GOLDERA

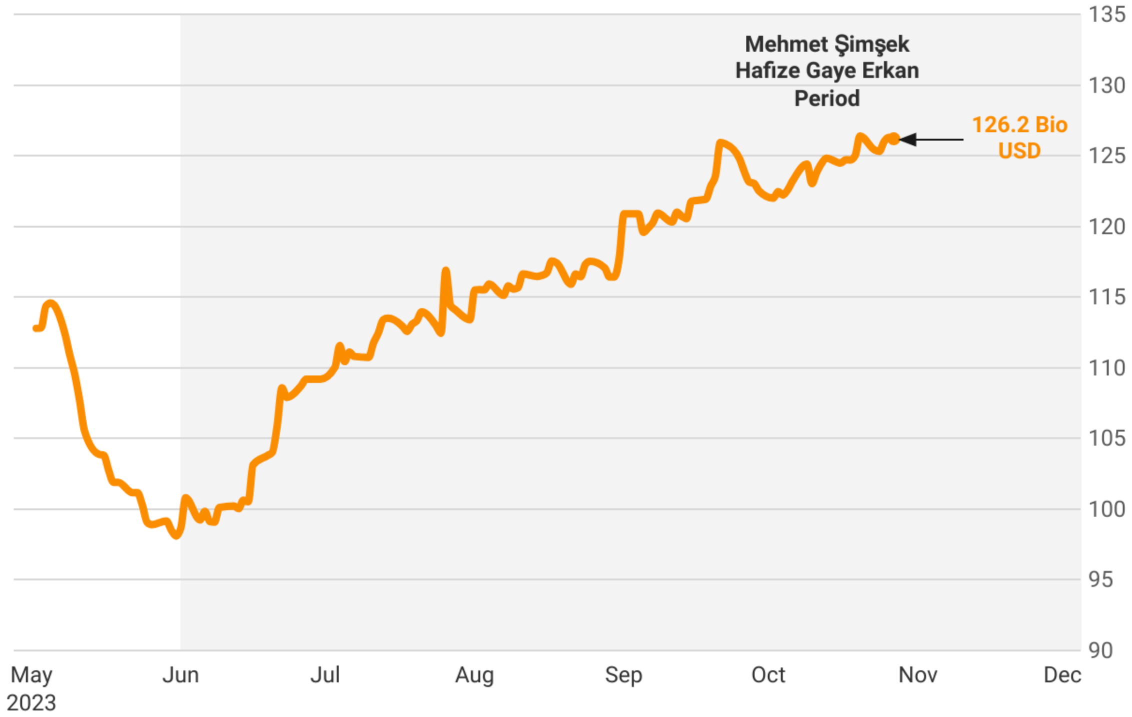
MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

BI WEEKLY BULLETIN ON TÜRKİYE

OCTOBER 14 - OCTOBER 30 2023

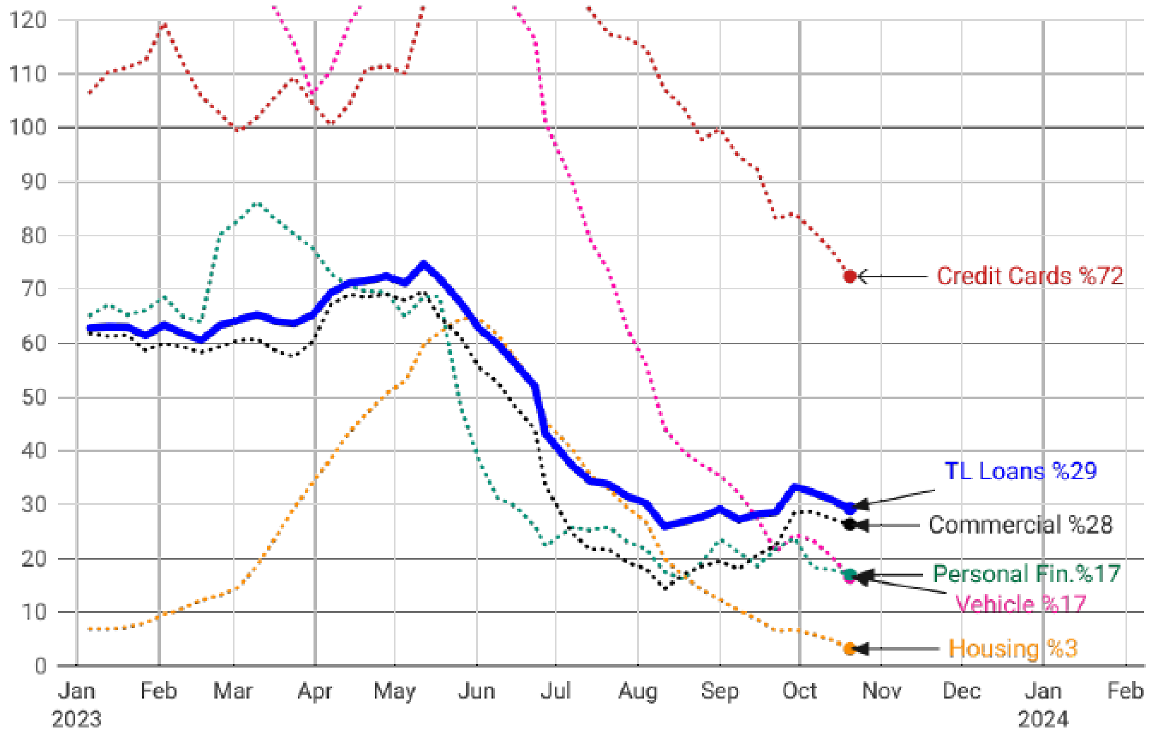
CBRT Gross Reserves (October 27)



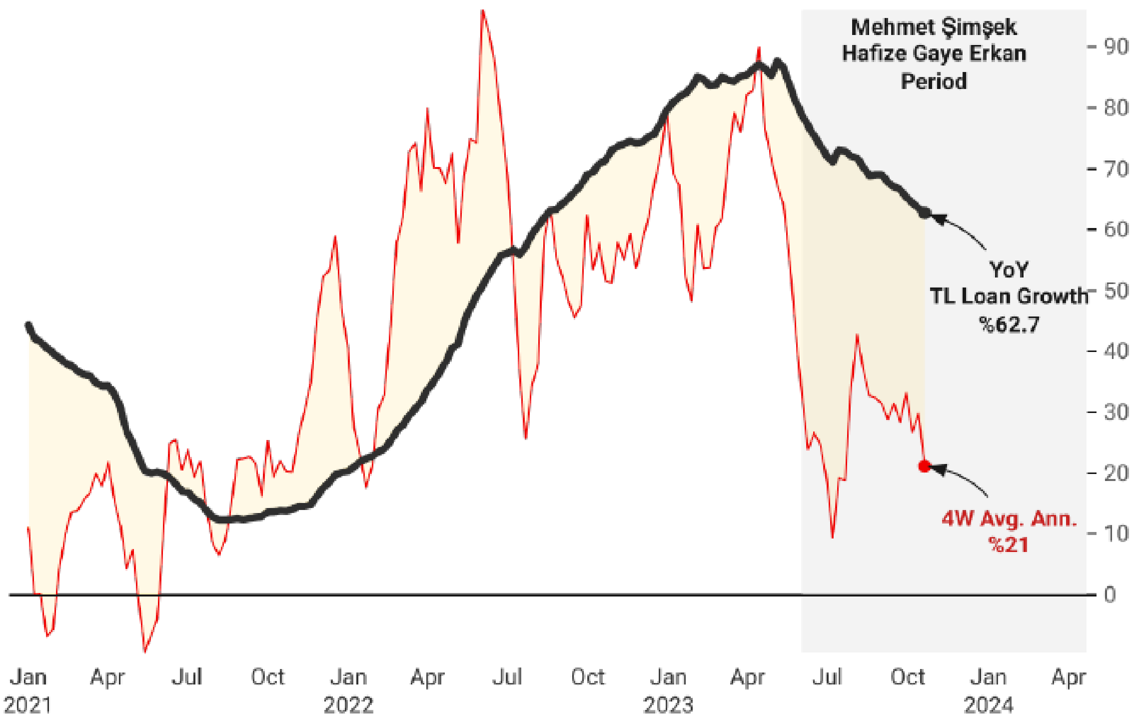
Assets (Bio USD)	30/12/22	08/22/23	YTD
Gold	45.89	43.52	−2.37
FX Banknotes	9.60	3.67	-5.93
Securities + Deposits	10.29	5.58	-4.71
Other FX Balance	62.94	73.08	+10.14
TOTAL	128.72	125.85	-2.87

Liabilities (Bio USD)	30/12/22	08/22/23	YTD
To Turkish Banks	85.04	73.92	-11.12
To IMF & International Insti.	16.25	29.60	13.35
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	184.90	191.75	+6.85

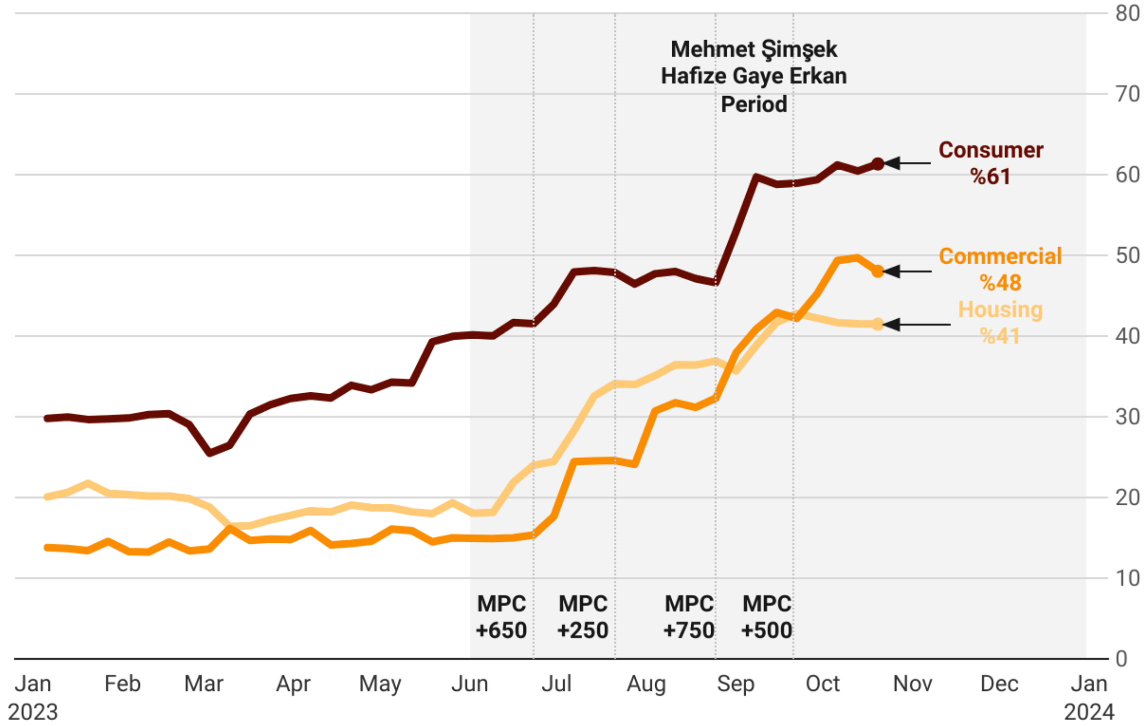
TL Loan Growth Momentum(Oct. 20, 13 Week. Ann., %)



