GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

BI WEEKLY BULLETIN ON TÜRKİYE

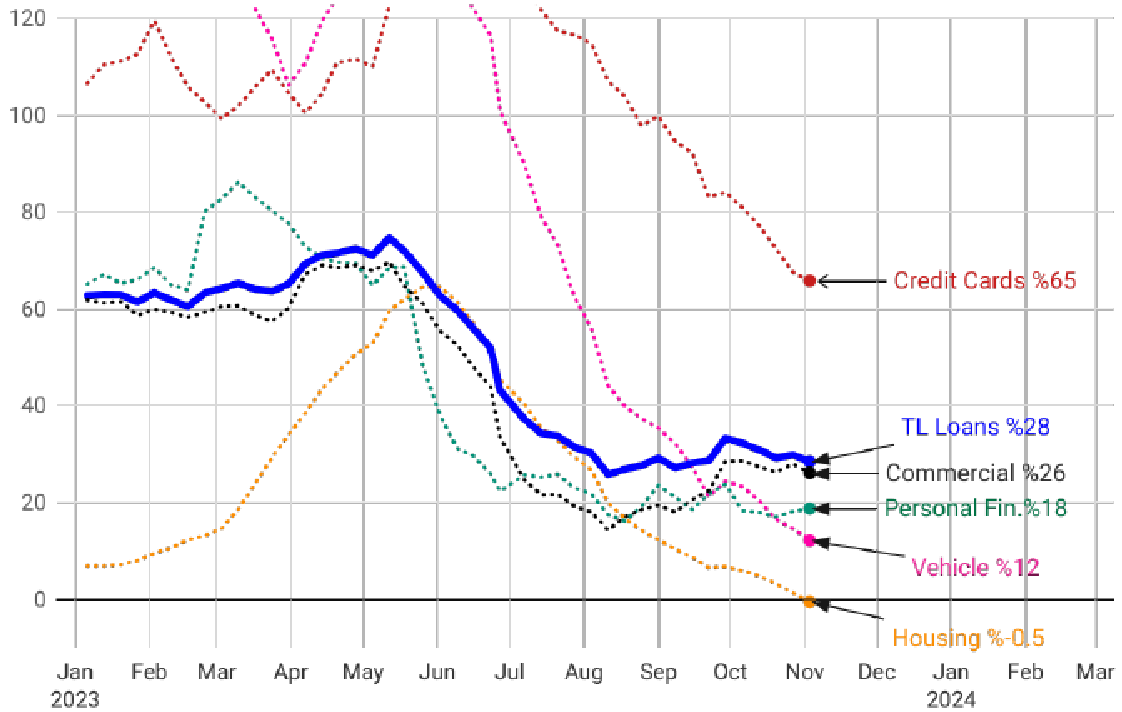
NOVEMBER 1 - NOVEMBER 13 2023

CBRT Gross Reserves (Nov 10)

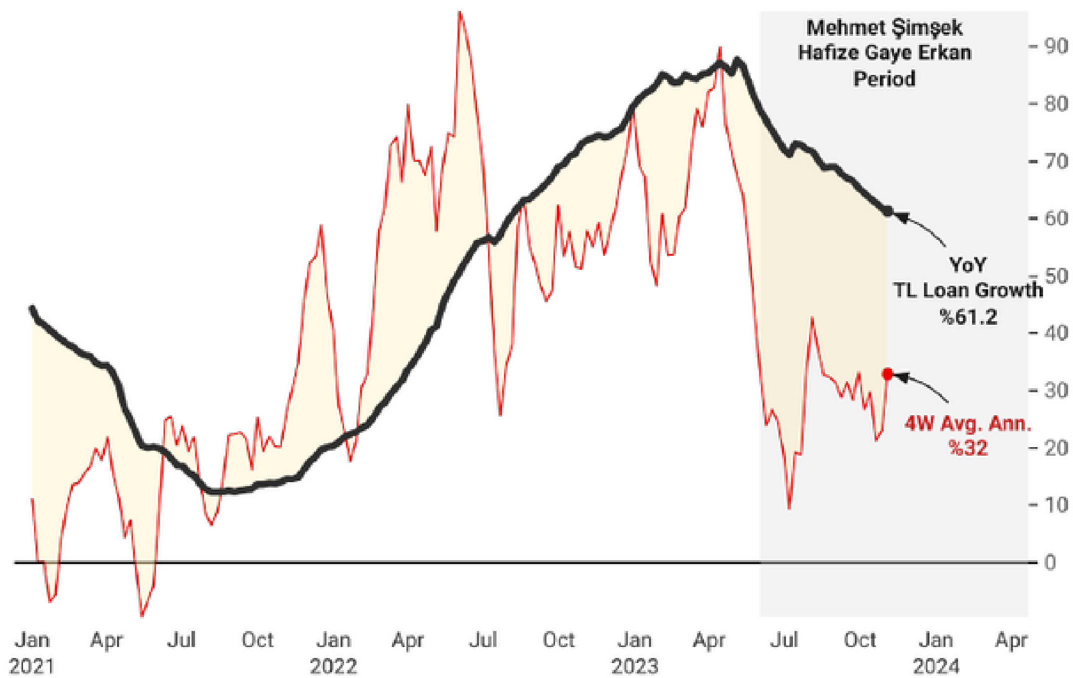
Assets (Bio USD)	30/12/22	05/11/23	YTD
Gold	45.89	44.32	-1.57
FX Banknotes	9.60	3.42	-6.18
Securities + Deposits	10.29	4.94	-5.35
Other FX Balance	62.94	75.13	+12.19
TOTAL	128.72	127.81	-0.91

Liabilities (Bio USD)	30/12/22	05/11/23	YTD
To Turkish Banks	85.04	73.69	-11.35
To IMF & International Insti.	16.25	29.62	+13.37
To Turkish Treasury	11.85	9.70	-2.15
To Turkish Banks in Swap Contract	47.41	56.90	+9.49
To Foreign Central Banks	23.35	23.35	-
TOTAL	184.90	193.26	+8.36

