



GOLDERA

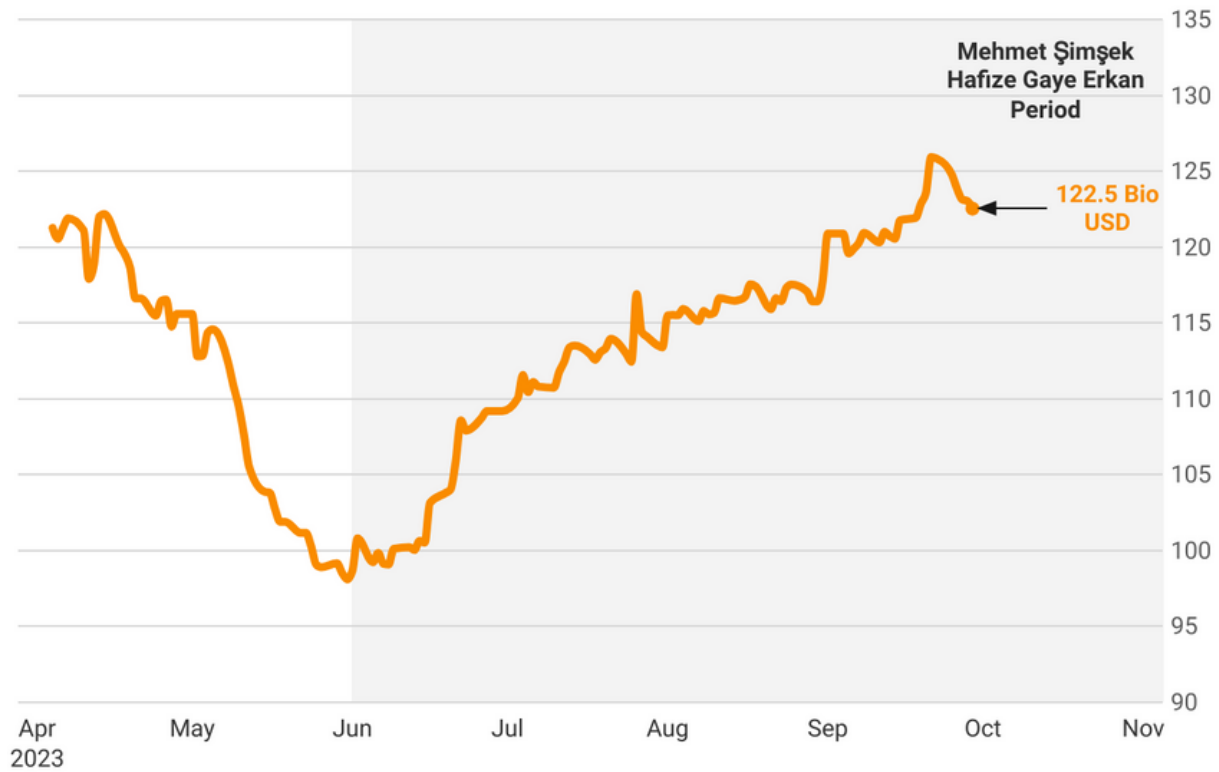
MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

BI WEEKLY BULLETIN ON TÜRKİYE

SEPTEMBER 19 – SEPTEMBER 30 2023

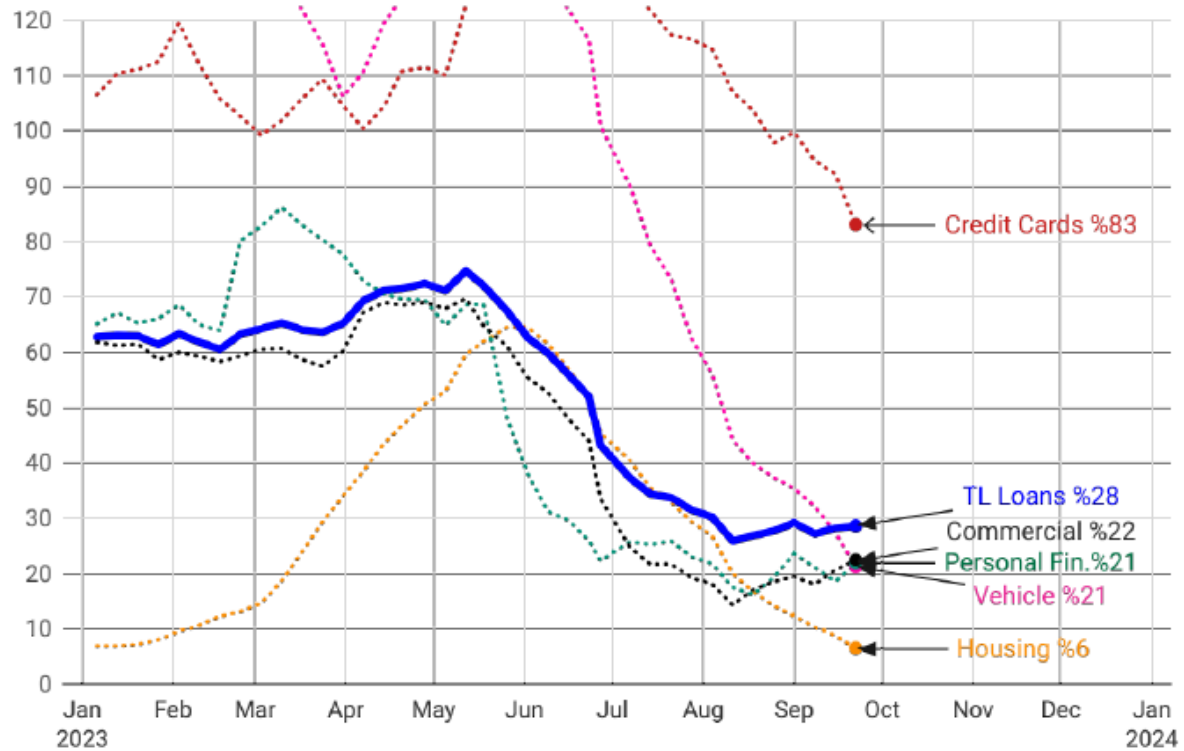
CBRT Gross Reserves (September 29)



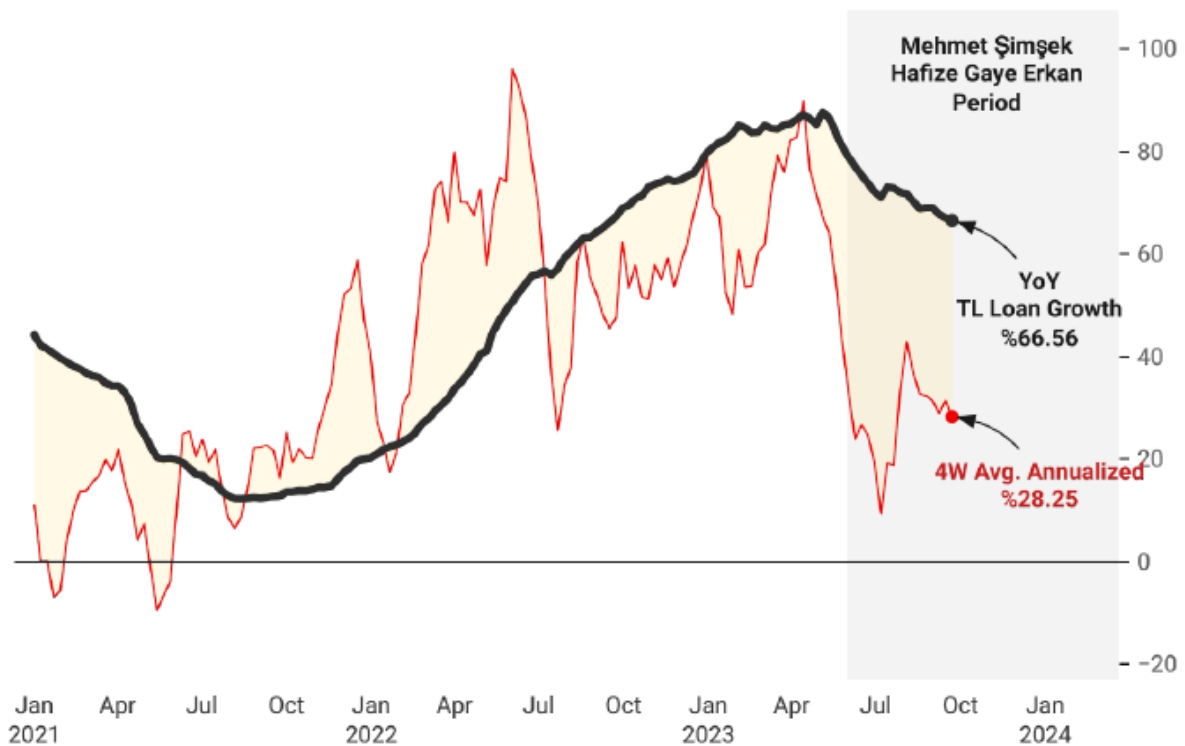
Assets (Bio USD)	30/12/22	24/09/23	YTD
Gold	45.89	41.44	-4.45
FX Banknotes	9.60	3.56	-6.04
Securities + Deposits	10.29	4.88	-5.41
Other FX Balance	62.94	74.70	+11.76
TOTAL	128.72	124.58	-4.14

Liabilities (Bio USD)	30/12/22	24/09/23	YTD
To Turkish Banks	85.04	71.41	-13.63
To IMF & International Insti.	16.25	29.44	+13.19
To Turkish Treasury	11.85	9.78	-2.07
To Turkish Banks in Swap Contract	47.41	55.10	+7.69
To Foreign Central Banks	23.35	23.35	-
TOTAL	183.90	189.08	+5.18