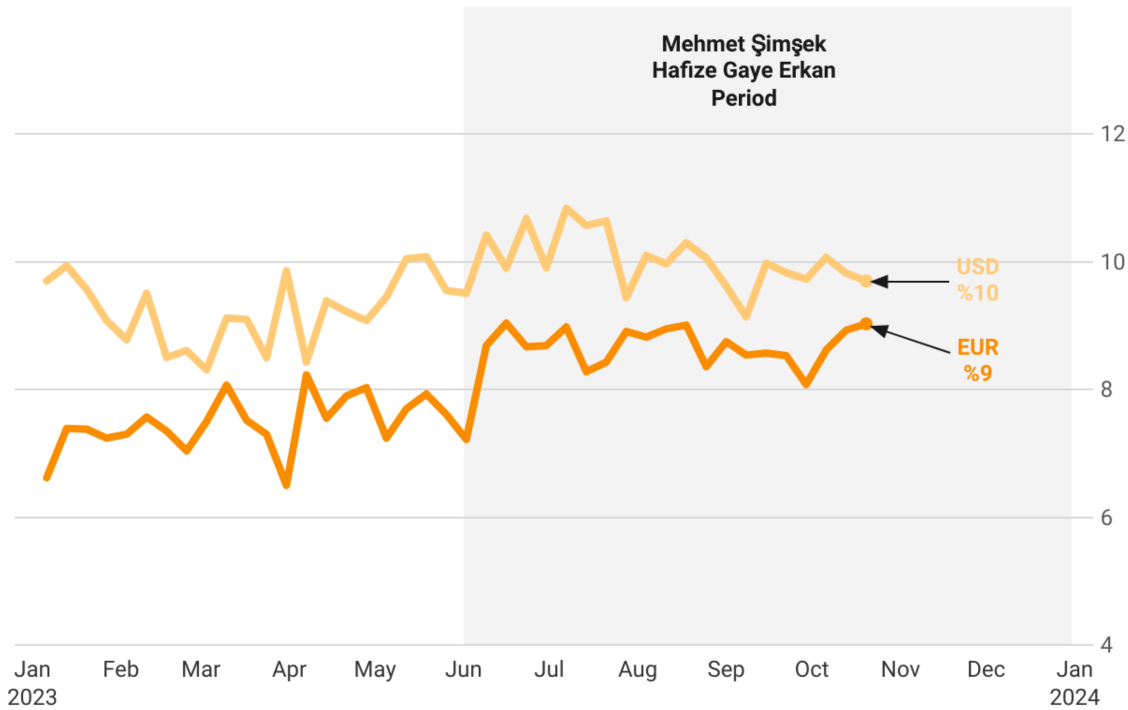
TL Loan Growth (October 20, YoY)



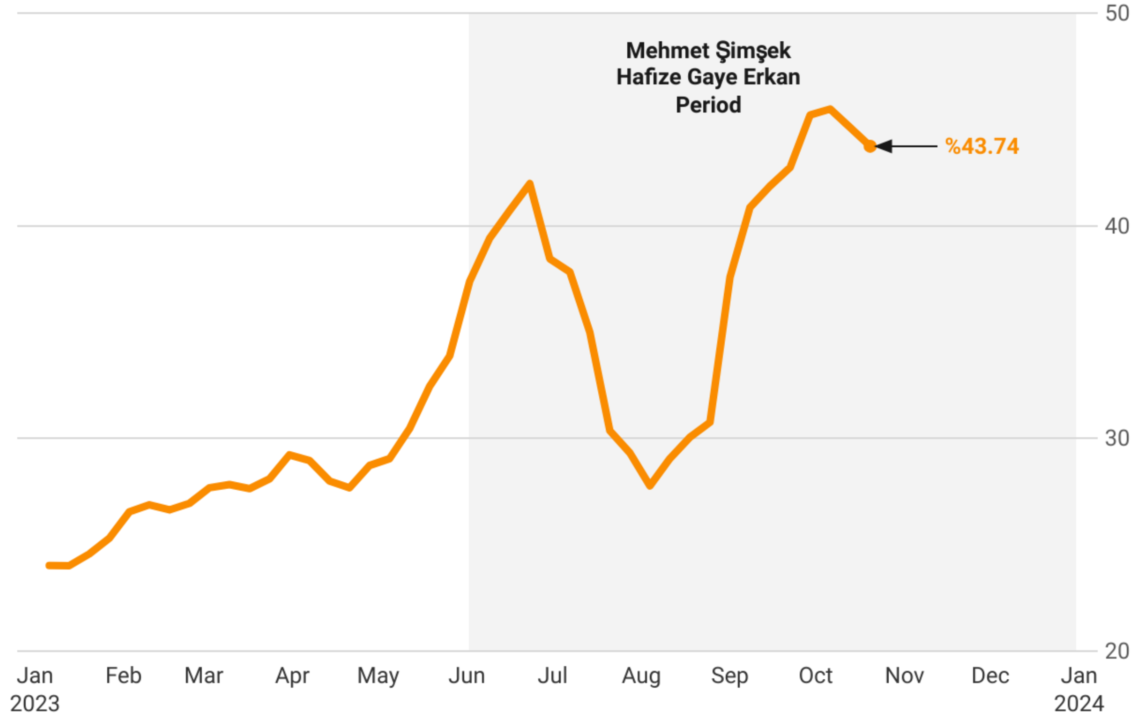
TL Loan Interest Rates (October 20)



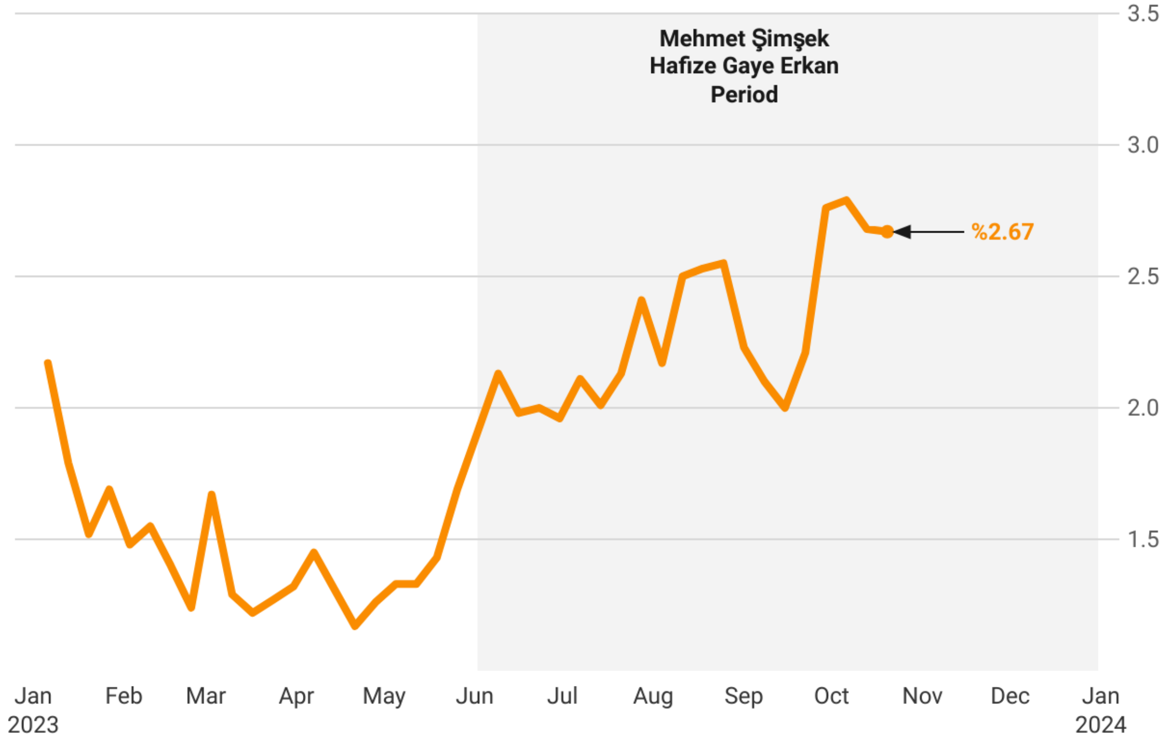
FX Loan Interest Rates (October 20)



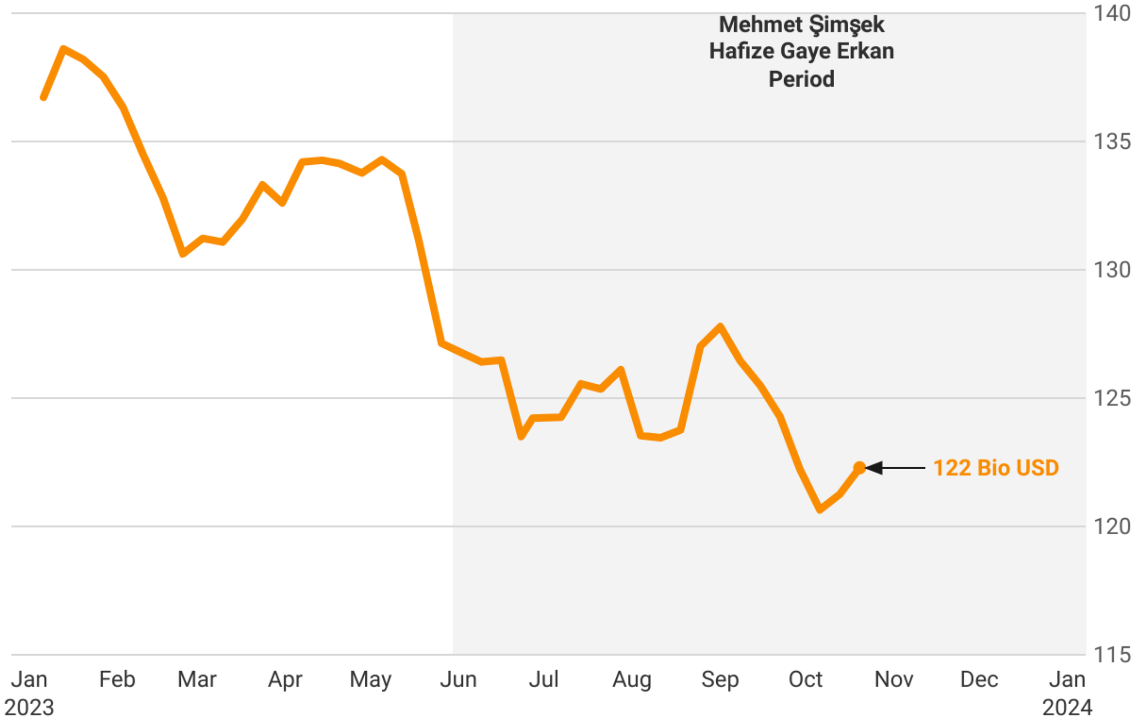
TL Deposit Interest Rates - 3M Maturity (October 20)



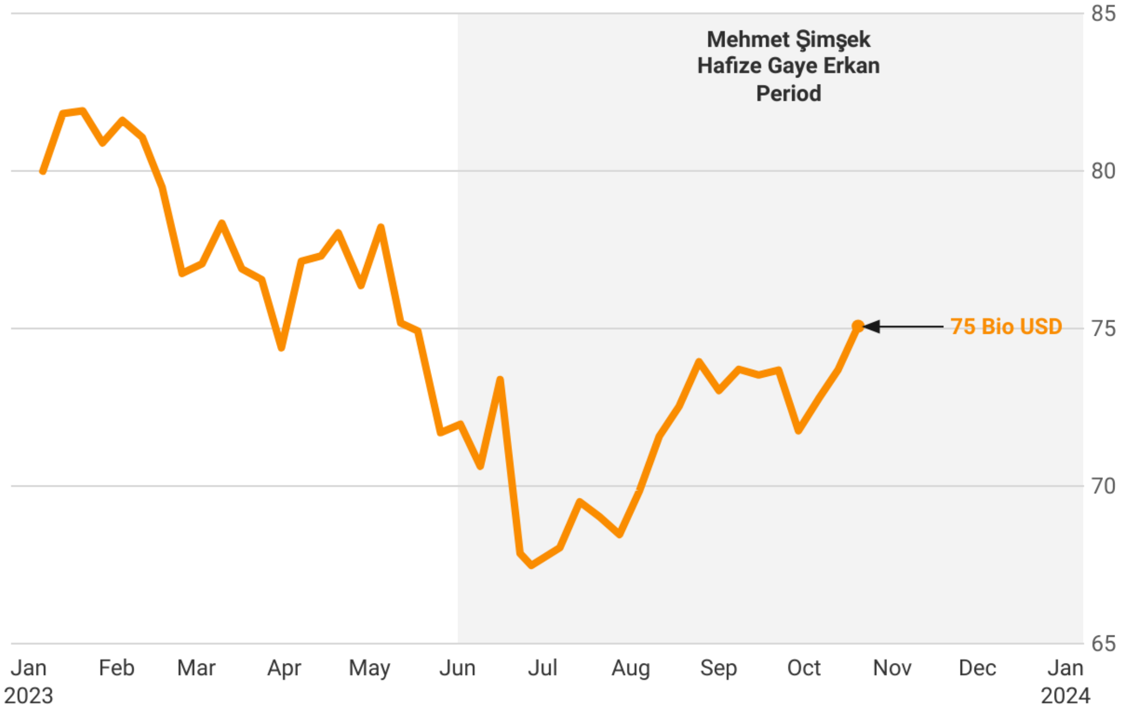
USD Deposit Interest Rates - 3M Maturity (October 20)



