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EKONOMİ ve PİYASA

HAFTALIK EKONOMİK GÖRÜNÜM

07 AĞUSTOS 2023

Inflation Accelerates in Turkey's Biggest City After Tax Hikes

By Beril Akman

Inflation in Turkey's economic hub, Istanbul, soared in July as the government implemented tax increases on a wide range of goods to address its budget deficit.

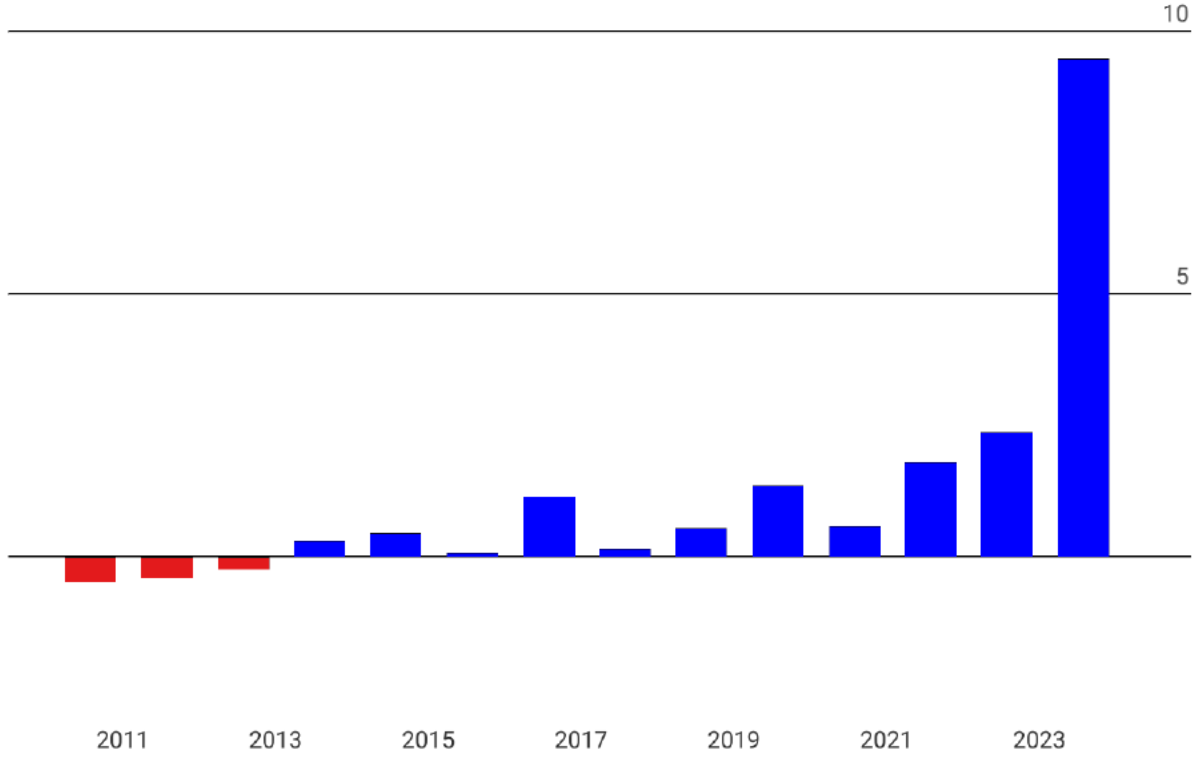
The city's retail inflation on a monthly basis accelerated about 10% last month, almost tripling the rate recorded in June, according to data published by the Istanbul Chamber of Commerce on Tuesday. That marks the highest monthly jump since April 2022.

On an annual basis, inflation accelerated to around 64% in July, up from 55% the previous month. The chamber, known by its Turkish initials ITO, attributed the acceleration to changes in tax rates, which raised prices across various goods and services.

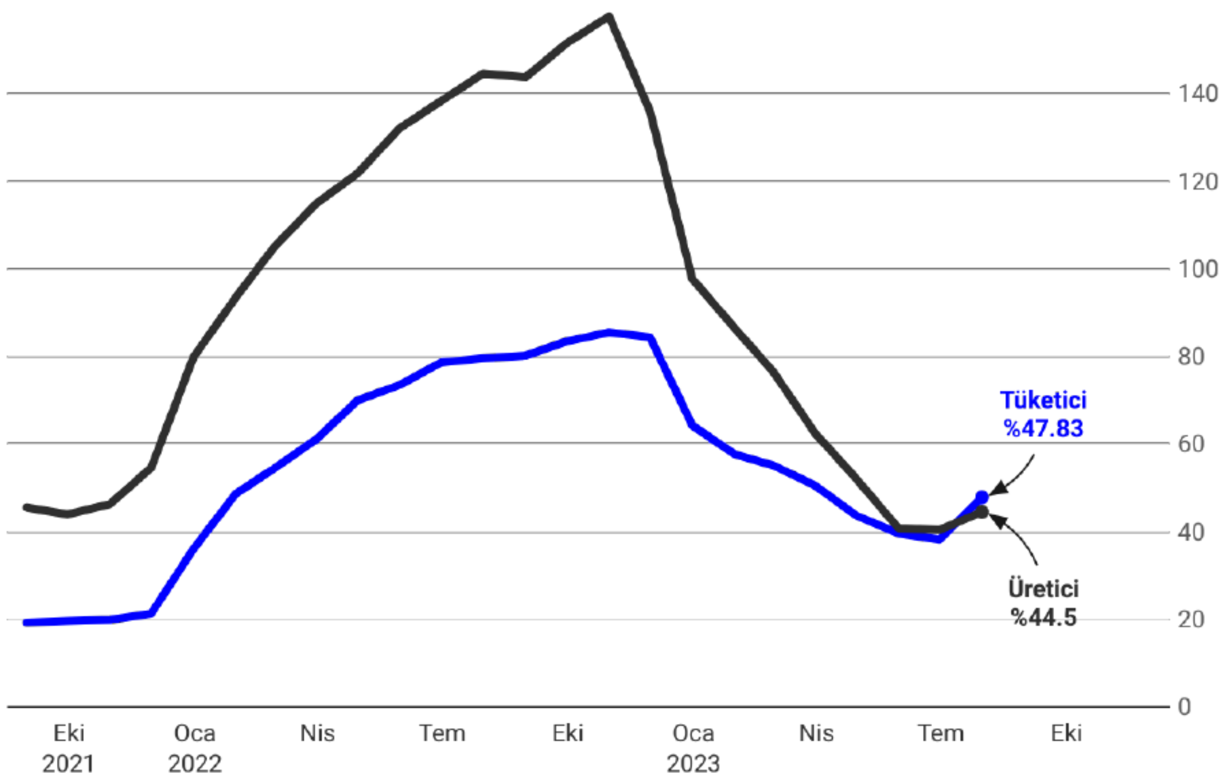
Turkey last month introduced a string of tax hikes to remedy its massive budget deficit, aggravated by costly election giveaways and reconstruction efforts after February earthquakes. The measures included tripling tax collected on fuel.

The Central Bank of Turkey recently revised its inflation projections, forecasting a yearend inflation rate of 58%, significantly higher than the previous estimate of 22.3%. The bank cited the tax measures as one of the reasons behind this revision.

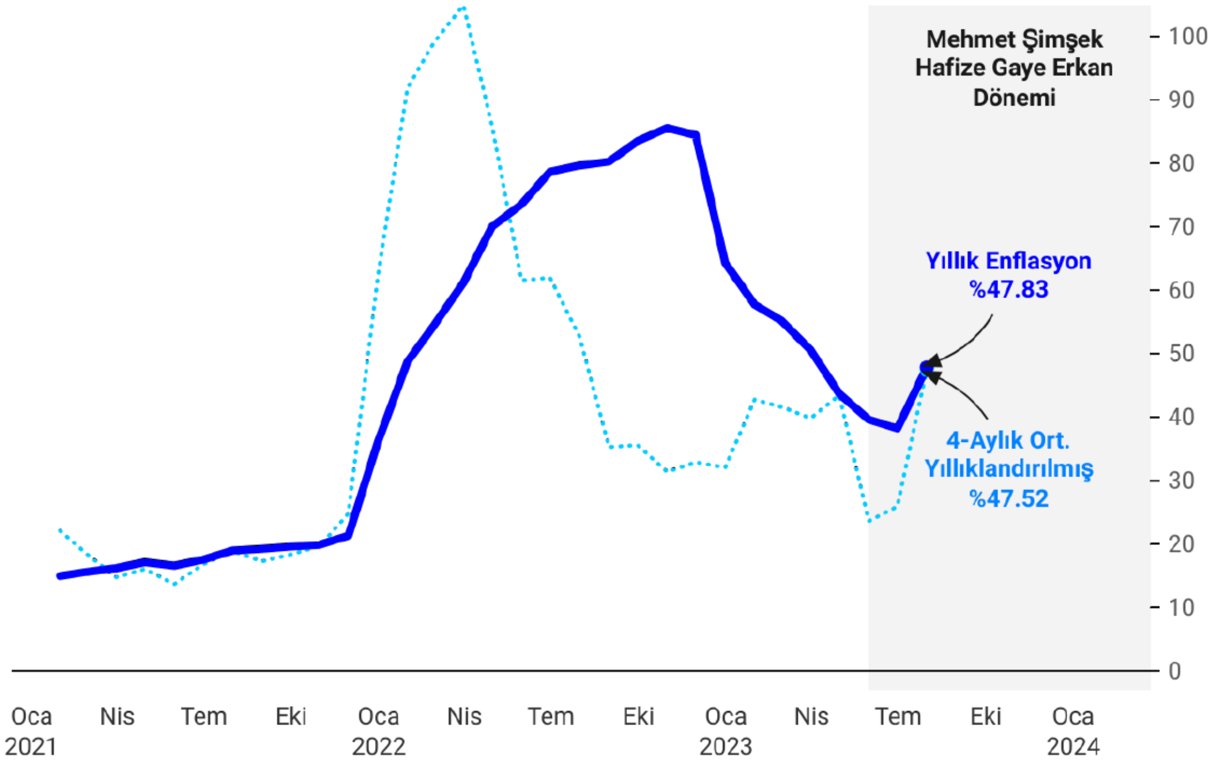
Temmuz Ayı Enflasyonları



Enflasyon (Ağustos 2023)



Enflasyon Momentum (Ağustos 2023)



Turkish Inflation to End Deceleration And Shift Into Higher Gear

- Inflation set to accelerate for the first time since October
- Budget measures, gradual rate hikes hinder inflation fight

By Beril Akman

After eight months of deceleration, Turkish inflation probably ticked back up in July on the back of a string of tax hikes introduced to fix a swelling budget deficit.