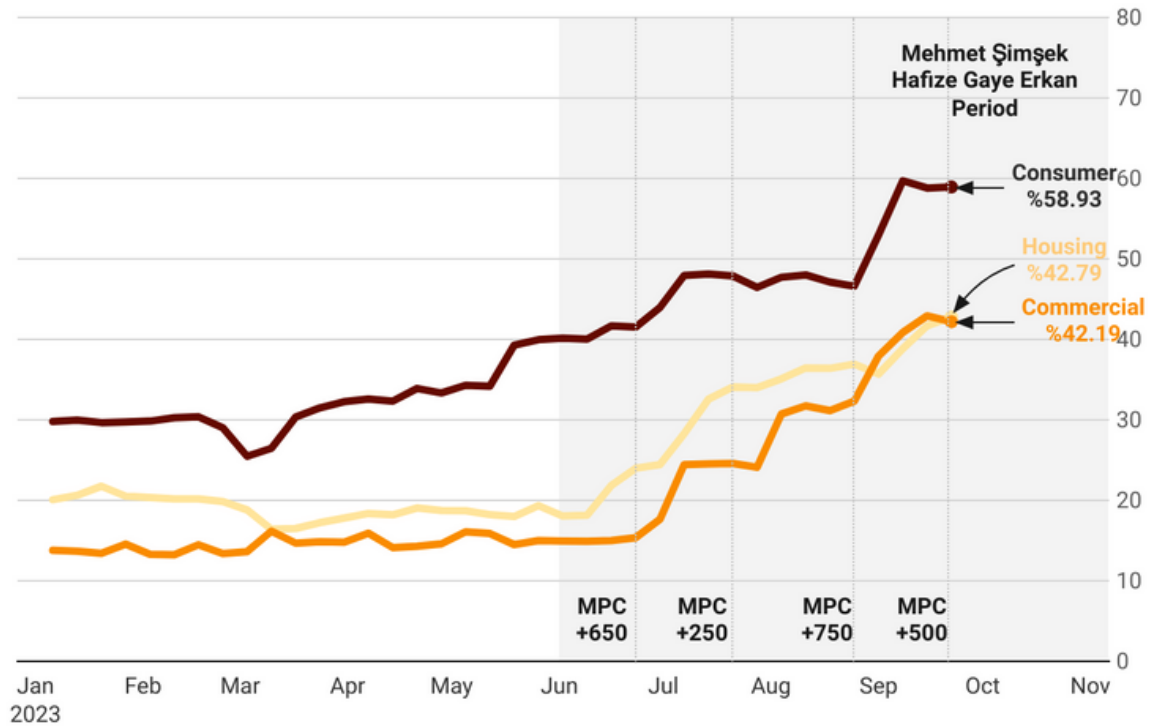
TL Loan Growth Momentum(Sep. 22, 13 Week. Ann., %)



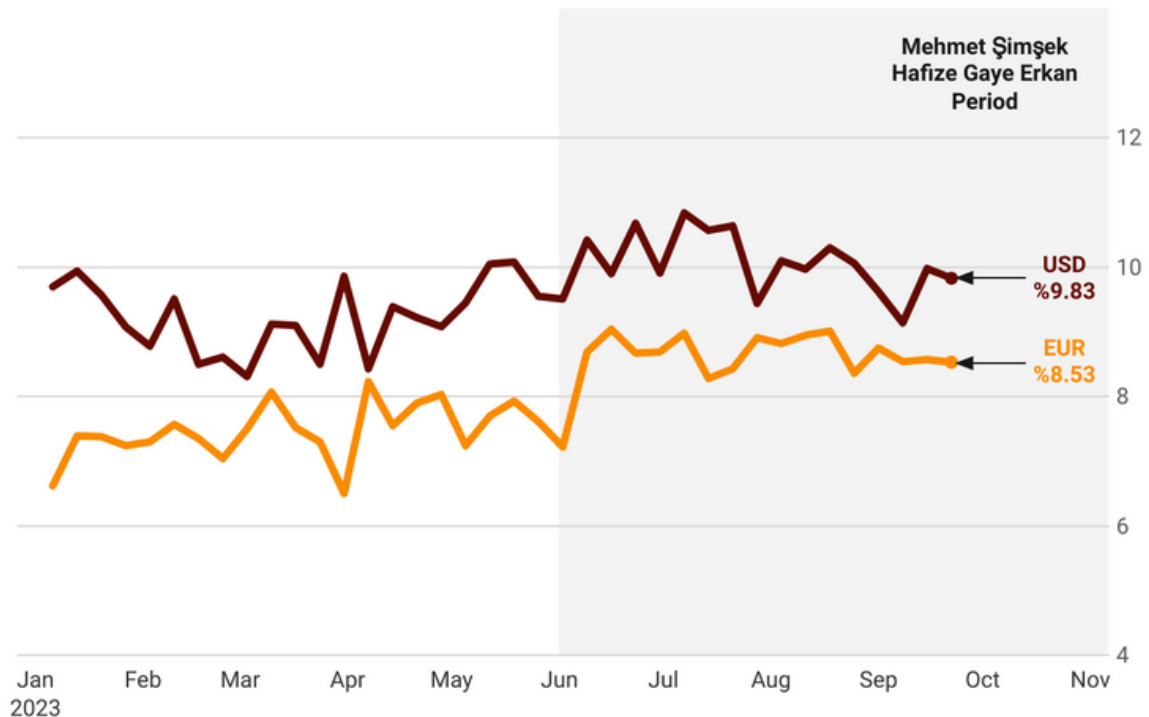
TL Loan Growth (September 22, YoY)



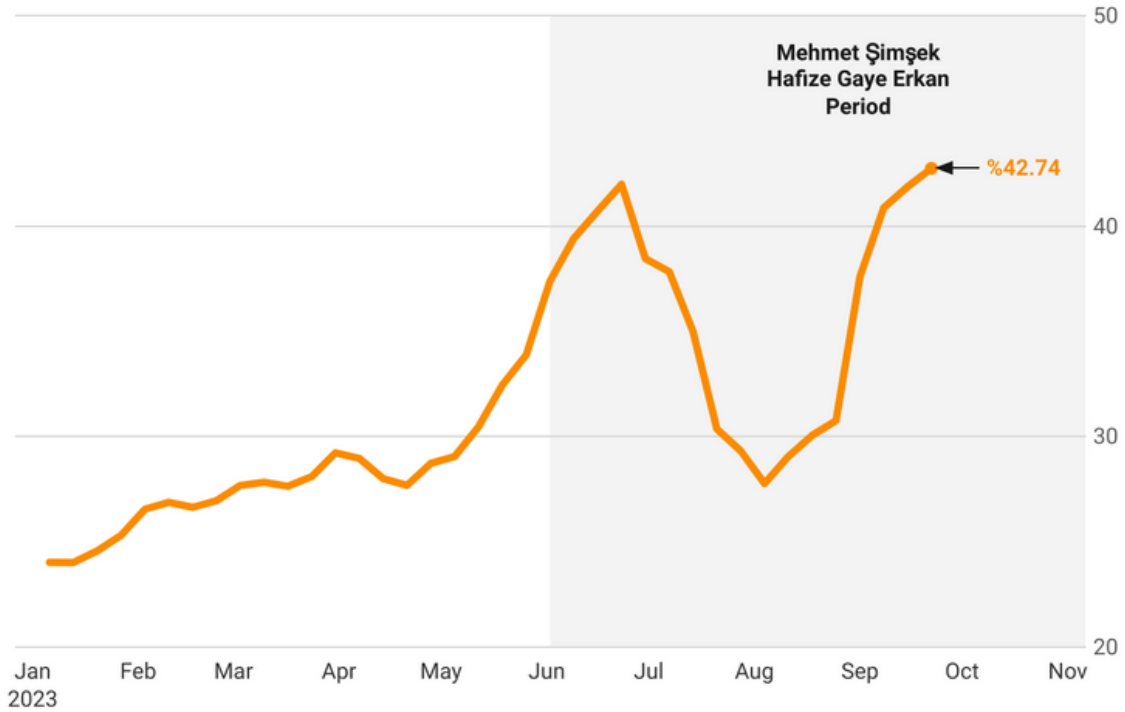
TL Loan Interest Rates (% , September 22)



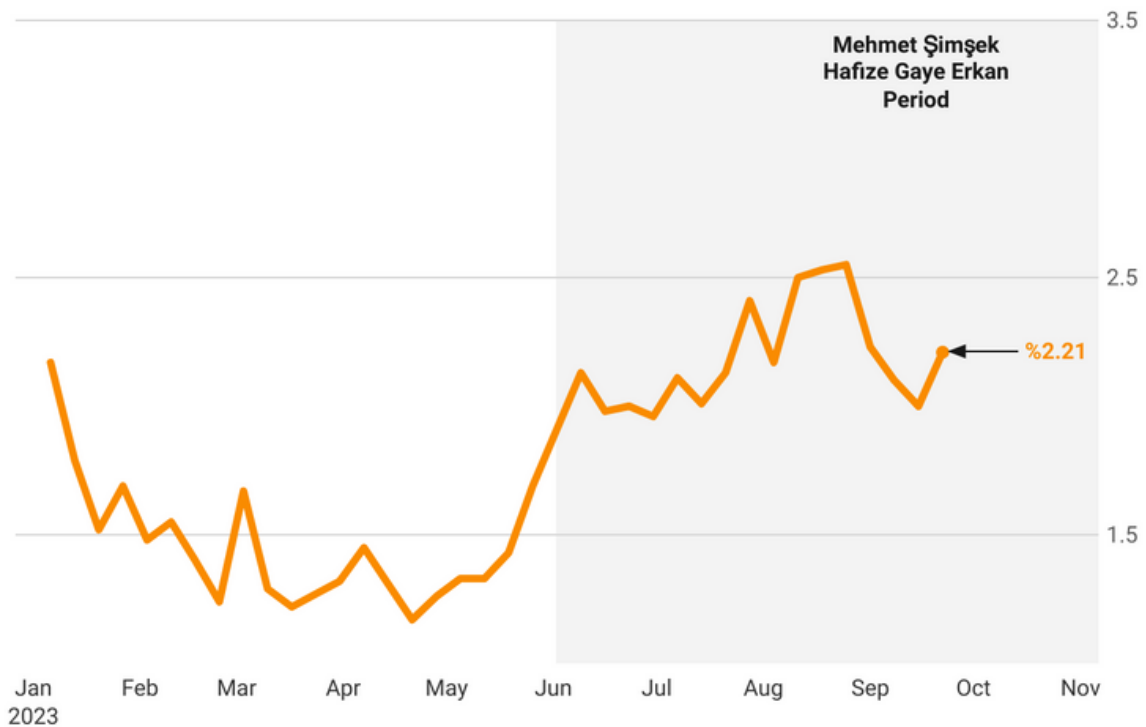
FX Loan Interest Rates (% , September 22)