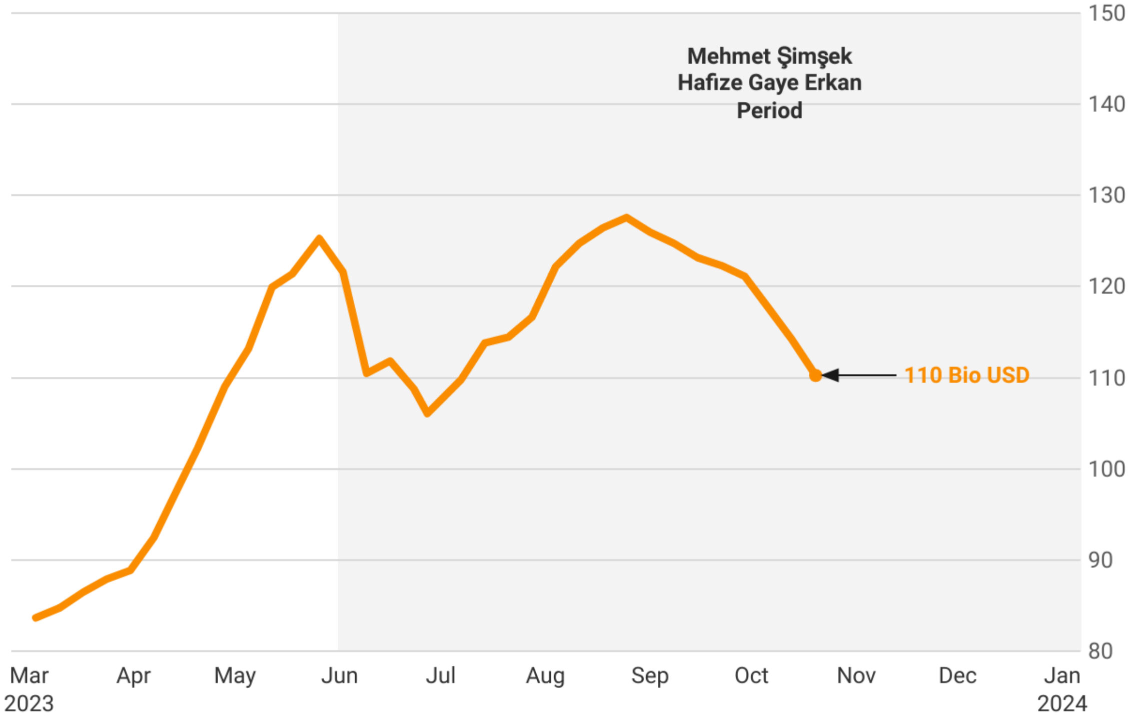
Retail FX Deposits (October 20)



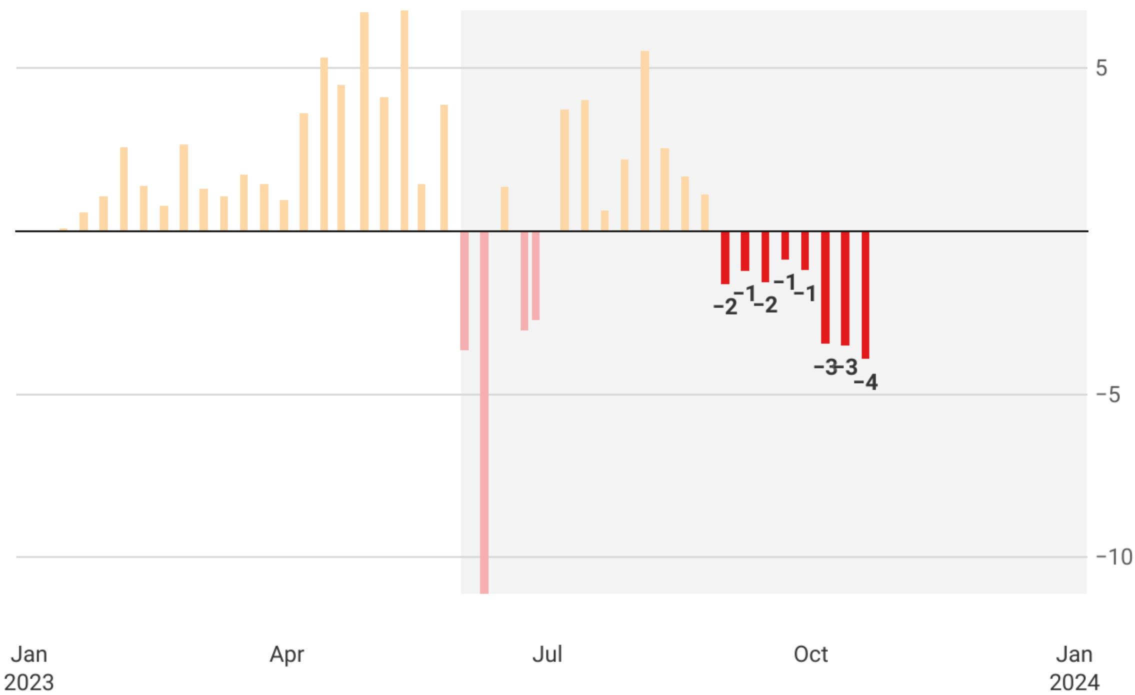
Commercial FX Deposits (October 20)



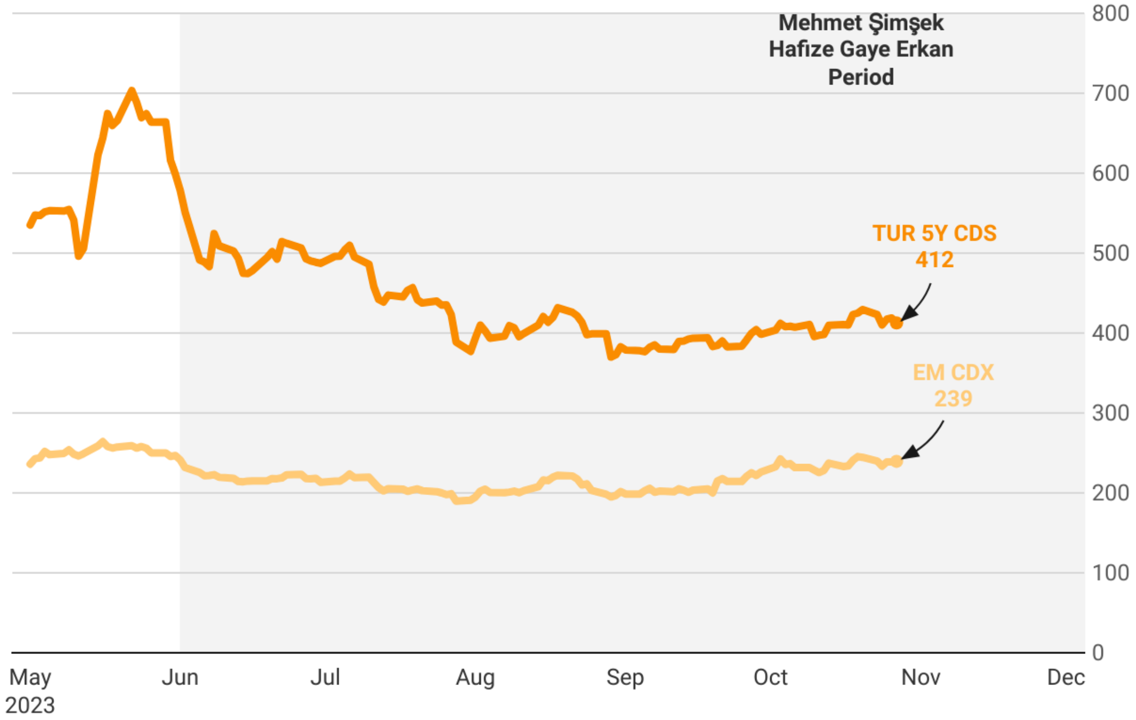
FX Protected TL Deposits (October 20)



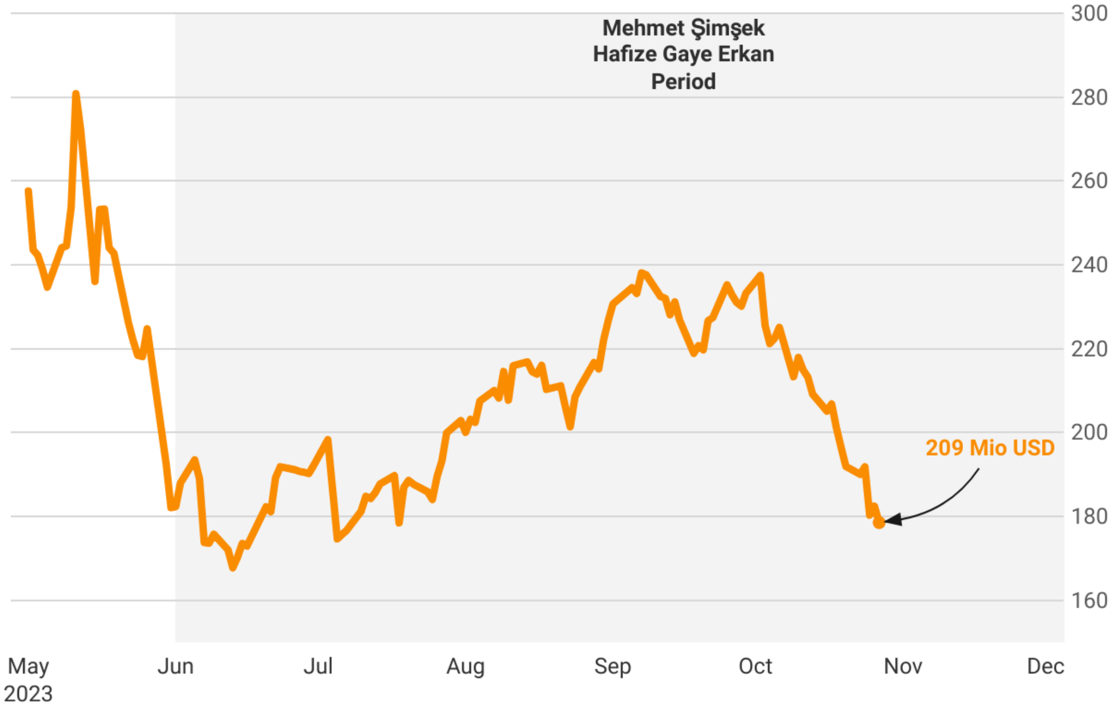
WoW Change (Bio USD)