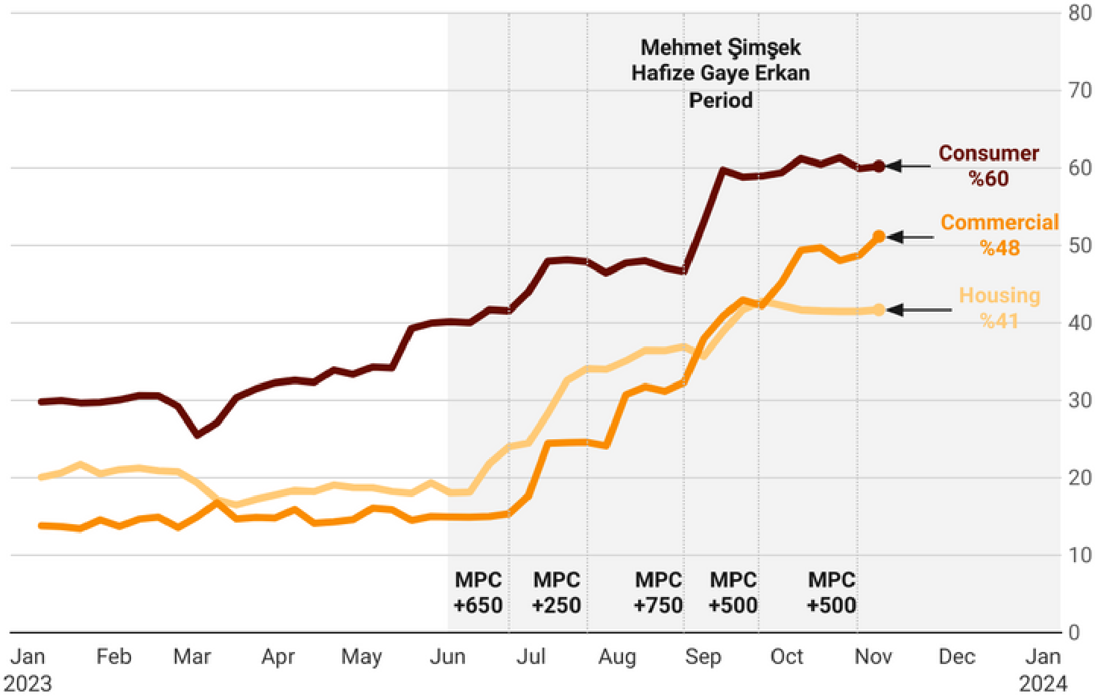
TL Loan Growth Momentum(Nov. 3, 13 Week. Ann., %)



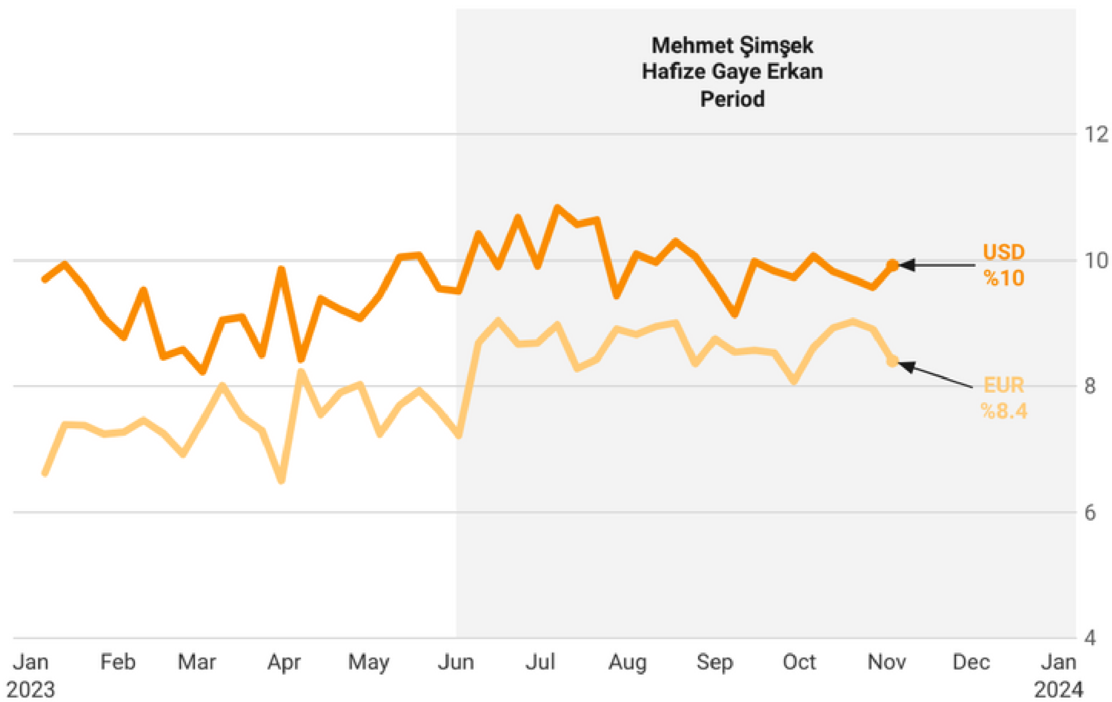
TL Loan Growth (Nov 3, YoY)