Price growth accelerated to an annual 46.8% last month from 38.2% in June, according to the median forecast in a Bloomberg poll of economists.

Bloomberg survey participants see monthly price gains at 8.6%, the fastest rate since January 2022.

The government last month raised taxes on a variety of essential goods and fuel to repair public finances that deteriorated due to costly election pledges in the run-up to the May vote and financing needs after the February earthquakes.

In addition to those hikes, a depreciation in the lira and minimum-wage increases are expected to take effect to contribute to inflation's ascending path, Bloomberg Economics' Selva Bahar Baziki said, expecting an upward trajectory for the rest of the year. The lira has lost about 31% of its value against the dollar since the start of the year.

The central bank has acknowledged the inflationary impact from these raises in its quarterly inflation report presentation last week. Governor Hafize Gaye Erkan, in her first presentation since she assumed the role in June, more than doubled the year-end forecast to 58%. She also said the bank expects inflation to peak at about 60% in the second quarter of next year. Turkey watchers remain unconvinced that the current monetary policy – termed a gradual raising of interest rates by officials – will be able to tame the price gains. In two straight meetings, the central bank upped its benchmark rate by 900 basis points to 17.5%. Deutsche Bank thinks the central bank will move it to 19% this month.

Turkey’s Debt Ratings Hinge on Erdogan’s Policy Follow-Through

- S&P, Scope cite positive moves even as credit risks linger

- Moody’s warned of lira instability amid central bank’s policy

By Kerim Karakaya and Beril Akman

Credit-rating companies are facing a pivotal moment as Turkish President Recep Tayyip Erdogan takes on a new, more orthodox approach to economic policy.

Money managers and analysts alike have praised the addition of two former Wall Street bankers at the helm of Turkey’s economy administration. Now, it’s up to major debtscoring companies to weigh in on whether it’s enoughto change the nation’s overall credit picture.

“The key questions remain,” said Frank Gill, head EMEA sovereign specialist at S&P Global Ratings. “How much time [does] the president give the new economic team to reset previously unsustainable policy settings?”

In the wake of his reelection, Erdogan has opted for a series of measures meant to reassure investors – including the appointments of Hafize Gaye Erkan as central bank governor and Mehmet Simsek as finance minister.

Since then, the extra yield investors demand to hold the nation's sovereign bonds over comparable US Treasurieshas fallen to just 367 basis points, according to JPMorgan Chase & Co. data, the lowest since Covid-19 shocked the nation in early 2020.

To S&P's Gill, an uptick in investor sentiment and the changes in leadership are "encouraging" – even if there's still uncertainty about the path ahead. The firm last year downgraded Turkey's foreign-currency rating deeper into junk rating, to B.

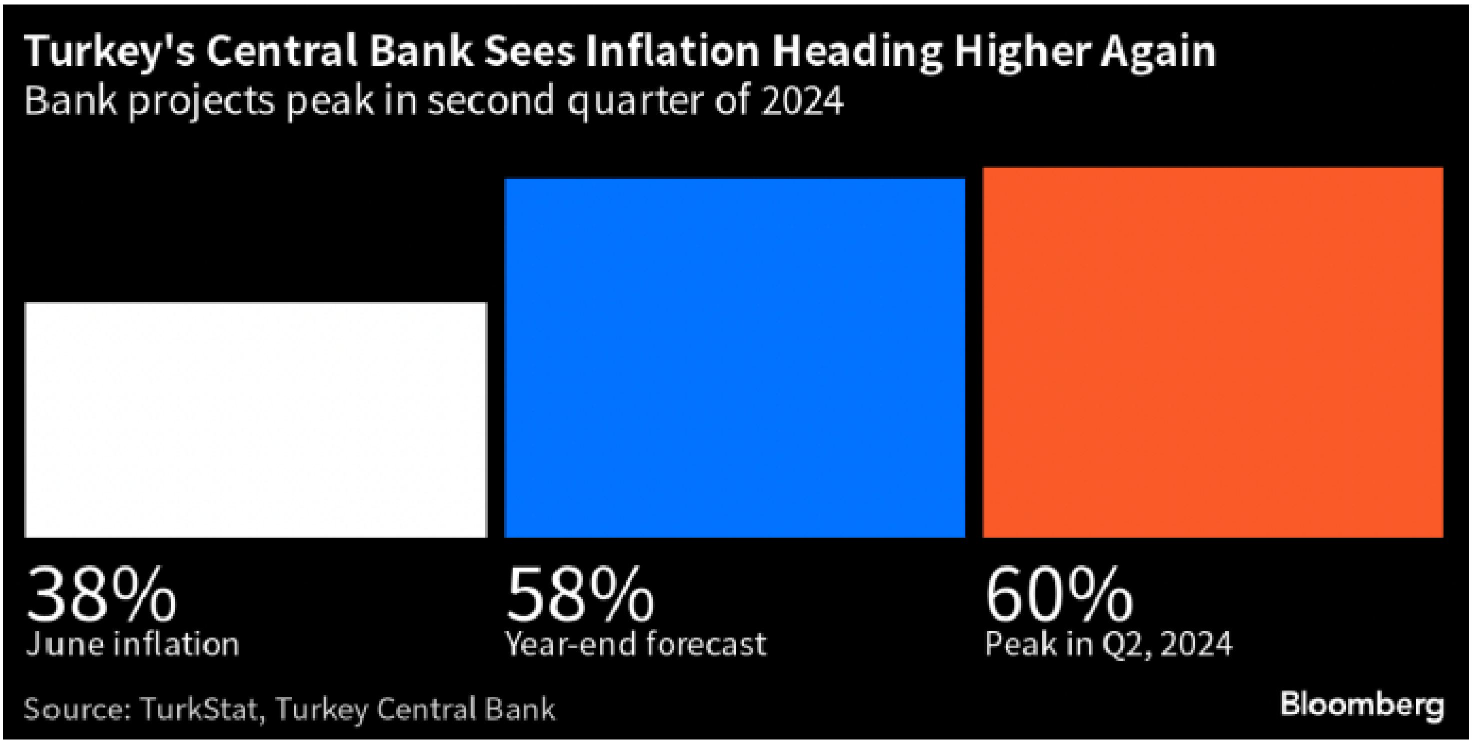
That risk was echoed by Fitch Ratings in a report last month. The scoring firm places Turkey at B, five notches below investment grade.

"Turkey's record of policy reversals and premature policy easing, and repeated changes in central bank leadership, mean it will take time to lastingly reduce uncertainty regarding the durability and effectiveness of the policy shift," Fitch analysts Erich Arispe and Paul Gamble wrote in a note.

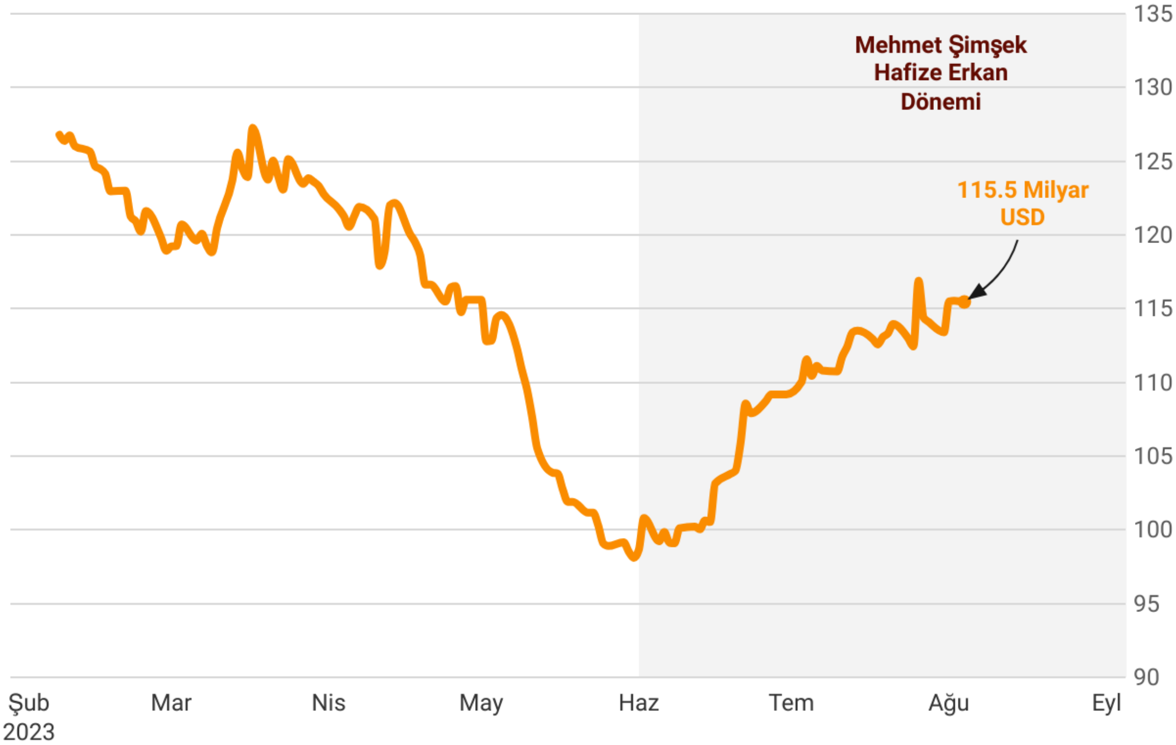
Thomas Gillet, lead analyst on Turkey at Scope Ratings, also said the post-elections policy pivot is a positive ahead of the company's next scoring announcement on Friday.

The risk, however, is that it's still unclear whether this policy will be continued over the medium-to-long term. "One of the biggest challenges ahead for the new economic administration is to unwind previous policy measures," he said. Another will be trying to "consistently sustain monetary tightening to effectively tame high inflation and regain market credibility, while mitigating potential implications for financial stability."

The central bank has been at the heart of the overhaul started by Erdogan after winning reelection to extend his rule into a third decade. Turkish policymakers embarked on the nation's first monetary tightening cycle in more than two years with increases of interest rates by a cumulative 900 basis points at two straight meetings.