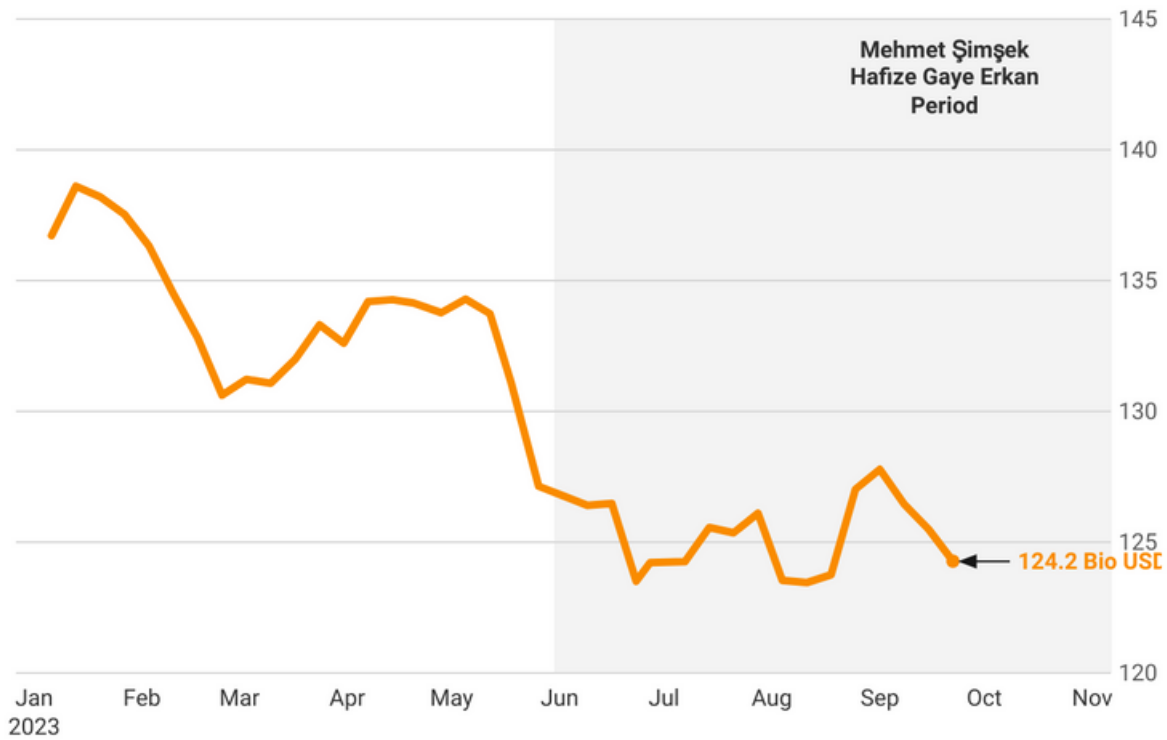
TL Deposit Interest Rates - 3M Maturity (September 22)



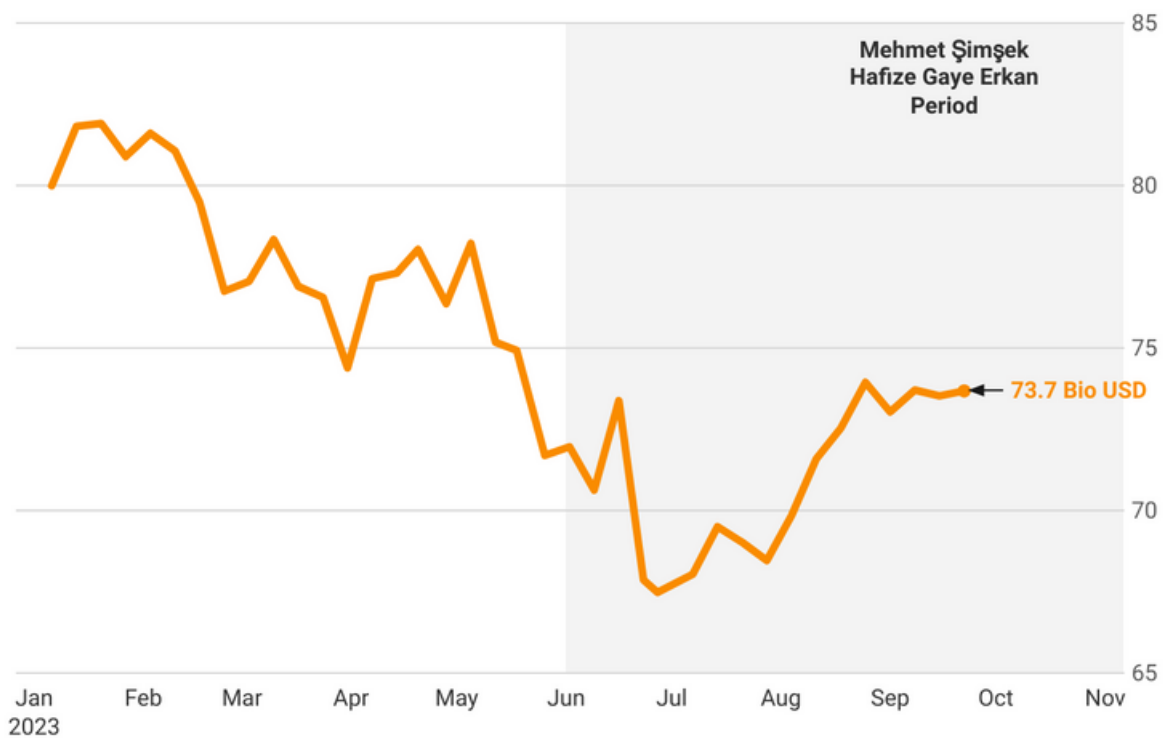
USD Deposit Interest Rates - 3M Maturity (September 22)



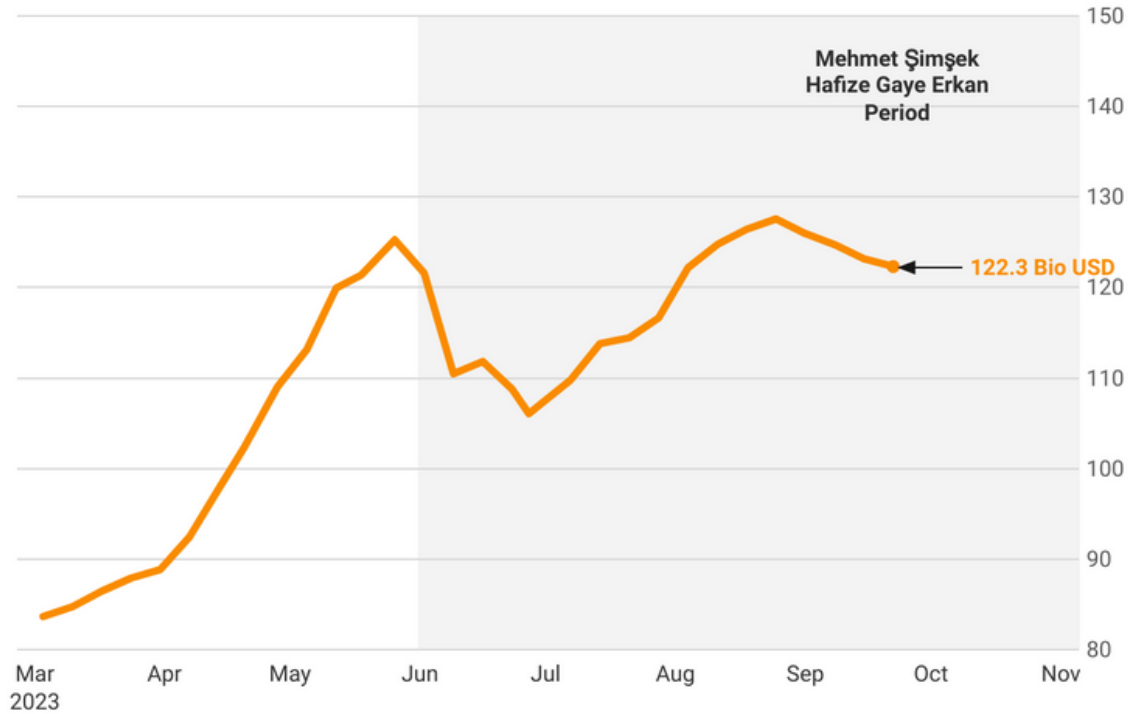
Retail FX Deposits (September 22)