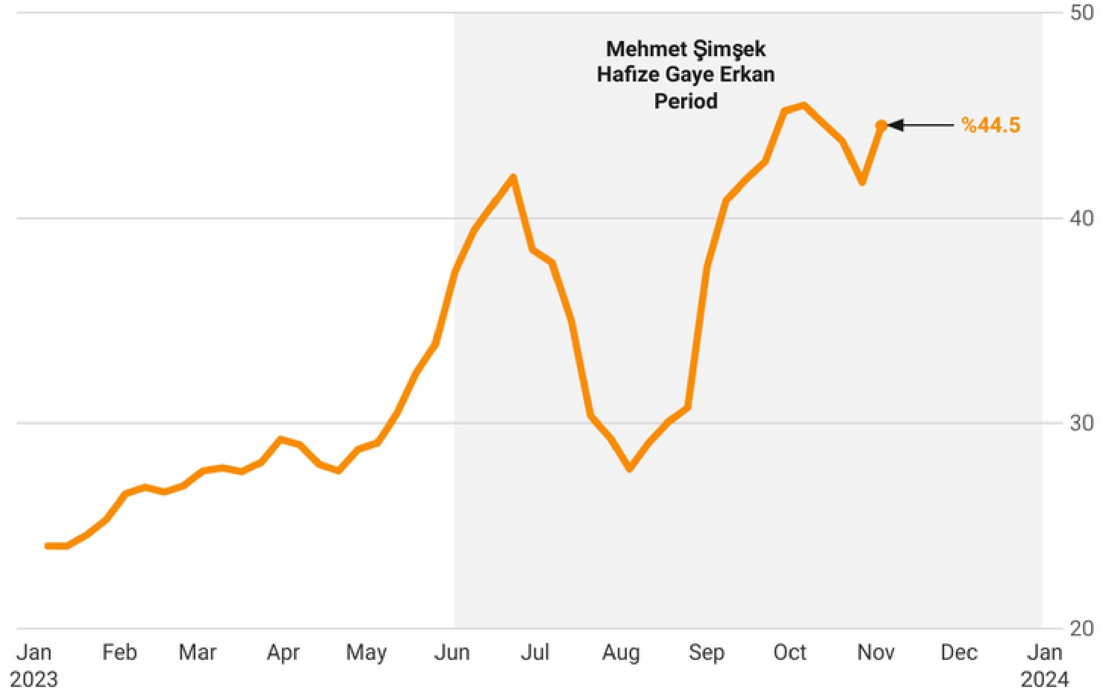
TL Loan Interest Rates (Nov 3)



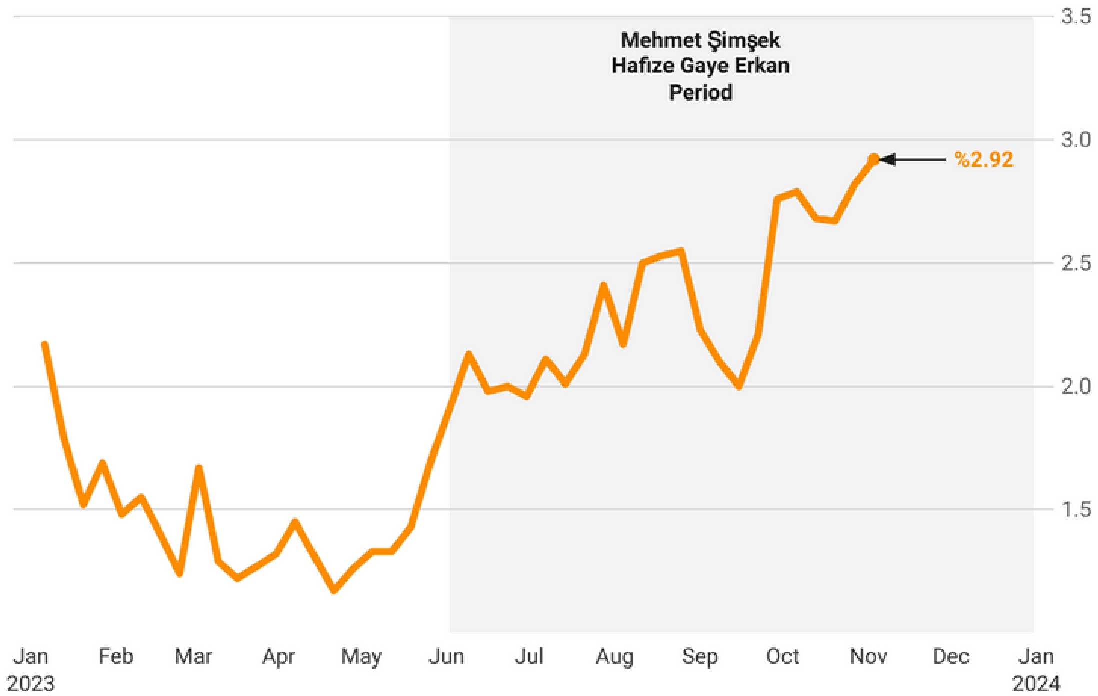
FX Loan Interest Rates (Nov 3)



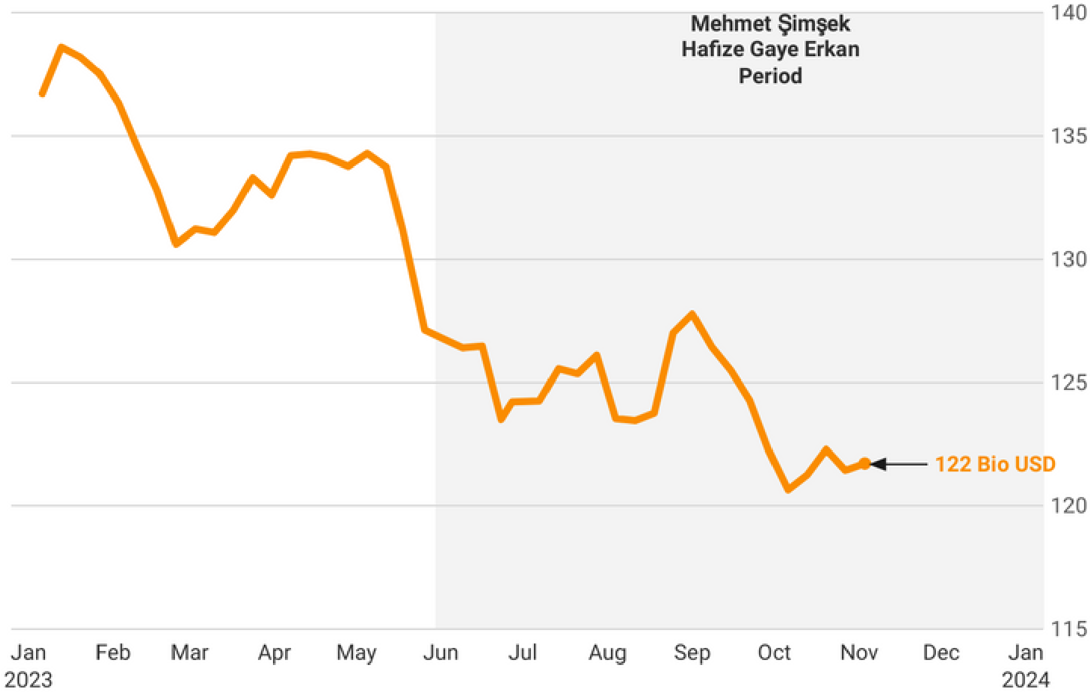
TL Deposit Interest Rates - 3M Maturity (Nov 3)