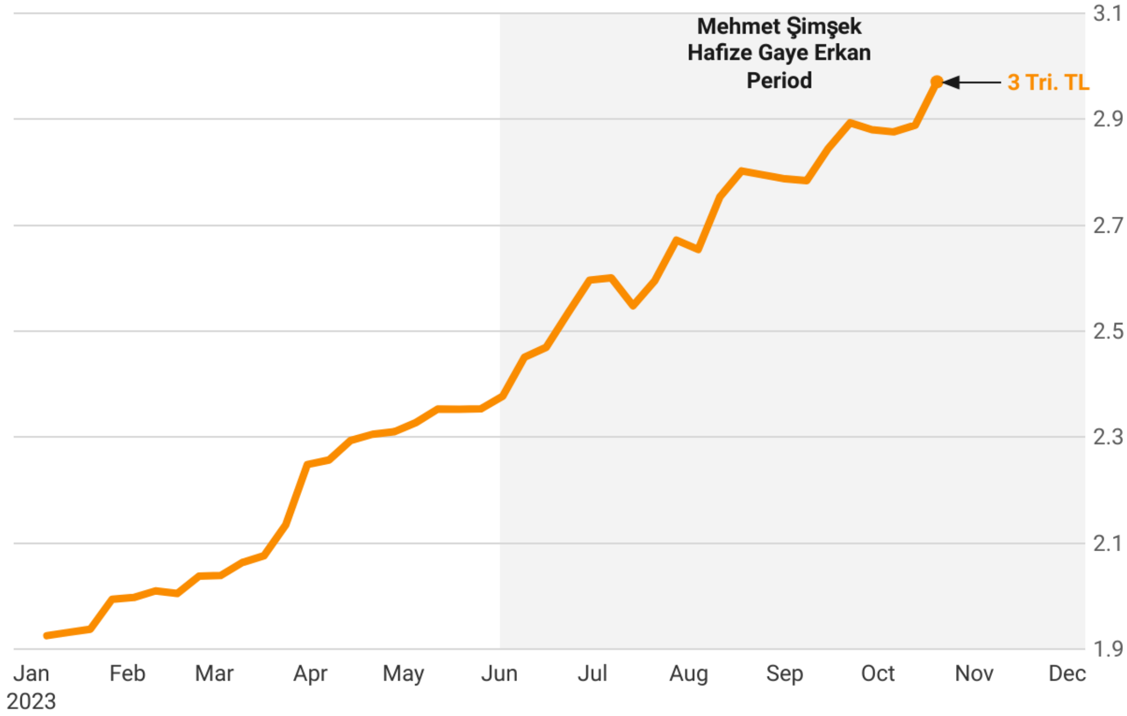
Sovereign Credit Risk (October 27)



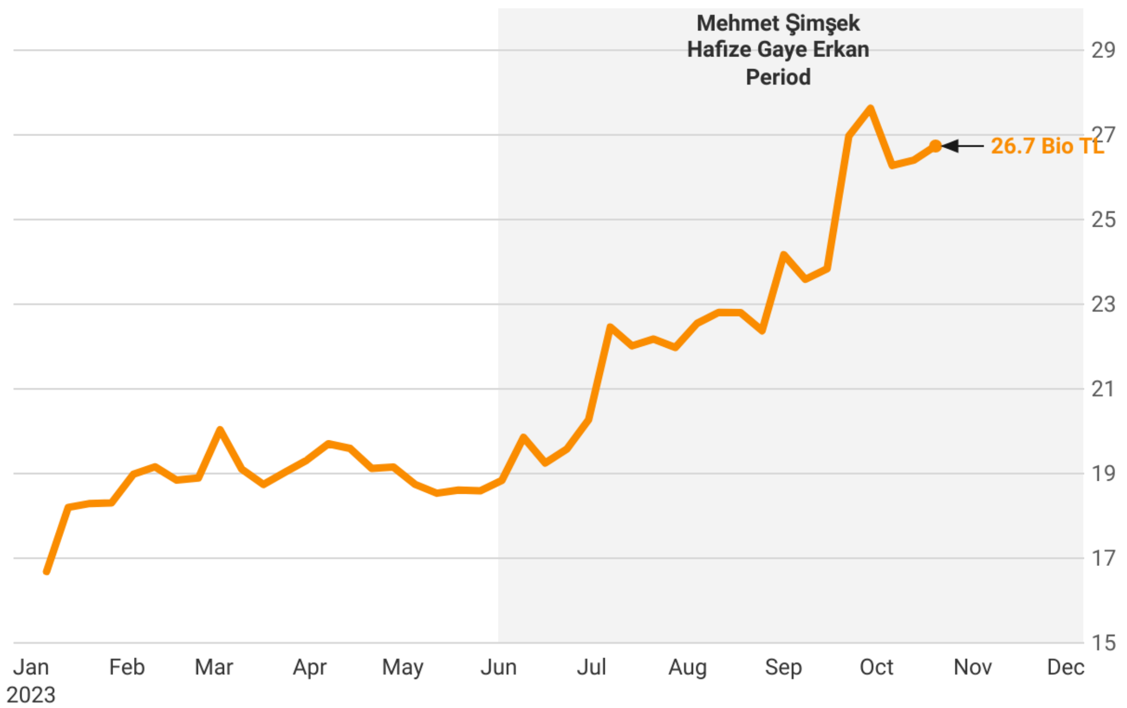
Ishares TUR ETF (AUM, October 27)



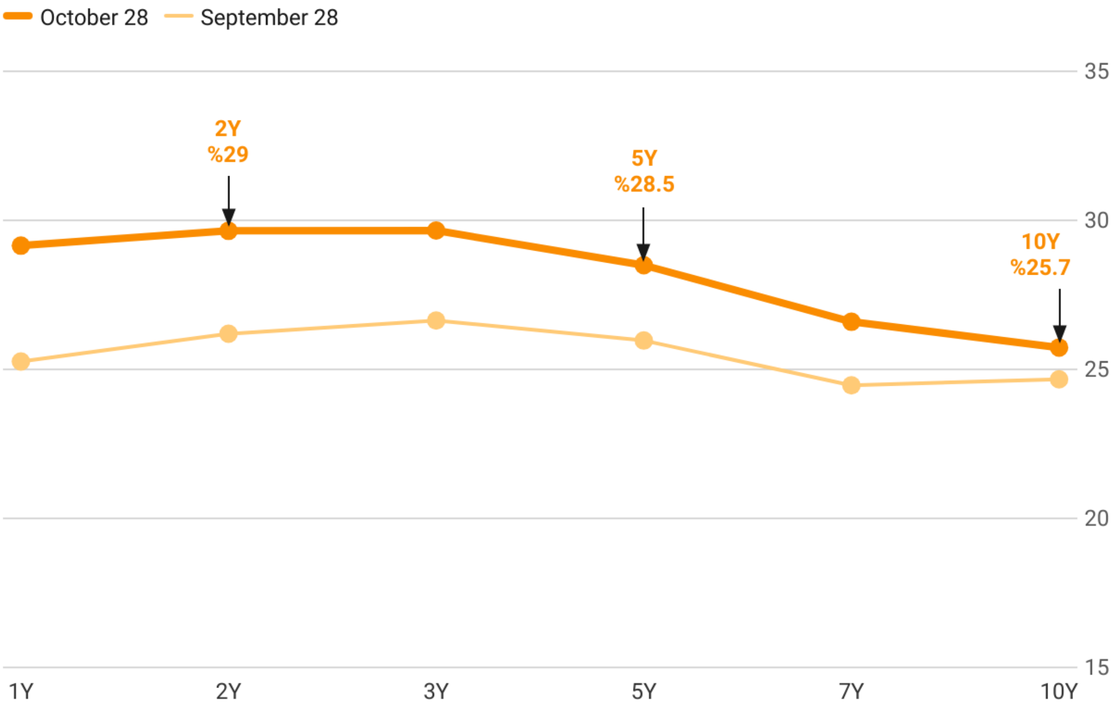
TL Treasury Bonds - Outstanding (October 20, Nom.)



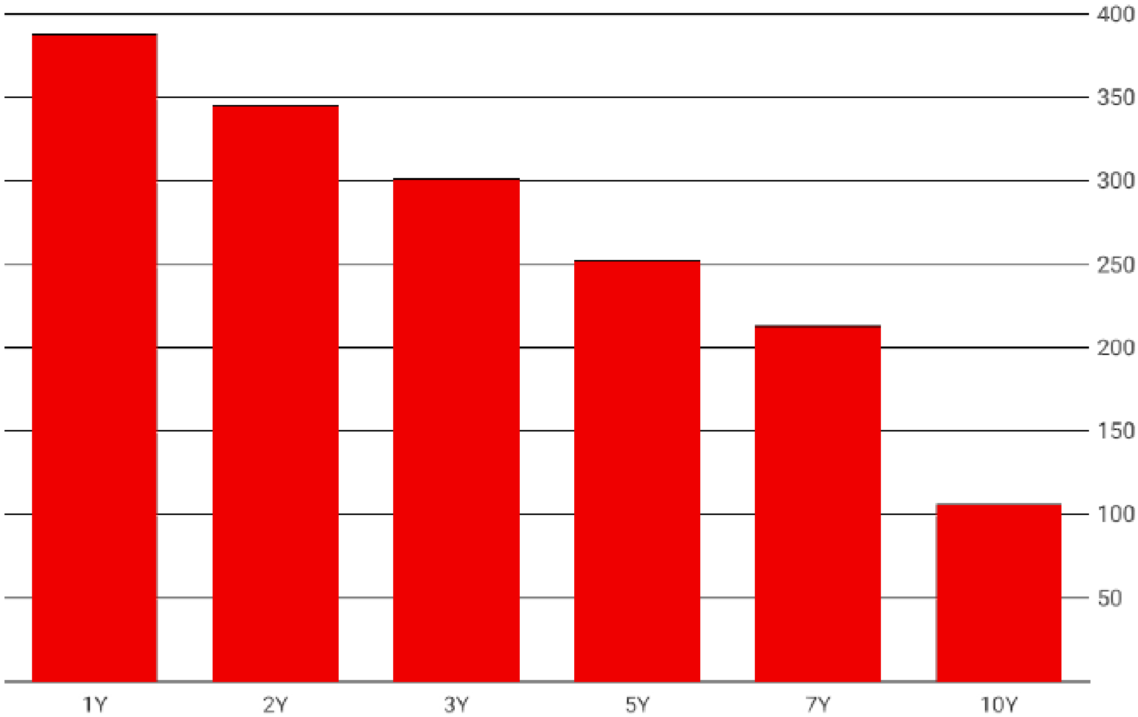
TL Treasury Bonds - For. Ownership (October 20, Nom.)



