



GOLDERA

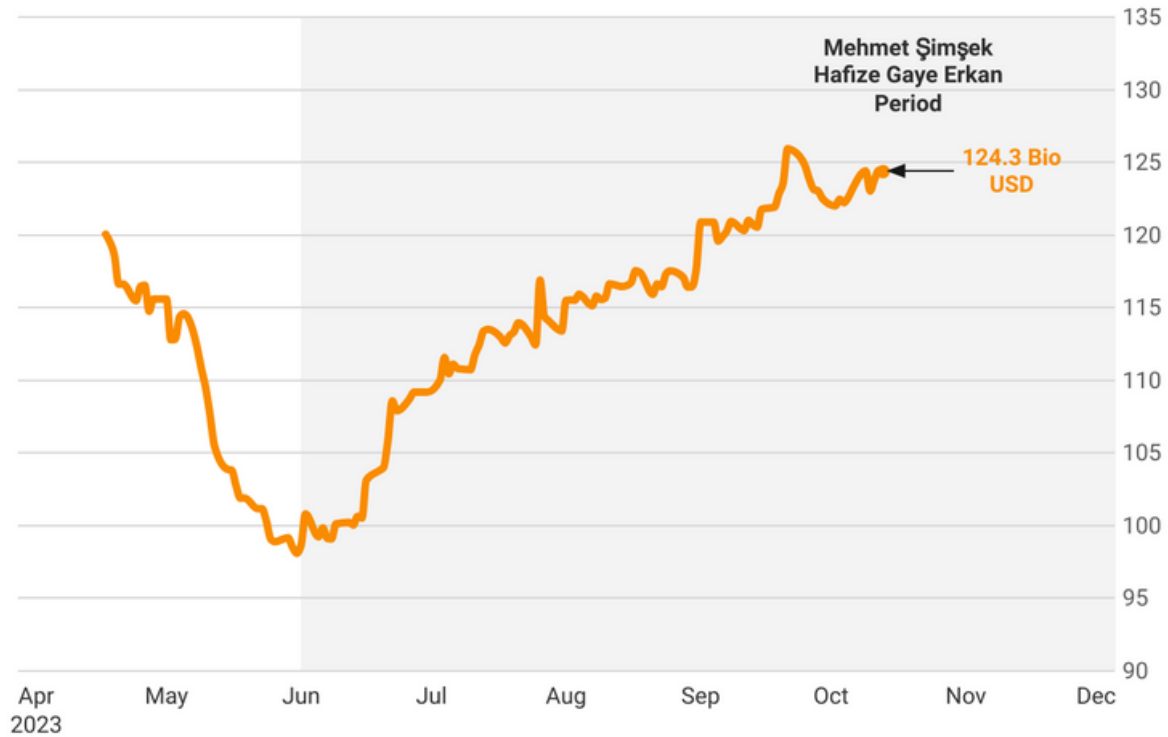
MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

BI WEEKLY BULLETIN ON TÜRKİYE

OCTOBER 1 – OCTOBER 14 2023

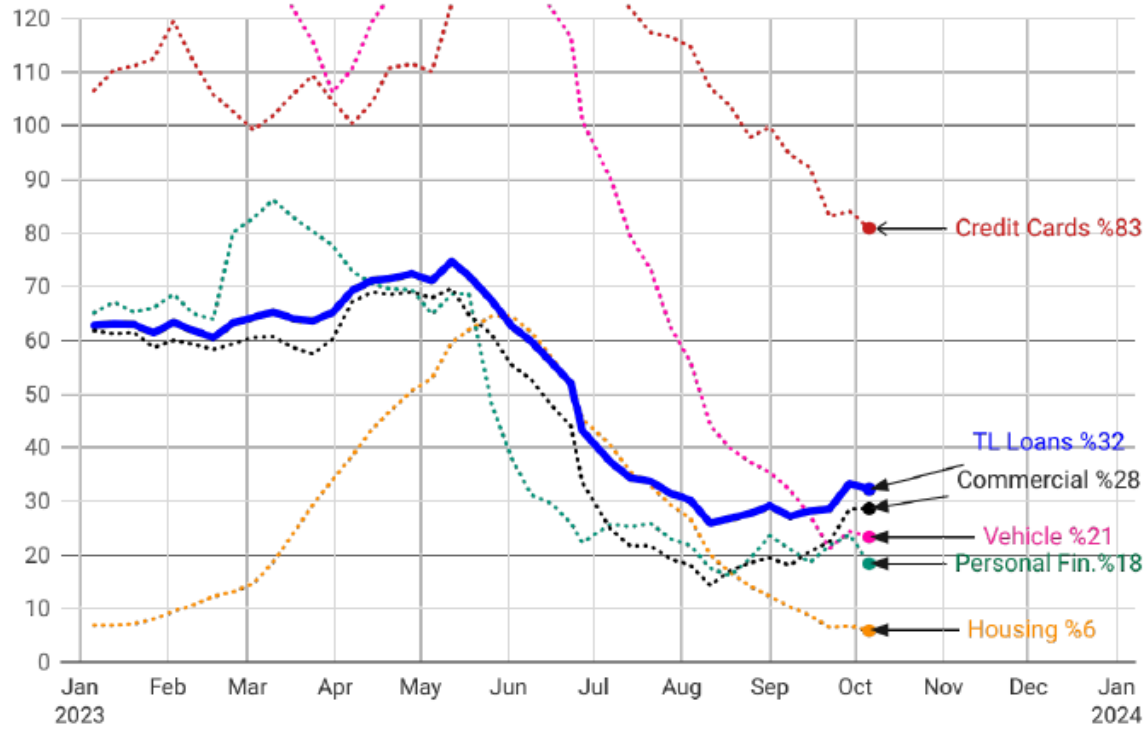
CBRT Gross Reserves (October 13)



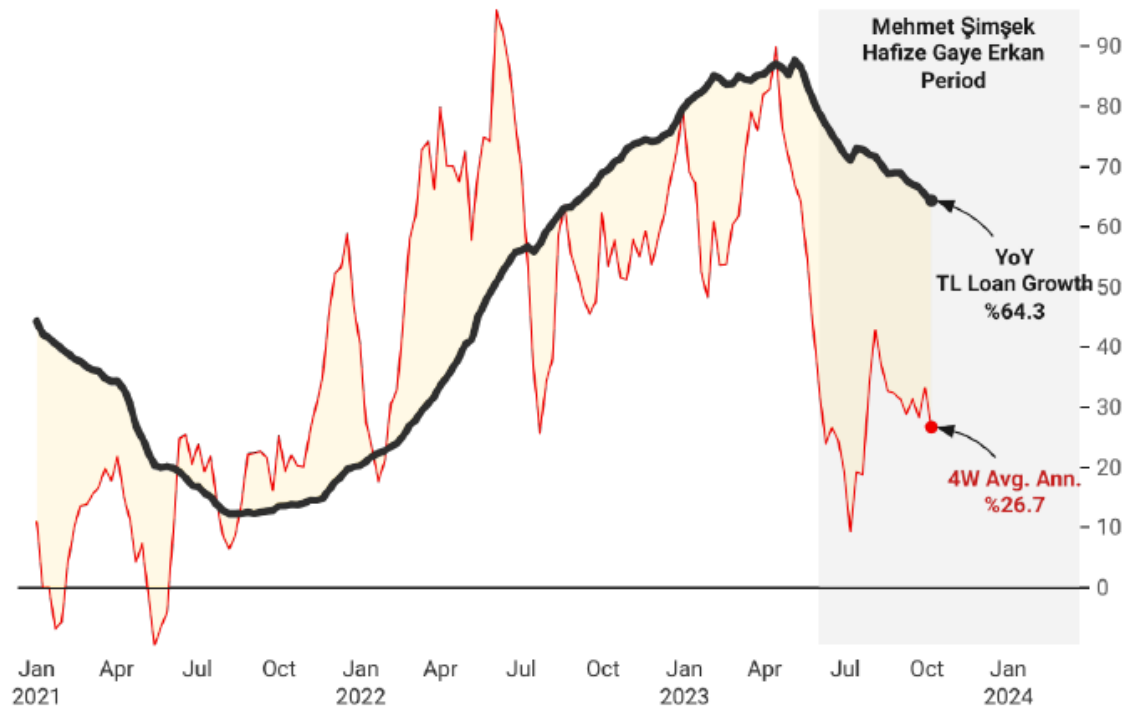
Assets (Bio USD)	30/12/22	08/10/23	YTD
Gold	45.89	39.60	-6.29
FX Banknotes	9.60	3.53	-6.07
Securities + Deposits	10.29	5.35	-4.94
Other FX Balance	62.94	73.85	+10.91
TOTAL	128.72	122.33	-6.39

Liabilities (Bio USD)	30/12/22	08/10/23	YTD
To Turkish Banks	85.04	72.42	-12.62
To IMF & International Insti.	16.25	29.39	+13.14
To Turkish Treasury	11.85	9.90	-1.95
To Turkish Banks in Swap Contract	47.41	54.39	+6.98
To Foreign Central Banks	23.35	23.35	0
TOTAL	184.90	189.45	+4.50

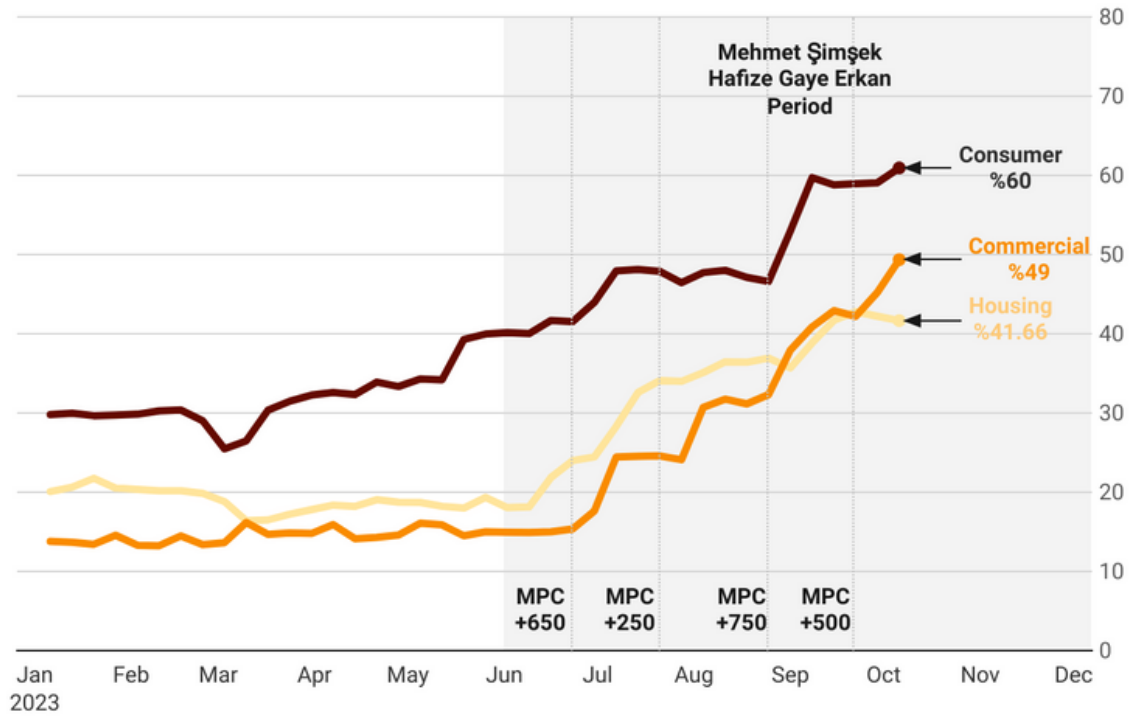
TL Loan Growth Momentum(Oct. 6, 13 Week. Ann., %)



