

**The BIST decoupled positively from its peers in July as well, testing new all-time highs ...**

***The BIST continued to decouple positively from its peers in July as well and has tested a new all-time high level of 108,605...***

Having started the month slightly above index level of 100,000, the BIST100 has tested a new, TRY-based all-time high level of 108,605 in July, thanks to increasing global risk appetite. The BIST100 closed 7.06% higher in July at 107,531; both the banking and industrial indices have performed in parallel with the wide-ranging advance of the benchmark index. Risk appetite continued high on positive expectations on global growth, moreover, both the US Federal Reserve's and the ECB's dovish comments suggested that the normalization of monetary policies will not be hurried; better-than-expected European and Chinese macroeconomic data also indicated that the global economy gains strength, impacting the markets positively in July.

***The Fed maintained its policy rate unchanged at 1.00%-1.25%...***

The US Federal Reserve has maintained its policy rates unchanged at 1.00%-1.25% by a plurality at its latest FOMC meeting on July 25-26, as expected. The minutes of this meeting contained that the FOMC expects to begin implementing its balance sheet normalization program "relatively soon". The markets have nevertheless welcomed the minutes as being dovish overall. Since the US inflation announcements and other macroeconomic data have weakened the prospect of an interest rate increase in Fed's December 2017 meeting, it is currently being priced in at less than a 50% probability. The ECB President Draghi's comments earlier had increased worries that the Bank's monetary stimulus programme will end sooner than expected, however, following the ECB's monetary policy meeting in July, where the Bank has maintained policy rates unchanged, the President has reassured that the monetary stimulus programme will continue until the inflation steadily and consistently reaches the Bank's targets.

***The CBRT has left its policy rates unchanged...***

The CBRT maintained its policy rates steady at its meeting in July, in line with market expectations. The MPC has referred to the "ongoing recovery of economic activity" in the minutes of this meeting, in place of its former "strengthening recovery of economic activity" statement at its previous meeting. The committee has also noted that tight monetary policy should be continued due to high inflation rates, which was welcomed by the markets. Meanwhile, the CBRT has increased the weighted average funding rate towards 11.99%.

***Markets will follow Fedspeak especially regarding its balance sheet reduction programme in August...***

August's agenda will not be intense in terms of major central bank meetings, excepting for the BoE's MPC meeting on August 3rd. Market participants will instead follow the messages to be delivered at the 2017 Economic Symposium to take place in Jackson Hole on August 24-26, focusing especially on the Fed's balance sheet reduction programme, and also relate to the ECB President Draghi's and other ECB officials' messages regarding the Bank's monetary expansion programme. While concern on weakening US macroeconomic data and US President Trump's policies reduces the possibility of a Fed rate increase in the near future, it has seen the US\$ weakening. The escalation of tensions between North Korea and the US, and developments regarding the situation in Syria and the Qatar dispute will be followed geopolitically. However, these may continue to be overlooked for the short run with increasing risk appetite.

Fund flows towards the EM could continue in August as well with the weakening of US\$, the recovery in global economy, and with prolonging expectation that major central banks are to increase rates gradually. These flows may, however, lose momentum with improving inflation reports from the US.

***The probability of profit takings at the BIST is considered to be high for August...***

In Turkey, there has been a Cabinet revision in July, and Mr Şimşek's appointment as the sole minister of economy management has been broadly welcomed by the markets. Following the Cabinet revision, expectations on the new Cabinet's possible 180-day action plan might become the new center of attention. Locally, market participants will also follow the recent political tension with Germany. On the macroeconomic front, focus will be on inflation announcements. The CBRT has raised its 2017E inflation target to 8.7% from 8.5% and maintained its 2018E inflation estimate at 6.4% at its recently-shared, third inflation report of 2017. Foreign interest for the BIST is expected to continue over the medium term amid occasional profit takings, thanks to its discount compared to its peers and positive expectations regarding Turkish growth. The BIST is therefore expected to maintain its uptrend notwithstanding limited profit takings, as long as the global risk appetite endures. However, the market may experience swift profit takings in the event of a decline in global risk appetite, coupled with the realization of expectations on 2Q; strong earnings announcements have so far been supporting the BIST's strong performance. The past 6 years' trend, excepting 2 years, indicates that the BIST100 index has declined strongly at the end of August.

***We maintain the distribution of our portfolio in August...***

In light of these expectations, we maintain the distribution of our portfolio at 55% in bonds, 15% in FX and 30% in equities.