

**The markets collapsed in October...****The financial turmoil in US markets have begun to ease with the latest rescue packages...**

The US House of Representatives gave way to the saving bundle with an additional of US\$150 billion amounting to a total figure of US\$850 billion. While 263 representatives voted in favor of the financial aid, 171 representatives voted against it. We believe that the high number of “NO” votes is a kind of sign that US policy makers are having difficulties to use tax payers’ money to help US financial firms just prior to US presidential elections. To support our view, new measures aiming to increase confidence to US banks with new tax deductions have been added to the package.

**World central banks cut base rate to stem crisis in a coordinated action...**

The U.S. Federal Reserve, European Central Bank, Bank of England, Switzerland, Canada and Sweden cut official rates by a half-percentage point. The Fed cut its key federal funds lending rate by half a percentage point to 1.5%. The ECB also cut by a half-point to 3.75% as did the Bank of England, taking its rate to 4.5%. The Swiss National Bank’s cut brought its interest rate down to 2.5% from 3% while Canada Central Bank’s key lending rate now stands at 2.5%. In addition to them, Central Bank of China cut its key rate from 7.20% to 6.93%.

**FED Chairman Bernanke signaled a new interest rate cut...**

FED Governor Bernanke announced that it was questionable to keep the interest rates at their current levels and added that the rates should be revised. From Governor Bernanke’s words, we get the sense that the FED may cut its rates soon. In addition, Bernanke also gave strong signals that the latest confusion in financial markets combined with the latest macro data worsen the growth expectations. In short, it is very likely that the FED will lower its interest rates at its coming meeting on 29th of October. On the other hand, the FED also revealed a new plan to buy short term debt. According to the plan, the FED will buy papers of the companies that they use for their daily operations. With this operation, the FED targets to arouse demand to credits and the market will recover with private company bills amounting to US\$1.7 trillion.

**Bernanke hints a new rescue packages...**

While rumors about new rescue packages were spreading across the streets of the Wall Street, FED Governor Bernanke acknowledged that it would be appropriate to work on a new economic support bundle. With the new package, it is aimed for those to get credits to finance new house purchases and business activities to boost economic growth with employment. According to Bernanke, there are strong signals in credit markets but it is too early to assess the outcome of them.

**CBRT holds borrowing rate steady cuts lending rate 50 basis point...**

The Turkish Central Bank kept the benchmark overnight borrowing rate at 16.75% citing concerns over the economic growth and decided to cut lending rate by 50 basis points to 19.75%. CBRT announced that The Monetary Policy Committee made a thorough evaluation on the recent developments in the foreign exchange markets and decided that it would be beneficial to increase the limits in the foreign exchange depot market. CBRT said that the continuation of the global uncertainties cause a cautious approach both on inflation forecasts and monetary policy decisions.

**CBRT starts dollar selling auctions...**

The Turkish Central Bank has decided to hold foreign currency selling auctions to prevent the recent problems in the international credit markets from affecting the orderly flow of liquidity in the country’s financial markets. CBRT said that The amount for the daily auctions is determined as US\$50 million and the central bank will intervene directly with the foreign currency auctions unless the daily auctions meet the markets’ liquidity requirement and the volatility continues due to lessening liquidity.

In the paragraphs above, it is very easy to conclude that the domestic market is mainly driven by developments take place in foreign bourses. Thus, we expect the same trend to continue in the coming weeks as well.

**Our portfolio recommendation for November...**

While valuations have gotten to be very attractive in emerging markets, following the financial rescue packages, the interest rate cuts by Central Banks of various countries followed each other as well. Although these rate cuts give a limited boost to the equity markets, we believe that these upsurges are to be very short lived and the fundamentals of those economies still need time to recover. In short, although the valuations of equities seem to be attractive, we still believe that the timing may be a little bit earlier.

On the other hand, it is also worth to mention that domestic issues like the Government’s long awaited decision regarding relations with the IMF is still up in the air. While the Turkish financial sector stands firm compared to foreign banking sector, it is almost sure that private companies, particularly exporters, will negatively be affected from a slow down in global economy.

Therefore, investors should watch for opportunities that may boost the local market temporarily for a short time like a possible agreement with the IMF. In summary, we maintain our last month’s asset allocation and reserve 65% in bonds, 20% in equities and 15% in Fx.