TRY-based assets saw a significant negative decoupling in November...

The BIST and the TRY-based assets decoupled significantly negatively in November…

Having started the month slightly above the index level of 110,000, the BIST100 has tested its all-time high index value of 115,093 within the month, thanks especially to the announced on the Credit Guarantee Fund's continued support of the real economy. Total daily trading volume also broke its record high in the month. Still, due to negative news flow on the case in the US, the BIST100 closed 4.13% lower MoM at 103,984, led by the retreat in the banking sector index. TRY-based assets, thus, saw significant decoupling in November in tandem with TRY depreciation, and were the worst performing among the MSCI indices, also due to profit taking following the realization of strong 3Q17 results and rising oil prices. Meanwhile, the EMs have decoupled positively in November; Russia especially had been outperforming with the recent rise in oil prices. With the ca.2% retreat of the DXY, fund flows towards the EMs have in general strengthened.

Fed FOMC minutes suggest a rate increase in December…

The US Federal Reserve kept its policy rates unchanged at 1.00% - 1.25% at its last meeting in November. The central bank has indicated that economic activity has been rising at a solid rate, despite hurricane-related disruptions. The meeting minutes show that the balance sheet normalization program begun in October would continue, and that the majority of FOMC members saw a high probability of a rate increase at the December meeting. They also included comments stating that it would be important to continue monitoring inflation developments closely. The odds of a rate increase at the Fed's December meeting are currently above 90%, and the dot plots indicate that three further 25bps rate hikes are expected in 2018. Meanwhile, in November, the BoE has for the first time in a decade lifted interest rates by 25bps, as expected, to 0.5%.

The CBRT has cut the borrowing limits at /N market to zero and raised the average funding rate to 12.25% …

The CBRT has cut the banks' borrowing limits at O/N market to zero, which meant that that it will provide all of its funding through the late liquidity window (LLW) at 12.25%. The TRY depreciation has lost momentum after this decision. A severe depreciation of the TRY would cause a higher inflation, hence the CBRT's decisions at its meeting in this month will be a major topic to follow. Currently, the market expects the central bank to raise the average funding rate by a 100bps increase in the LLW rate in December meeting.

The focus will be on the Fed policy decision and the central banks projections…

Markets will also track the US Fed's policy decision in December, where the Bank is widely expected to increase policy rates by 25bps. The main focus will be on projections for 2018. Another important topic to be followed internationally will be developments regarding US tax reforms. Meanwhile, US inflation, a most important data in terms of Fed decisions, will continue to be closely followed. A lower than expected reading of this data would lead the DXY to weaken, and strengthen the positive decoupling of EMs. Global risk appetite is expected to continue in December as well, and consequently the EMs are expected to continue decoupling positively.

The BIST may continue to decouple negatively in December…

Locally, investors will follow the case in the US; the BIST and other TRY-based assets may, thus, continue to decouple in December as well, depending on the news flow. However, the recent rise in global risk appetite, strong growth expectations for 3Q and the BIST's discount compared to its EM peers may support reactionary buying, and hence reduce selling pressure. We observe that the BIST generally declines in the month of December, and the current outlook supports the view suggested by this data. Meanwhile, should the result of the case in the US be interpreted positively for banks, the latter may perform quite positively, leading to a strong reactionary recovery at the BIST. Another major topic to be followed locally will be whether the CBRT continues to raise rates at its December meeting. The TRY is expected to recover, should the bank raise its LLW rates. Otherwise, TRY-based assets may continue to decouple negatively.

We maintain the distribution of our portfolio in December…

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