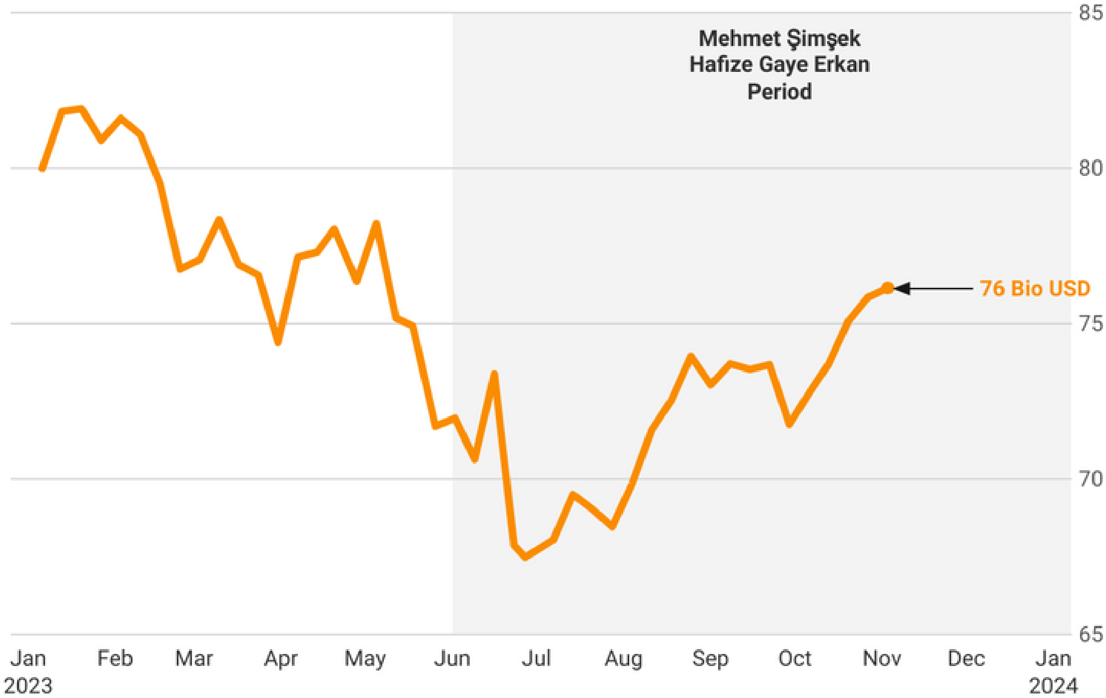
USD Deposit Interest Rates - 3M Maturity (Nov 3)



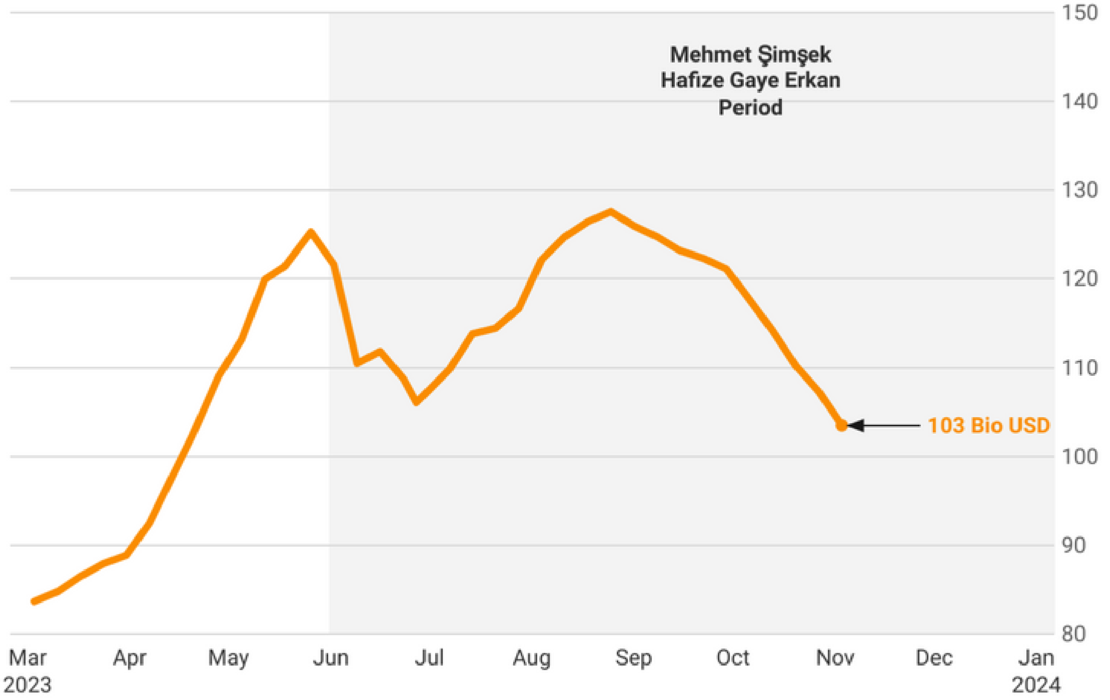
Retail FX Deposits (Nov 3)