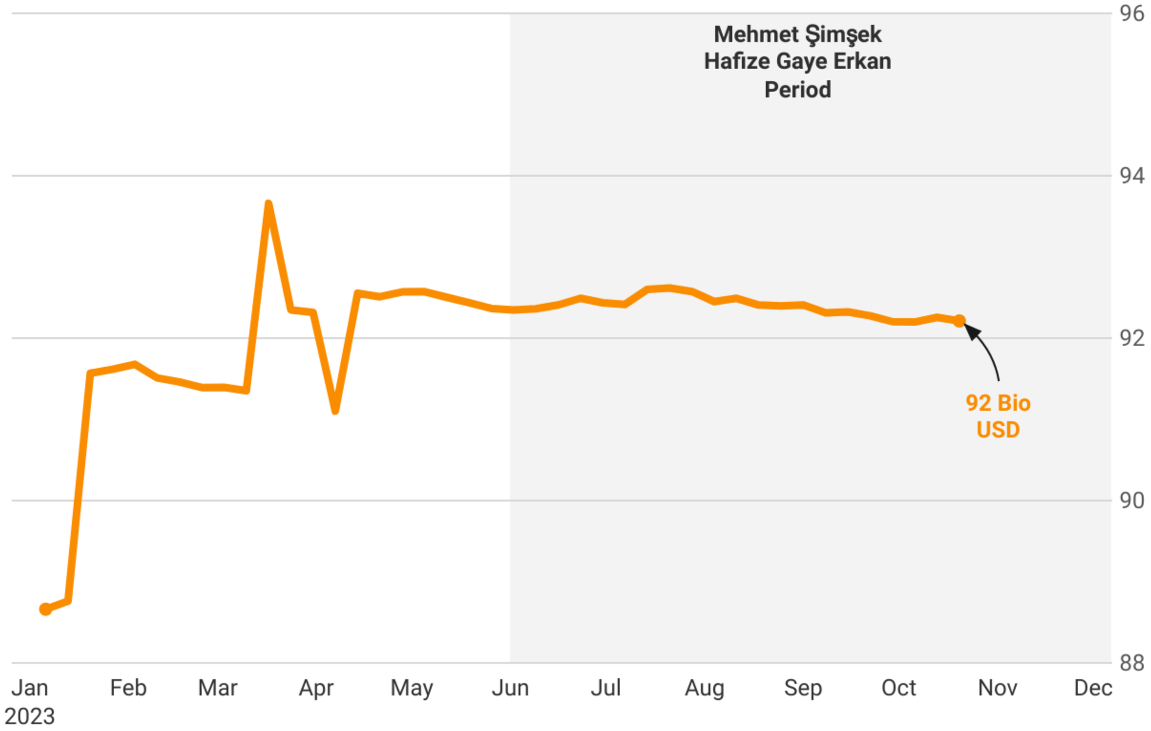
TL Sovereign Yield Curve (October 28)



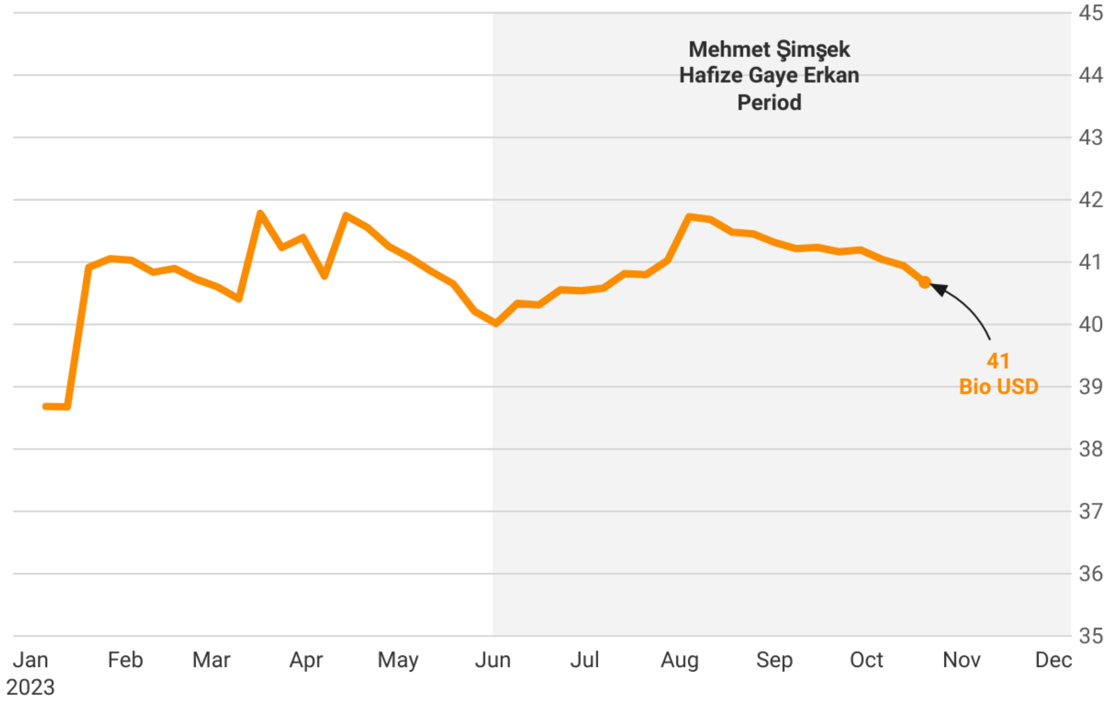
MoM Chg- basis points



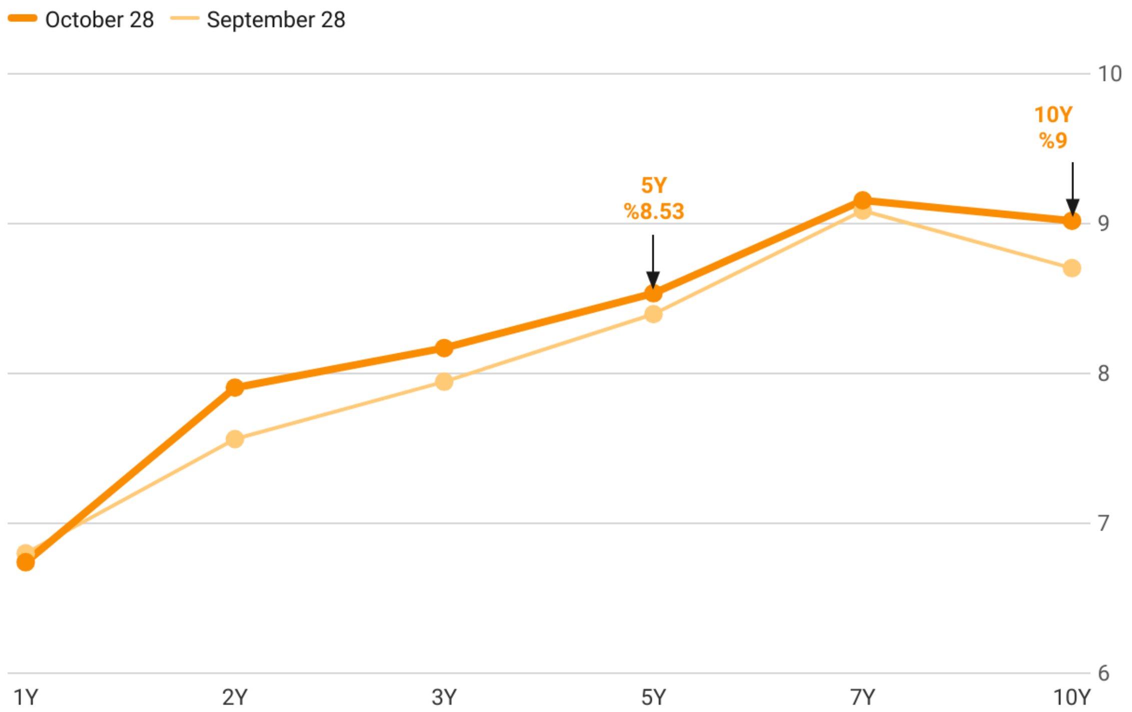
Eurobond- Outstanding (October 20, Nom.)



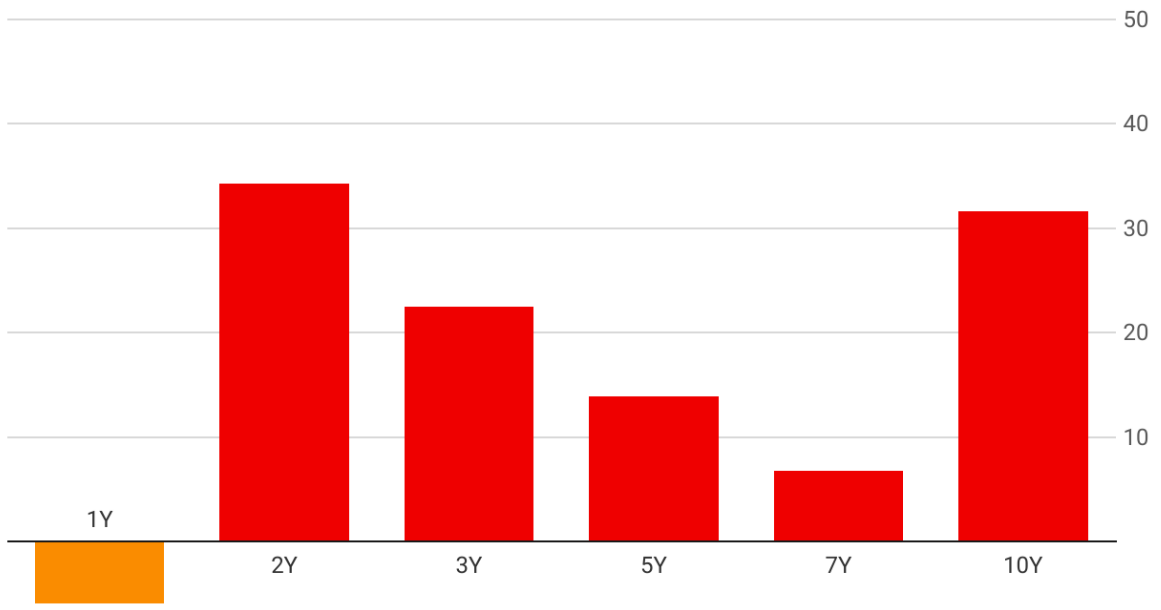
Eurobond- Foreign Ownership (October 20, Nom.)



USD Sovereign Yield Curve (October 28)



MoM Chg- basis points

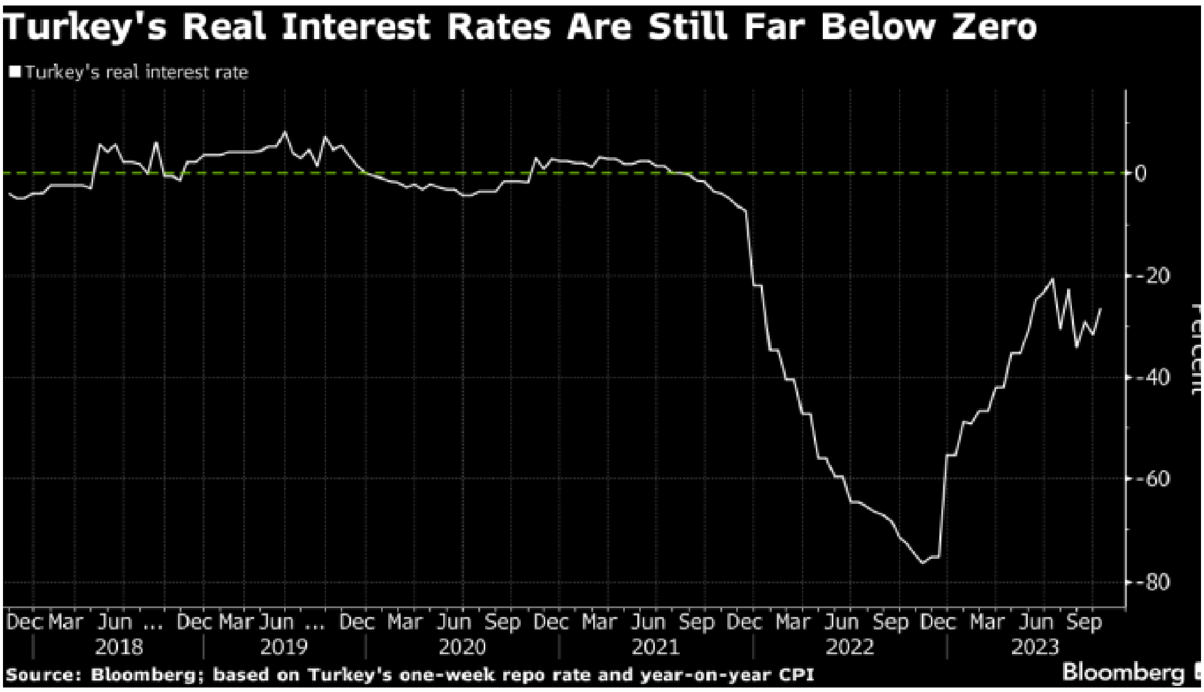


Turkey Delivers Another Big Rate Hike as Inflation Spirals
By Beril Akman
10/26/2023
· Central bank delivers its fifth straight rate hike on Thursday.
· Focus remains on attracting bond inflows amid inflation pickup

Turkey's central bank delivered another sizable interest-rate increase on Thursday and signaled it could tighten policy further to rein in inflation that's on track to end this year near 70%.