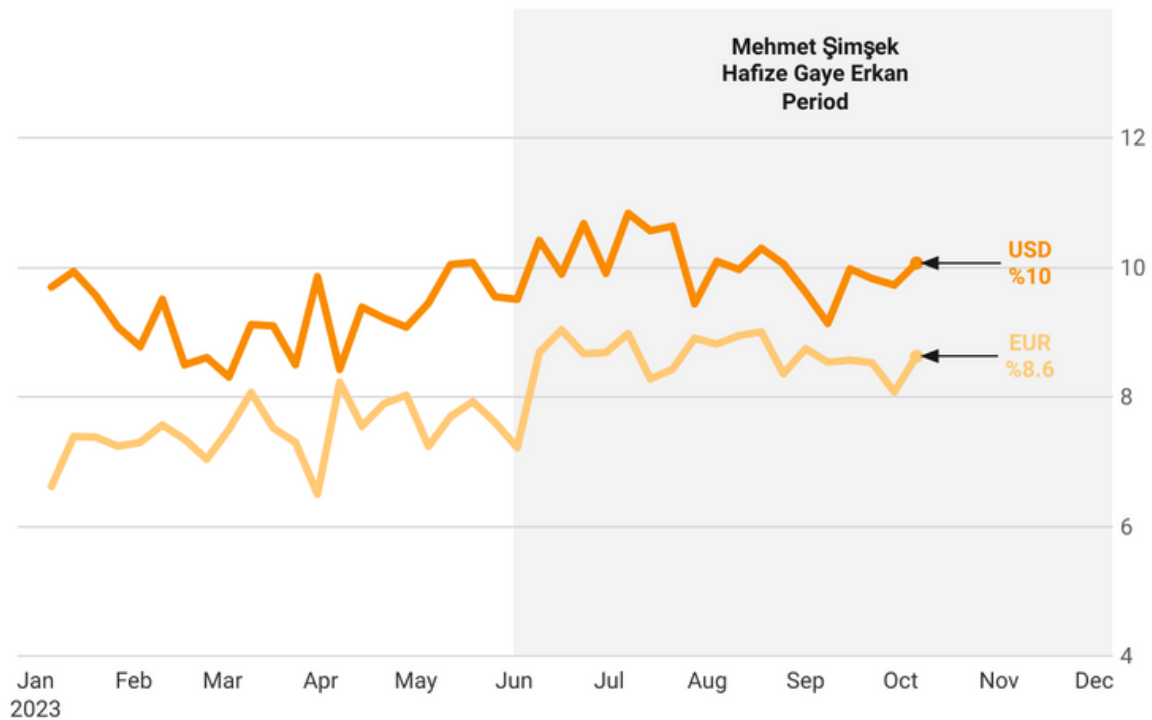
TL Loan Growth (October 6, YoY)



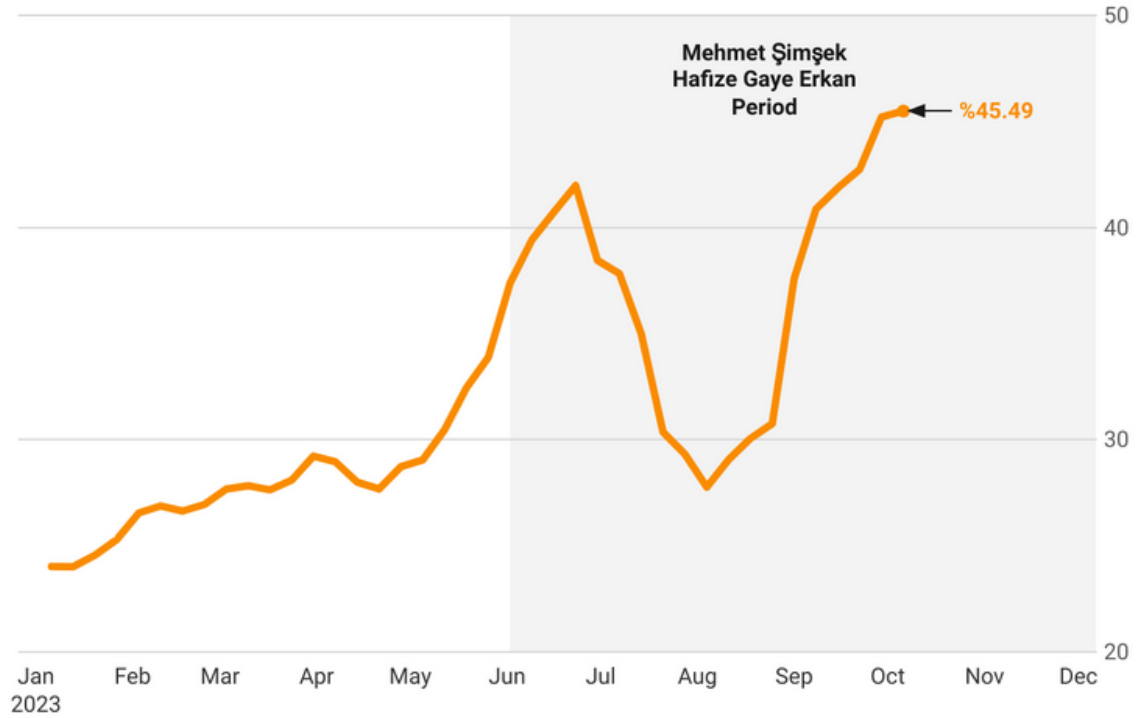
TL Loan Interest Rates (October 6)



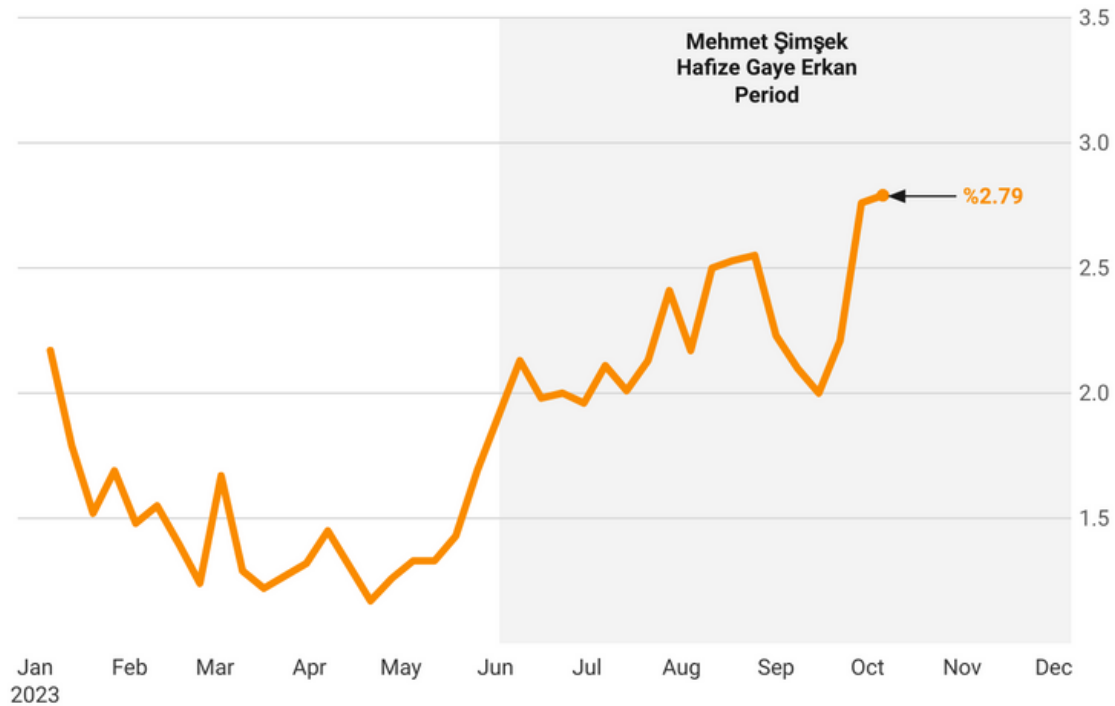
FX Loan Interest Rates (October 6)



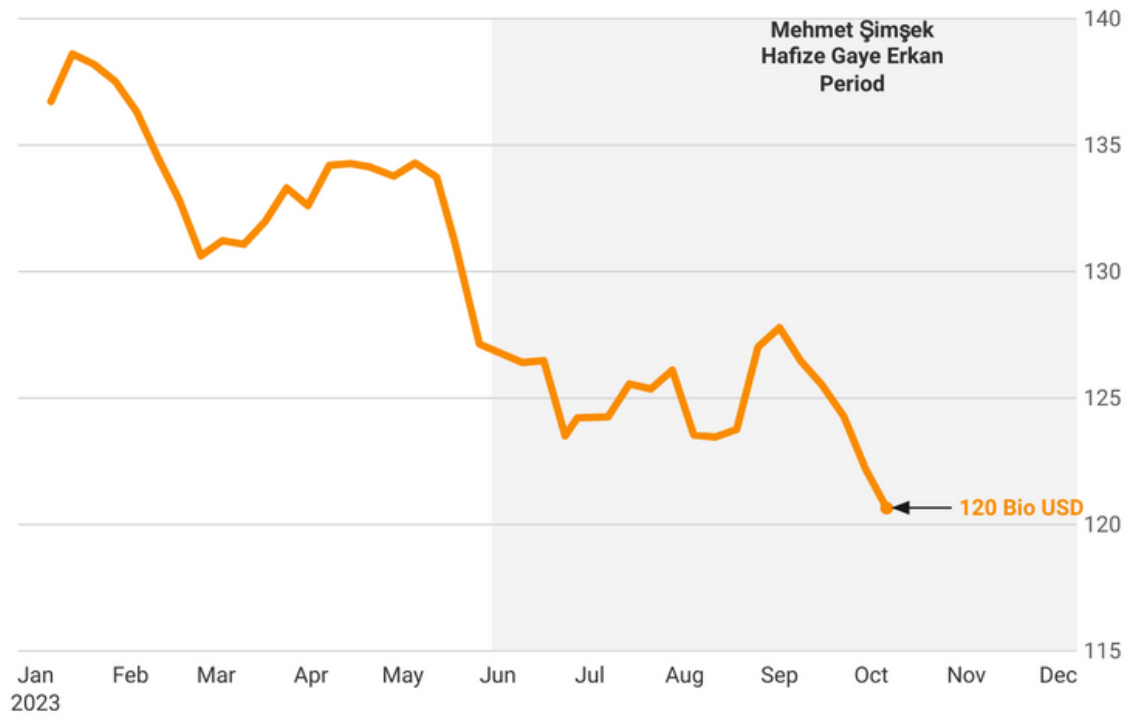
TL Deposit Interest Rates - 3M Maturity (October 6)