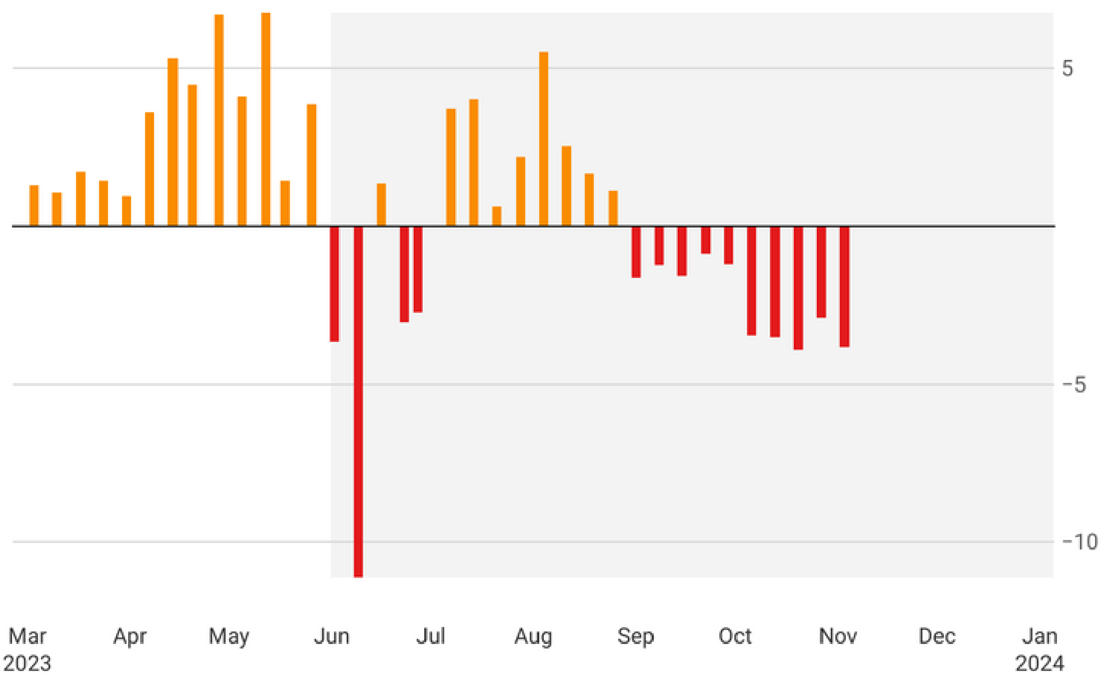
Commercial FX Deposits (Nov 3)



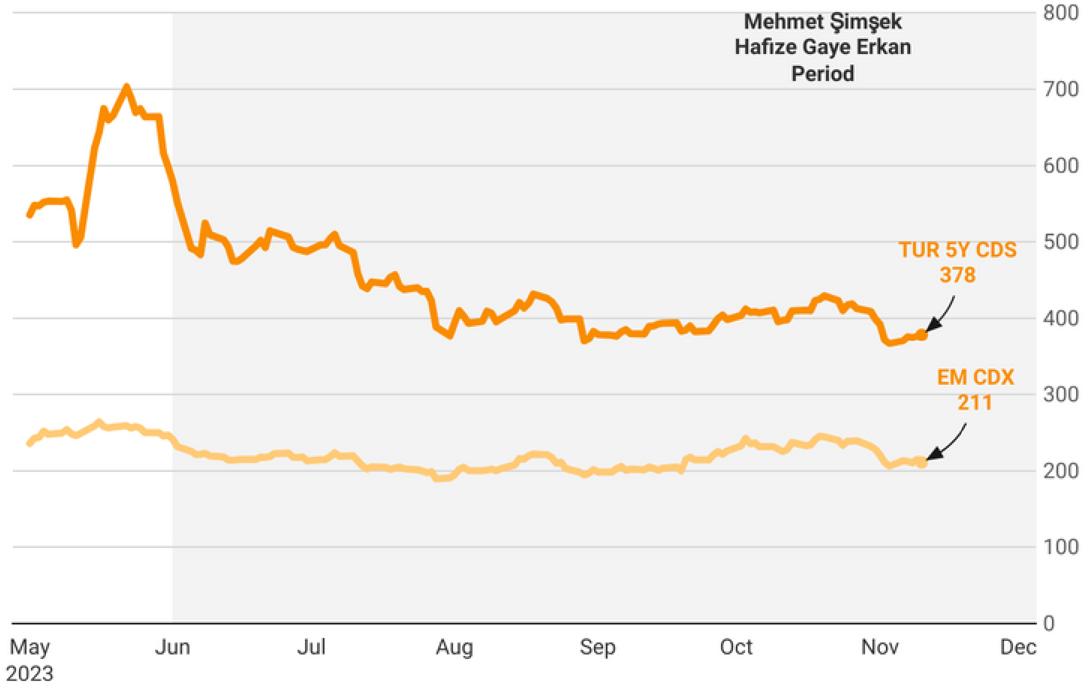
FX Protected TL Deposits (Nov 3)



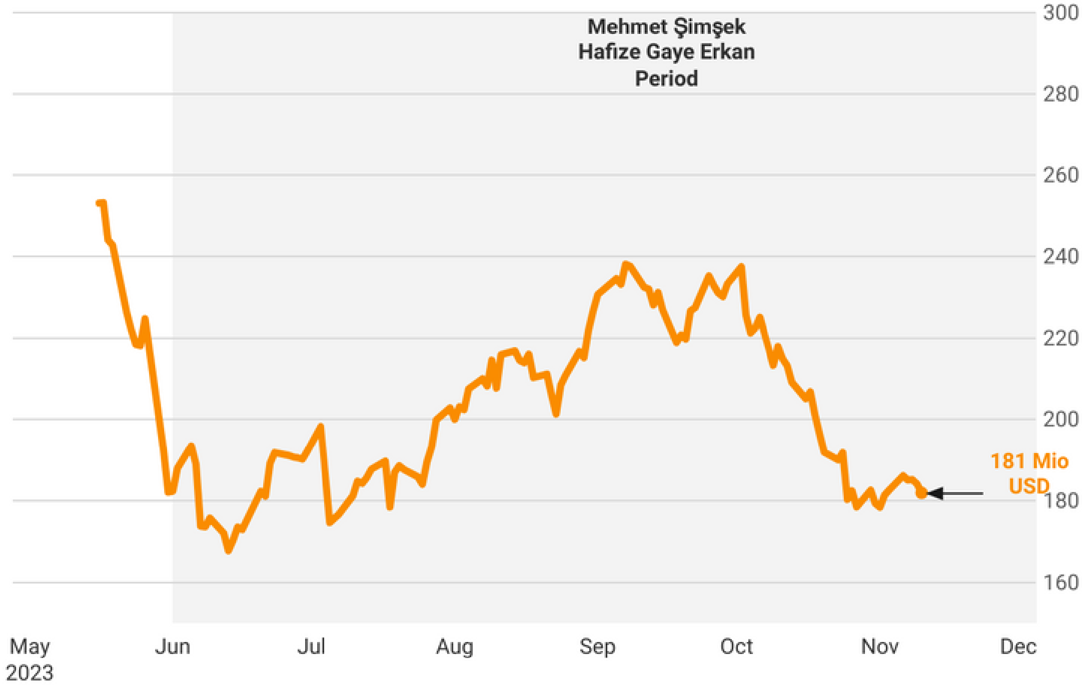
WoW Change (Bio USD)