The Monetary Policy Committee, led by Governor Hafize Gaye Erkan, lifted its benchmark rate to 35% from 30%, in line with most forecasts. It's "yet another large hike" that confirms the monetary authority is "fully committed to bringing inflation under control and to re-anchor inflation expectations," said Piotr Matys, an analyst in London with InTouch Capital Markets Ltd. Yet inflation remains "staggeringly high" and that's reducing the appeal of the lira for foreign investors, he said.

In a statement, the MPC repeated word-for-word its guidance from last month, saying "monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in inflation outlook is achieved."



The MPC added that its “monetary transmission mechanism” would be strengthened through “additional steps to increase the share of Turkish lira deposits.”

That’s part of a push among officials to stop Turks moving into dollar deposits and putting pressure on the lira, which is down 34% this year against the US currency. The latest banking data shows that 59% of deposits are held in liras.

Thursday’s hike is the central bank’s fifth in a row as it looks to get a grip on inflation running at 62%, one of the highest levels in the world. More rate increases are needed to attract foreign inflows into local bond markets, especially with the central bank expecting price-growth to continue quickening until the second quarter of next year.

Since President Recep Tayyip Erdogan’s reelection in May, Turkey’s sought to unwind what Finance Minister Mehmet Simsek described as “policy distortions.” Those have been blamed for scaring away foreign investors and causing a series of currency crises in recent years.

Still, the rate hike may be the last before Turkey holds local elections in March, according to Bloomberg Economics. Erdogan, who’s long championed the economic benefits of low interest rates, is trying to win back opposition-held cities such as Istanbul and Ankara and will be reluctant to keep tightening policy as the ballot nears.

While the key rate has risen from just 8.5% since Erkan took over in June,official borrowing costs remain well below zero when adjusted for inflation.

What Bloomberg Economics Says...

"We think policymakers will now pause the rate increases amid concerns that further tightening may hurt growth and employment ahead of local elections in March. We recognize, though, that upside risks to inflation may call for an additional hike at November's meeting. We maintain our call that the tightening in rates will resume once local elections are over and expect a peak rate for the cycle of 40% to arrive in 2Q24."

– Selva Bahar Baziki, economist.

Different Perspective

Simsek and other officials have argued that monetary policy is tighter than the headline rate suggests, telling investors to focus on deposit yields relative to projected inflation. They've also pointed to regulations designed to cool off credit growth as being complementary measures. Lira deposits of up to three months now pay almost 45% on an annualized basis, while the central bank sees price- growth decelerating to 33% by the end of 2024.

New Risks

New risks, meanwhile, are building, especially after war erupted this month between Israel and Hamas. The MPC's latest statement acknowledged the conflict, saying "geopolitical developments pose risks to the inflation outlook due to oil prices."

Brent crude prices have jumped about $5 a barrel to almost $90 since the fighting broke out. Erdogan has criticized Israeli airstrikes on Gaza – a retaliation against Hamas after it attacked southern Israel from the enclave on Oct. 7 – and warned that the conflict is increasing regional tensions.

Istanbul-based economist Haluk Burumcekci said he expects Turkey's tightening cycle to end in the coming months once the key rate reaches 40%.

If the lira remains in a phase of "controlled and moderate depreciation," the upward trend in monthly inflation should weaken, he said.

Not all investors are convinced. The swaps market is now pricing in a peak policy rate of 45%, up from 40% recently, according to Win Thin, global head of currency strategy at Brothers Harriman & Co.

"This is noteworthy," he said.

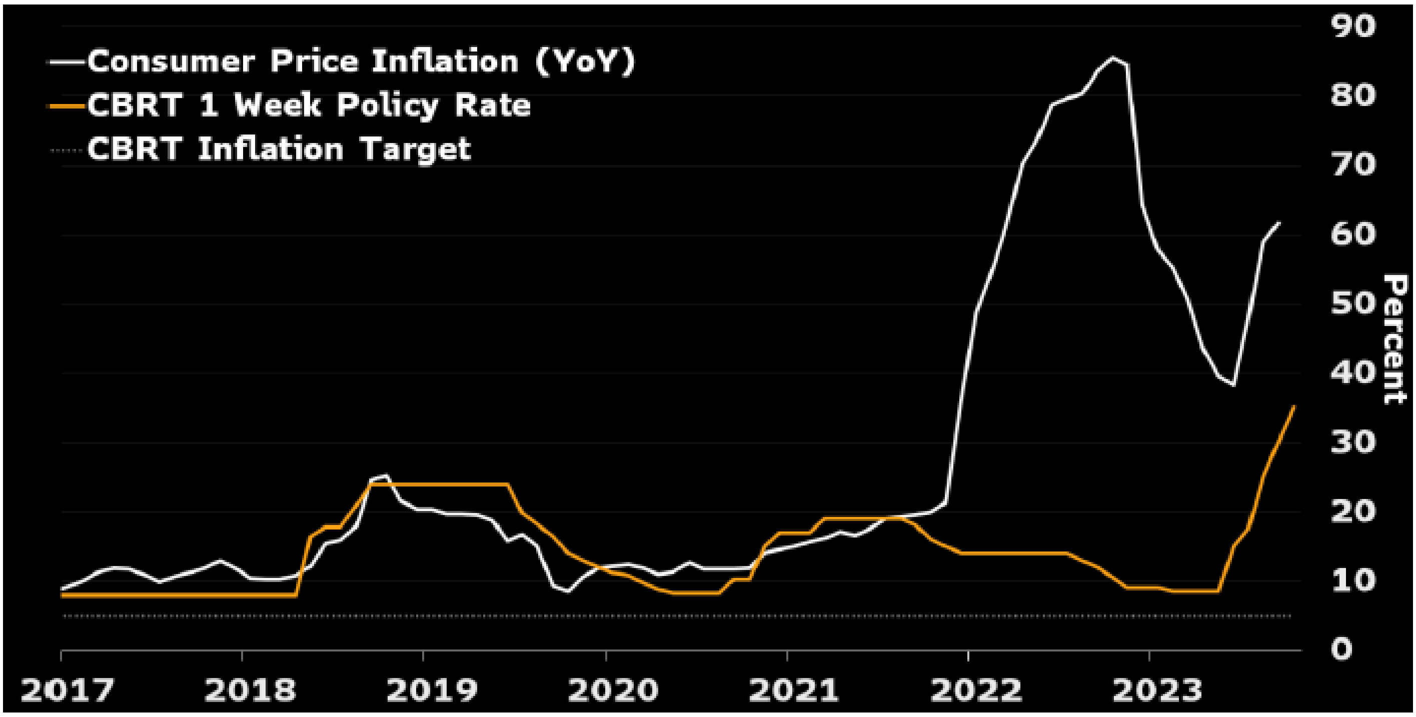
TURKEY REACT: Central Bank at 35%, Next Hike to Come in 2Q24
By Selva Bahar Baziki (Economist)
10/26/2023

OUR TAKE: The Central Bank of the Republic of Turkey raised its one-week repo rate by 500 basis-points at its October meeting, as we expected, with the increase likely to mark the beginning of a months-long pause to its tightening cycle. We maintain our view that the central bank will resume rate hikes after local elections in March next year. In the meantime, the CBRT is expected to employ regulatory changes to further tighten financial conditions. The central bank raised its oneweek repo rate to 35% from 30%, matching our call and the median consensus forecast. The move adds to a cumulative 2,150 basis points of rate increases since the central bank policy-flip that followed May's elections.

In our view, the outsized tightening in the policy rate is warranted by a deteriorating inflation outlook. In this regard, September data showed prices more than doubled for 14% of the items in the consumer basket. We expect broad-based price gains to carry the headline rate to 68% by year-end and peak at 73% by the second quarter of 2024.

Even so, we think policymakers will now pause the rate increases amid concerns that further tightening may hurt growth and employment ahead of local elections in March. We recognize, though, that upside risks to inflation may call for an additional hike at November's meeting.

We maintain our call that the tightening in rates will resume once local elections are over and expect a peak rate for the cycle of 40% to arrive in 2Q24.



Press Release Highlights

The press release that followed the meeting points to oil price developments as a risk to the inflation outlook. We agree and see a likely slide in the lira adding to these upside risks. The currency is already down by 33% against the dollar year-to-date, having recently reached a new all-time low. CBRT research shows that in recent years there has been a higher rate of passthrough from a weaker currency to price gains.

The CBRT statement also suggests additional regulatory changes aimed at supporting lira deposits are likely – such action has the potential to function as a stealth rate hike. Previously, revisions to the central bank's reserverequirement and securities maintenance regulations have incentivized banks to make regular lira deposits more attractive and supported an ongoing surge in deposit (and lending) rates.

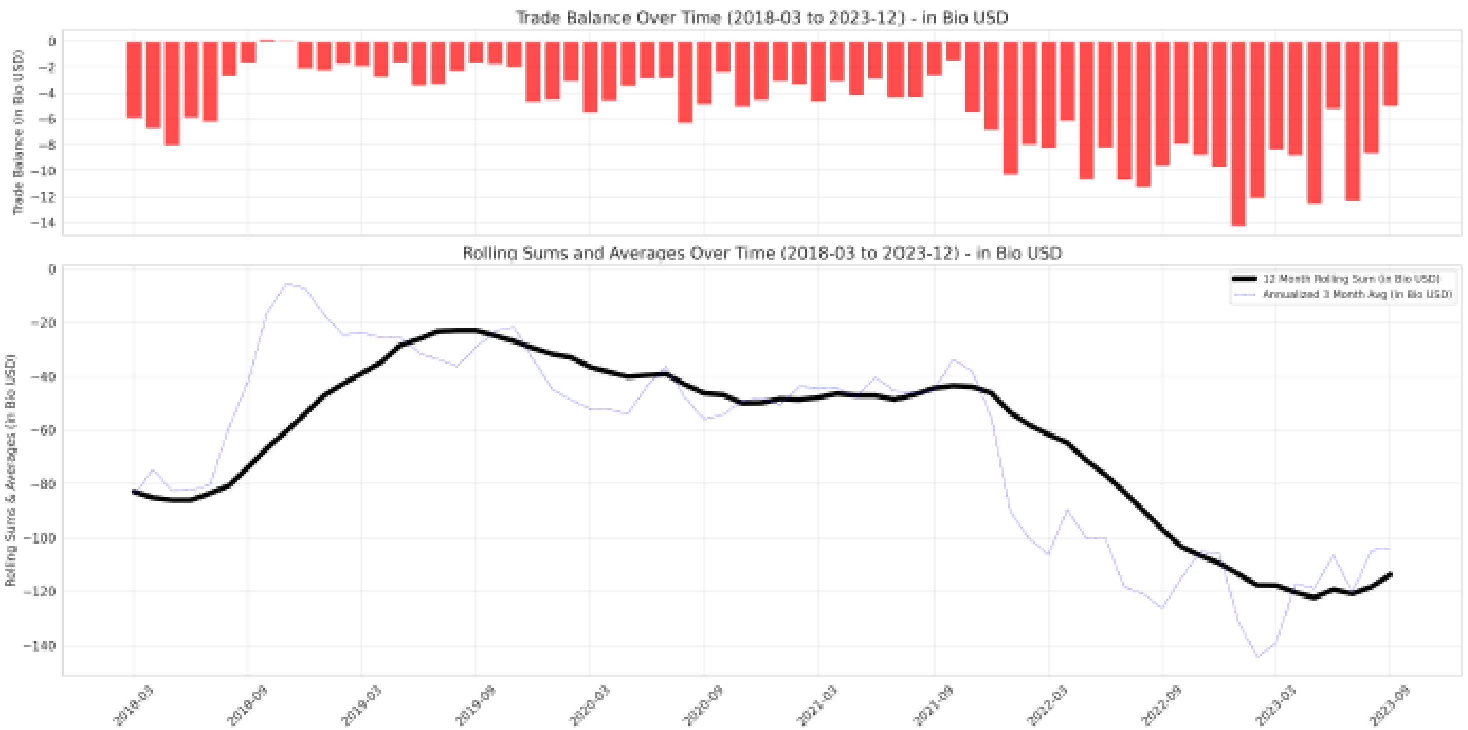
We also expect the central bank to continue with changes to its regulation and practices, in order to further tighten credit conditions. Previous steps include tighter reserve requirements (which we estimate to be equivalent to an additional 40-bp hike), lower credit growth caps and a looser effective cap on lending rates.

