

Markets less volatile after the conclusion of AKP closure case...

After the conclusion of AKP closure case with a favorable outcome for the ruling party, the markets were relieved from the pressure of the high political tension and started focusing on domestic and foreign economic agenda again. The ISE 100 index, after reaching over 43,000 levels upon the conclusion of AKP case, started fluctuating between 39,800-42,200 levels under the effect of mixed domestic and international data.

The domestic market followed a calmer course in August...

The foreign markets experienced high volatility in August due to the fluctuations in energy and commodity prices, changes in fx parities and increasing worries about global inflation and growth. However, the effect of high international volatility was limited on the domestic market. The market also gained some morale as the CBRT signaled the end of rate increases. But, on the other hand, higher than expected July domestic inflation data showed the markets that it was still early for the Central Bank to start the rate cutting process again. In this context, we believe that macroeconomic data will have more importance on the direction of the markets in the following months.

The euro/dollar parity reversed its course despite the continuing mortgage crisis in the US...

The month of August passed in a rollercoaster psychology for the US markets mainly due to increasing concerns about Fannie Mae and Freddie Mac, higher than expected July inflation data and other mixed macroeconomic indicators. Similarly, European markets faced a gloomy outlook under the shadow of high inflation and low growth data, increasing worries about a possible recession. The EU zone's increasing difficulties in export and growth caused by a strong Euro and concerns about an upcoming global recession caused retractions in oil prices while the euro/dollar parity reversed its course with the parity testing below 1.46 levels during the last days of the month. The oil prices also fell to US\$ 113 per barrel.

We expect the global market vulnerability to continue throughout September due to a number of factors discussed above. On the other hand, as the Turkish financial industry was strictly regulated following the crisis of 2001, the effects of the global liquidity crisis on Turkey remains at a low level. However, as the international market outlook remains uncertain, we believe that both European and US macro data should be closely watched during the following months as well.

IMF ...

Upon the approval of the Social Security Reform bill by the Parliamentary General Assembly, the Stand-by agreement was successfully concluded in May and the IMF released the US\$ 3.65 billion credit after the completion of the 7th review. On the other hand, ambiguity continues about the nature of future relations between Turkey and the IMF. The Economy Minister Mehmet Simsek said on a statement in July that Turkey expected to make its final decision on a follow-up deal with the International Monetary Fund (IMF) after August when the fund is expected to release its report on the country. Şimşek also stated that the government still worked on a precautionary stand-by loan deal.

We would also like to reiterate our belief that it would be beneficial for Turkey to keep close relations with the IMF, preferably in the form of a precautionary Stand-by, for the continuing stability of Turkish economy considering its increased vulnerability caused by a strained domestic and international outlook.

In June, two more chapters were opened in Turkey's EU talks. The chapters on "Company Law" and "Intellectual Property Law" were officially opened to negotiation on June the 17th at the Turkey-EU Intergovernmental Conference in Luxembourg. As a result, 8 out of 33 chapters were opened to negotiations in Turkey EU talks.

EU peg...

On the other hand, the Constitutional Court's decision in favor of the ruling AKP eased the dim outlook between Turkey and the EU. The EU officials made favorable statements regarding the constitutional court's decision and reiterated the importance of continuing political and economic reforms.

As a result, we believe that after the settlement of domestic political problems, the political and economic reform process should gain momentum for the EU process to continue on track.

Our portfolio recommendation for September...

Upon the conclusion of the AKP case and subsequent calming down of the domestic outlook, the market started focusing on domestic and foreign macroeconomic data and generally followed a less volatile pace in August. On the other hand, the mixed outlook and high volatility in foreign markets prevented ISE to determine a clear course despite attractive fundamental valuations.

Hence, we maintain our portfolio recommendation of 15% fx, 20% stock and 65% treasury bill for September.