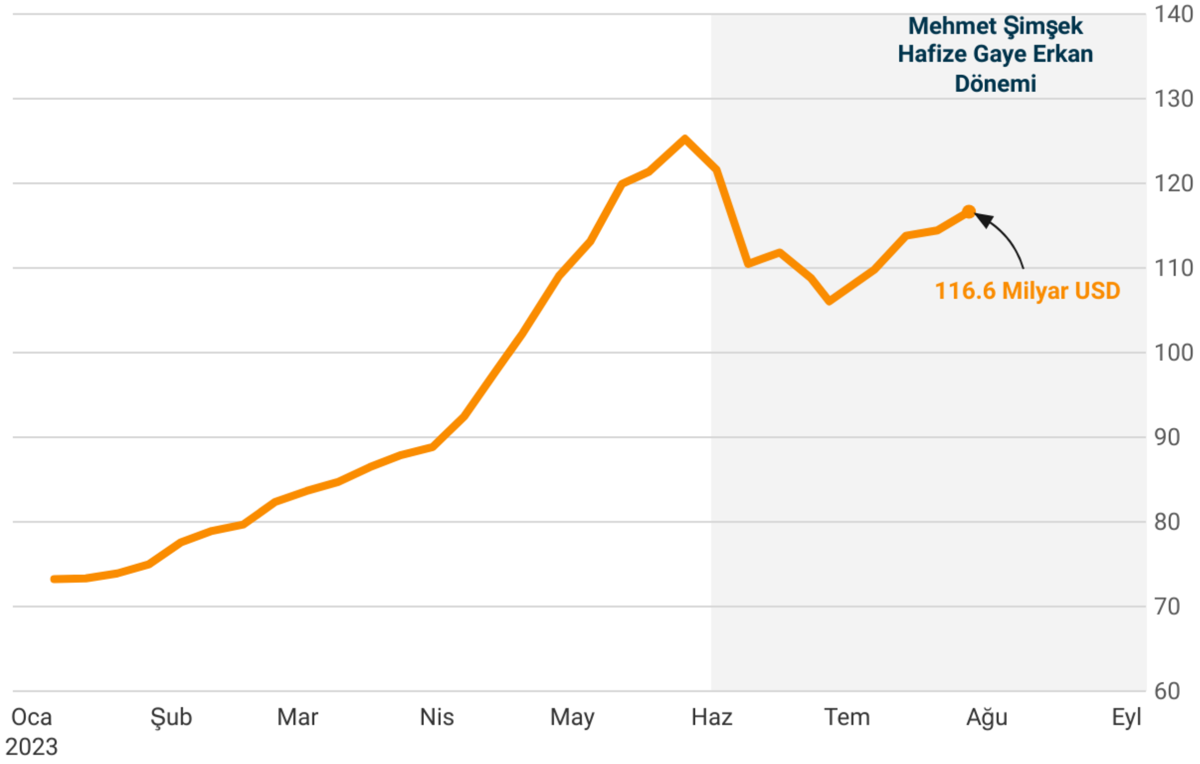
TCMB Brüt Rezervler (4 Ağustos)



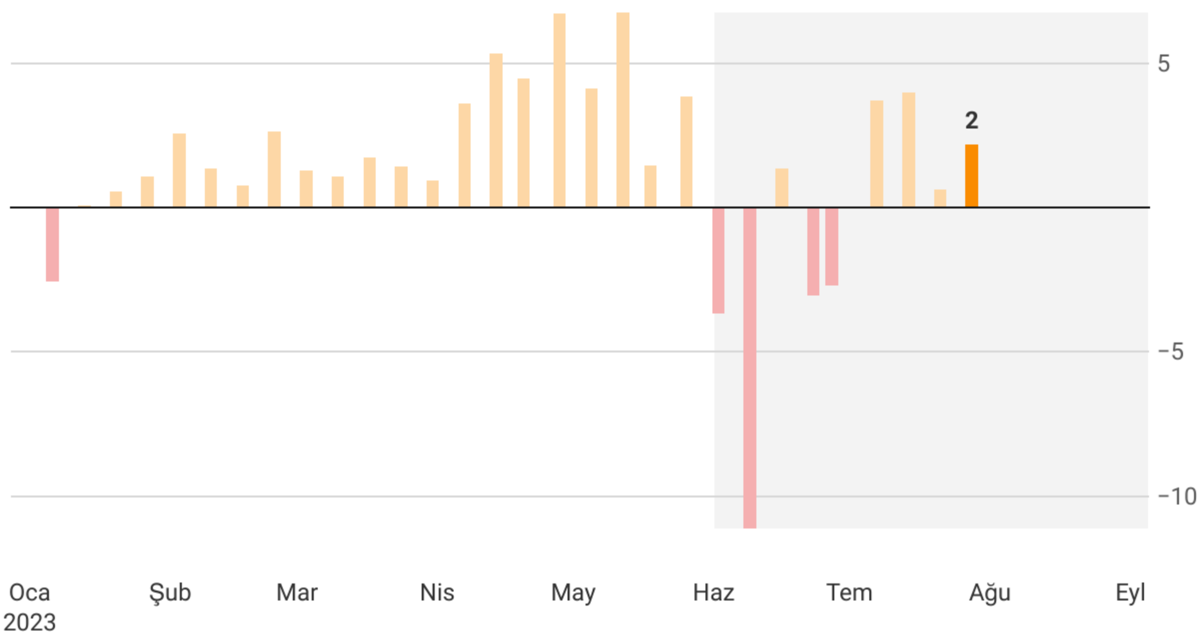
Varlıklar (Milyar ABD Doları)	Tem 22	30/12/22	30/07/23	YTD
Altın	39.59	45.89	41.44	
Efektif YP	4.01	9.60	3.11	
Menkul Kıymet + Depo	10.17	10.29	4.71	
Diğer Hesap Bakiyesi	54.04	62.94	64.40	
TOPLAM	106.54	128.72	113.66	

Yükümlülükler (Milyar ABD Doları)	Tem 22	30/12/22	30/07/23	YTD
Bankalara YP Borçlar	76.12	85.04	72.68	
IMF & Yabancı Bankalara Borçlar	6.38	16.25	30.23	
Hazineye Borçlar	13.40	11.85	11.37	
Bankalara Swap Borçları	41.23	47.41	41.59	
Merkez Bankalara Swap Borçları	22.75	23.35	23.35	-
TOPLAM	159.88	183.90		

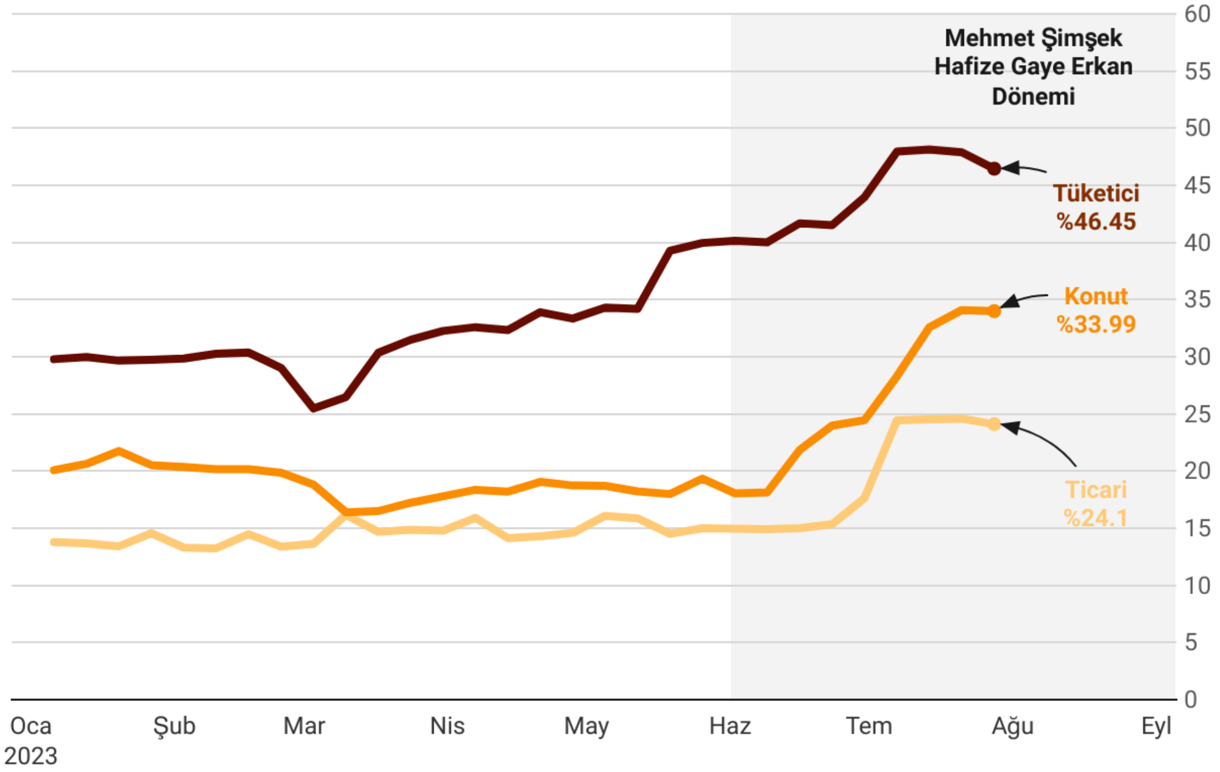
Kur Korumalı Mevduat (USD Cinsinden - 28 Temmuz)