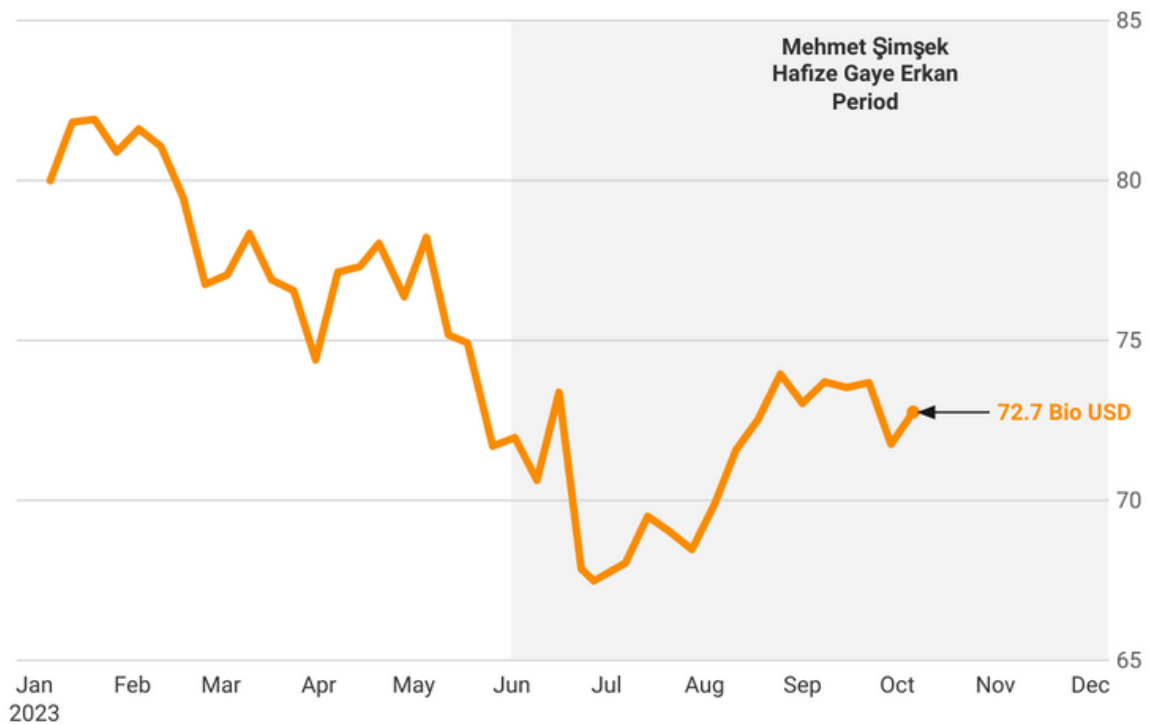
USD Deposit Interest Rates - 3M Maturity (October 6)



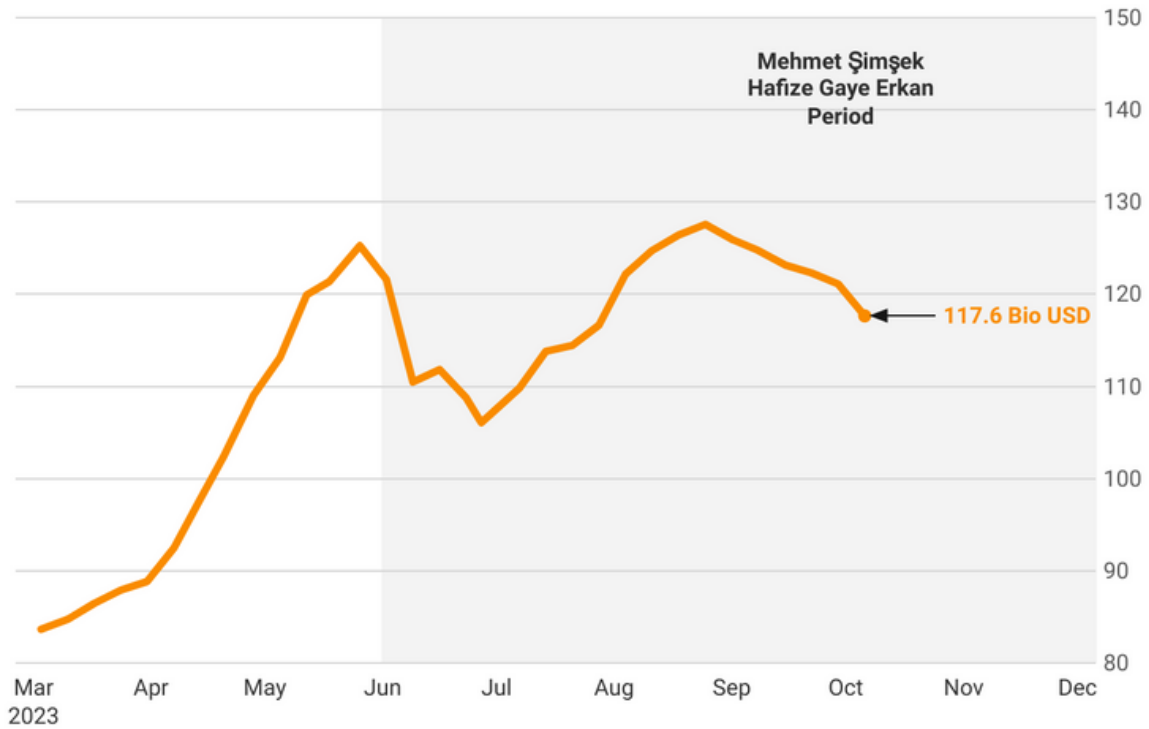
Retail FX Deposits (October 6)



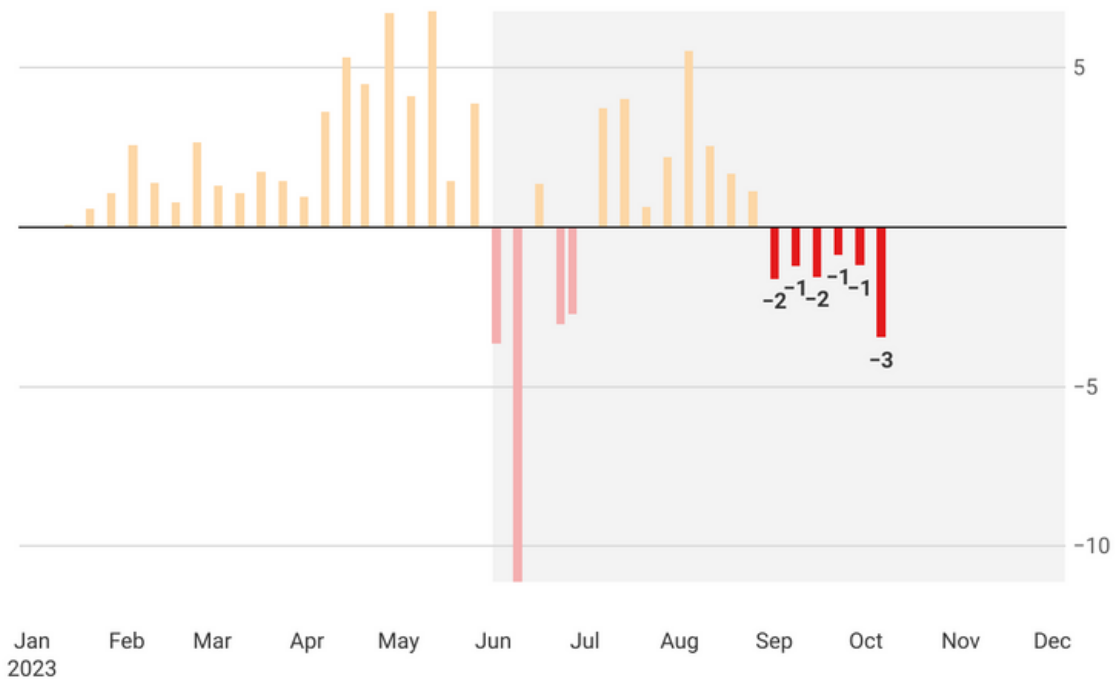
Commercial FX Deposits (October 6)



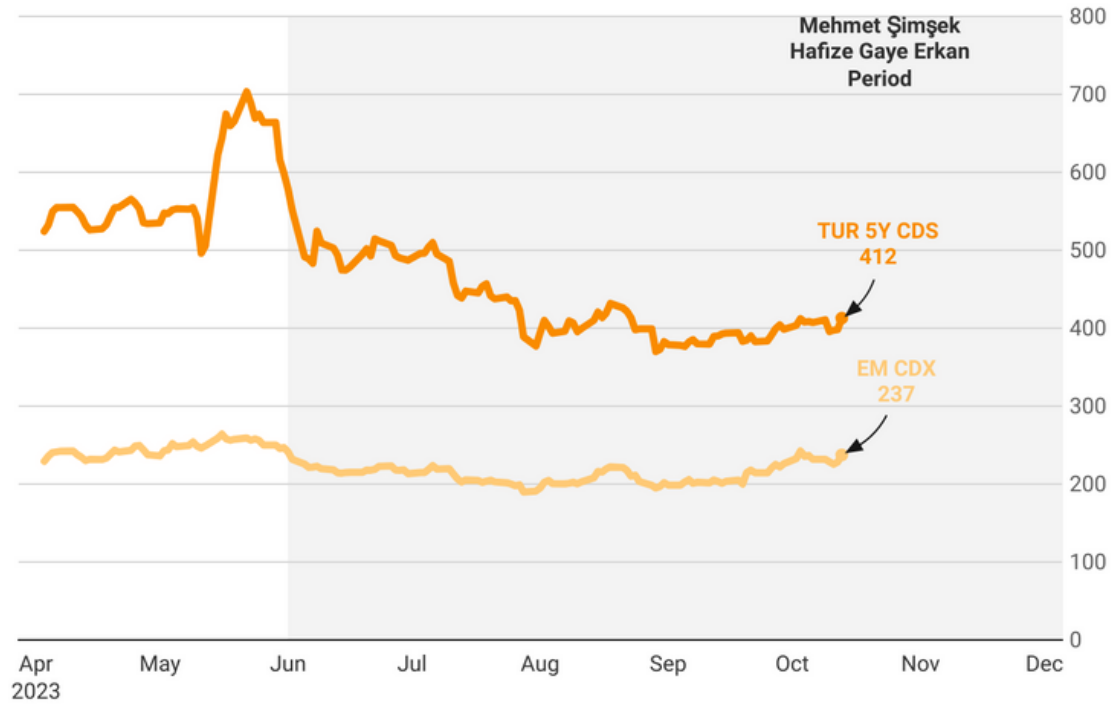
FX Protected TL Deposits (October 6)