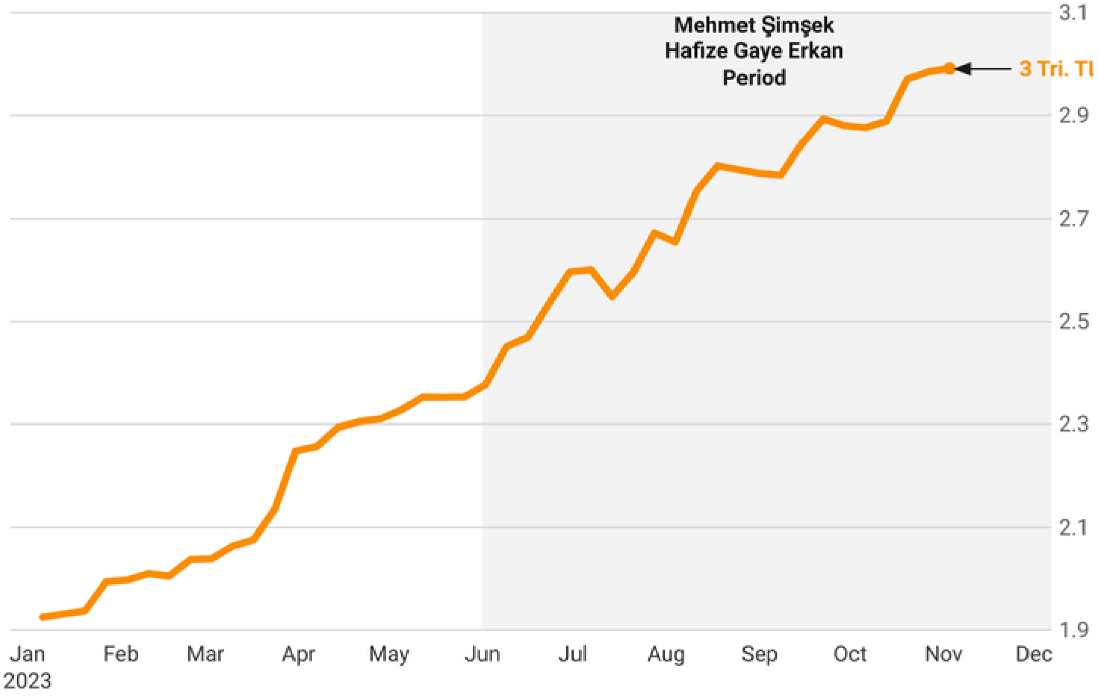
Sovereign Credit Risk (Nov 10)



Ishares TUR ETF (AUM, Nov 10)

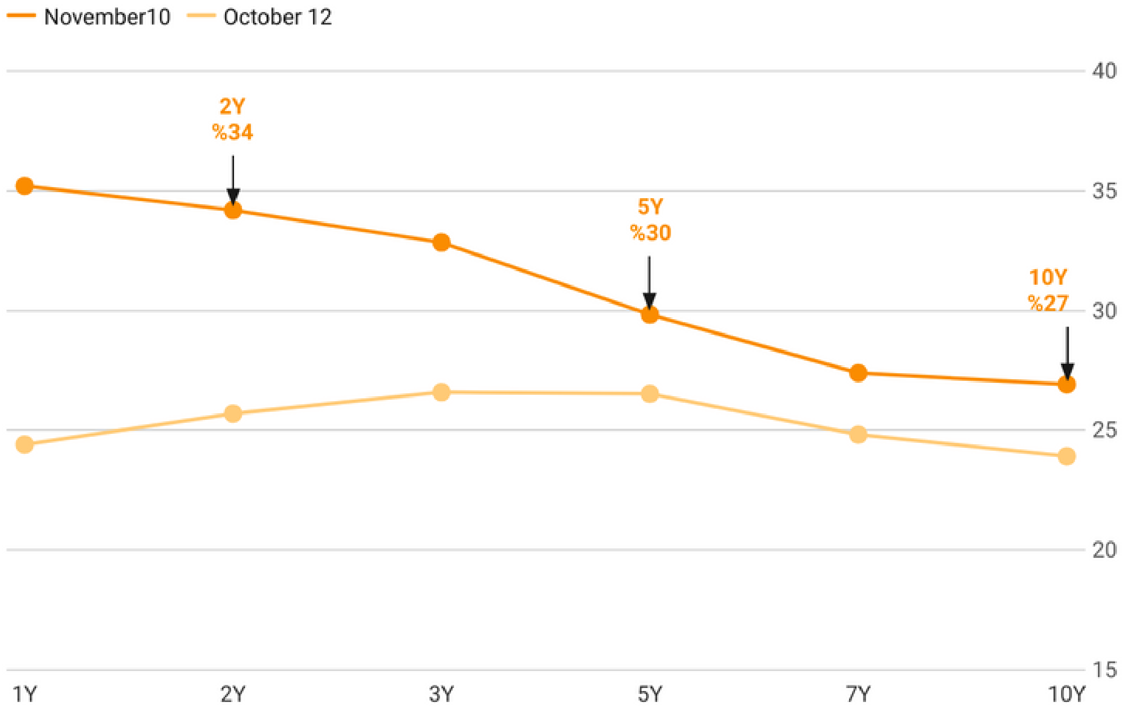


TL Treasury Bonds - Outstanding (Nov 3, Nom.)