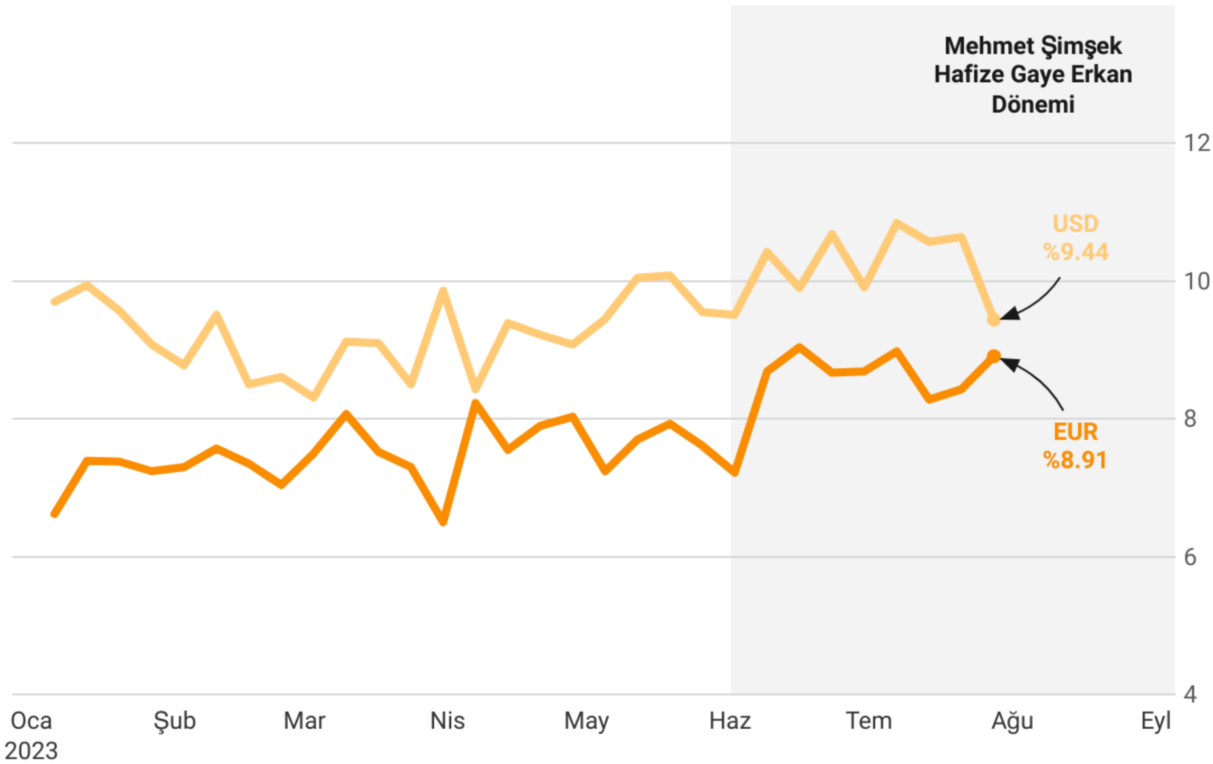
Haftalık Değişim



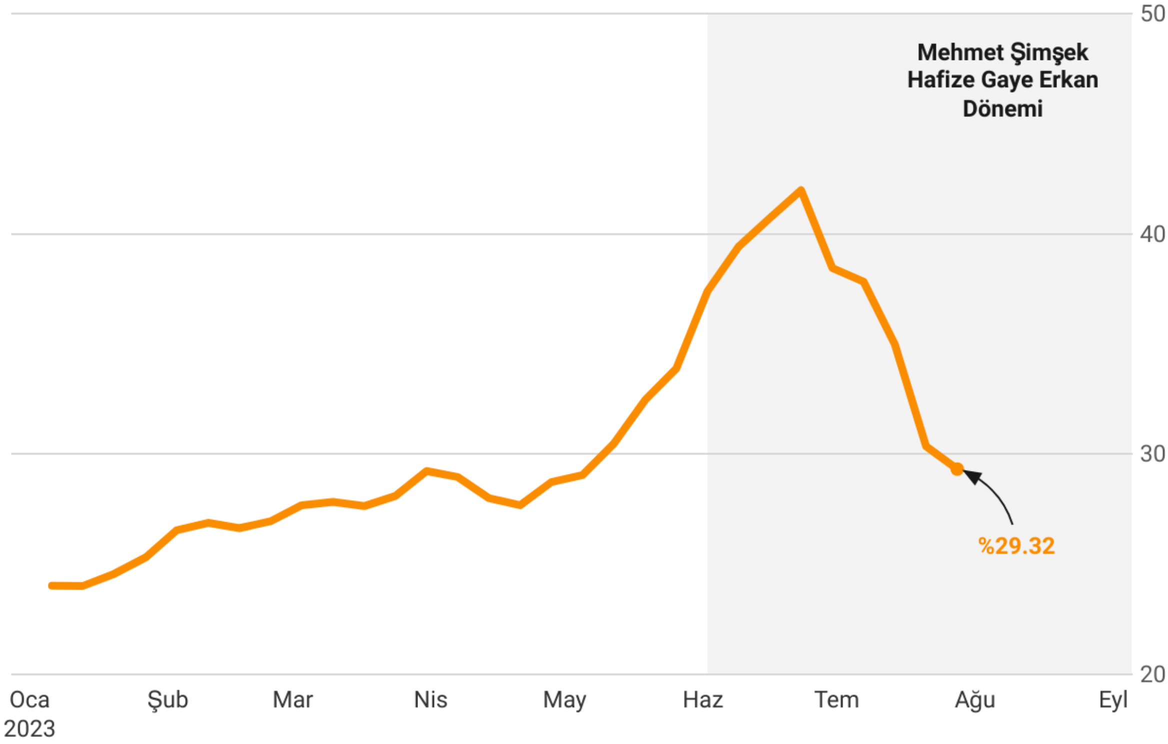
TL Kredi Faizleri (28 Temmuz)



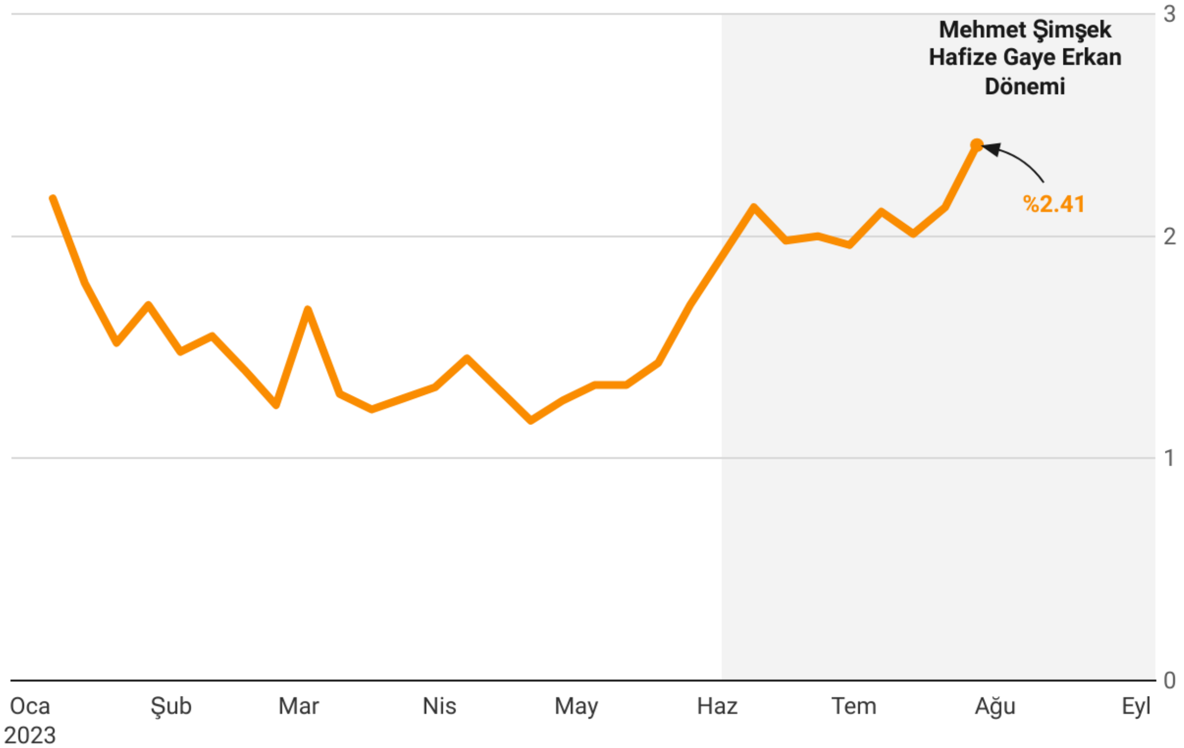
YP Kredi Faizleri (28 Temmuz)



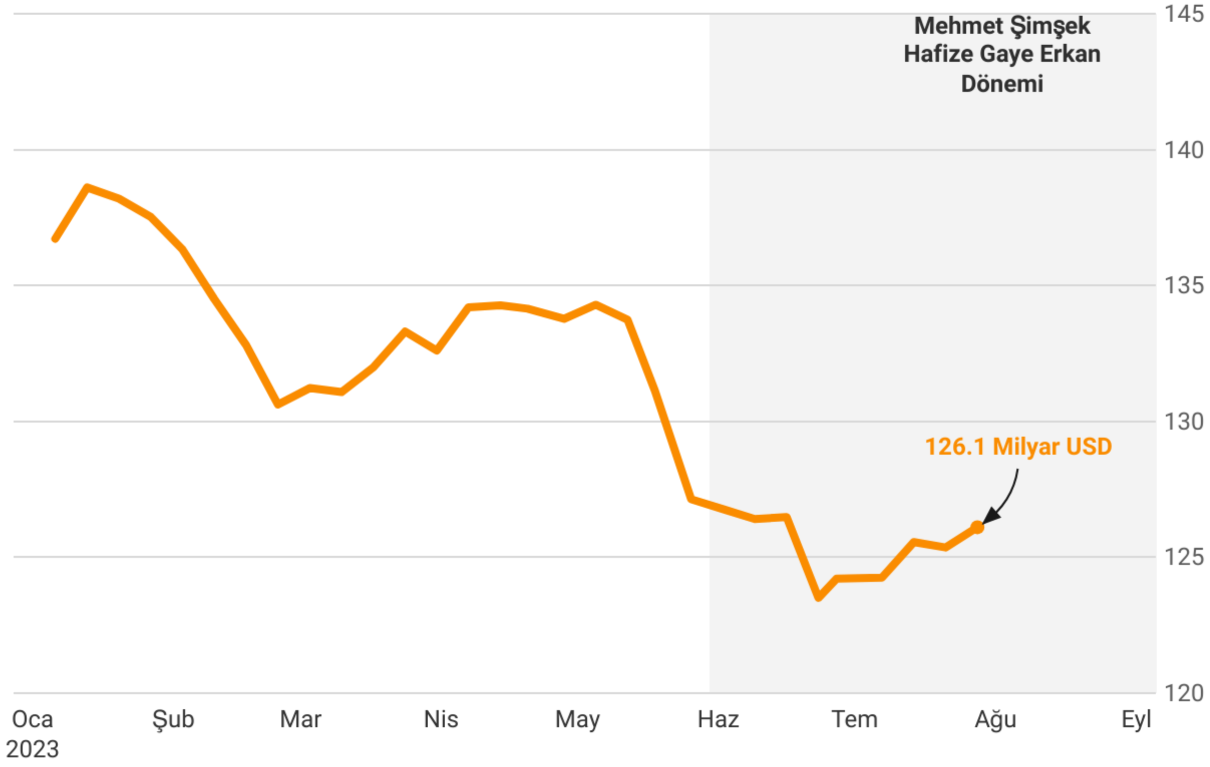
TL- 3 Aya Kadar Vadeli Mevduat Faizleri (28 Temmuz)