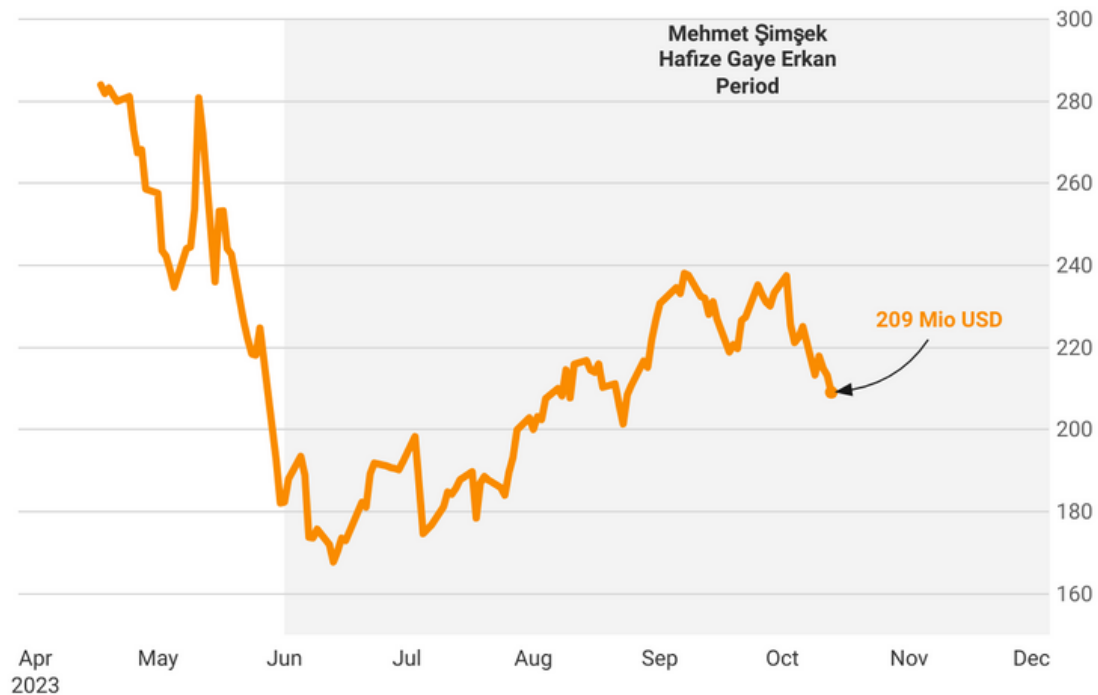
WoW Change (Bio USD)



Sovereign Credit Risk (October 13)



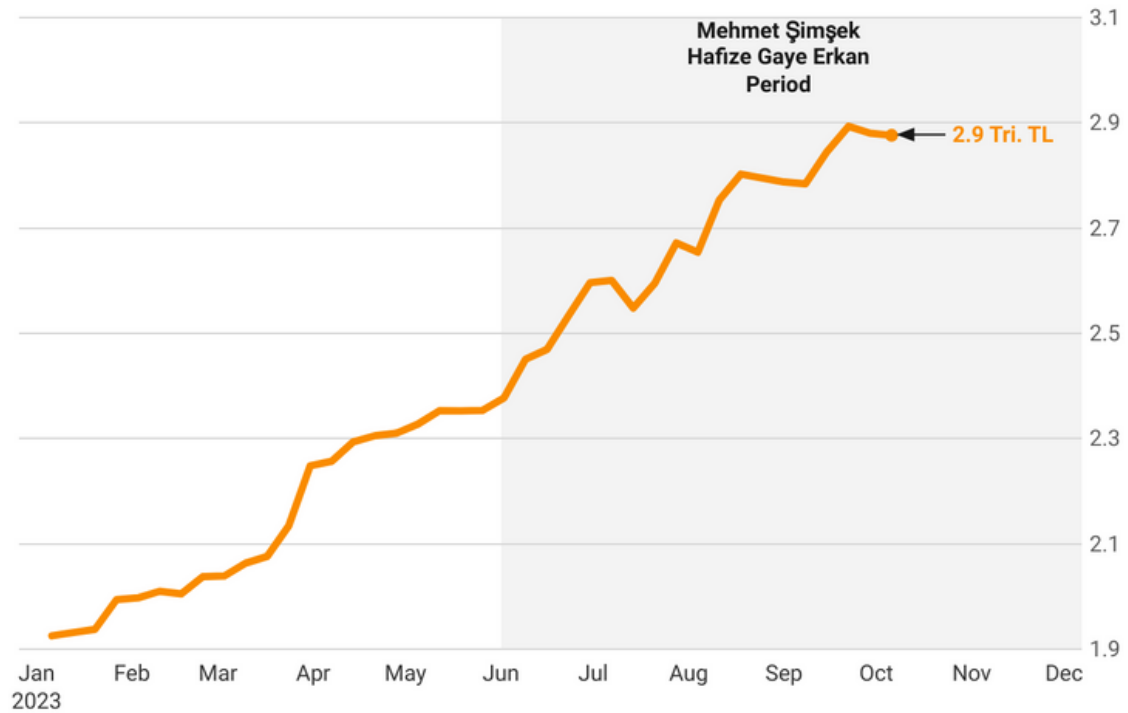
Ishares TUR ETF (AUM, October 13)



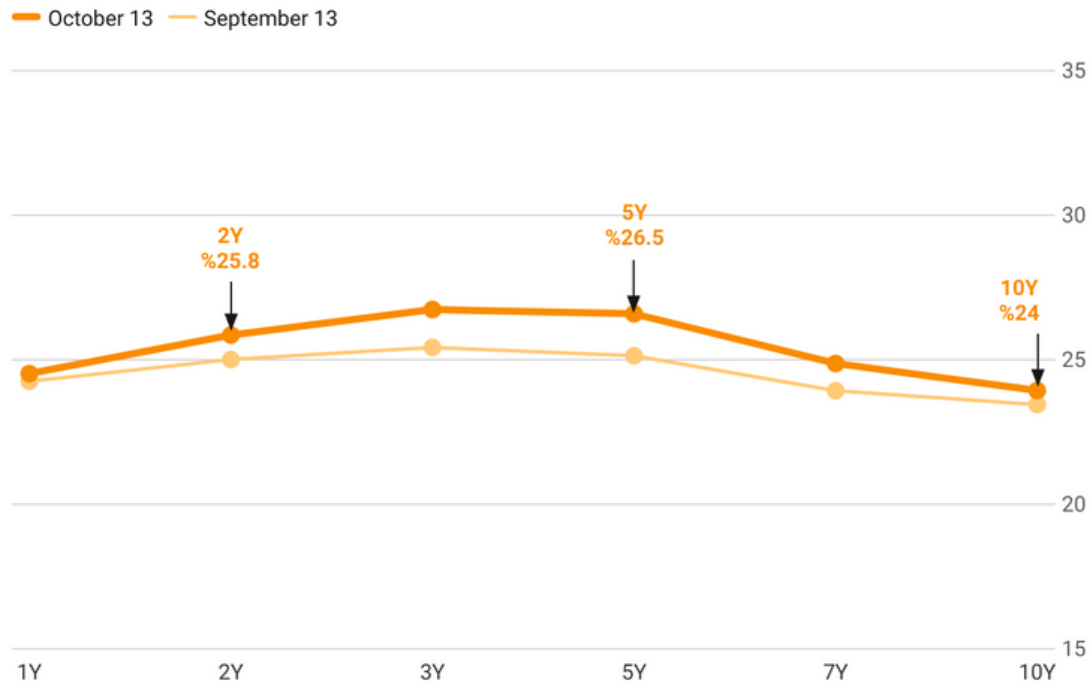
TL Treasury Bonds - For. Ownership (October 6, Nom.)



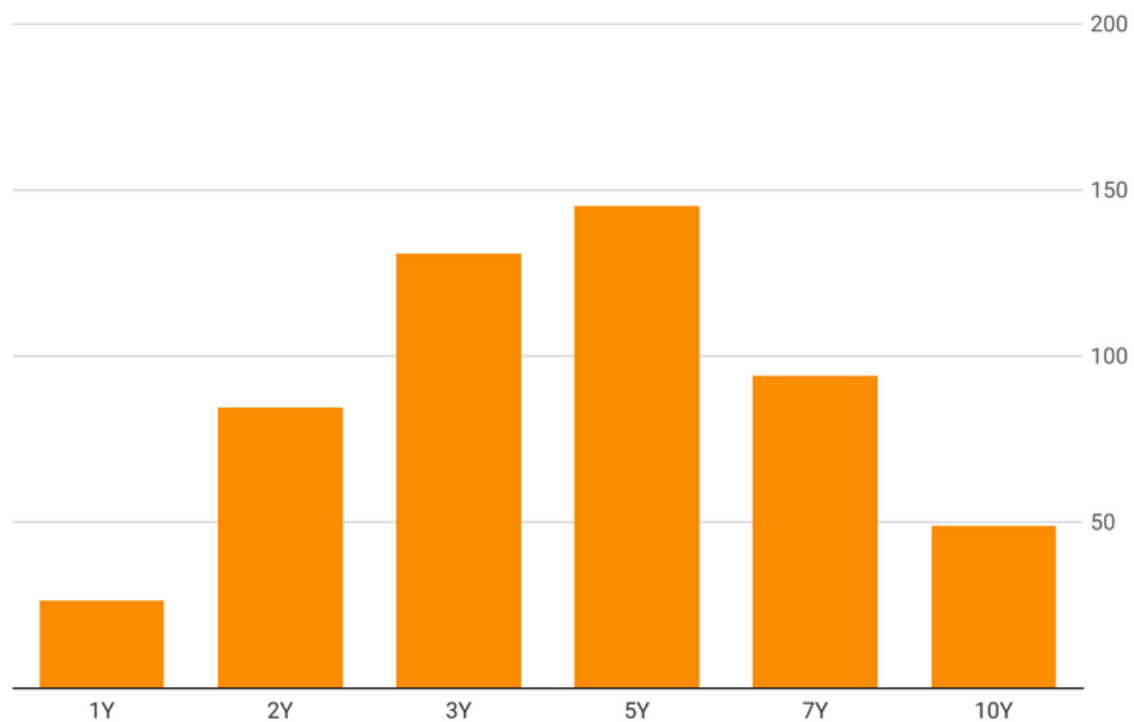
TL Treasury Bonds - Outstanding (October 6, Nom.)