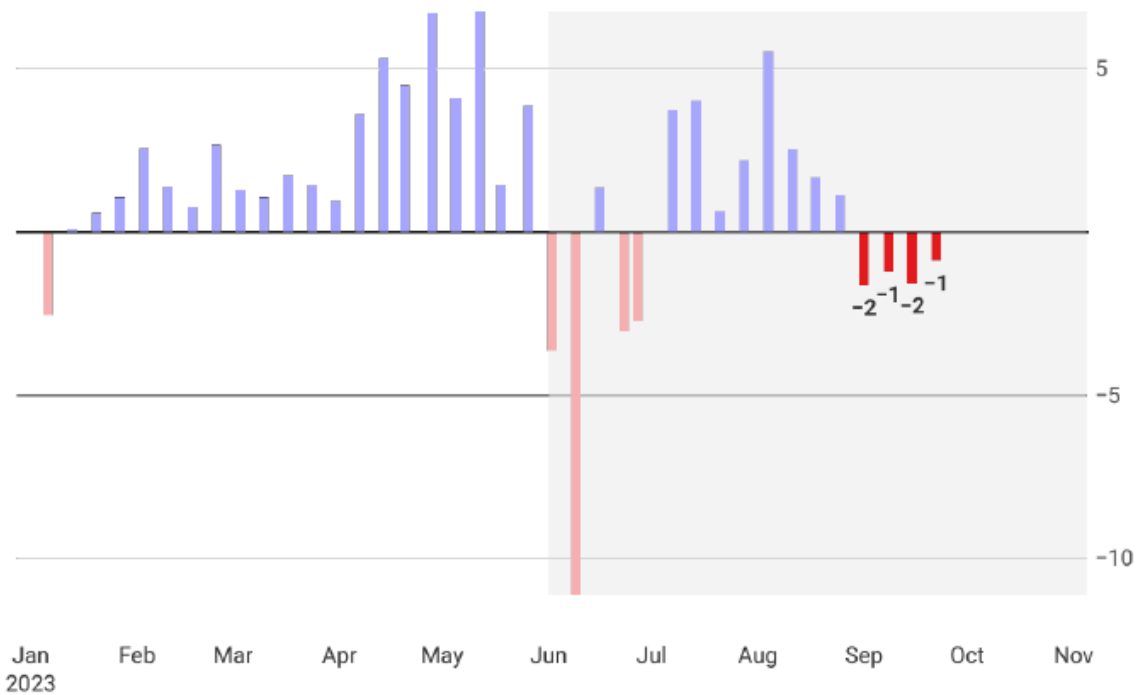
Commercial FX Deposits (September 22)



FX Protected TL Deposits (USD - as of September 22)



WoW Change (Bio USD)



Sovereign Credit Risk (September 29)

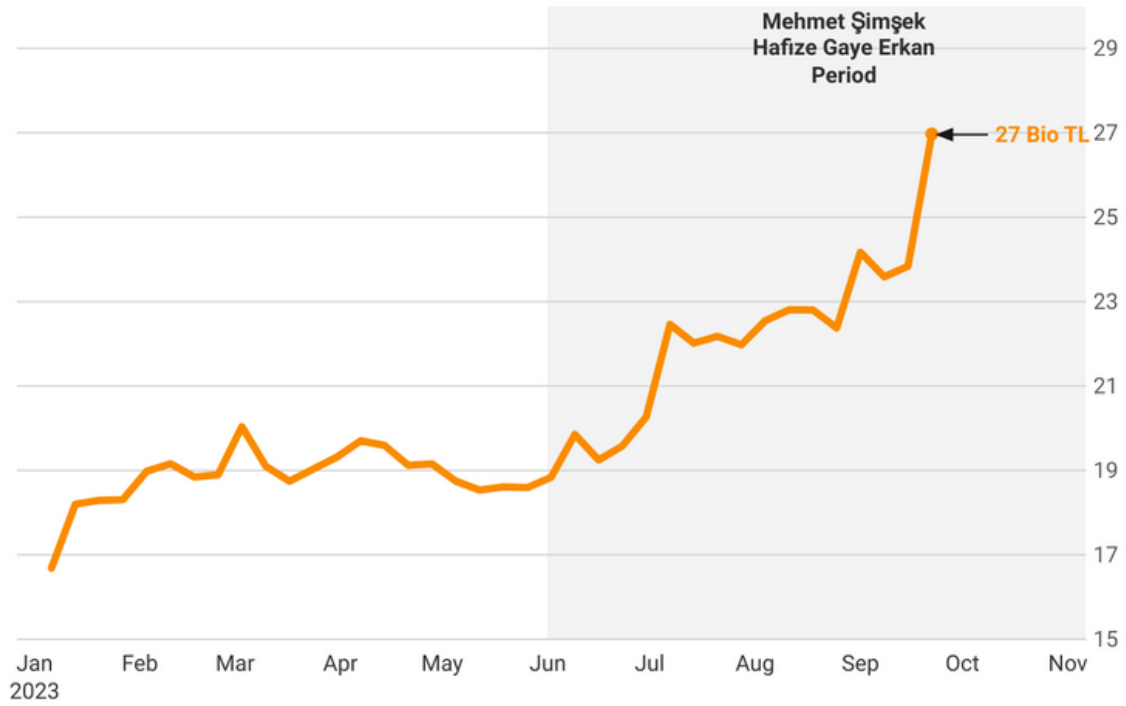


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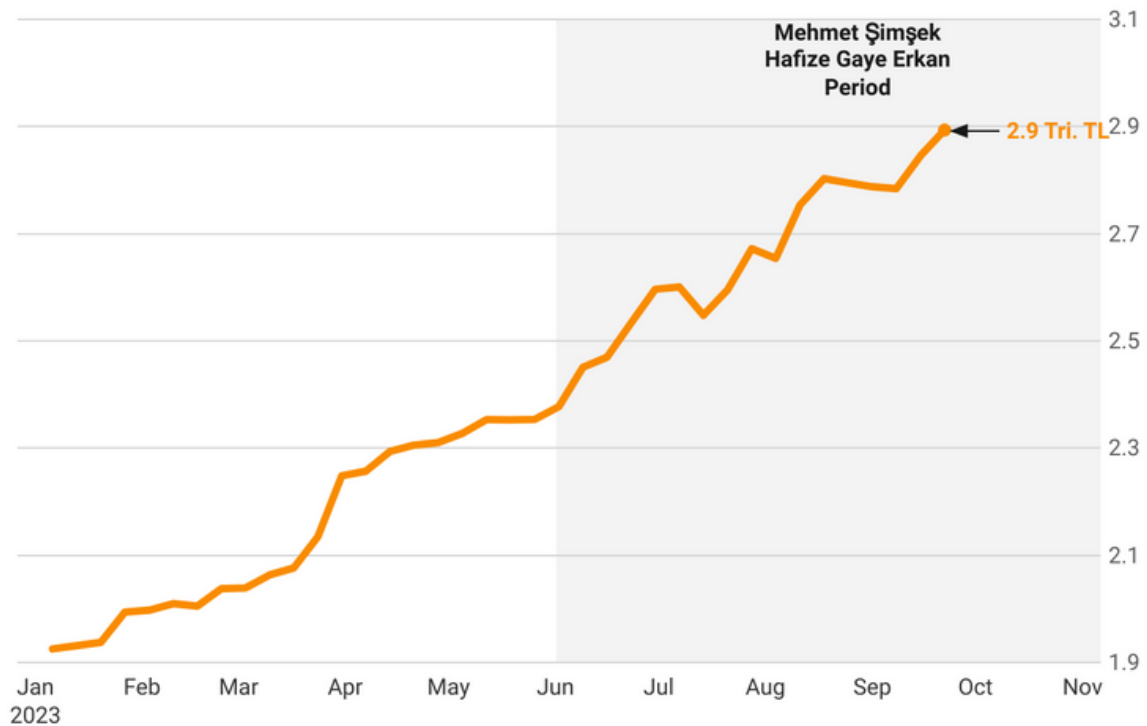
Ishares TUR ETF (AUM, Mil USD)



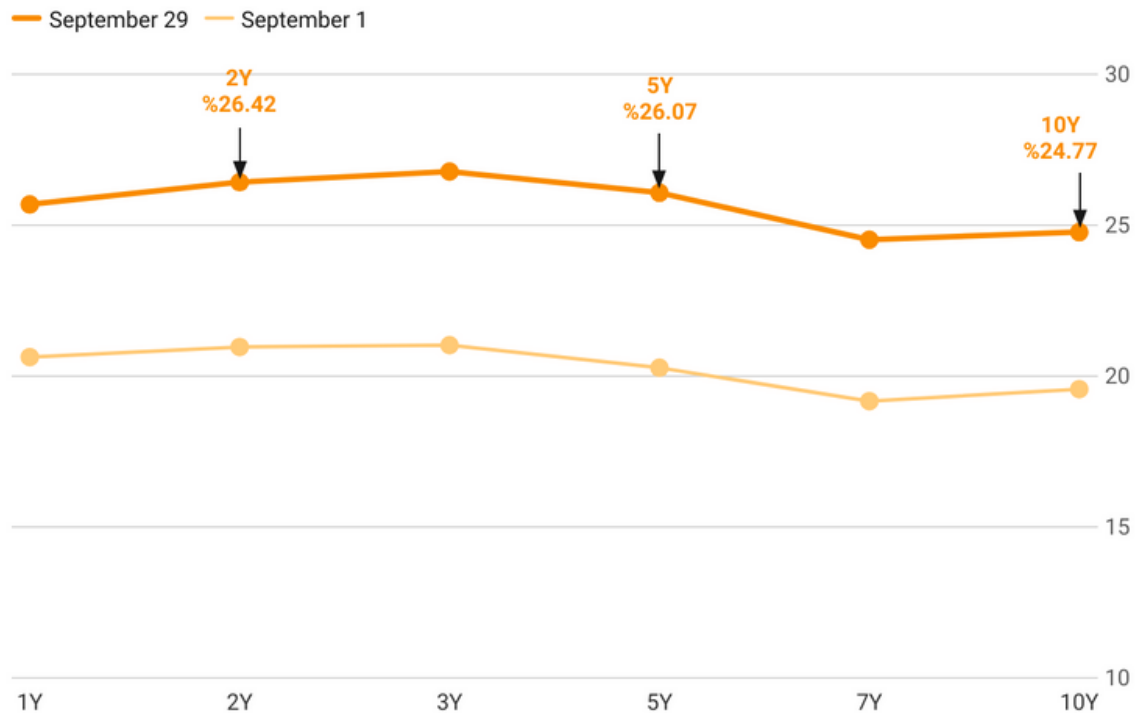
TL Treasury Bonds - For. Ownership (Nom, September 22)