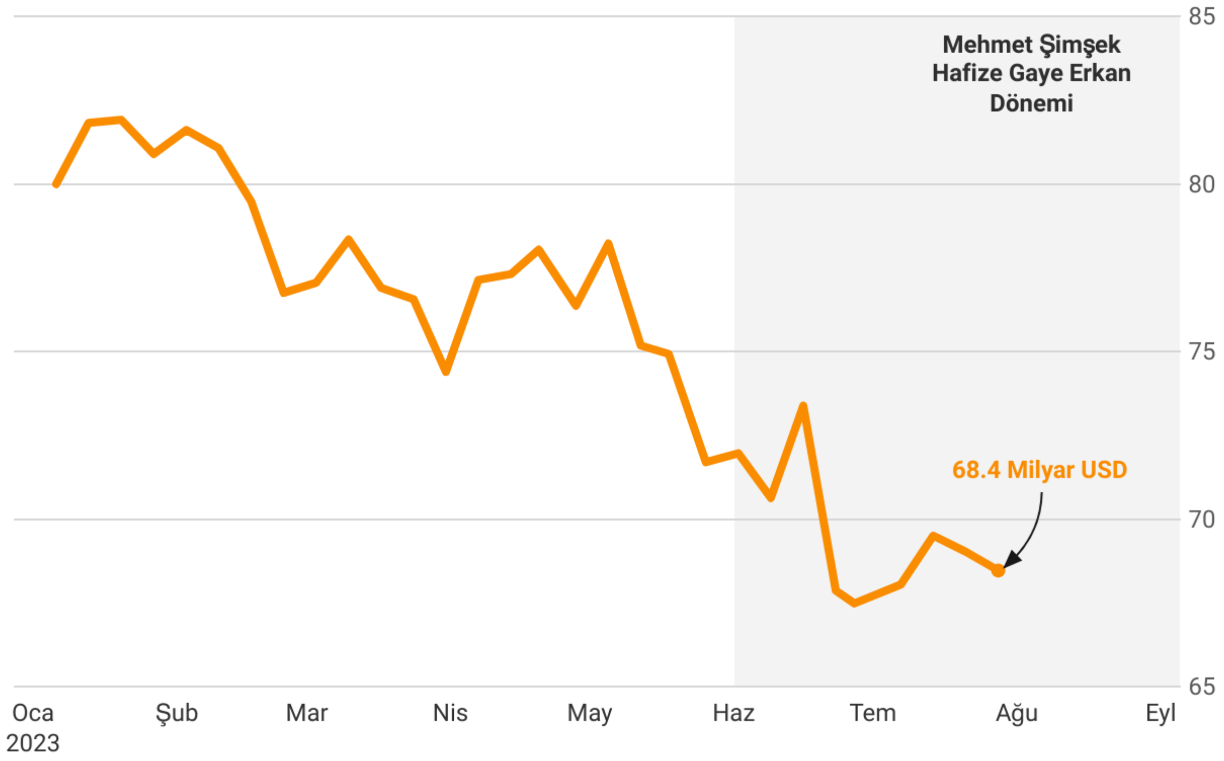
USD- 3 Aya Kadar Vadeli Mevduat Faizleri (28 Temmuz)



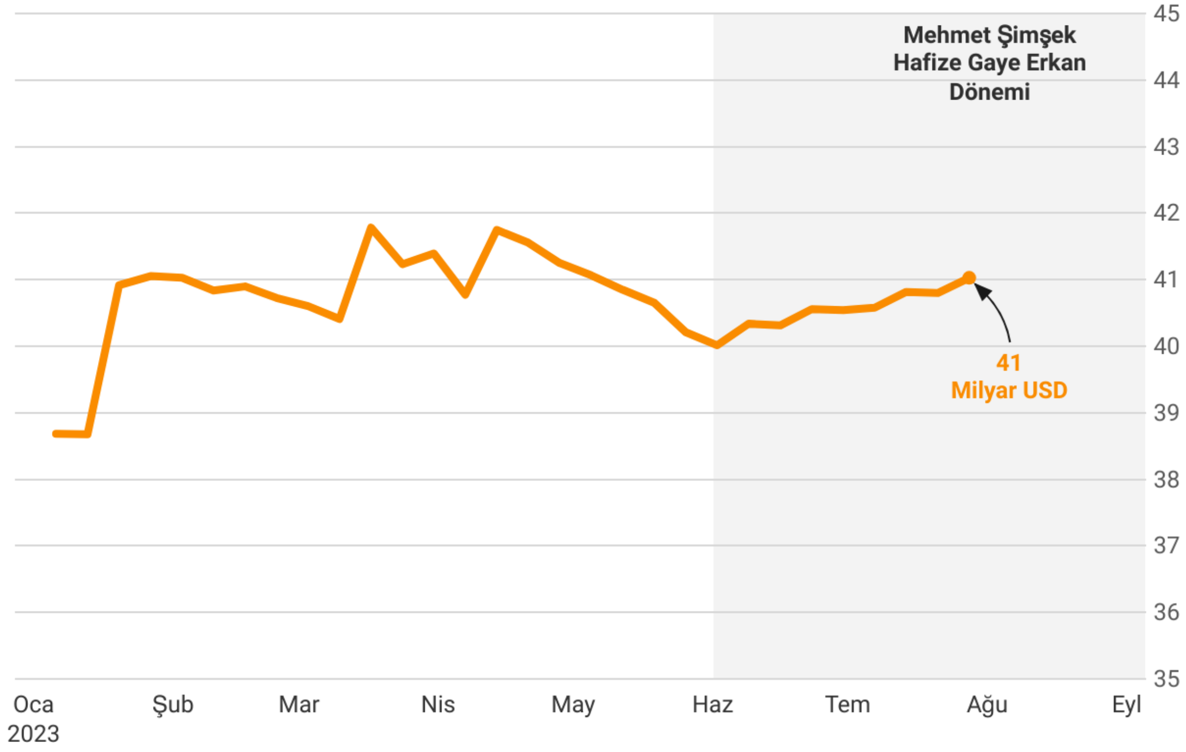
Gerçek Kişi YP Mevduat (28 Temmuz)



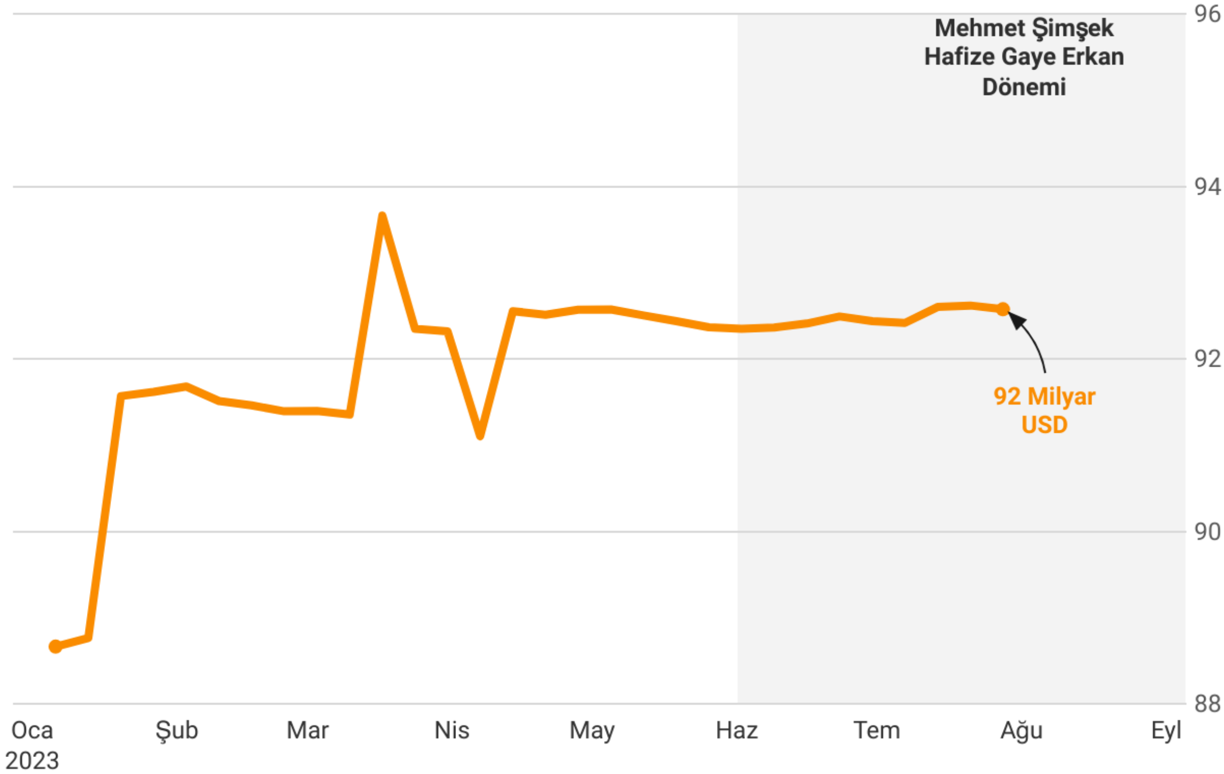
Ticari YP Mevduat (28 Temmuz)



