose to historic high in April...

ISE-100 Index increased to a historic high of 59,770 in April despite the AKP bringing the new constitutional amendment package to the assembly and concerns regarding Greece's debt worries.

We believe that during May, the ISE will continue its fluctuating trend and focus on internal and external issues, such as developments on the constitutional amendment package, 1Q10 results, CBRT's new exit strategy as well as news on the Euro-Zone and USA data releases.

Our portfolio recommendation for May...

In light of the abovementioned developments we are not revising the distribution of our investment portfolio consisting of 30% equity, 50% treasury bonds, and 20% FX.