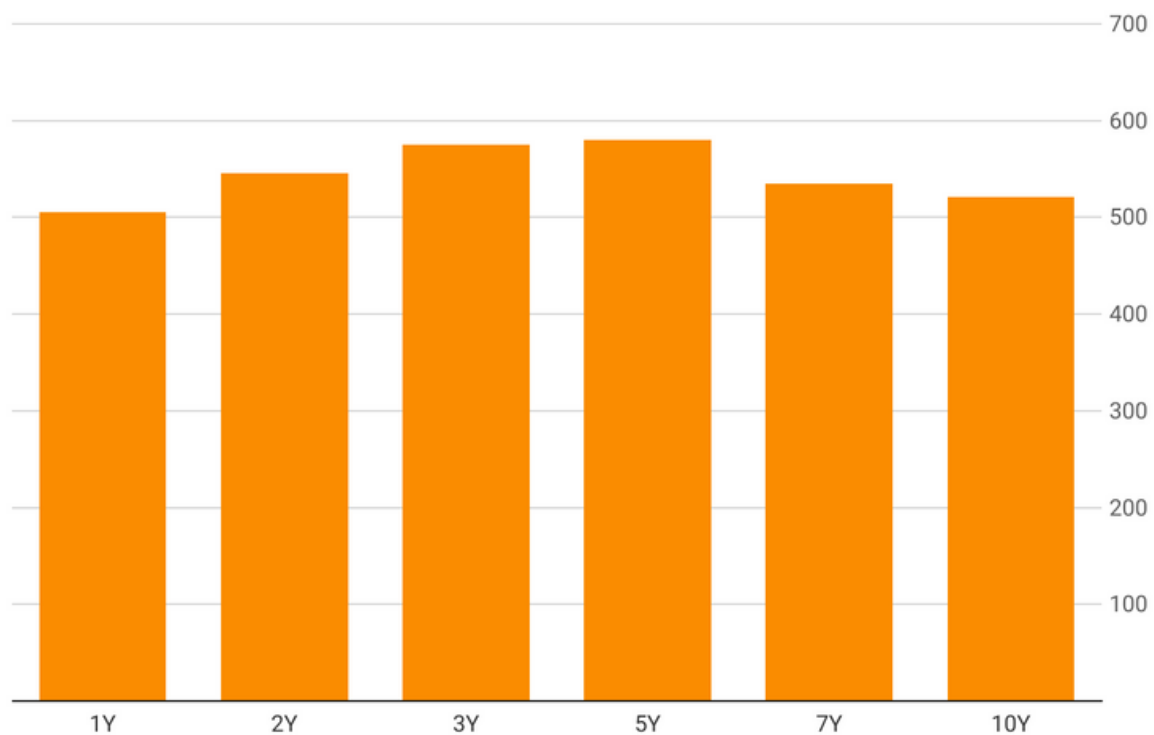
TL Treasury Bonds - Outstanding (Nom., September 22)



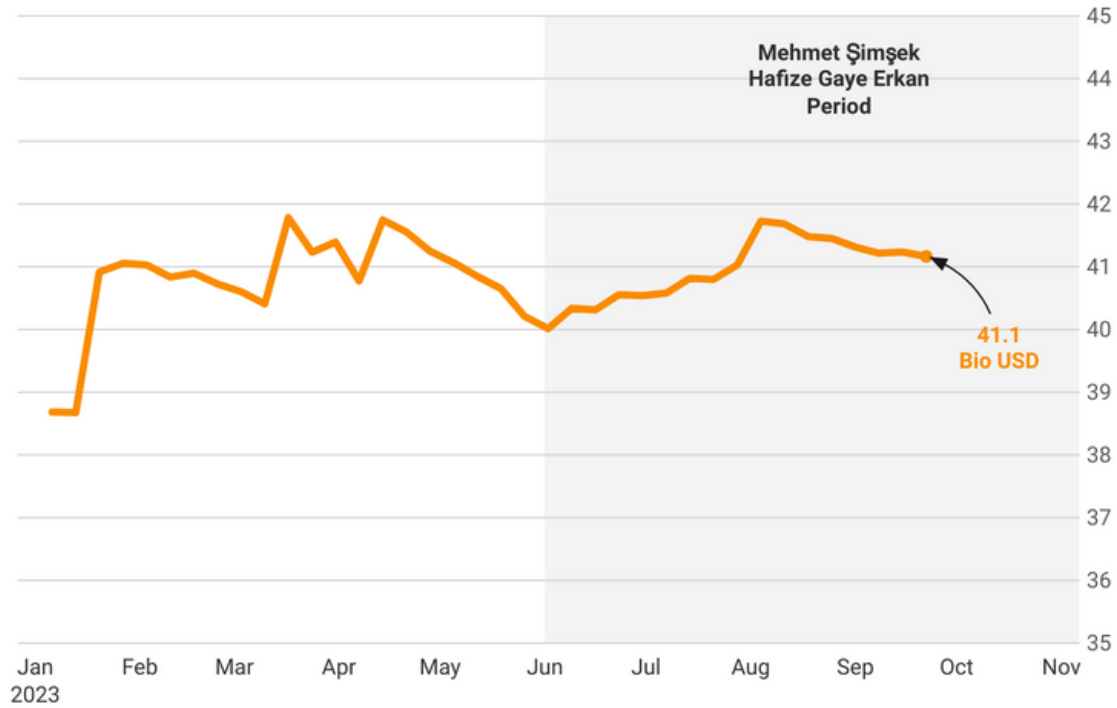
TL Sovereign Yield Curve (September 29)