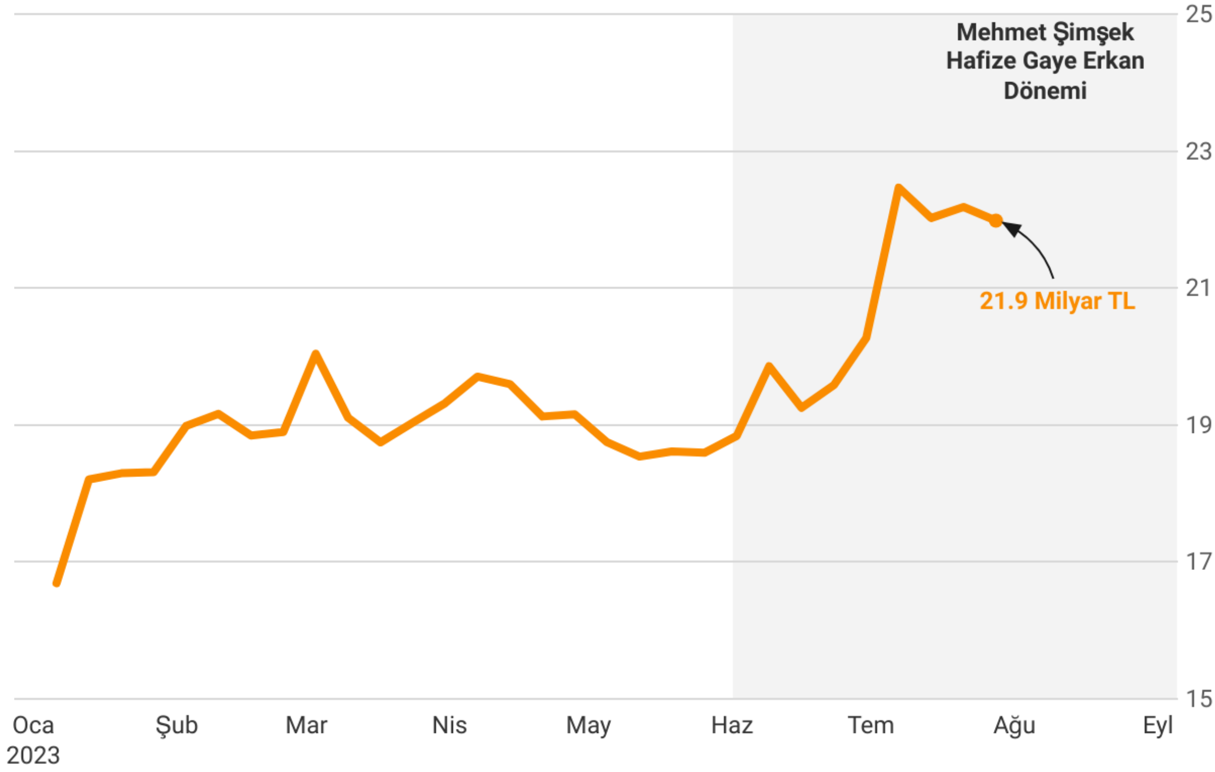
Eurobond- Yurtdışı Yerleşik (Nominal - 28 Temmuz)



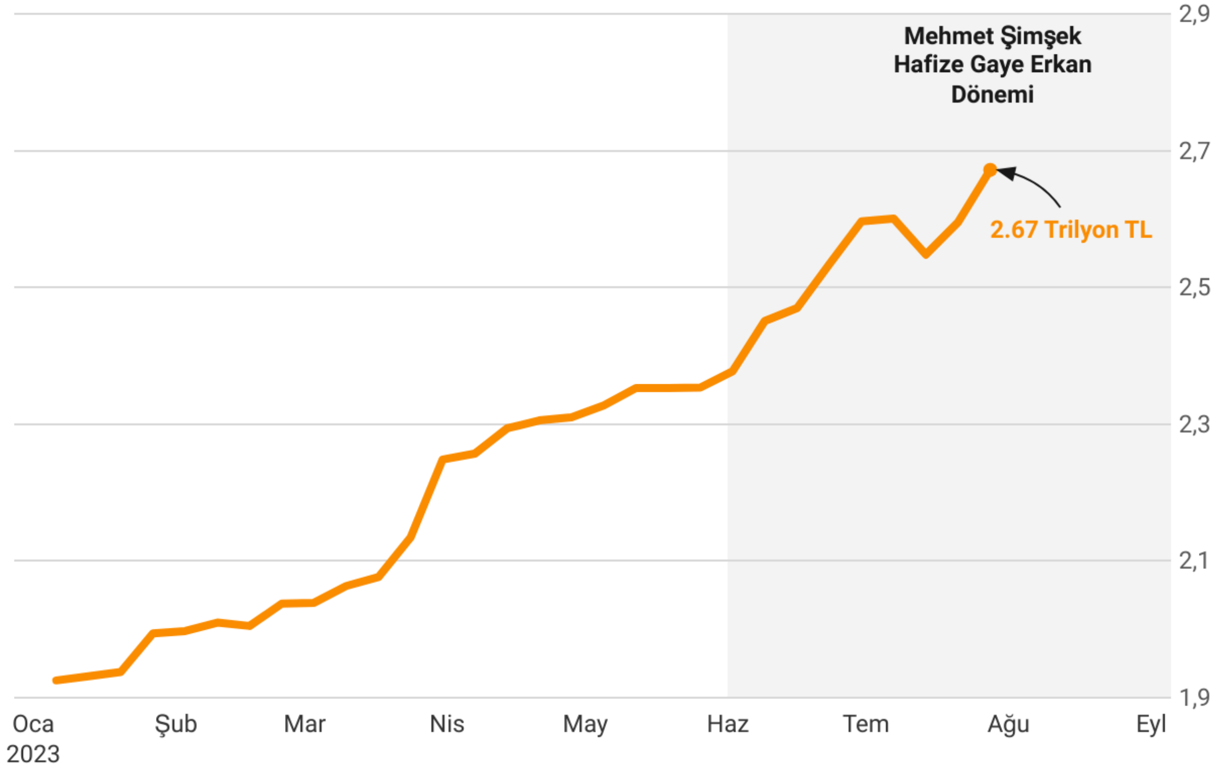
Eurobond- İhraç Edilmiş (Nominal - 28 Temmuz)



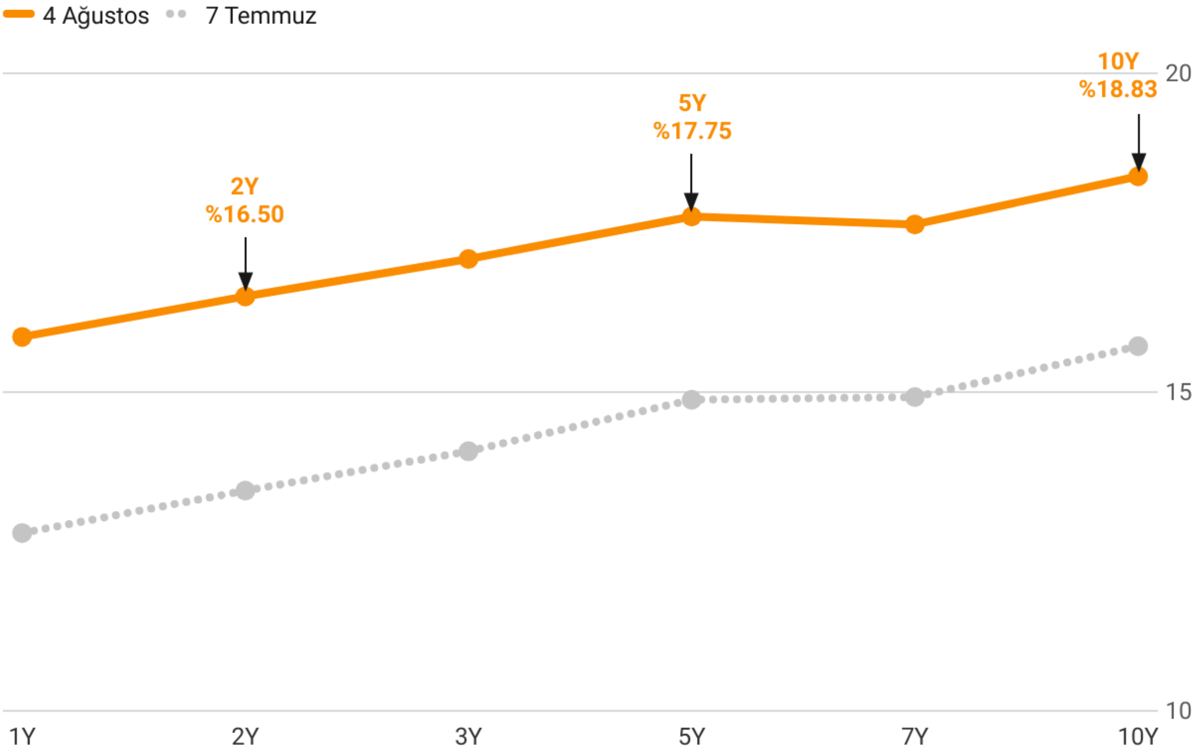
TL Tahvil - Yurtdışı Yerleşik (Nom, 28 Temmuz)



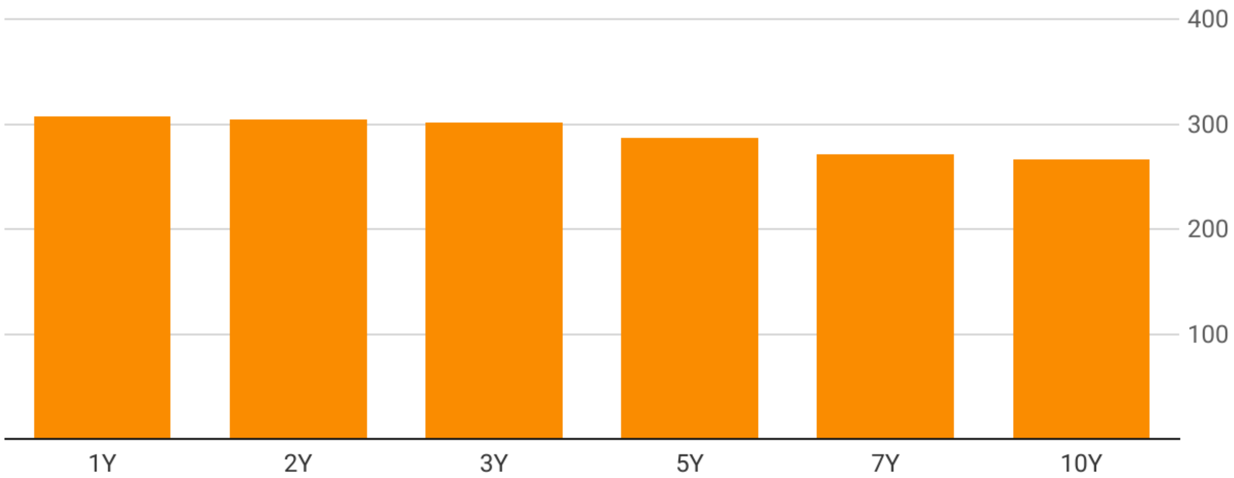
TL Tahvil - İhraç Edilmiş (Nom, 28 Temmuz)



