The BIST and the TRY have diverged negatively in July…

The BIST diverged negatively with the lead of the banking sector stocks in July…

Global risk appetite remains elevated to the backdrop of monetary stimulus packages and hopes of a vaccine against COVID-19. Major international stock markets have thus been staging a V-shaped recovery, thanks to measures taken by the leading central banks – which are expected to remain in place over the foreseeable future – although the improvement in macroeconomic data so far still does not support this type of recovery. And yet, major global stock markets have maintained their uptrend with lower momentum in July, as the EU agreed on a sizeable aid package, and on expectations of a new stimulus package from the US.

Non-residents continued to reduce their equity and government bond holdings…

The BIST has generally moved in parallel to the course of major international markets in July. However, as TRY volatility increased towards the end of the month on concerns over political relations with the US, the benchmark index has faced strong selling pressure and diverged negatively. The BIST100 declined c.3,29% MoM to close at 1.127 point, while the banking sector index continued to diverge negatively, declining c.13,7% MoM, and the industrials index has outperformed by advancing c.3,7% MoM. Non-residents continued to reduce their equity holdings at the BIST, and as of July 17, net of currency and price impact, their equity holdings had declined by US$4.33bn YtD to 49.18%, the lowest level observed since 2004. Non-residents have also reduced their domestic government bond holdings by US$ 7.33bn YtD to 3.94%.

Turkey's CDS premium remained high; the TRY has depreciated, diverging negatively from its peers…

Turkey's CDS premium, which had declined to 450bps within July, has once again reached above 550bps levels towards the end of the month. This suggests that risk perception towards TRY-based assets remains high. The DXY has declined by c.4% in July, and most of the EM currencies have appreciated against the US$. The TRY, which had traded within a narrow band against major currencies depreciated by c.1% towards the end of the month against the US$, diverging negatively from its peers. Meanwhile, benchmark yields have increased from 9.5% to levels above 11.0%.

The CBRT has maintained its cautious stance and its policy rate unchanged at 8.25%...

The CBRT has maintained its policy rate at 8.25% at its latest meeting. The minutes of the meeting included noting that the COVID-19 pandemic-driven increase in unit costs served to drive core goods inflation higher. The CBRT has maintained its view that demand-driven disinflationary effects would become more prevalent in the second half of the year, but that risks to the year-end projection were considered to be on the upside due to recent realizations in inflation. In parallel to these, the CBRT has increased its inflation expectation from 7.4% to 8.9% at end-2020, and from 5.4% to 6.2% at end-2021. The CBRT has resumed a more cautious approach at its last two meetings, and we think that the Central Bank may recess its rate cutting cycle until inflation figures improve, as current data avails no further room for rate cuts.

The Fed has kept its policy rate unchanged at 0-0.25%...

The FOMC has unanimously voted to maintain the Fed's policy rate unchanged within the 0%-0.25% range at its meeting in July. The major central bank has reiterated that it is ready to use all its tools when necessary. The Fed has noted that the ongoing public health crisis would weigh heavily on economic activity, employment and inflation in the near term, and poses considerable risk to the economic outlook over the medium term. The Fed has also extended its swap facilities for other central banks through to March 31, 2021. The bank continued to emphasize that its target range would be maintained to achieve its maximum employment and price stability goals.

Global risk appetite remains elevated to the backdrop of monetary stimulus packages and low interest rate environment…

The COVID-19 pandemic and macroeconomic data announcements from major economies will top the markets' agenda in August as well. Global risk appetite is expected to be maintained, thanks to ample liquidity in the markets, and on positive expectations regarding vaccine development. However, this may be dented by weaker than expected data announcements from major economies, and by rising tension between the US and China, whereby global stock markets may face profit taking this month. In this respect, we expect the markets' sensitivity to macroeconomic data announcements to be greater this month. Better than expected data announcements may support the markets' uptrend, while notably lower than expected data may spur profit taking. The EM currencies have seen limited fund inflows following the retreat of the DXY index, and the DMs have outperformed in July. The EMs may outperform slightly in August should the DXY remain relatively weak. Meanwhile, the continuing spread of COVID-19 will remain one of the biggest near-term risks for the markets.

Higher volatility is expected at the BIST in August…

The spread of the COVID-19 pandemic, inflation and other macroeconomic data announcements, and the pace of economic recovery comprise the main agenda of the domestic markets in August. Meanwhile, the course of the US$/TRY rate, which had become relatively more volatile by the end of July, and political relations with the US and other geopolitical risks will be closely followed. The BIST may continue to diverge negatively in August should geopolitical risk and increased TRY volatility . And inversely, the BIST may diverge positively after its negative divergence in July, with positive developments in these regards. As such, the BIST is expected to trade within a wide band of 1,030 – 1,200 in August. We believe that levels around and below 1,040 present buying opportunities, and that levels around and above 1,200 may be utilized for profit taking.

We maintain the distribution of our portfolio in August…

We maintain the weight of bonds in our portfolio at 50%, our FX holdings at 25%, and equities at 25%.