Trade deficit to narrow

The data from recent trade statistics provides a clear insight into the ongoing shifts in the economic environment. Two central observations emerge:

Recent months have shown a tendency towards a narrowing trade balance. This contrasts sharply with earlier periods when the trade deficit was on an expansionary trajectory. The effects of stringent financial conditions are seen in the curtailed loan growth. This deceleration in credit suggests an environment where borrowing has been constricted, due to elevated interest rates. A consequential outcome of these financial conditions is their role in shaping a narrower trade deficit. The decline in loan growth can potentially curb consumer and business expenditures, leading to a dip in imports. Concurrently, businesses might lean towards export-centric strategies, seeking to tap into overseas markets, especially when domestic financial avenues seem restrictive.

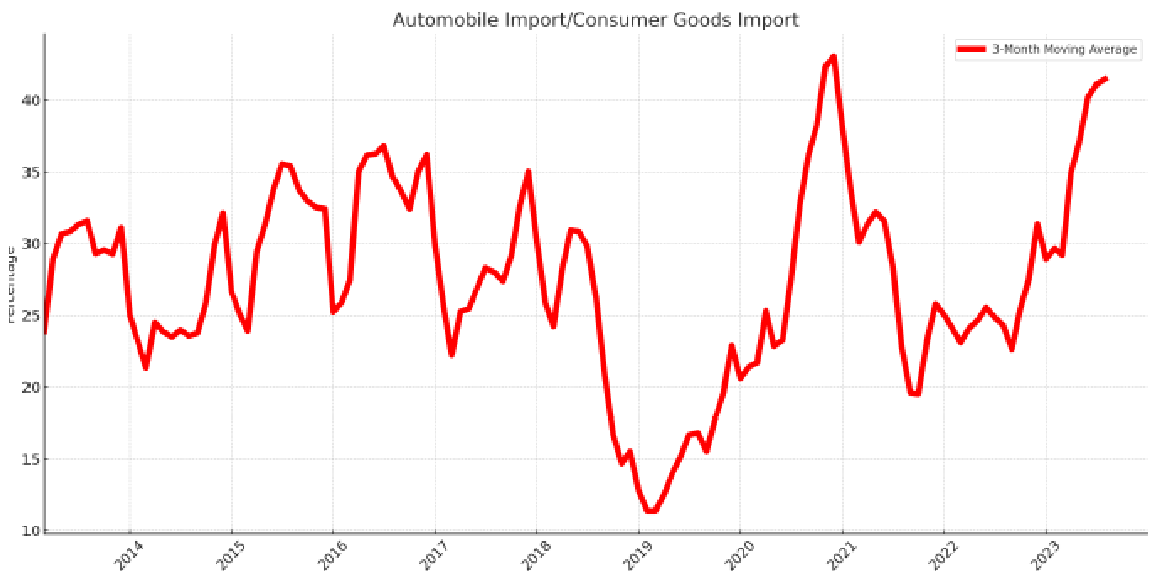
In summary, the prevailing trade statistics highlight the intricate relationship between trade balances and the broader financial climate. Observing these trends will be pivotal, providing valuable perspectives on the larger economic scenario and potential policy directions.



Financial conditions to slow down automobile imports

The increasing trend in the ratio of automobile imports indicates a significant role in driving the overall growth of total imports, either amplifying or constraining it.

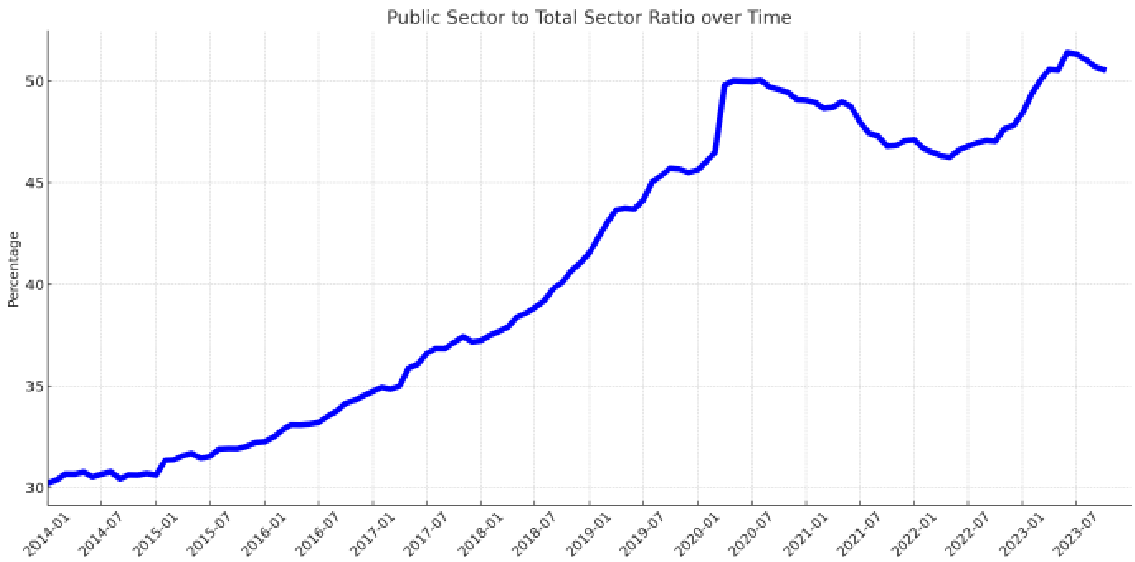
A slowdown in automobile loans is anticipated to reduce demand for automobile imports, thereby contributing to a decrease in overall imports.

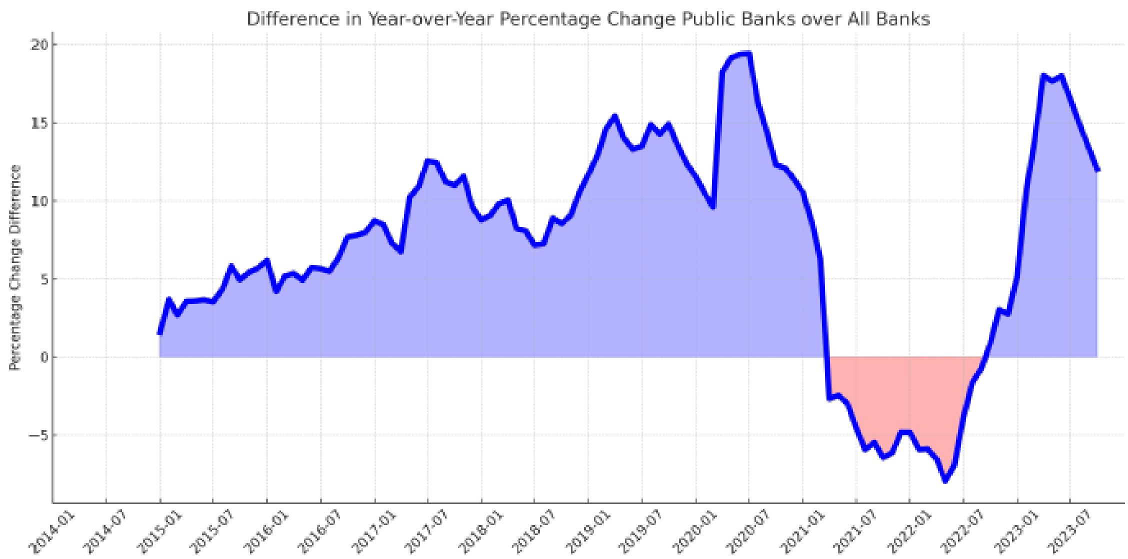


Turkish Lira loan growth driven by Public Banks

Over the past ten years, public banks in Turkey have made significant strides, increasing their market share by a remarkable 20 percentage points. This growth indicates the dominant role that public banks have come to play in the Turkish financial landscape. Furthermore, the credit policy of public banks has a profound impact on monetary tightening measures in overall.

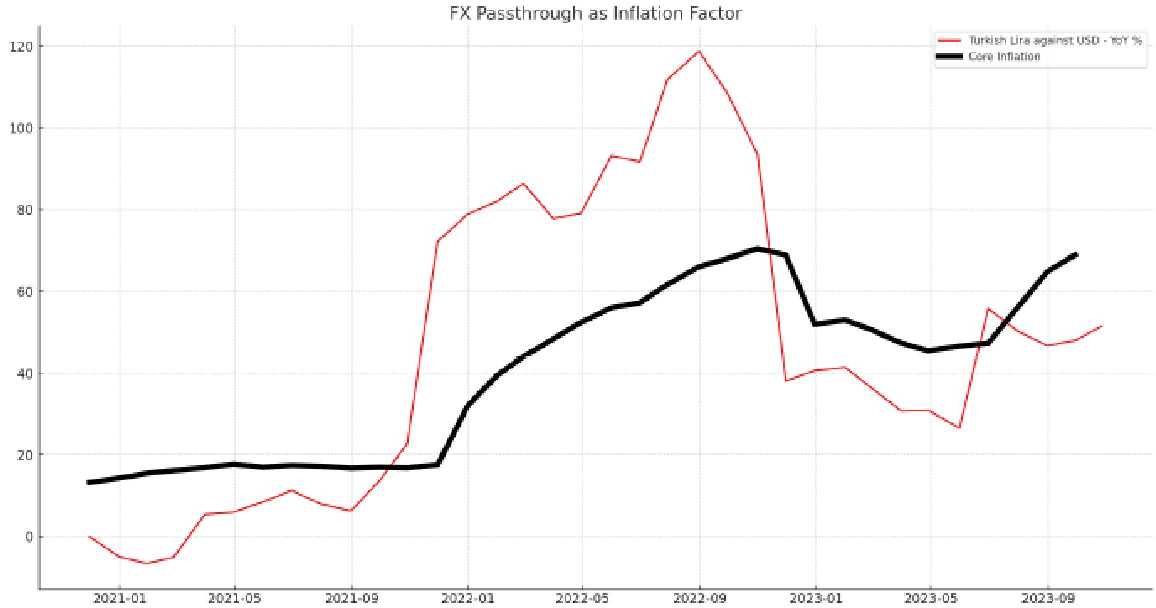
As public banks continue to expand their influence, their credit decisions become instrumental in achieving inflation targets set by monetary authorities. Thus, the strategic direction of public banks' lending practices is not only essential for their growth but is also pivotal for broader economic stability, especially in controlling inflation.