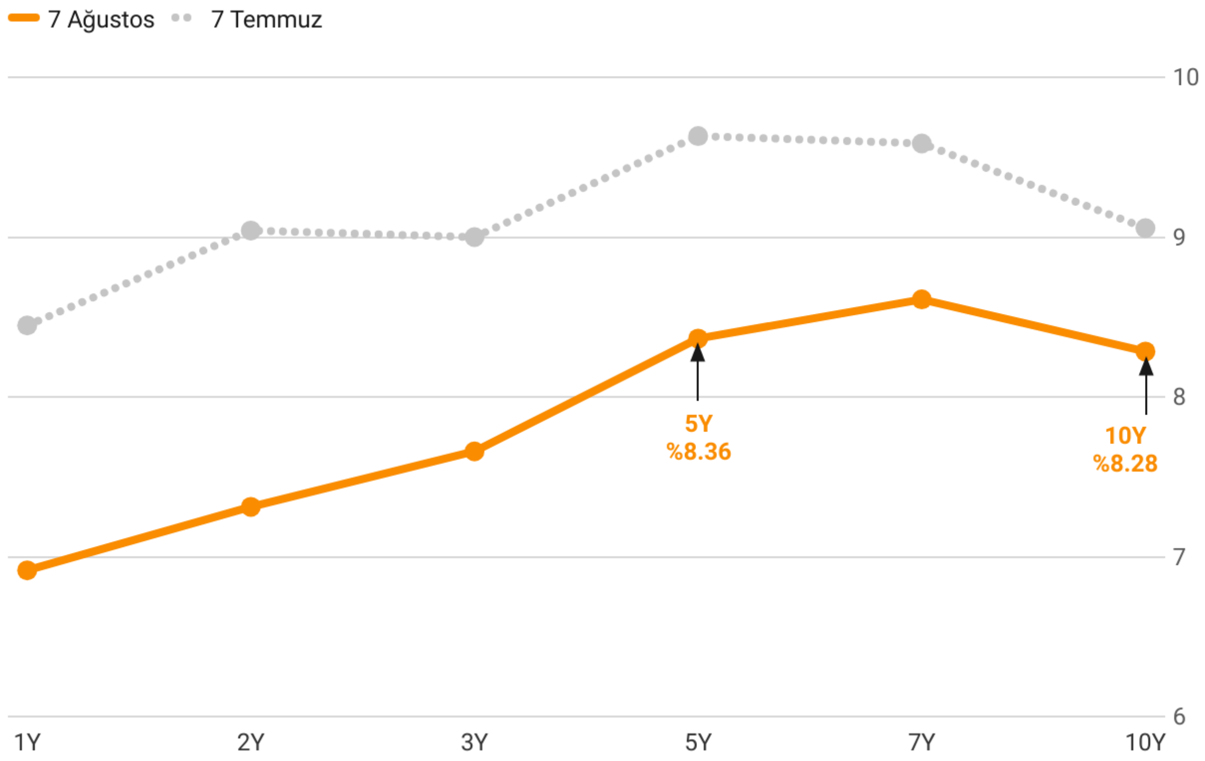
TL Tahvil Getiri Eğrisi (4 Ağustos)



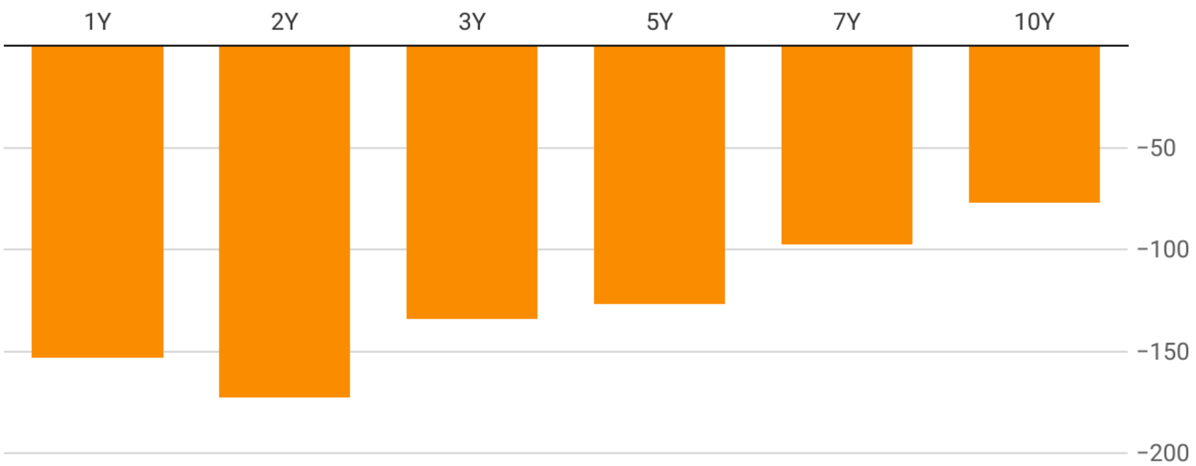
Aylık Değişim- baz puan



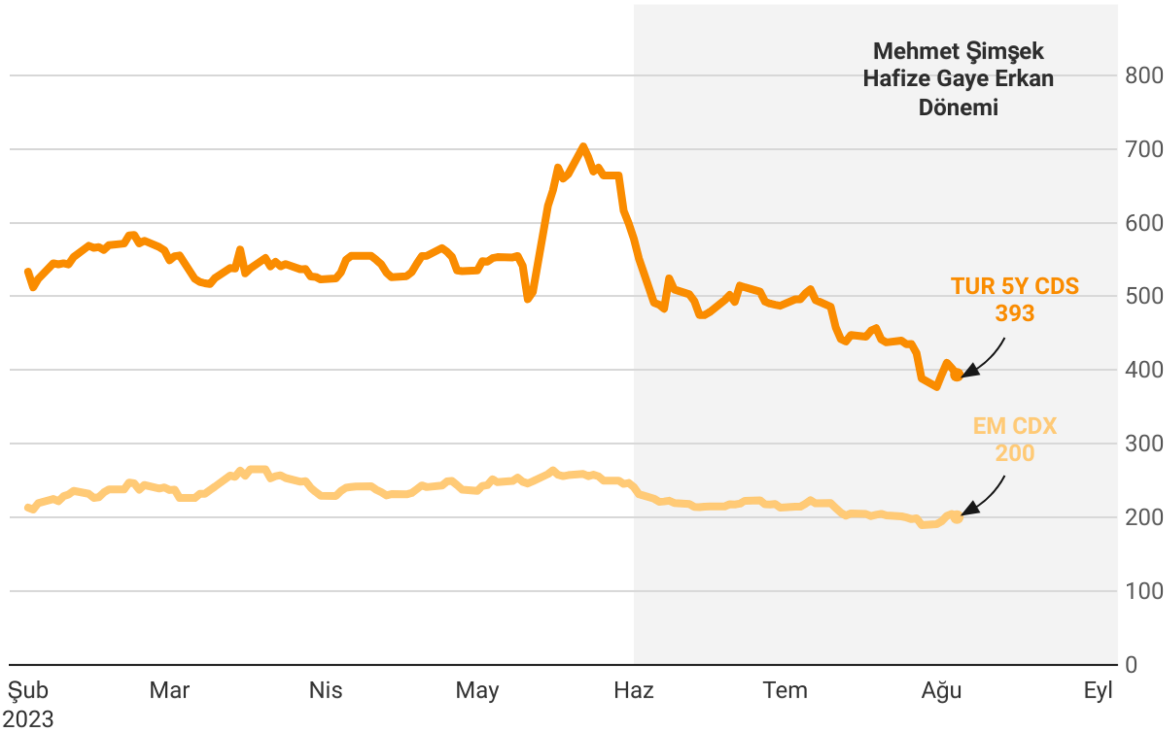
USD- Tahvil Getiri Eğrisi (7 Ağustos)



Aylık Değişim- baz puan



Risk Primi (4 Ağustos)



Ishares TUR Hisse Senedi Fonu (Fon değeri, Milyon USD)

US REACT: Cooling Job Market to Help Unstick Core Inflation

By Anna Wong (Economist) and Stuart Paul (Economist)

OUR TAKE: July's surprisingly low nonfarm payrolls, and the downward revision to June's figure, reinforce our view that cracks are emerging in the labor market. Firms cut workers' hours, something that has preceded larger-scale layoffs in past business cycles.

More important for the Fed's thinking ahead of the September 19-20 FOMC meeting will be wage growth. Average hourly earnings surprised on the upside, but – due to reduced work hours – weekly earnings rose at a very subdued pace. All in all, this report bolsters the case for the Fed to keep rates on hold in September.

· Headline nonfarm payrolls increased by 187k in July (vs. June's downwardly revised 185k), lower than our and the consensus estimate of 200k. It was the second straight negative surprise after more than a year when the payroll prints exceeded expectations every month. The two-month net revision was -49k.

· The household survey portrays a stronger labor market. Employment in the household survey increased 268k (vs. 273k prior), as the labor force increased 152k (vs. 133k prior) and the labor-force participation rate stayed at 62.6%. Adjusted to match the nonfarmpayroll methodology, household employment gained 566k (vs. 177k prior).

· The participation rate for prime-age workers declined modestly to 83.4% from 83.5%. That was due in large part to a drop in the prime-age female participation rate to 77.5% from 77.8%.

· With household employment increasing by more than the rise in the labor force, the unemployment rate fell to 3.5% (vs. 3.6% prior).

· Average hourly earnings grew 0.4% month on month – equal to June's pace, and above the consensus estimate of 0.3% – holding annual nominal wage growth at 4.4%.

· However, total labor income is a more relevant predictor of household spending. On that score, with average weekly hours worked declining to 34.3 from 34.4 in June, average weekly earnings grew a mere 0.1% month on month.

· The reduction in workers' hours follows a decline in hours worked in 2Q. Firms often cut workers' hours in the beginning stages of a downturn to reduce costs. Mass layoffs usually don't occur until one or two quarters into a recession.