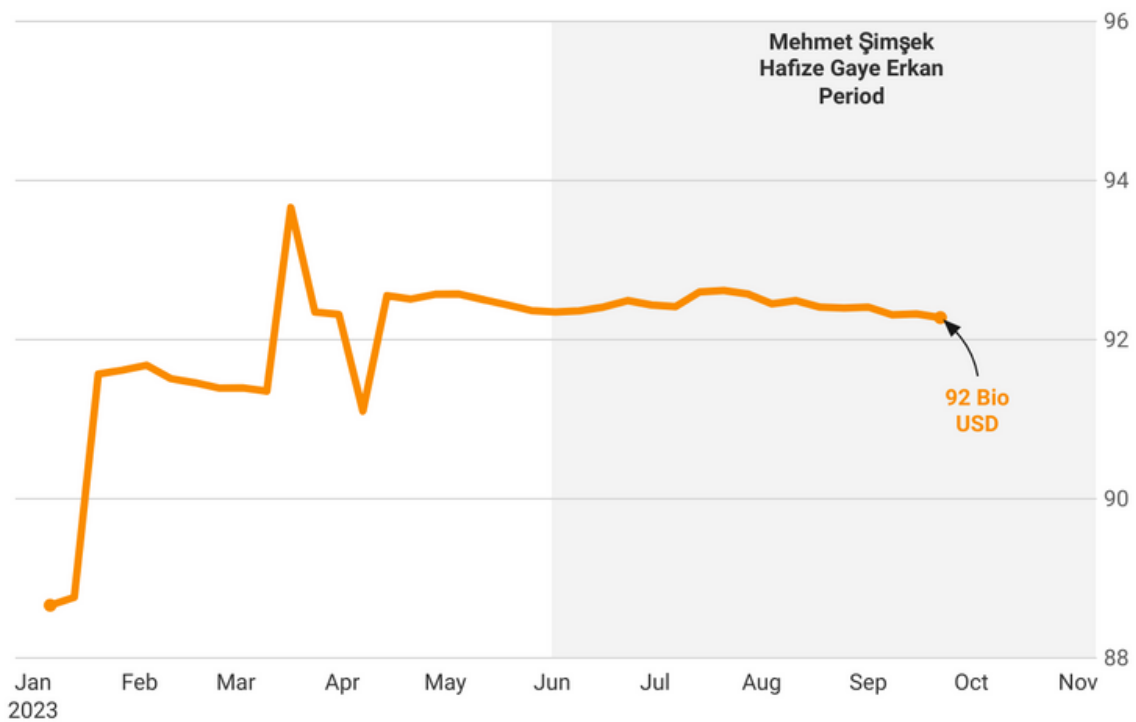
MoM Chg- basis points



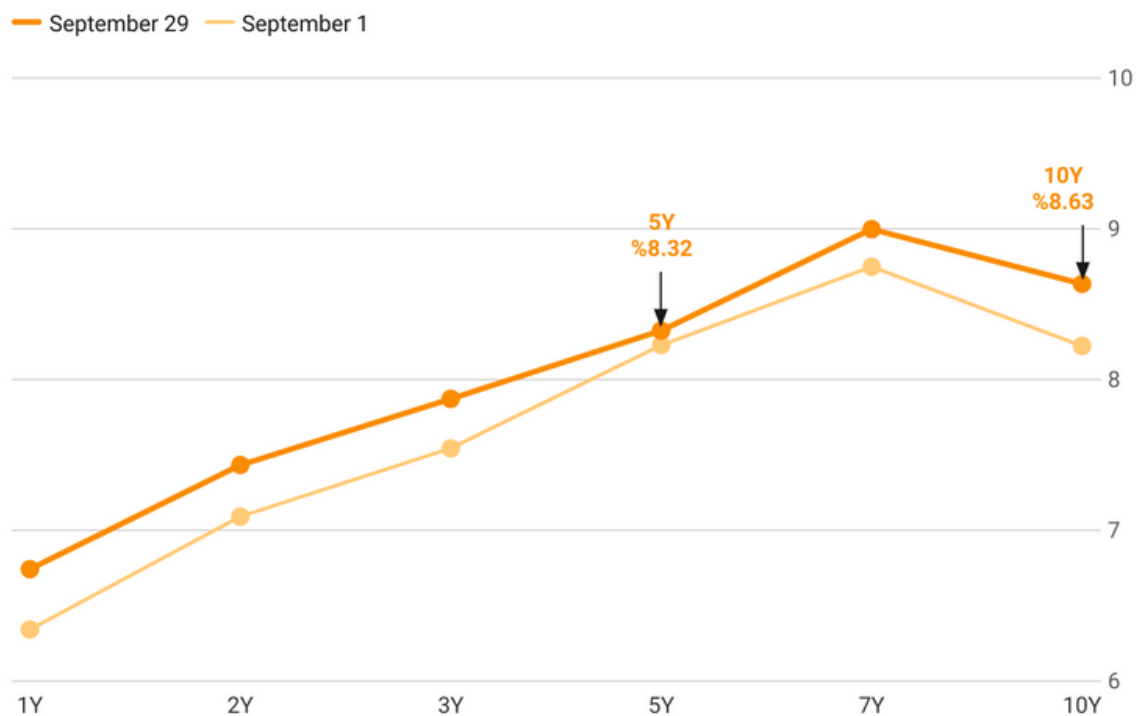
Eurobond- Foreign Ownership (Nom., September 22)



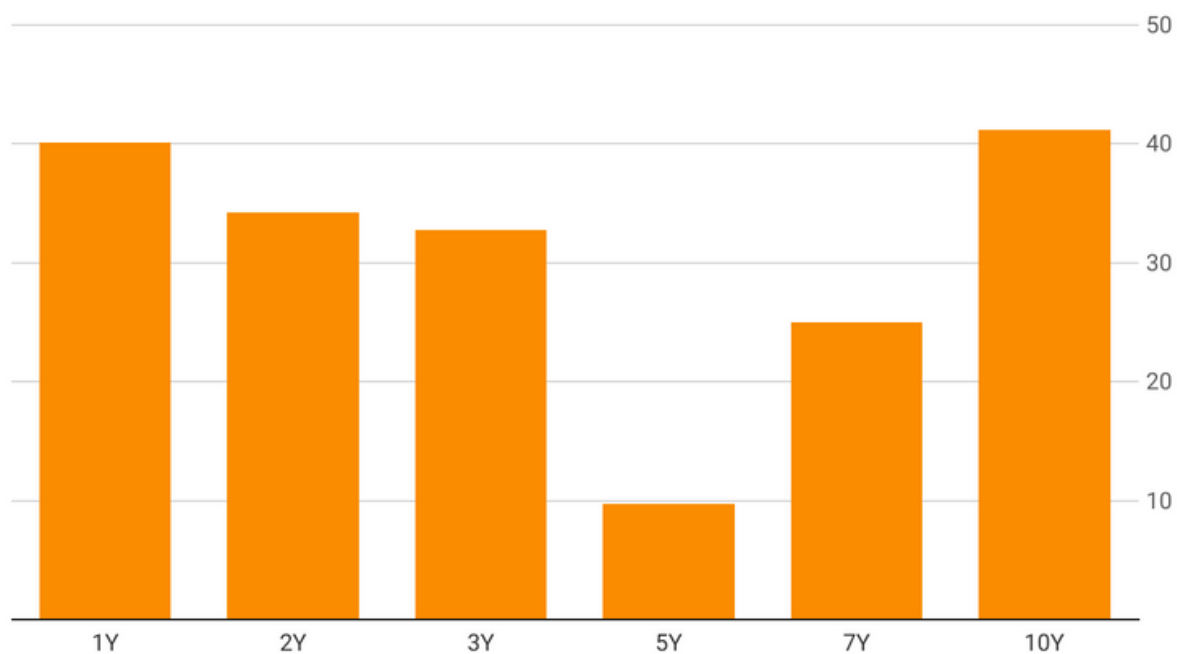
Eurobond- Outstanding (Nom., September 22)



USD Sovereign Yield Curve (September 29)



MoM Chg- basis points



TURKEY REACT: Central Bank on Track to Reach 35% by Year-End

2023-09-21

By Selva Bahar Baziki (Economist)

OUR TAKE: After yet another outsized step in the tightening cycle, we see the Central Bank of the Republic of Turkey taking its key policy rate to 35% by year-end. We expect the bank to support its rate hikes with additional tightening using alternative tools.

The CBRT lifted its one-week repo rate by 500 basis points to 30% on Sept. 21. The move matched our call and the median consensus estimate.

The statement recognizes inflationary risks are tilted heavily to the upside and will likely result in year- end price gains near the top of the central bank's forecast range – though it also sees an underlying trend of inflation “on course” to ease ahead. We expect inflation of 65.5% by year-end, peaking at 70% in 2Q24 before easing.

The decision follows regulatory changes to the bank's alternative tool box. The bank recently eased conditions on its rediscount credit facility for exporters - a pre-emptive move we read as a sign that a large hike was coming. That was followed by revisions to reserve-requirement commissions and securities-maintenance regulations that incentivized banks to make regular lira deposits more attractive.

We expect the central bank to make further amendments to these regulations and practices, and to guide a shift in credit growth away from consumer loans toward corporate loans. The central bank thinks the latter will help ease inflationary pressures by curbing consumption and demand for imported goods.

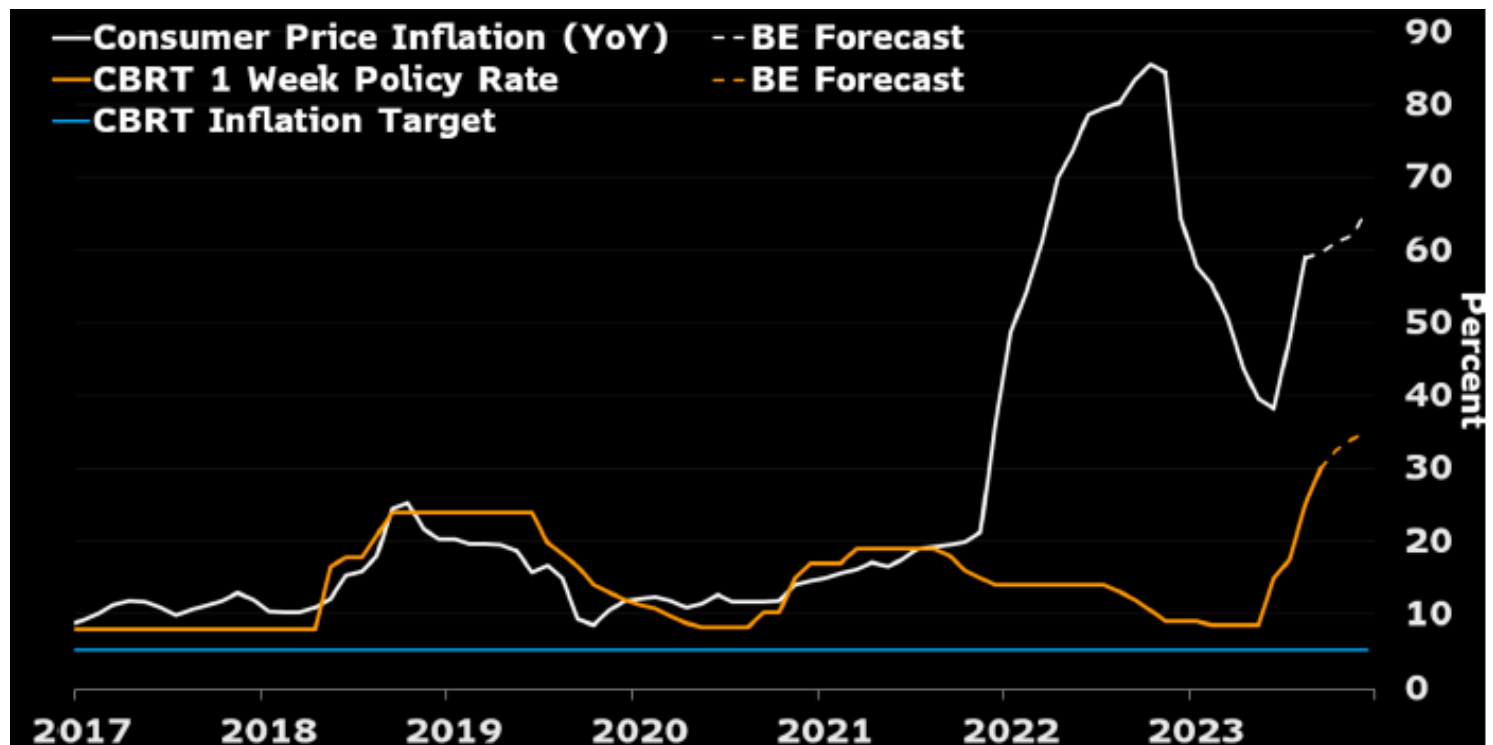
We maintain our earlier call that the central bank will lift rates to 35% by year-end in more “gradual” steps – guidance echoed in the release accompanying the Sept. 21 decision. Ahead of local elections next March, we expect the CBRT to hold rates at 35% through 1Q24, then raise borrowing costs further in 2Q24.