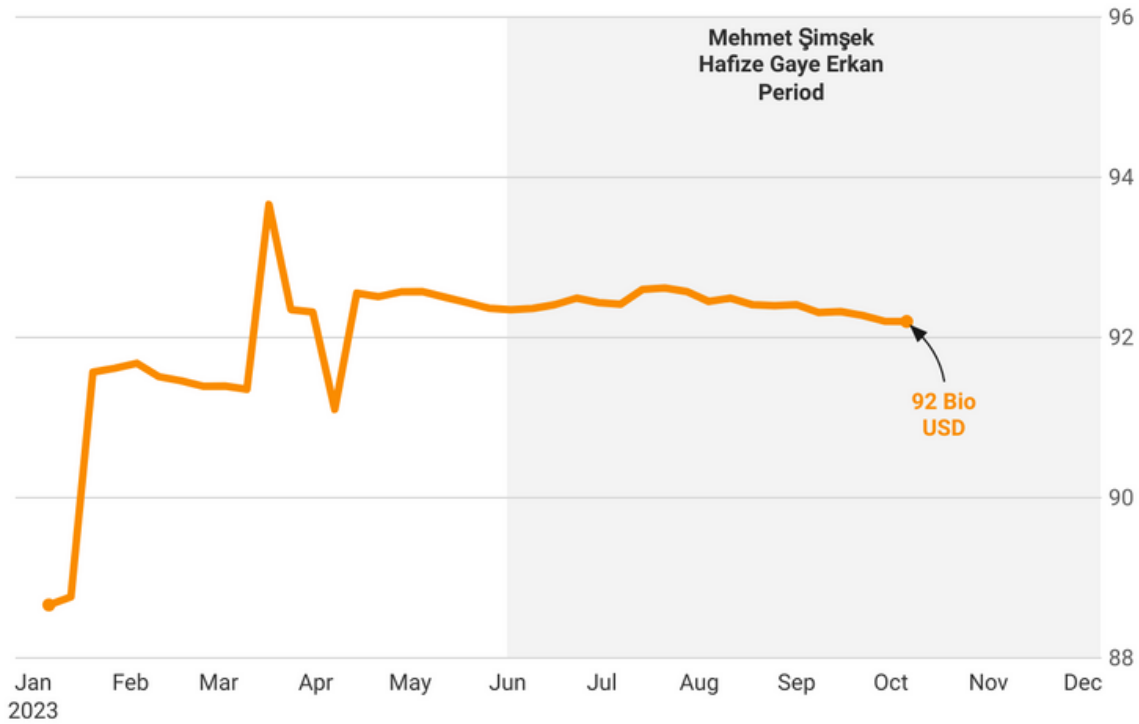
TL Sovereign Yield Curve (October 13)



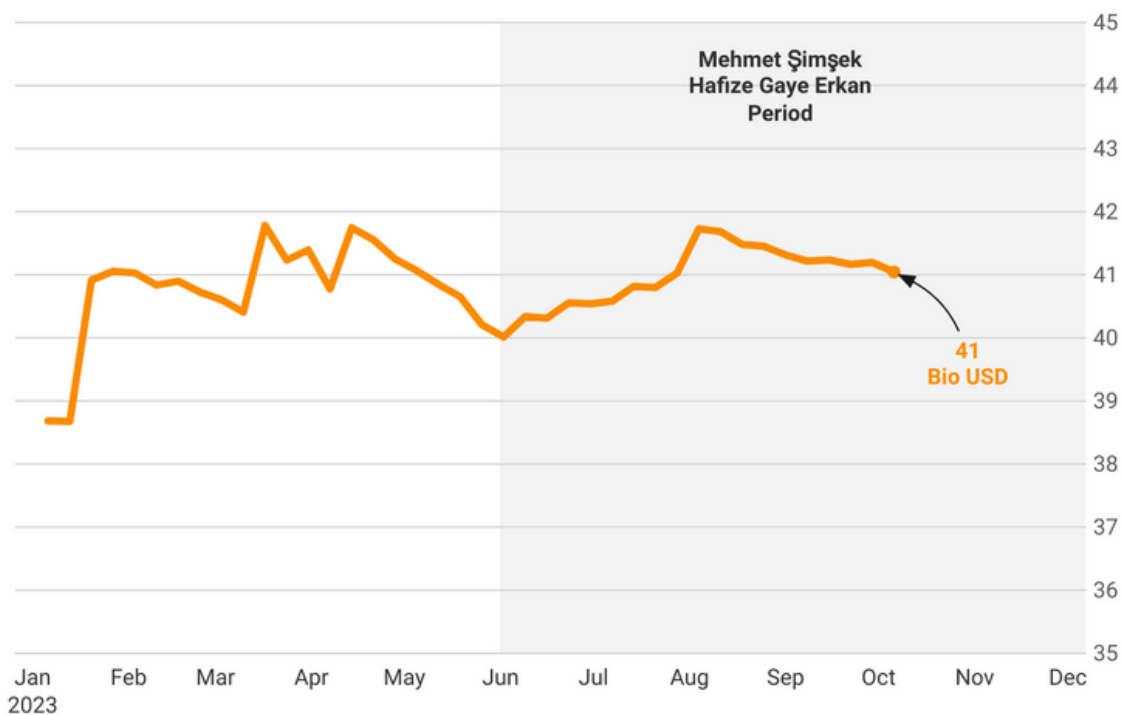
MoM Chg- basis points



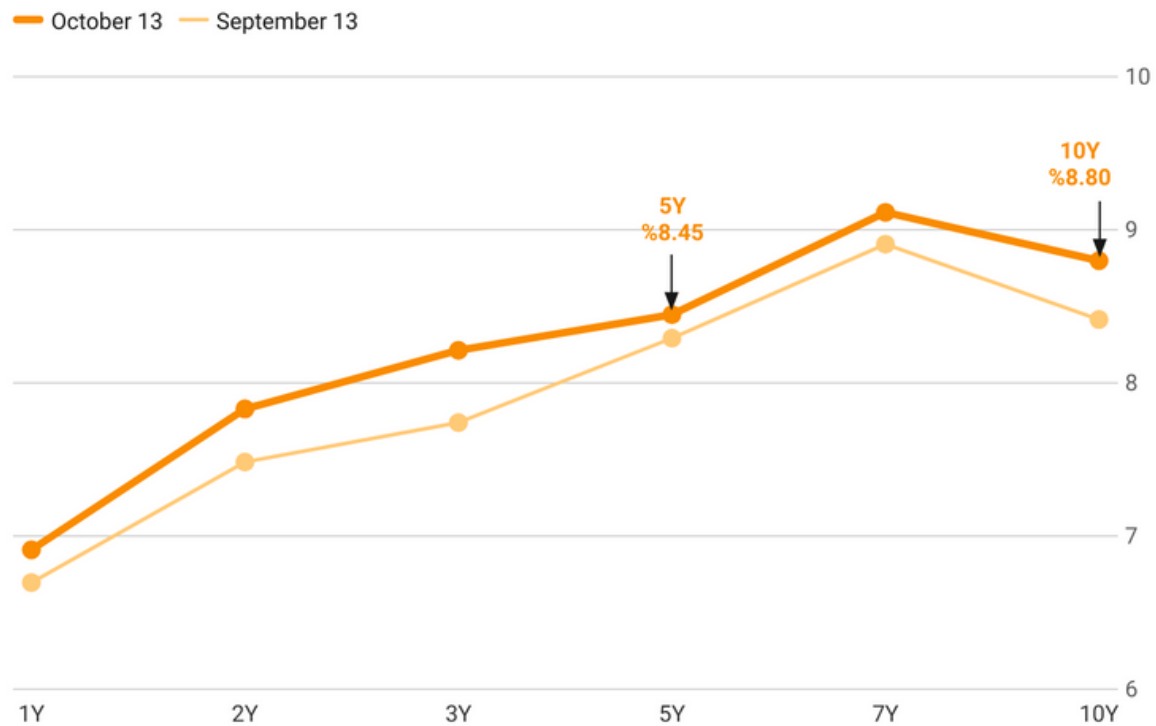
Eurobond- Outstanding (October 6, Nom.)



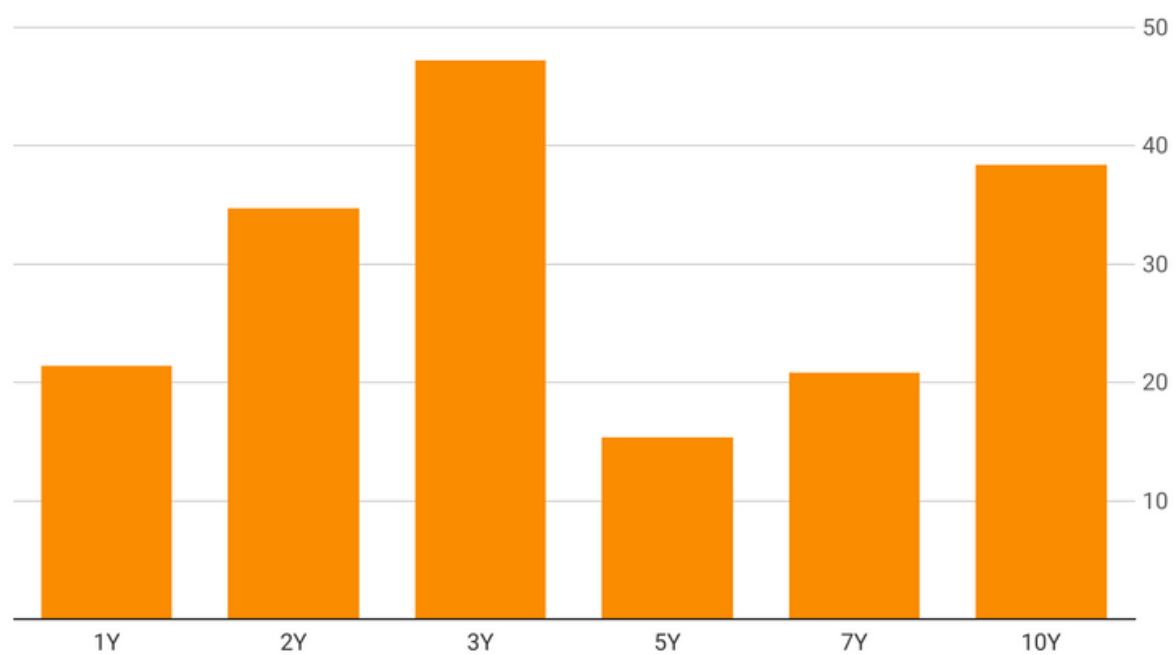
Eurobond- Foreign Ownership (October 6, Nom.)