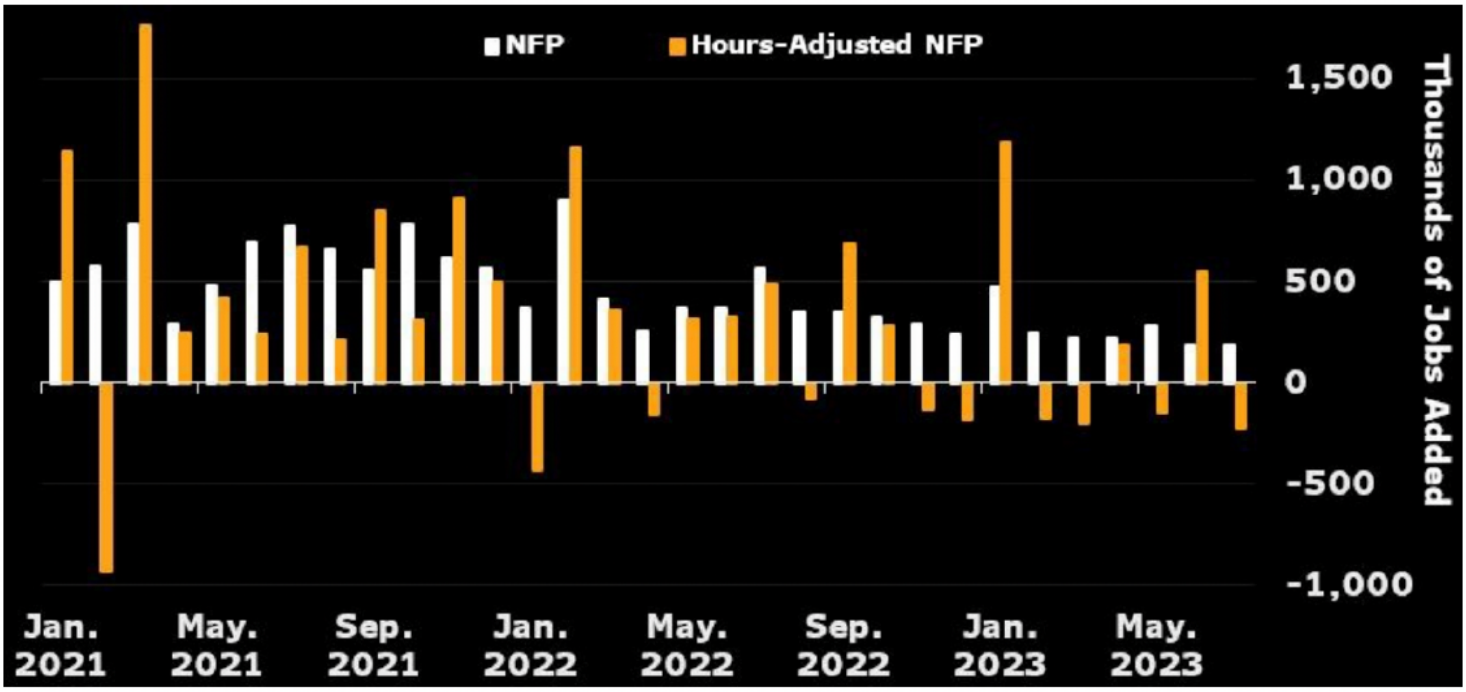
· After accounting for the growth in payrolls and netting out the effect of higher hourly wages and lower average hours worked, aggregate labor income grew approximately 0.25% month on month in July.

· In our view, the nonfarm-payroll data have overstated labor-market tightness for most of last year and this year. When revisions to the data are finally complete, we expect the 2022 numbers ultimately will be lowered by about 900k.

· Considering the sizable revisions to nonfarm-payroll data over the past two years, we're paying increased attention to alternative labor-market indicators. For example, the sharp slowdown in wage growth shown by the Fed's preferred Employment Cost Index, to 3.9% in 2Q from 4.7% previously, suggests the labor market could be cooling more sharply than nonfarm payrolls suggest.

· Bottom line: The labor market is cooling, providing a disinflationary impulse to the stickiest inflation categories that should last the rest of the year. The FOMC's July rate hike likely was the final one before an extended pause.

Hours-Adjusted Hiring Hints at Underlying Labor-Market Softness



Source: BLS, Bloomberg Economics. Note: We find the monthly change in weekly hours worked, based on hiring and the change in average hours worked across all workers. We then hold hours worked constant over time at 40 hours per week to generate the hours-adjusted NFP series.

Outlook

July's nonfarm-payroll report confirms that the labor market is cooling. The question is: Will the cooling proceed in a gradual downward line, or will it follow the historical norm – first slowly, then steeply? You could argue that July's 187k pace of hiring shows a resilient labor market, but history suggests that pace provides little reassurance about what may come shortly. Two months before the Great Recession began in December 2007, monthly hiring was growing at 166k, prompting talks of labor-market resilience then too.

The pace of layoffs has slowed in recent months, but layoffs and hiring freezes are still occurring. The bankruptcy of the trucking company Yellow, which affects 30k workers, will like be reflected in a lower payroll print for August.

We continue to expect a recession toward the end of this year, with the unemployment rate rising to 4.2% by then.

ECB INSIGHT: Rate Hike in September Remains on a Knife-Edge

By David Powell (Economist) and Jamie Rush (Economist)

Bloomberg Economics continues to look for the European Central Bank, with an eye oncore inflation, to raise its main policy rates by 25 basis points for a final time in this cycle in September. However, the weakness in economic activity, good news on underlying inflation and the spread of dovish sentiment on the Governing Council all raise the probability that the peak for interest rates has already been reached in the euro area.

We still think the ECB will raise the deposit rate to 4.00% from 3.75% on Sept. 14. However, risks of a pause have grown as recent data releases have hardly suggested more tightening is needed.

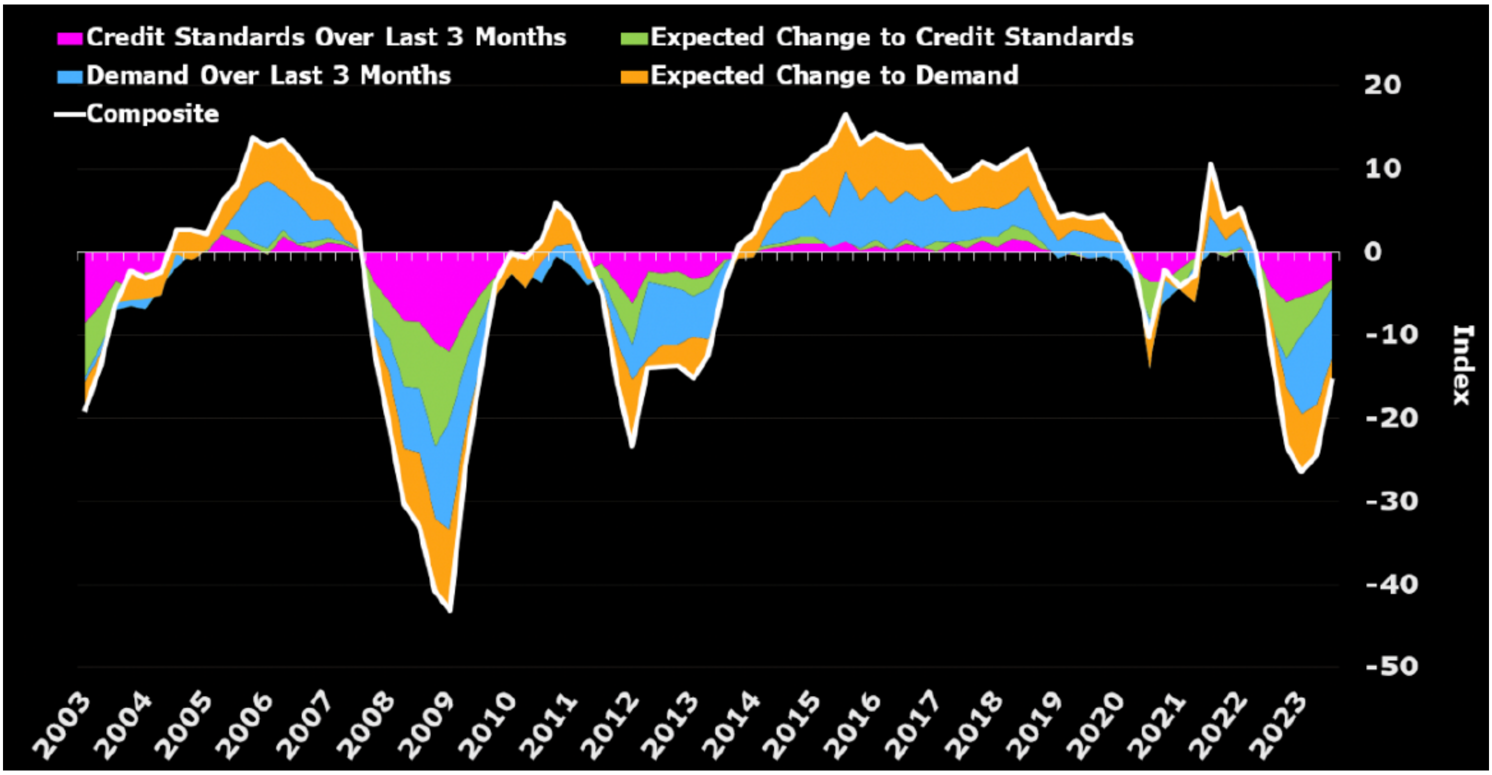
ECB President Christine Lagarde has already started laying the groundwork for a pause in September to keep that option open. The inflation report for August could easily sway the Governing Council in either direction.

Our Core Scenario

Lagarde insisted at the ECB's press conference last week that the next decision is up in the air. "So we are deliberately data-dependent and we have an open mind as to what the decisions will be in September and in subsequent meetings," she said.

In the end, we think, together with the risks posed by high wage growth, elevated core inflation will prompt a final 25-bp hike in September. That gauge of underlying price increases stood at 5.5% year over year in July. Changes to the weights in the basket of goods and services used to calculate the inflation numbers and base effects from cheap transport tickets introduced in Germany over June to August of last year will keep core inflation elevated through the summer.

Credit Conditions Continue to Tighten



Underlying Price Pressures Are Easing

Lagarde once again flagged the possibility of a pause in September in an interview this week . “There could be a further hike of the policy rate or perhaps a pause. A pause, whenever it occurs, in September of later, would not necessarily be definitive,” she told interviewers from Le Figaro. Those certainly don’t sound like the words of someone who’s sure the ECB will hike again at its next meeting.

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