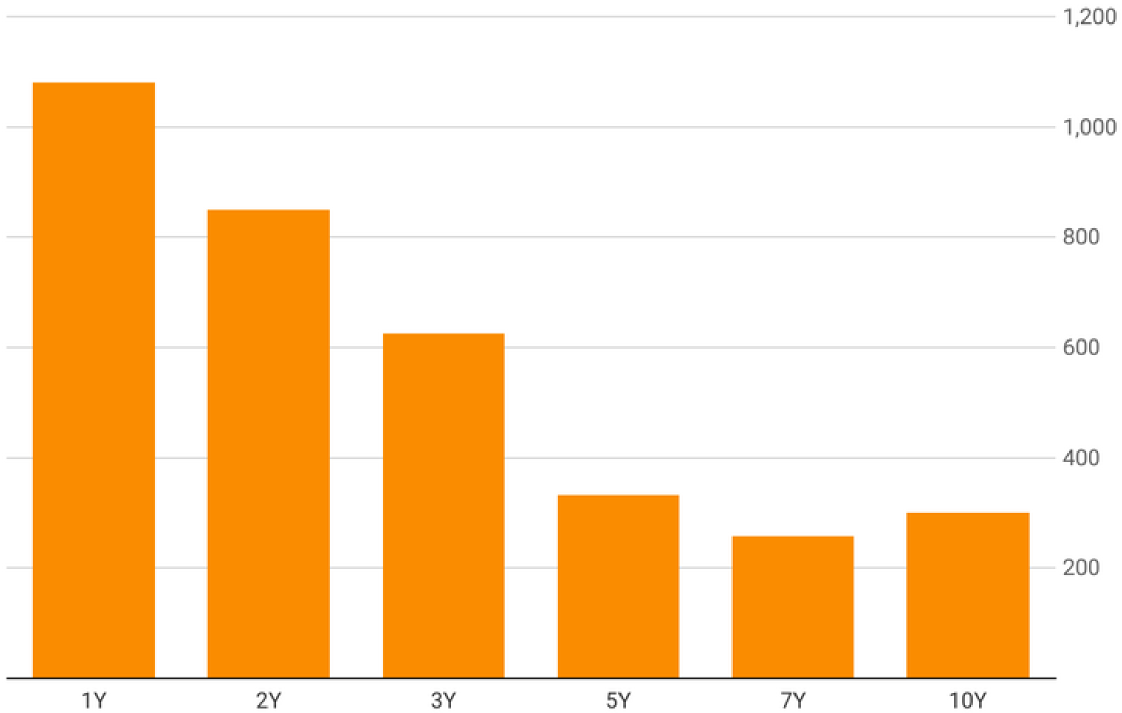


TL Treasury Bonds - For. Ownership (Nov 3, Nom.)

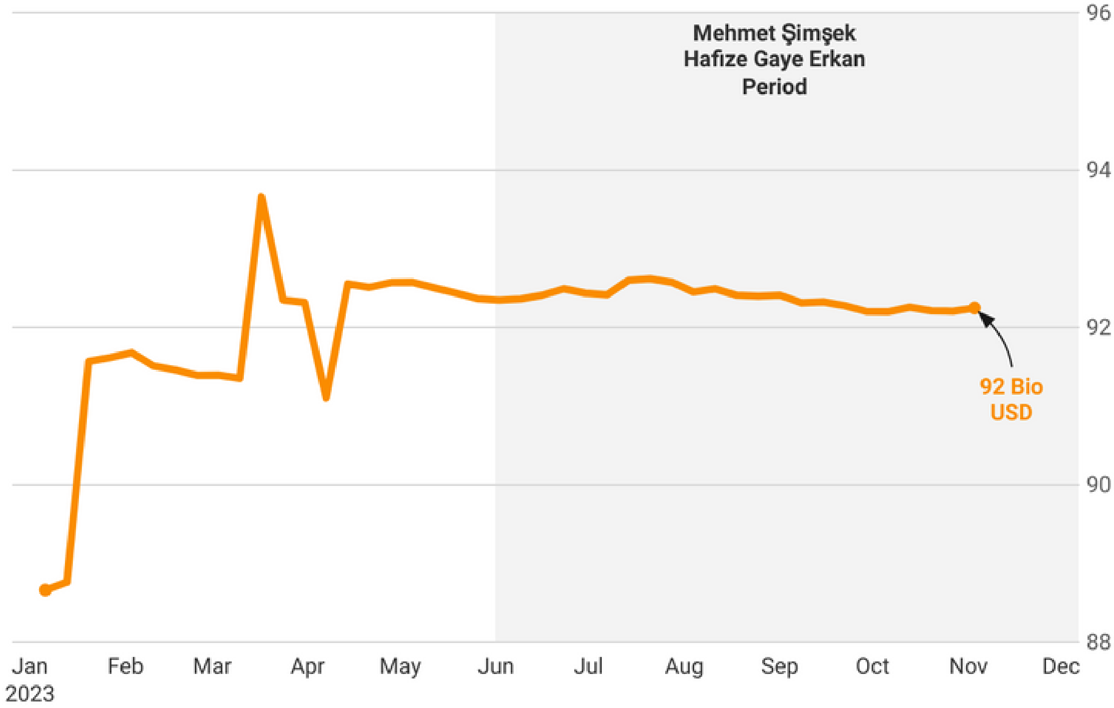
TL Sovereign Yield Curve (Nov 10)