USD Sovereign Yield Curve (October 13)

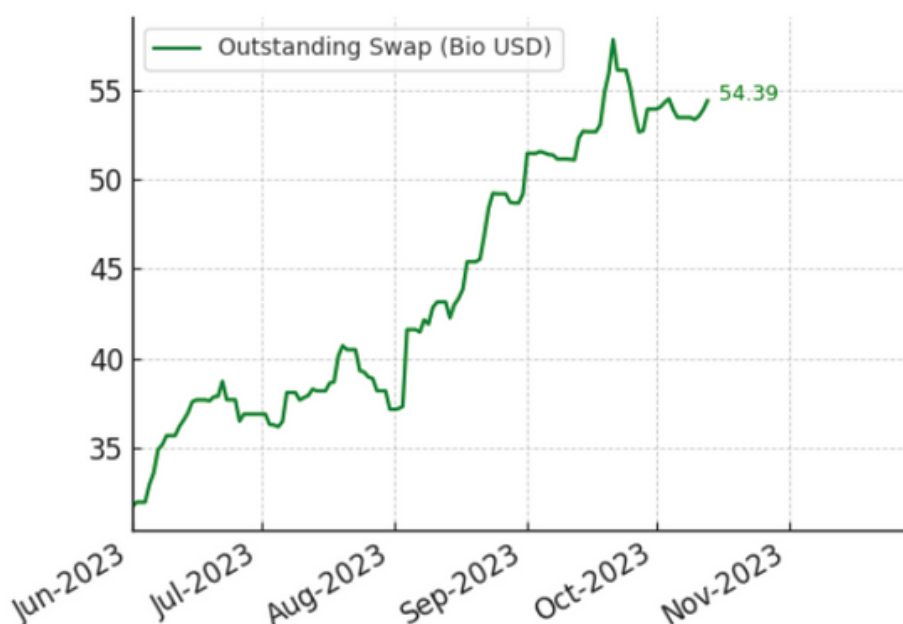
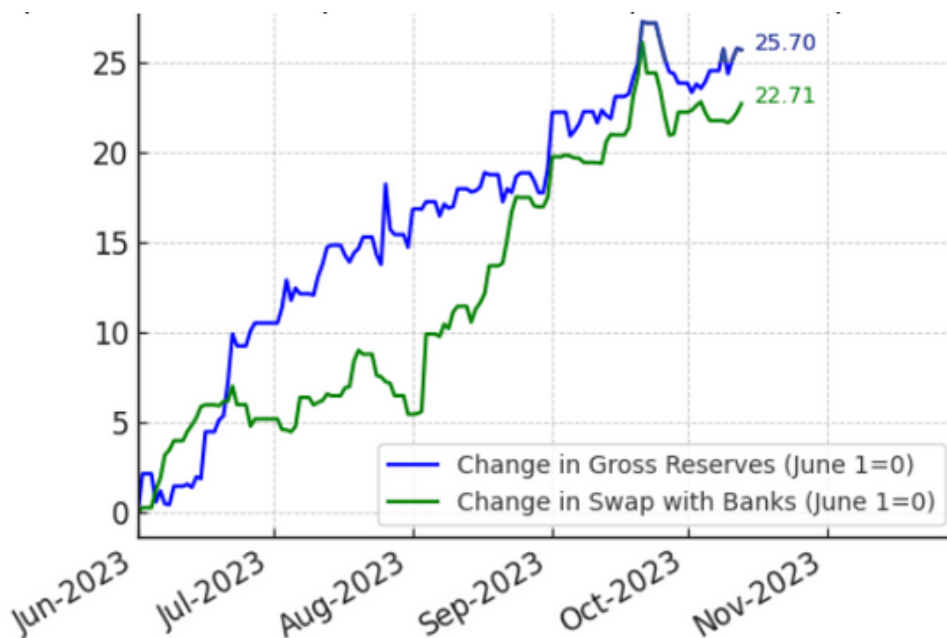


MoM Chg- basis points



The gross reserves of the Central Bank of Turkey have reached 125 B USD.

The recent surge in the Central Bank's gross reserves can be attributed to the increase in liquidity by Turkish Banks at the Central Bank. This is a result of the swap transactions offered by the Central Bank of Turkey, where Turkish Lira liquidity is provided in exchange for hard currency. These transactions are more cost-effective for banks than acquiring Turkish Lira liquidity through open market operations. In this setup, banks find it less expensive to swap USD for Turkish Lira.



TURKEY REACT: Underlying Inflation Flags Even Higher Path Ahead

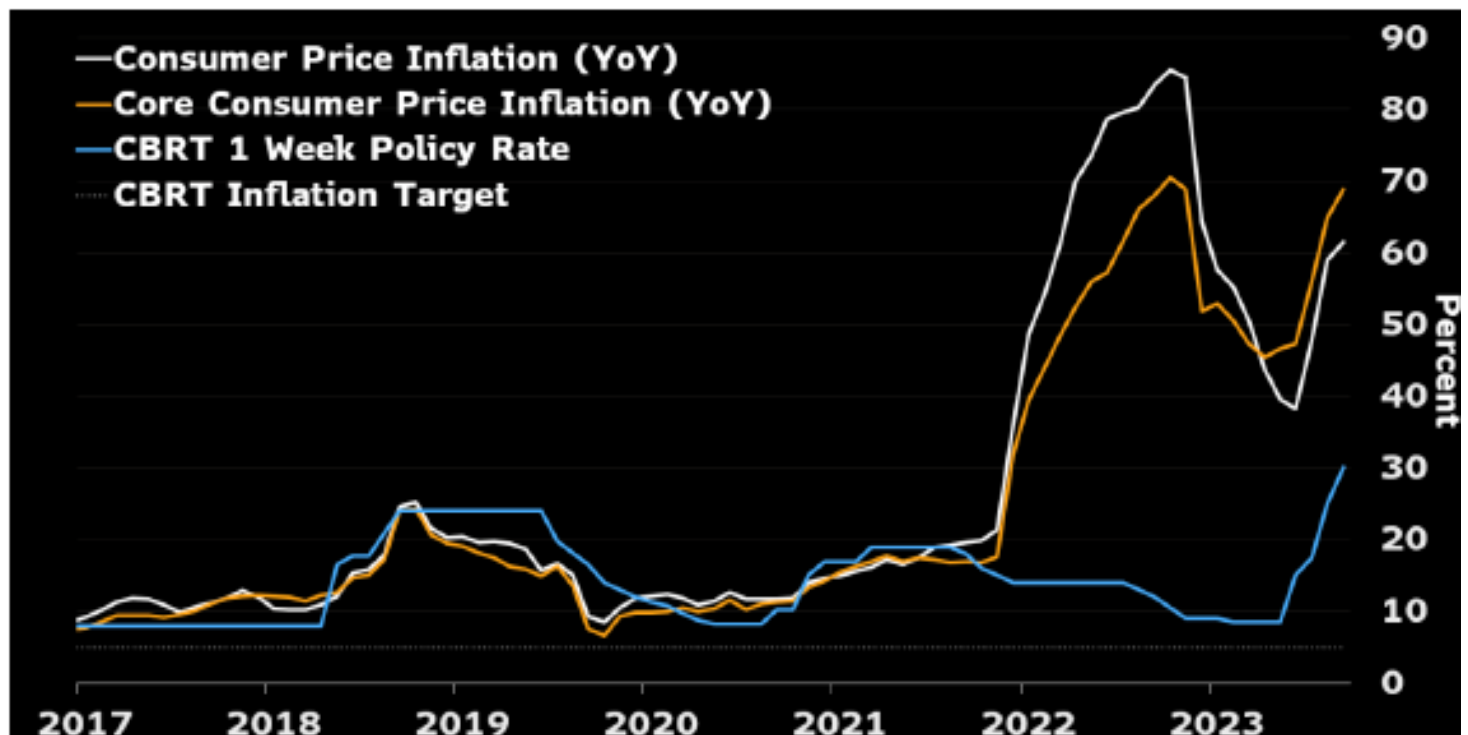
10/03/2023

By Selva Bahar Baziki (Economist)

OUR TAKE: Turkey's inflation print for September sets the stage for a front-loaded move from the central bank to tame price gains. Underlying price pressures signal a higher trajectory for inflation, which we now see peaking at 73% in 2Q24, up from our earlier call of 70%.

Year-on-year headline consumer inflation jumped to 61.5% in September, from 58.9% in the month prior. The figure was above our call of 60.8%, but below the median consensus expectations of 61.6%.

Price gains were broad based, with the core indicator excluding food, energy, beverages, tobacco and gold accelerating to 68.9%, up from 64.9% in August. Underlying dynamics prompt a mechanical revision to our year-end inflation call to 68%, up from 65.5%.



- Month-on-month inflation receded to 4.8% from 9.1% in August. Despite the fall, price gains remain above the five-year average of monthly gains in September in our seasonally adjusted series (3.3%) as price gains remained broad based.
- High inflation in food and non-alcoholic beverages (75.1% year on year), as well as the swift pickup in core prices, especially in services, suggest a faster acceleration in inflation looking ahead.
- Our new year-end inflation call of 68% is above the government's forecast of 65% from the Medium Term Program announced in September, and the 58% forecast announced by the Central Bank of the Republic of Turkey's in July.
- We expect the high print likely to motivate a front-loaded hike from the CBRT at its next policy meeting on Oct. 26. The central bank's key policy rate is currently at 30%. We see it reaching 35% by year end.

TURKEY INSIGHT: Local Elections Don't Bode Well for Lira Outlook

10/06/2023

By Selva Bahar Baziki (Economist)

Turkey's dramatic shift toward more market-friendly policies since the elections in May has done little to stall the lira's losing streak. The currency has slipped more than 25% since then against the US dollar as those measures fell short. The lira's outlook remains dire as we think the local vote due next March hinders the pace of monetary policy adjustments. Post vote, investor sentiment may switch and buoy the lira as the central bank tightens further.

- Sweeping changes since May saw a cumulative 2150-basis-point lift to the Central Bank of the Republic of Turkey's borrowing costs to fight inflationary pressures. The key rate rose to 30% by September. That's still far lower than the most recent inflation rate (61.5%) and also the rate one-year out (median of 45%) according to the central bank's own survey of expectations.
- We see the gap between current price gains and borrowing costs widening further in the short term, before starting to narrow in mid-2024 as we expect the CBRT to lift its main lever to 40% and for inflation to start decelerating from our forecasted peak of 73% in 2Q24. The policy rate will then exceed our oneyear out inflation estimate of 30% for 2Q25.
- The CBRT's recent regulatory changes promote a shift away from the FXprotected deposit scheme to regular lira savings. But savers have been hesitant to flock to lira accounts as the currency continues to slide. Earlier, investors reportedly exited the program in favor of FX deposits, adding to the pressure on the lira.