Relative to a front-loaded tightening cycle, we see this go-stop-go approach as likely to result in higher inflation and less-anchored inflation expectations. That will force the central bank to stay tighter for longer following the March vote, seeking to reverse the trend in both actual inflation and inflation expectations.

Turkey Rate Hikes Unlikely to Prevent Inflation Surge

The Sept. 21 decision adds to shifts in the central bank's policy stance since May's presidential and parliamentary elections, alongside changes in its top management. Highlights of the policy pivot include:

- A cumulative 2,150 bps of rate hikes executed over four meetings, including a mammoth 750-bp rise in August.
- A revision to the central bank's reserve-requirements regulation after the July policy meeting - a tightening move we calculate as equivalent to an additional 40-bp hike.
- Changes in securities-maintenance rules in July that eased the effective cap on lending rates. That made it possible for banks to lift borrowing costs faster, reversing the earlier anomalous situation of lending rates falling behind deposit rates.



Lira Drops Even After Turkey Delivers 500-Basis-Points Rate Hike

2023-09-21

- Investors told tackling inflation is Turkey's 'No. 1 priority'
- Erdogan signed off on monetary tightening to cool price growth

By Beril Akman

Turkey's central bank delivered another sizable interest-rate hike, matching expectations but disappointing a market that was pricing in more aggressive moves to curb inflation running at almost 60%.

The lira reversed gains after the Monetary Policy Committee raised rates for a fourth straight time to bring its benchmark to 30% from 25%. It reiterated plans to proceed "in a timely and gradual manner until a significant improvement in the inflation outlook is achieved."

But a tightening cycle that would have been unthinkable just months ago is no longer proving enough in the face of an escalating cost-of-living crisis that's pushing Turkish interest rates deeper below zero when adjusted for inflation.

With the lira on track for its worst day against the dollar this month, the market is putting the central bank on notice over a decision that looks "insufficient," according Henrik Gullberg, a macro strategist at Coex Partners Ltd.

"The Turkish central bank needs to over-deliver in order to make a difference," Gullberg said.

The stakes are high as President Recep Tayyip Erdogan's new team of technocrats tries to woo investors who've shunned Turkey after years of erratic and unconventional policies knocked the economy off balance.

Initially criticized for timid rate increases after Governor Hafize Gaye Erkan's appointment in June, the central bank has upped their pace starting with last month's decision to hike by 750 basis points that exceeded most forecasts. In a statement accompanying the move on Thursday, the central bank said it's "determined to establish the disinflation course in 2024."

Traders Ramp Up Bets for Higher Turkish Rates Lira swaps show expectations for rate hikes are on the rise



‘Upside Risks’

“As the strong course of domestic demand and the stickiness of services inflation persist, the increase in oil prices and the ongoing deterioration in inflation expectations pose additional upside risks to inflation,” the MPC said on Thursday.

“Increasing domestic and foreign demand for Turkish lira-denominated assets” is among factors that “will contribute significantly to price stability,” it said.

Marek Drimal, Societe Generale’s lead CEEMEA strategist, called the 500 basis-point rate hike “a solid increase” but warned the lira will likely come under pressure in the months ahead.

“Importantly, the tone and the message of the MPC statement also suggests further gradual rate hikes are in the pipeline,” he said. “With that said, the lira is likely to see further weakening in the fourth quarter as the negative seasonality of the external balance kicks in again, while real rates remain deeply negative.”

TURKEY INSIGHT: Credit Favors Exporters, Inflation Risks Ahead

2023-09-28

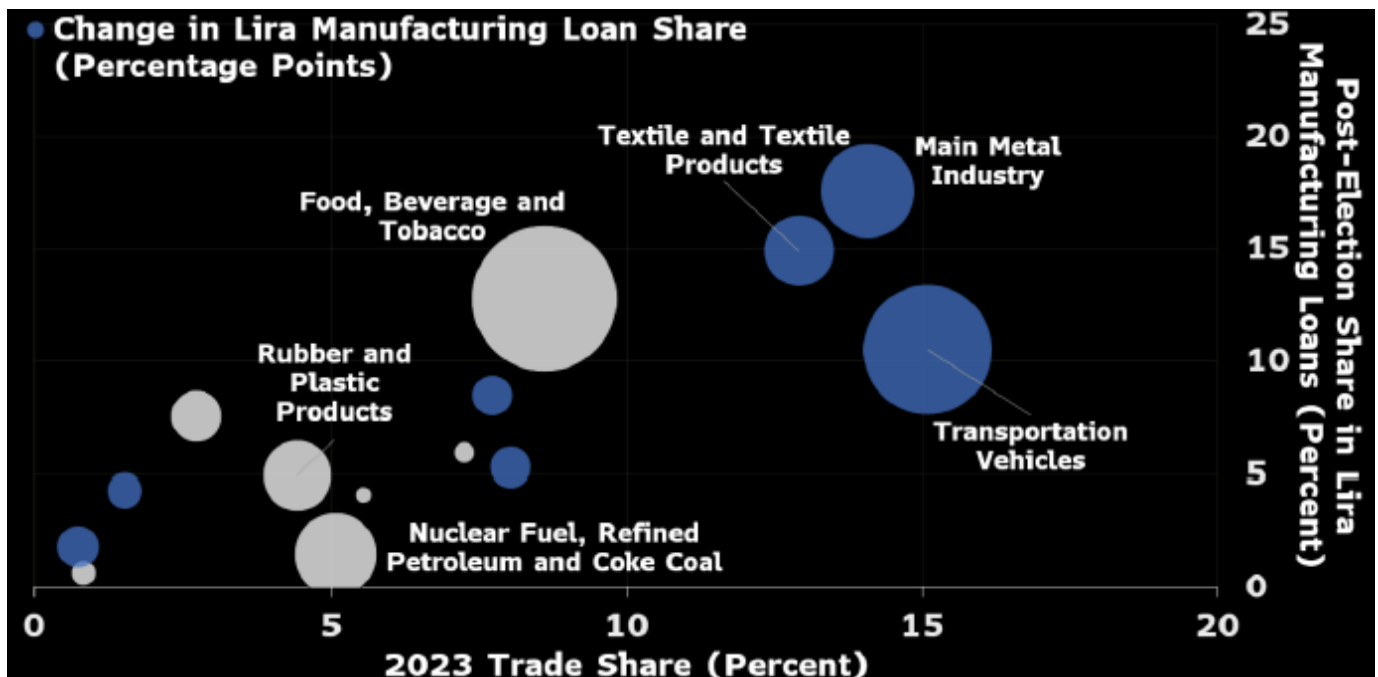
By Selva Bahar Baziki (Economist)

Turkey's policy pivot has been successful in slowing down credit growth and shifting new issuances in favor of high-export industries. But we see this picture changing. In our view, the relatively sharp drop in state banks' consumer lending is in preparation of a new housing credit scheme ahead of the upcoming local elections.

The policy flip since May's elections includes a cumulative 2150-basis-point increase in borrowing costs, tighter credit growth caps, and guidance that aims to switch credit flow toward exporting firms.

Thus, lira credit growth eased from about 80% in the last week of May (13-week growth rate, annualized) to about a quarter of that by mid-September – with commercial loans relatively stable at around 20% for over a month.

Not only did growth in credit slow down, but it also shifted shape in line with the export-favoring nature of the current policy. Manufacturing firms (which make up nearly 95% of exports) claim a larger share of lira loans post May's elections. Within the group, the top exporting industries for the past five years (textile, metal and transportation vehicles) saw the largest increase in their loan shares since the vote.



‘Post-Election Credit Change Favors High-Export Sectors

- Interestingly, growth in consumer loans are easing faster in state banks relative to the rest of the sector.
- Data as of mid-September show the consumer loan portfolio for state lenders remained nearly unchanged compared to 13 weeks ago, while in private counterparts there was an increase of about 30% (annualized).
- We see this as a sign that state banks are pooling funds in anticipation the government might announce yet another affordable housing scheme ahead of next March’s local elections. Similar measures during previous elections have contributed to the surge in state lenders’ share in the housing loan market – currently at around 65%.
- That would be bad news for the central bank, as such a move would add to the inflationary pressures when risks are already tilted to the upside. Price gains printed at 58.9% in August. Our year-end call is 65.5%, above the central bank’s latest forecast of 58% issued in late July.

TURKEY INSIGHT: Stealth Interventions Return, Reaching \$226B

2023-09-28

By Selva Bahar Baziki (Economist)

We estimate that the Central Bank of the Republic of Turkey is back at its stealth interventions in currency markets, taking the sum total since December 2021 through August to \$226 billion - nearly a quarter of the country's GDP. We expect the central bank to continue with this practice in the short term alongside its tightening cycle to bolster the lira.