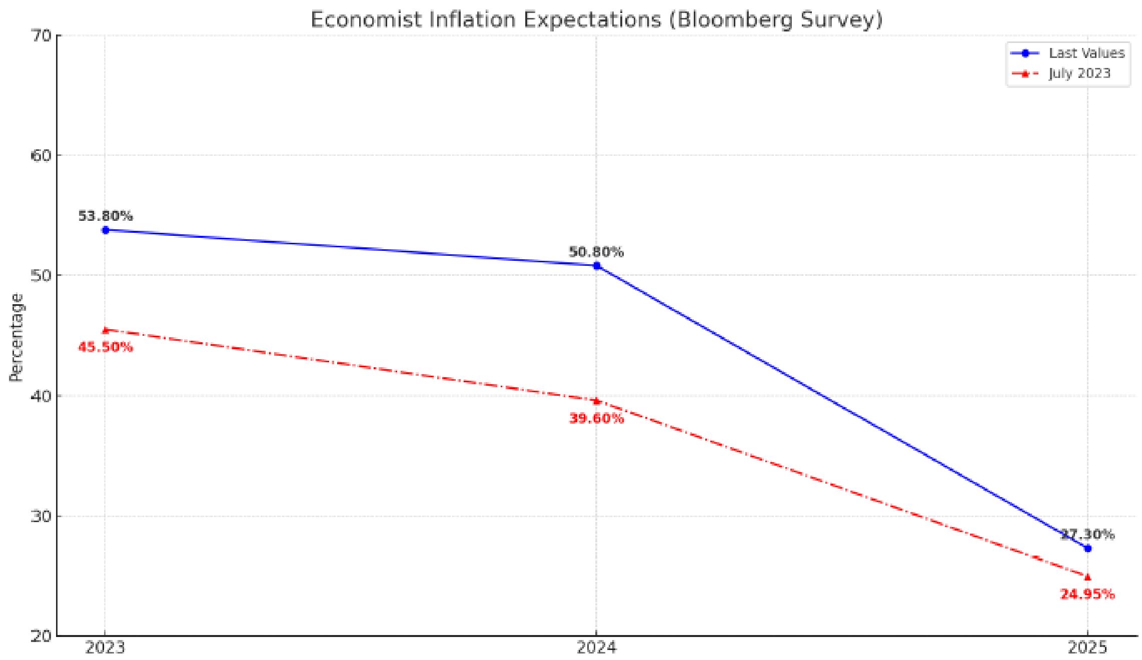




Inflation expectations continue to deteriorate

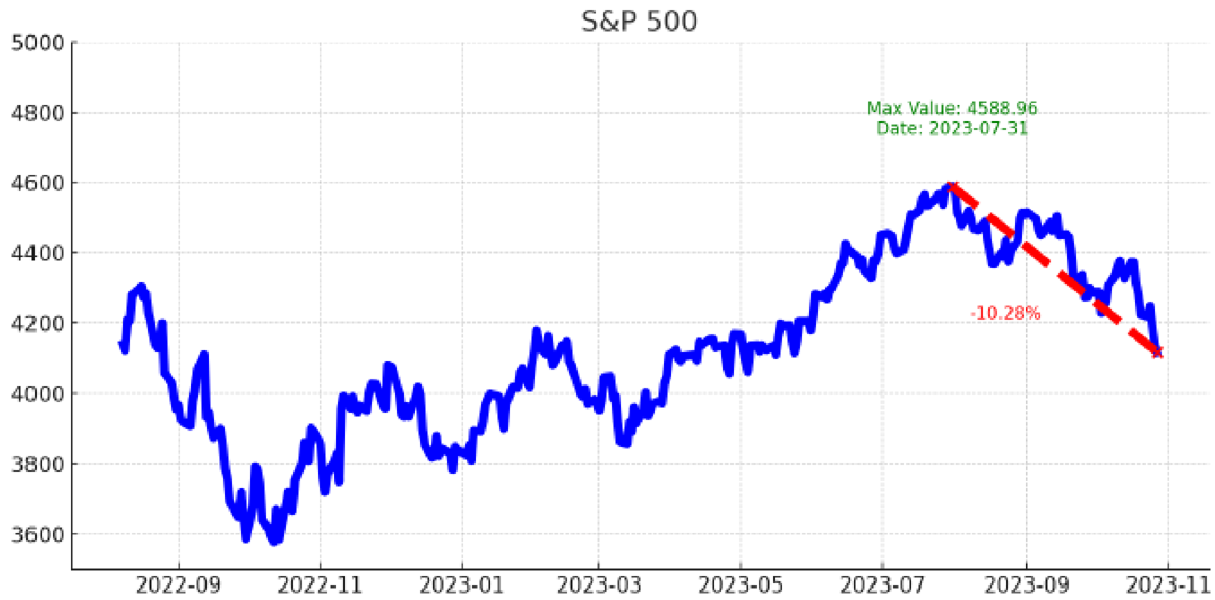
Turkiye's unanchored "Core Inflation" highlights a vulnerability to external shocks, exacerbated by the pronounced foreign currency passthrough effect seen from the lira's depreciation. This dynamic presents a clear inflationary risk, especially with the anticipated further weakening of the lira. In response, the Central Bank's continued tightening stance and emphasis on a real positive interest rate underscore the complexities faced by policymakers in balancing inflation, currency stability, and growth.

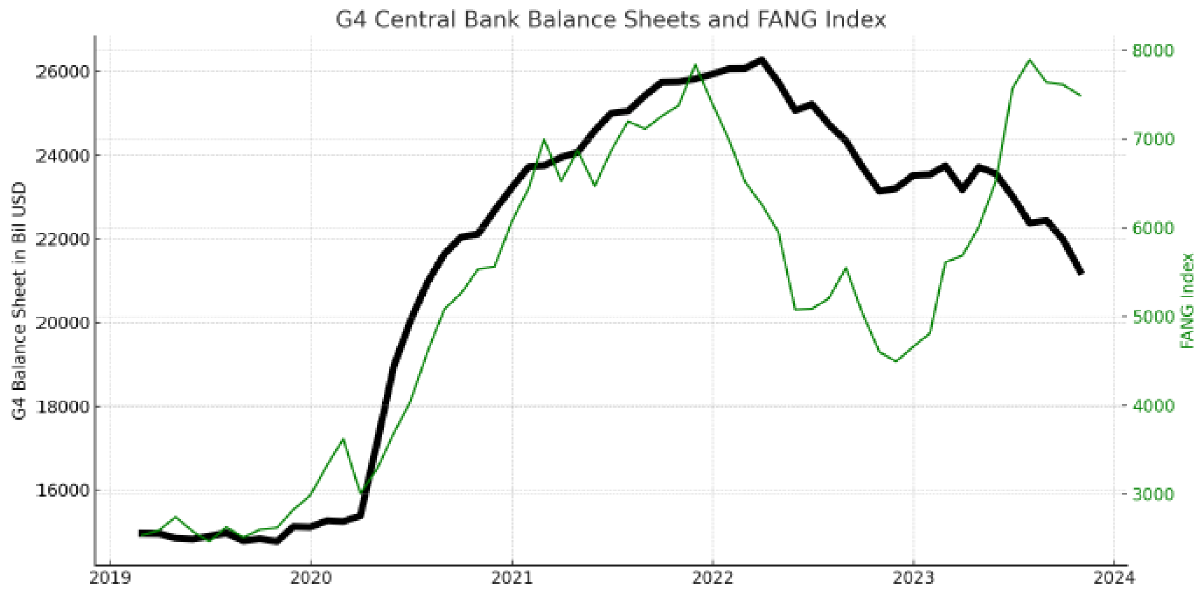




S&P 500's Recent Downturn: The Impact of Central Bank Policies

The S&P 500 has recently experienced a notable decline, shedding approximately 10% of its value from its most recent peak. This downturn can largely be attributed to the actions of central banks. As they continue their trajectory of increasing interest rates, the market reacts accordingly. Moreover, central banks are not only employing a tighter monetary policy but are also actively downsizing their balance sheets. These combined actions have significant implications for the financial markets, with the S&P 500's recent performance serving as a clear testament to their influence.

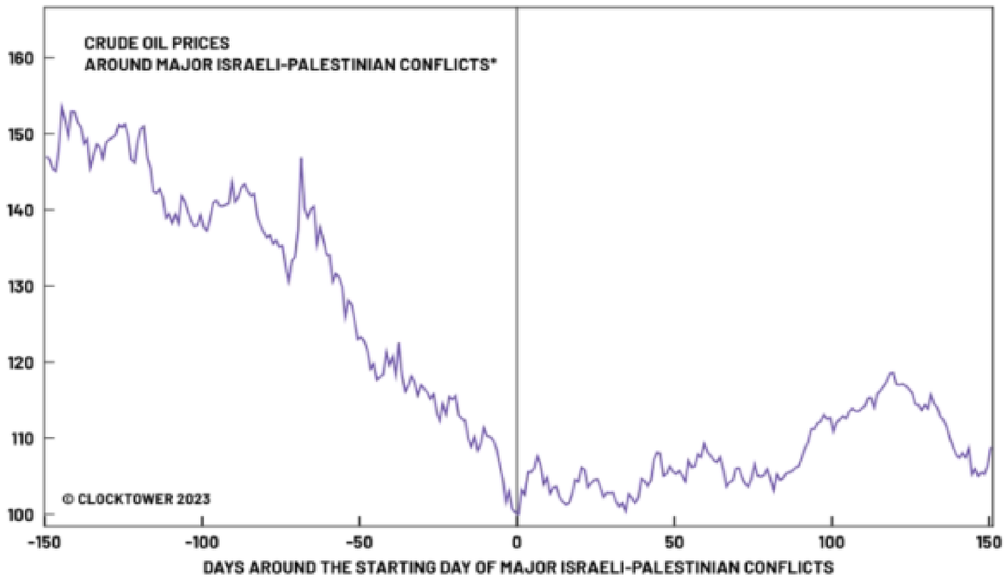




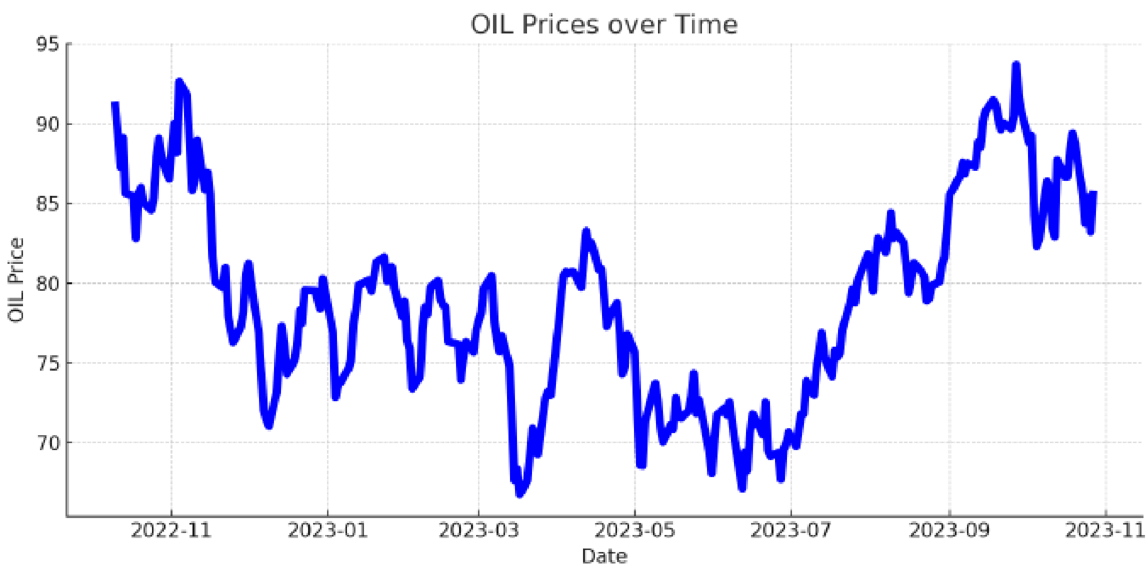
Geopolitical conflicts to weigh on oil prices

Historically, impacts of conflicts in Middle East on oil prices tended to be short-lived. Below chart compiled by Marko Papic of Clocktower Group shows that oil prices were little changed in the first 100 days following the conflicts involving Israel and its Arab neighbors since 2000. Options are showing a rare bullish signal for oil prices. The threemonth call options for WTI futures is trading at a small premium over puts, suggesting traders see the risk to oil prices skewed to the upside.

CHART 1 | Israeli-Palestinian Conflicts Have Had Limited Impact on Oil Prices



* INCLUDES THE CONFLICTS IN 2000, 2008, 2012, 2014, 2018 AND 2021. REBASED TO 100 AT START OF CONFLICT.
SOURCE: MACROBOND.



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