- The central bank's credit policies incentivizing a switch away from consumer credits to corporate lending will support the currency by curbing domestic demand and slowing imports. However, latest trade data shows a decline in the share of intermediate goods imports as well. That spells trouble ahead for the economy's financing needs as CBRT research shows a high share of imported inputs (45%) in Turkey's exports.

In our view, the CBRT's walking a fine line with its initial policy pivot. It's attempting to deliver much-needed policy tightening, while also safeguarding financial stability – all without landing a heavy blow to growth ahead of next March's elections. Post vote, we see further policy adjustments potentially giving an edge to Turkey's economy over emerging market peers and the likely flow of investment bolstering up the currency.

Turkish Current Account Is Near Balance Thanks to Summer Tourism

10/11/2023

By Beril Akman

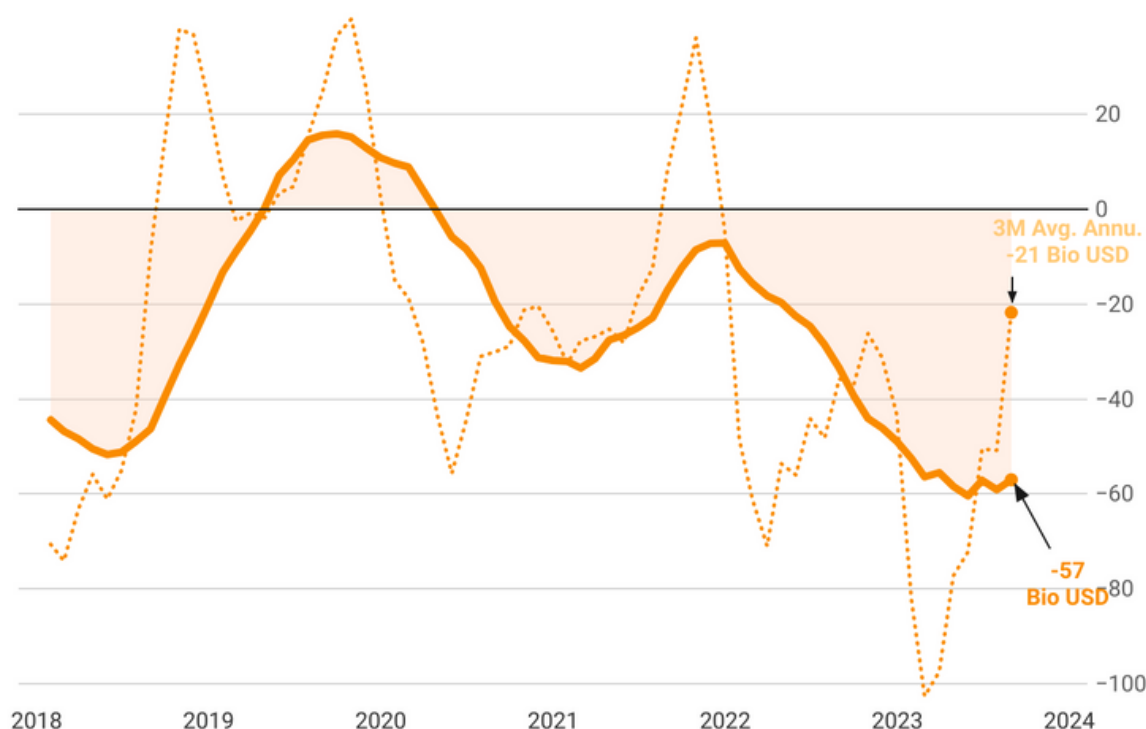
- Services surplus helped offset large goods deficit in August
- Energy and gold imports are key vulnerabilities for economy

Turkey's current-account deficit shrank by almost 90% in August from the previous month, as a boom in tourism helps offset a yawning gap in trade.

The broadest measure of trade and investment flows with the outside world had a shortfall of \$619 million, compared with a revised deficit of \$5.5 billion in July, according to data published by the central bank on Wednesday. Economists surveyed by Bloomberg expected a gap of \$550 million in August.

Key to the improvement was an increase of almost \$1 billion in travel income from July. That brought Turkey's net surplus in services to \$7.3 billion and helped make up for a goods deficit of \$7.1 billion.

Current Account (August 2023, Bio USD, 12M Accumulated)



Secret BofA Report Shows Turkey's Struggle To Win Back Investors

10/11/2023

By Kerim Karakaya

- Investors worry about longevity of new economic team
- Feedback from private investor meetings with Simsek in London,

Efforts to lure disillusioned investors back to Turkey are making slow progress, according to a leaked Bank of America Corp. document that reveals investor reactions to private meetings with Turkish Finance Minister Mehmet Simsek in London.

Marked “confidential,” the eight-page document summarizes feedback from 23 investors, including a global asset manager with \$4 trillion under management, a handful of US and UK hedge funds, and a \$700 billion Asian sovereign wealth fund. The comments relate to meetings with Simsek on Oct. 4-5, according to the document, a copy of which was viewed by Bloomberg.

Since being appointed in June to radically overhaul Turkey's economic policy, Simsek has been visiting investors around the world to try and convince them to reallocate funds to the \$900 billion economy. Once a favored emerging-market destination, the country was largely abandoned by foreign investors over unorthodox economic policies that led to a collapse in the lira and runaway inflation.

While many of the investors cited in the report said they appreciated Simsek's outreach and transparency, few said they would be investing. They cited the magnitude of challenges facing the Turkish economy, continued concerns about political shifts, as well as doubts about whether Simsek and his team would retain the authority to do the difficult work needed.

Encouraged, Daunted

“Encouraged by the change in policy direction but still daunted by the scale of the challenge ahead,” the report says, describing the views of a UK firm with about \$500 billion in assets under management. “A potential reversal of policy is their biggest concern,” it says of another, a US hedge fund.

Bank of America declined to comment on the document or how it was released to a wider audience. A spokesperson for Turkey’s Finance Ministry said they weren’t available for comment.

Negative real interest rates were the biggest concern for one UK fund manager that oversees more than \$50 billion, while another investor raised concerns over inflation and foreign-currency reserves.

“Structural problems persist in Turkey. It will take time to unwind and won’t be easy,” said a manager of more than \$50 billion, according to the document. A US hedge fund expected the currency to weaken even as it noted its appreciation for a build-up in reserves and the minister’s honesty and transparency.



Since the reelection of President Recep Tayyip Erdogan in May, Simsek has overseen a shift toward orthodox economic policy, undoing Erdogan's preference of relying on low interest rates in the unconventional belief that that'd lead to lower inflation. The central bank started a tightening cycle in June and has raised the benchmark interest rate to 30% from 8.5% since, although it remains well below inflation that last clocked in at 62% in September.

The Turkish lira, on the other hand, has already lost a third of its value against the dollar this year, one of the worst performances among emerging-market currencies. The lira's depreciation also adds to the challenge of reining in inflation.

'Too Early'

"At this stage Turkey remains slightly behind the curve and therefore it seems too early to re-invest," Bank of America reported one hedge fund manager as saying. "The Minister says all the right things and is excellent with investors, but between now and the local elections there may be a slowing down/halting of the adjustment process."

That comment echoed concerns expressed by several other investors over local elections in March and whether the policy shift would be sustained.

A US firm with more than \$2 trillion in assets cited potential "populist measures" ahead of the election as a reason for going underweight for the next three to six months. Another US hedge fund said it needed to see that orthodox policies were "entrenched" before getting involved.

Many of the views seemed to be informed by previous experience in Turkey, when turns to economic orthodoxy were cheered by investors, only to be undone shortly after. In the last attempt to return to conventional policies three years ago, former governor Naci Agbal raised the key policy rate sharply. Erdogan fired him after four months.

"Risks remain but hopefully the Minister will remain in his position for long term," the document said, citing a US firm with \$1.5 trillion in assets as saying, in reference to Simsek.

Turkey Keeps Investors on Hold as Swaps Controls to Stay for Now

10/09/2023

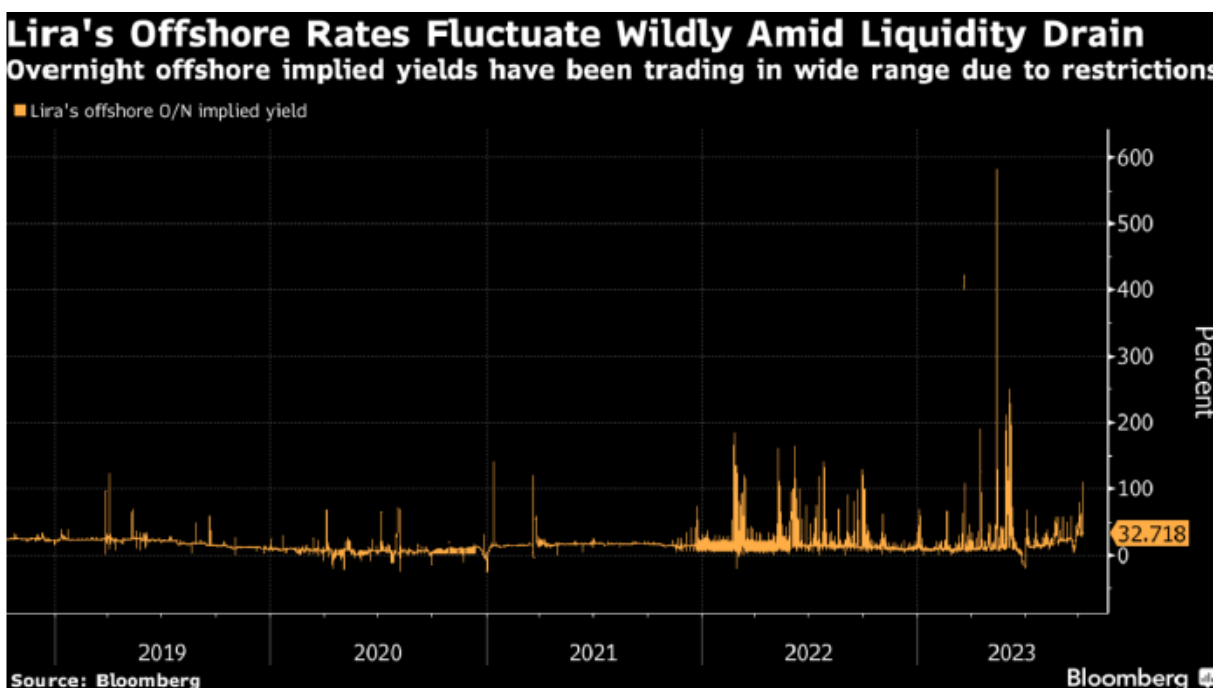
By Beril Akman and Kerim Karakaya

- Investors want Turkey to remove cap on offshore swap market
- Turkish officials do not see that as possible in near-term

Investors looking to make big bets on Turkish assets will have to wait longer for the country's policymakers to meet one of their key demands – the lifting of restrictions on the offshore currency swaps market.

