

FED's signal of not being in too much of a hurry over raising interest rates brought an upturn in the markets...

The BIST recovered in October...

Aside from released U.S. data signaling a rise in strength, the approaching FED increase in interest rates led to greater demand for the Dollar, prompting a sharp rise in the Dollar Index (USDIX). Added to this, geopolitical tension on Turkey's Iraqi and Syrian borders drew the BIST 100 down to 74,000 levels in September. Directly afterward, in October, statements in the FED's FOMC minutes, emphasizing the risk of the strengthening Dollar on the economy, and thus it's not being in a hurry over raising interest rates, coupled with somewhat reduced geopolitical tension led to a rise at Borsa Istanbul. Moreover in its review, credit rating agency Fitch's confirmation of Turkey's BBB- credit note and stable outlook supported the positive atmosphere at the BIST.

Central Bank did not opt for change in interest rates...

The CBRT's Monetary Policy Committee decided to hold weekly repo rates constant at 8.25%. Furthermore, the CBRT's announcement of interest to be paid to the bank's TRY reserves supported banking stocks in the short run. Regarding its decision on interest payment to TRY reserves, the CBRT set the interest rate at 700bps below the average funding rate for banks having an above average leverage, and 500bps below the average funding rate for banks, having a leverage below the average.

It's expected that FED will terminate bond purchases at its meeting on October...

The comment of President Bullard of the Federal Reserve Bank of St. Louis, regarding the extension of the FED's monetary easing following the meeting on October 28-29, hindered the rapid rise in the Dollar Index. In the deflation-cautious Euro Zone, the ECB commenced bond purchases on October 20. Bear in mind that President Draghi had formerly announced a possible increase of EUR 1bn in the size of the ECB's balance sheet to counter the deflation risk.

In November, the effect of the ECB's bond purchases on the markets and the FED's increase of interest rates, which periodically increased and decreased concerns in the market are the key agenda items. Moreover, at its FOMC meeting in October (FED has no meeting scheduled for November), statements related to interest rates being kept low for some time yet, and FED members' expectations, will remain important market determinants.

In November, volatility at the markets is possible...

In November on the global front, the markets' focus will be on news flow from the U.S., the FED meeting from October 28-29, the announcements of FED members, developments in Syria and Iraq-originated geopolitical tension, ECB actions towards monetary easing, crude oil prices, and macro releases and announcements from China with regard to their effect on commodity prices. On the domestic front, we are set to follow the CBRT's interest rate decision, credit rating agency S&P's assessment of the Turkish economy on November 21, and assorted macro releases.

Among the aforementioned populous agenda, we believe that FED announcements and geopolitical tension on Turkey's borders are the key risks with the potential to pressure the BIST. Should these materialize the possibility of volatility driven by increased FX rates and interest rates should not be discounted.

Our portfolio recommendations for November...

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