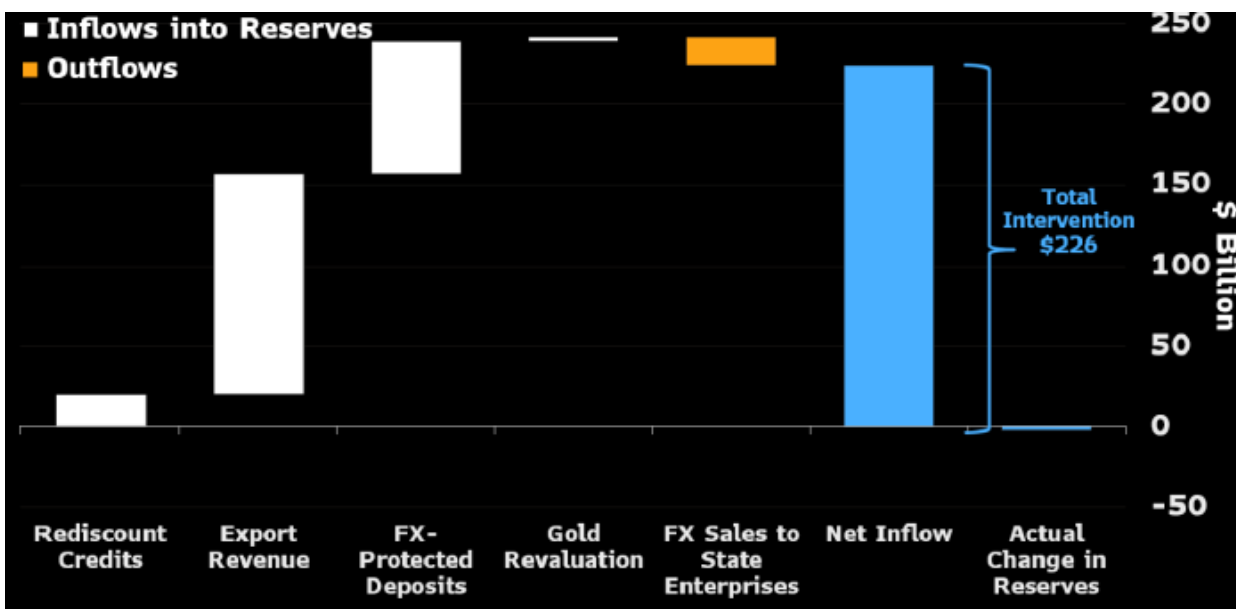
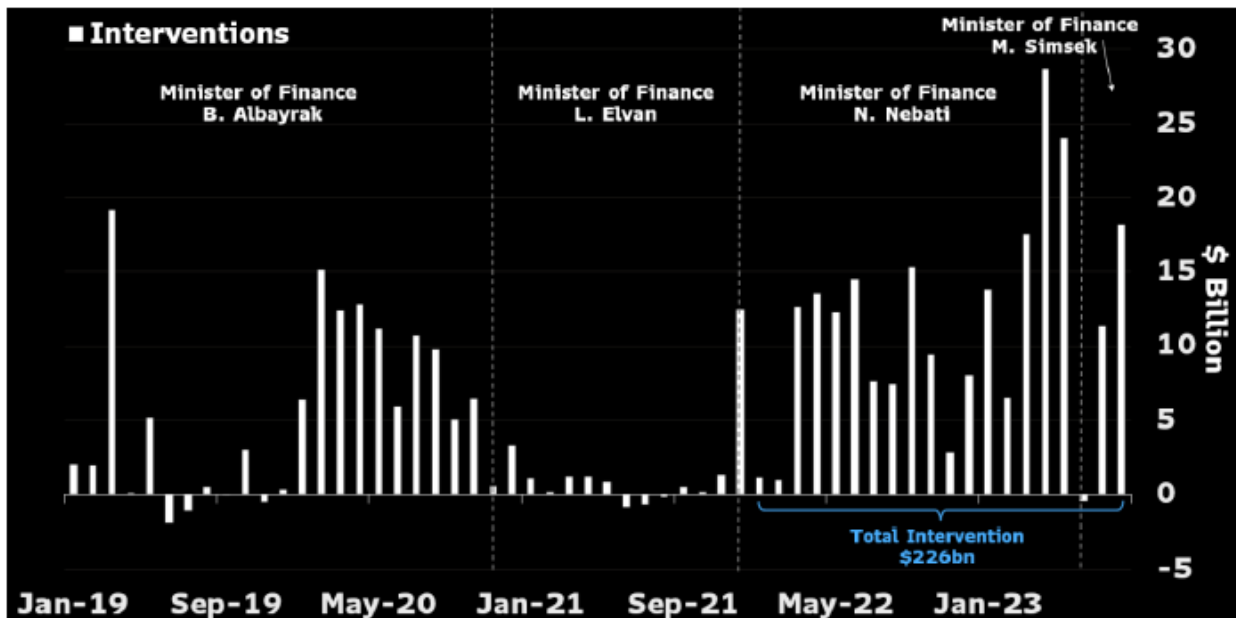
- Our calculations show the central bank's net reserves were down by about \$2 billion in August compared to December 2021. However, we estimate a net inflow of \$224 billion into reserves during the same time frame. We take the \$226 billion difference as the CBRT's stealth interventions in currency markets.
- Our previous estimates showed that interventions had halted in June, following Minister of Finance Mehmet Simsek's appointment earlier that month. Our current calculations imply that was not a full stop, but rather a temporary pause.
- Despite the large volume of interventions since then – adding up to \$30 billion - the slide in the lira continued. Since the end of June, the currency is down by more than 5% against the dollar, even with the CBRT's ongoing policy tightening.

- We expect interventions to continue in the near term. However, the central bank's recent regulatory changes incentivizing a move away from one of its reserve sources poses a challenge. We see it likely that the CBRT's deeply negative net reserves could be hit further if it wants to keep up the average intervention pace of about \$11 billion a month.
- Further stealth moves will probably slow down but not reverse the slide in the currency. Indeed, the implicit average 2024 exchange rate based on President Recep Tayyip Erdogan's Medium-Term Program issued earlier in September signals about a 26% depreciation against the dollar from current rates.

CBRT Resumes Stealth Interventions

We estimate the CBRT's net reserves (which we take as the central bank's foreign assets net of total foreign liabilities and all swaps) printed at -\$67.6 billion in August. The figure is \$2 billion lower than levels seen in December 2021.

In contrast, we estimate a total of \$224 billion of net flows into reserves since December 2021. We take the difference of \$226 billion between our estimated (\$224 billion) and actual (-\$2 billion) changes in reserves as the central bank's stealth intervention volume.



CBRT Stealth Interventions Since December 2021 At \$226 Billion

We calculate a total of \$242 billion of flows into reserves since December 2021 from the following sources:

- An inflow of \$136 billion may have come from exporters' mandatory revenue conversion. We build this estimate based on TurkStat trade data through August. We assume full compliance (25% of revenue conversion until mid-April 2022 and 40% thereafter) after allowing for destinationbased exemptions.
- FX-protected deposits of non-lira origin may have added \$83 billion. We use data from the Banking Regulation and Supervision Agency – assuming even flows to estimate missing data in the early part of the scheme – and the Ministry of Finance. We also rely on our own assumptions on the volume of deposit accounts maturing in August due to lack of data. We assume similar size and retention rates across different types of deposit origins.
- Contributions from rediscount credits totaled \$20 billion, according to actual CBRT data through July and the central bank's estimates for August.
- Changes in gold prices may have added \$3 billion. We base this calculation on the CBRT's monthly net gold volume data.

CBRT's foreign currency sales to state-owned enterprises, such as BOTAS, constitute our outflows. That number stands at \$18 billion based on CBRT data, unchanged since mid-2022.

Due to a lack of data, our calculations depend on a number of assumptions. A less-than-full compliance by exporters to the revenue conversion rule, for instance, would imply lower inflows into reserves, meaning lower interventions by the CBRT. On the other hand, a lack of data on all CBRT reserves sources suggest intervention volumes could be higher than our estimates. A higher share of non-lira originating accounts in the foreigncurrency- protected deposit scheme than our assumption (of 50%) would also imply a higher potential for interventions.

Turkey's Credit Outlook Raised by S&P Amid Return to Orthodoxy

2023-09-28

By Asli Kandemir

Turkey's credit rating outlook was raised by S&P Global Ratings as the more conventional policies of President Recep Tayyip Erdogan's new economic team start to pay off.

S&P revised the outlook on the nation's long-term foreign-currency issuer default rating to stable from negative and affirmed the credit rating at B, five notches below investment grade.

"We believe that by 2026, absent renewed political uncertainty, the new team can rebalance Turkiye's economy away from external debt financed consumption and toward more balanced external and fiscal accounts, as well as more acceptable levels of inflation," S&P said in a statement.

Following his election victory in May, Erdogan appointed two former Wall Street bankers to run the nation's economy to rein in burgeoning inflation and lure back foreign investors.

Finance Minister Mehmet Simsek and Central Bank Governor Hafize Gaye Erkan have since tried to build credibility among international investors by reversing ultra-loose monetary policy and constant state interventions in financial markets.

The central bank has more than tripled its key interest rate to 30%, while the government announced a macroeconomic framework that committed to reducing inflation and building back depleted reserves.

“The stable outlook reflects balanced risks to Türkiye’s creditworthiness from the reimposition of orthodox monetary policy settings, as the Central Bank of the Republic of Türkiye, under new leadership, raises interest rates in an effort to reverse the deposit base’s dollarization and bring down elevated inflation, which we believe is eroding the country’s competitiveness,” S&P said.

S&P had lowered its outlook to negative from stable in March, citing challenges including costs from February’s devastating earthquakes and rising inflation.

Following the overhaul of the economic team and steps toward tighter monetary policy, Fitch Ratings raised the nation’s credit rating outlook to stable from negative in early September, keeping its rating at B, still five notches below investment grade. Turkey is rated B3 by Moody’s Investors Service.



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