Turkish authorities won't ease a cap on swaps deals in the near-term amid concerns over a weakening lira, according to people with knowledge of the discussions. Removing the cap on overseas lira supply at this point could risk an increase in short-selling activity, which the nation's economic leadership is concerned about, they said.

But, policymakers will consider relaxing the limits after achieving a strong interest rate buffer over the inflation rate, the people said. They spoke on the condition of anonymity as the talks were private. The Treasury and Finance Ministry did not immediately return a request for comment.



Turkey's return to policy orthodoxy under President Recep Tayyip Erdogan's new economic team has boosted the global appetite for Turkish stocks, bonds and currency. But money managers see access to adequate hedging mechanism to protect currency swings as a pre-requisite for raising their exposure to the country. They have raised the issue in recent meetings with top officials including Finance Minister Mehmet Simsek, according to the people. Turkey started curbs on the offshore swap market following a currency crisis in 2018, which was triggered by a diplomatic row with the US over an American pastor detained in Turkey.

Costly Trade

Restrictions only got more stringent over the following years, as Turkey tried to stem the lira's constant decline with a combination of unannounced currency interventions and regulatory measures, making it extremely costly for traders to access the lira in London markets.

In 2020, authorities sought to control liquidity in the offshore market by limiting currency swaps, options, futures, forwards and other derivative contracts entered into with overseas counterparties by a Turkish bank or financial institution to 1% of its equity capital. The measure was eased a couple times later.

Authorities also kept borrowing costs well below inflation in an attempt to keep the economy growing as Erdogan sought a third term in office in May's elections, which he won.

As a result of those regulations as well as Erdogan's predisposition to keep interest rates low despite rampant inflation, overseas investors exited Turkish assets. Foreign ownership of Turkish equities fell to \$32 billion as of last week from around \$50 billion five years ago, while lira debt held by foreigners stood at \$1.2 billion, down from above \$30 billion in 2018.

The lira has already lost a third of its value against the dollar this year, one of the worst performances among emerging-market currencies. The lira's depreciation also adds to the challenge of reining in inflation running at above 60%.

The central bank raised the benchmark interest rate to 30% in a series of policy meetings since June, shortly after Erdogan installed former Wall Street banker Hafize Gaye Erkan as governor.

Turkey Posts \$4.99b Trade Deficit in September: Ministry Data

By Firat Kozok

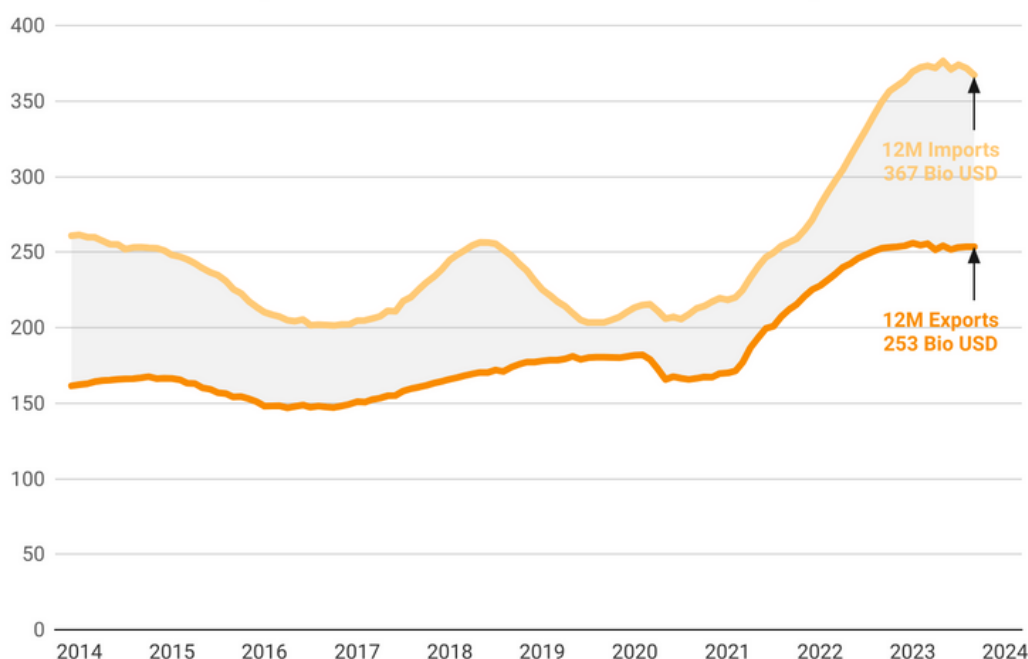
(Bloomberg) -- Preliminary exports rose 0.3% Y/y to \$22.7b in September, while imports fell 14.1% Y/y to \$27.7b.

Minister says he expects current account surplus in Sept. as trade deficit narrowed to about \$5b

9-month exports down 0.3% Y/y to \$187.5b

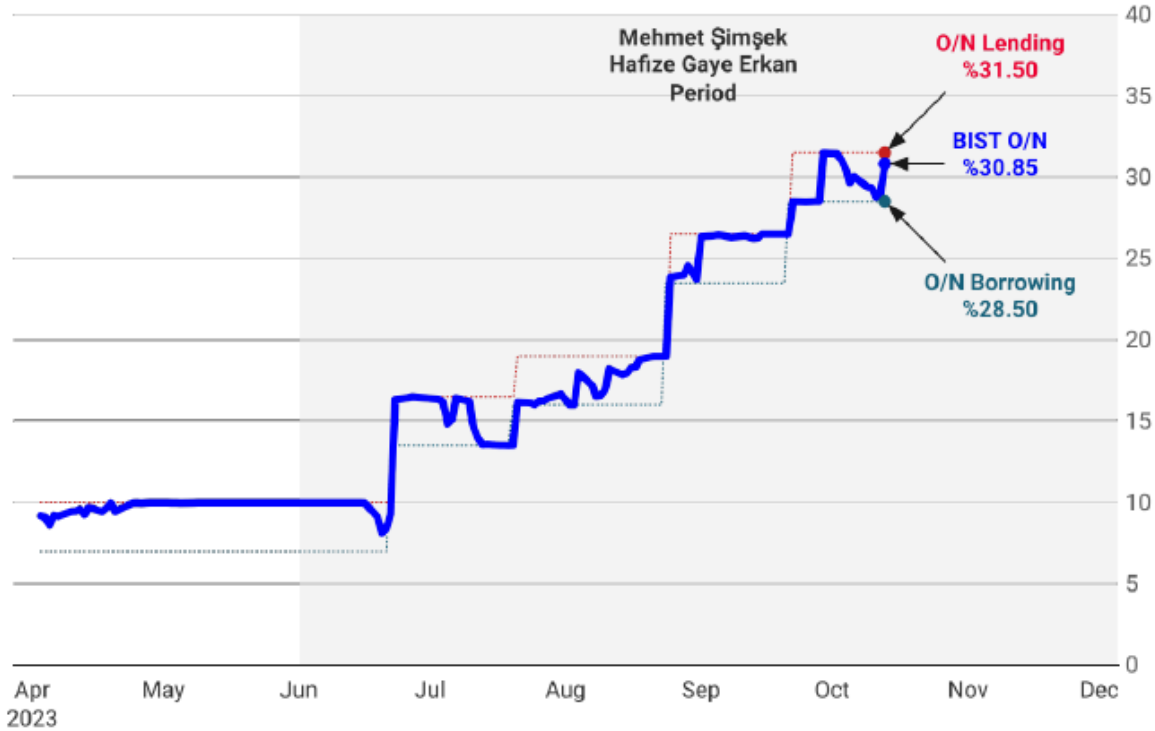
9-month imports up 1.3% to \$274.8b

Trade Volume (September 2023, 12 Month Sum)

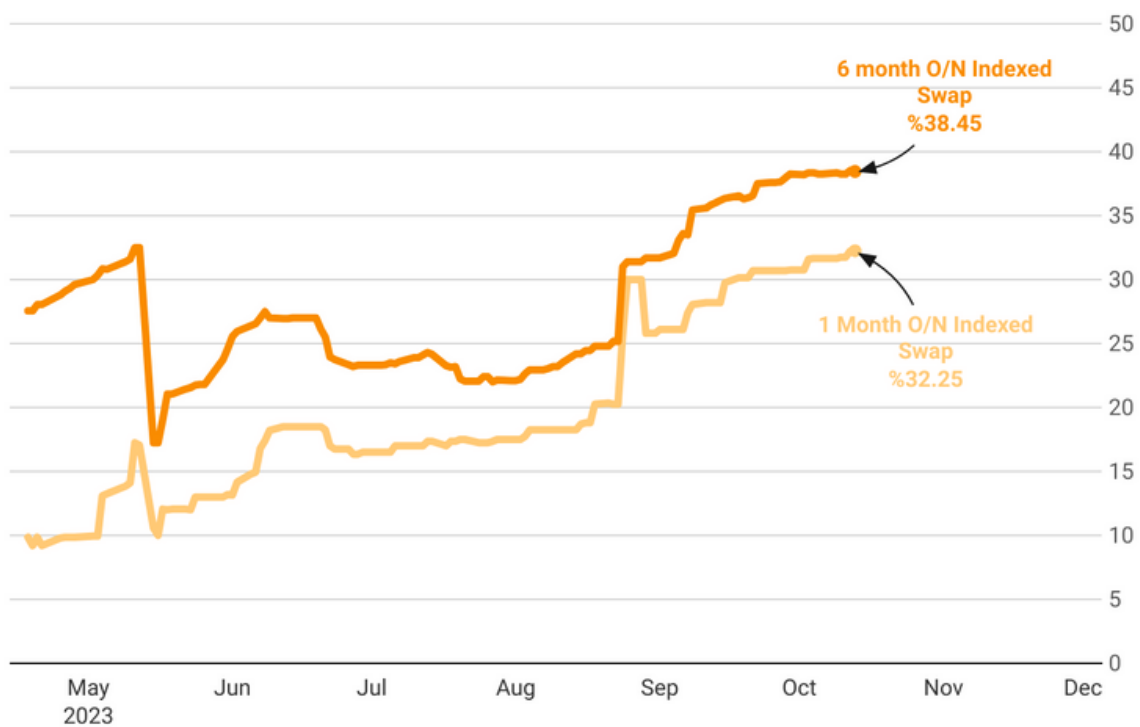


Turkish Central Bank to Hike Policy Rate to %35

Short Term O/N Market Rates (October 13)



Market Expectations for O/N Rates (October 13)



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