

Central Bank's interest rate reductions secured markets to rise...

Global market maintained its bullish course due to better-than-expected net earnings release of US companies...

The general consensus in the world is that the recession has already ended. US Federal Reserve Chairman Bernanke has been the first central bank governor to mention the end of recession which has officially started in 2007. However, Bernanke also asserted that the economy still seems weak because of tight credit conditions and any downswing in the unemployment rate will probably happen gradually.

While FED left official interest rates near zero, the European Central Bank and the Bank of England have both held their benchmark interest rates at 1% and 0.5%, respectively.

The market has continued its bullish trend during October better-than-expected 3Q09 net earnings of US companies.

Emerging markets have rebounded swiftly...

The Istanbul meetings of IMF & World Bank showed us that the emerging countries would be pulling the global economy out of recession. During the previous financial crises, emerging markets have been negatively more affected compared to the developed markets. However, this time, emerging markets have rebounded quicker combined with assets, particularly equities.

With the accelerating risk appetite in the global financial markets combined with positive expectations regarding the IMF agreement, the ISE Index has consistently increased during October and it has tested 51,000 levels due to CBRT's continuing rate cut process and strong earnings release expectations for the third quarter.

CBRT further cut the benchmark interest rate by 50 basis points...

During the last meeting on the October 15, the CBRT has reduced its short-term interest rates by 50bps. Market participants' expectations had bipolarized between 25 and 50 basis points. Accordingly, the overnight borrowing and lending rates declined to 6.75% and 9.25%, respectively.

We expect the CBRT to continue its dovish tone in the upcoming periods, and cut interest rates further two times more by another 25 basis points during November and December policy meetings. We expect the policy rate to stabilize around 6.25% until the first half of 2010.

Uncertainty continues regarding the IMF agreement...

Prime Minister Erdogan, following the IMF/World Bank annual meetings, stated that the negotiation process with the IMF is likely to continue. However, we do not see any reference to the IMF funding program on the medium term economic program and 2010 budget. Thus, we have an impression that the government can continue without an IMF deal unless the global climate deteriorates.

The government seems reluctant to finalize the process of an IMF deal while keeping the expectations alive on the matter till 1Q10 as they plan to announce fiscal rule for 2011. We preserve our neutral stance on the matter since it is a political will after all whereas we definitely prefer an IMF deal in such a fragile global economic recovery in 2010.

Our portfolio recommendation for November...

In line with increasing global recovery scenarios followed by improving global risk appetite and high levels of global liquidity into the emerging economies, capital inflow has continued to inject into the ISE. The ISE-Index, one of the leading stock exchanges in terms of performance since the beginning of 2009 among its peers. Turkey is expected to recover easier than its peers thanks to its resilient banking industry and CBRT's more than expected rate cuts, as the main reason behind the ISE-Index strong performance.

As well as global macro economy data releases, 3Q09 earnings, Turkish macroeconomic indicators, decreasing likelihood of an IMF deal and CBRT's rate cut decisions will likely to weight on the ISE-100 index in the coming months. Therefore, we expect the market to maintain its fluctuating course in November.

Our investment portfolio's percentages have not shifted compared with the last month figures, as 20% in equity, 60% in treasury bonds, and 20% in foreign currencies.