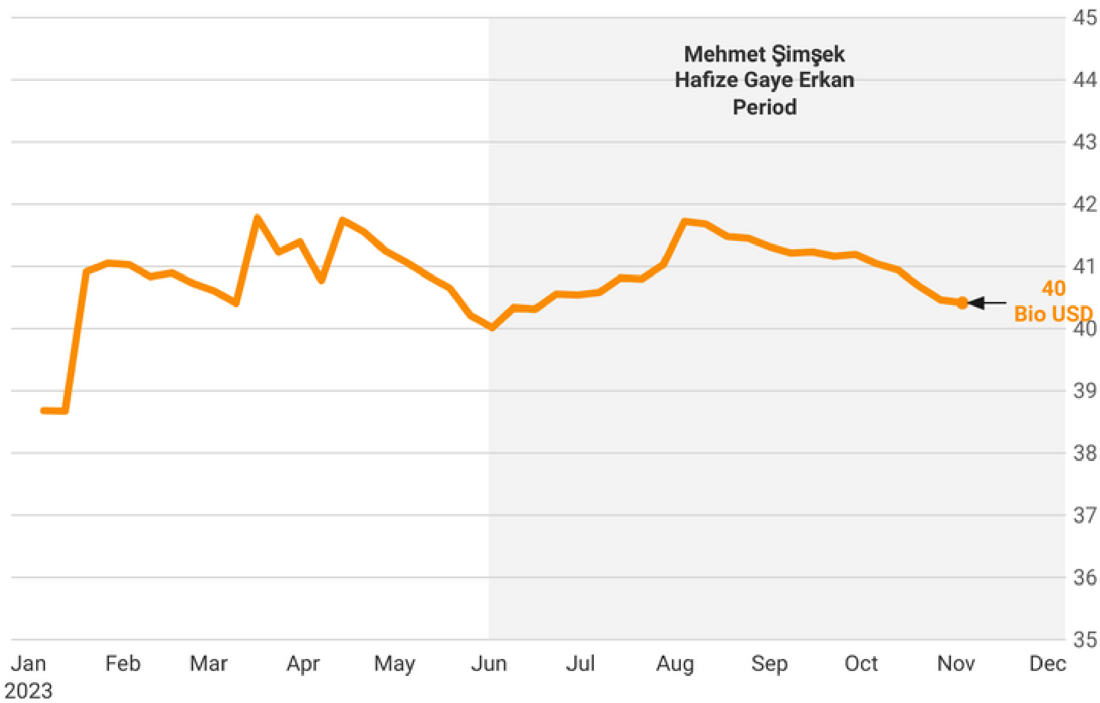
MoM Chg- basis points



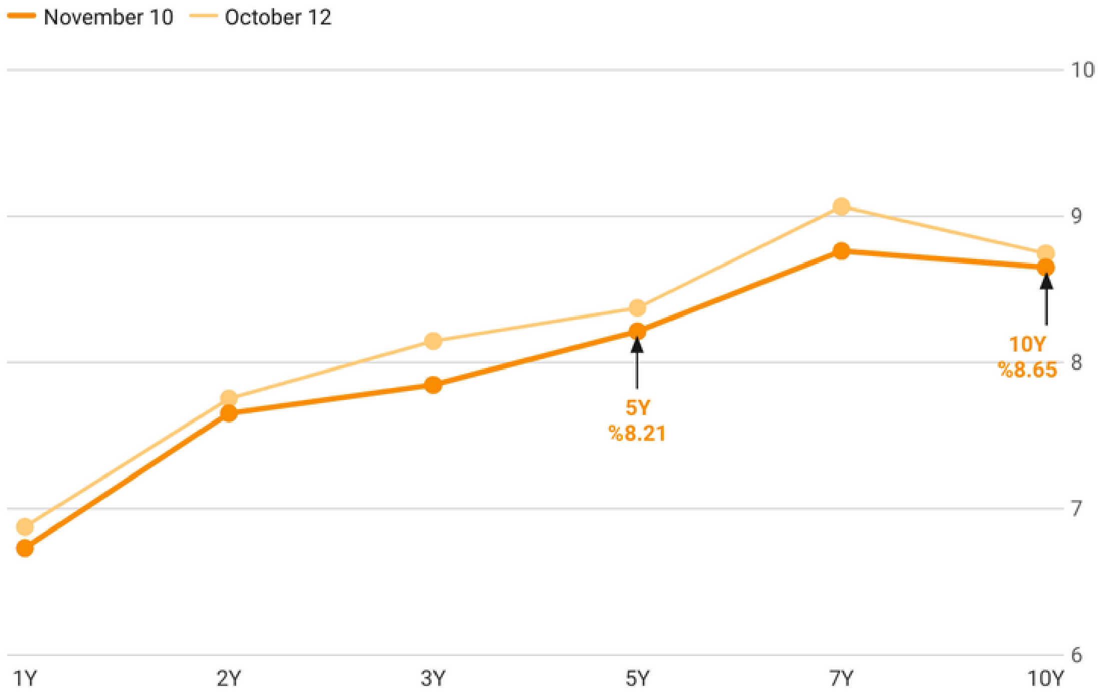
Eurobond- Outstanding (Nov 3, Nom.)



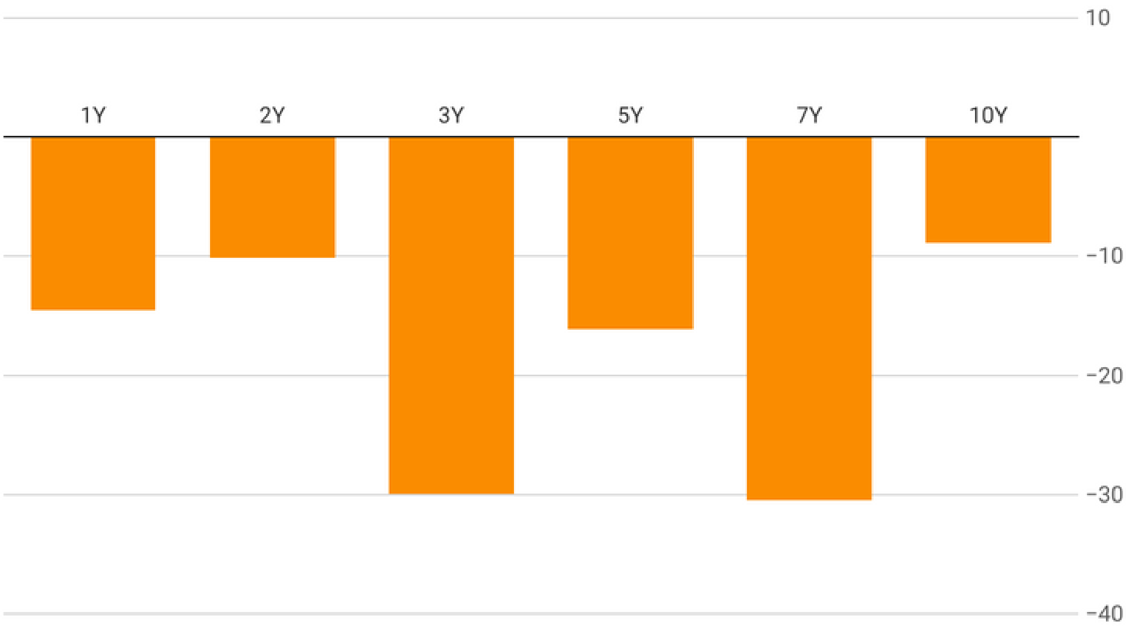
Eurobond- Foreign Ownership (Nov 3, Nom.)



USD Sovereign Yield Curve (Nov 10)



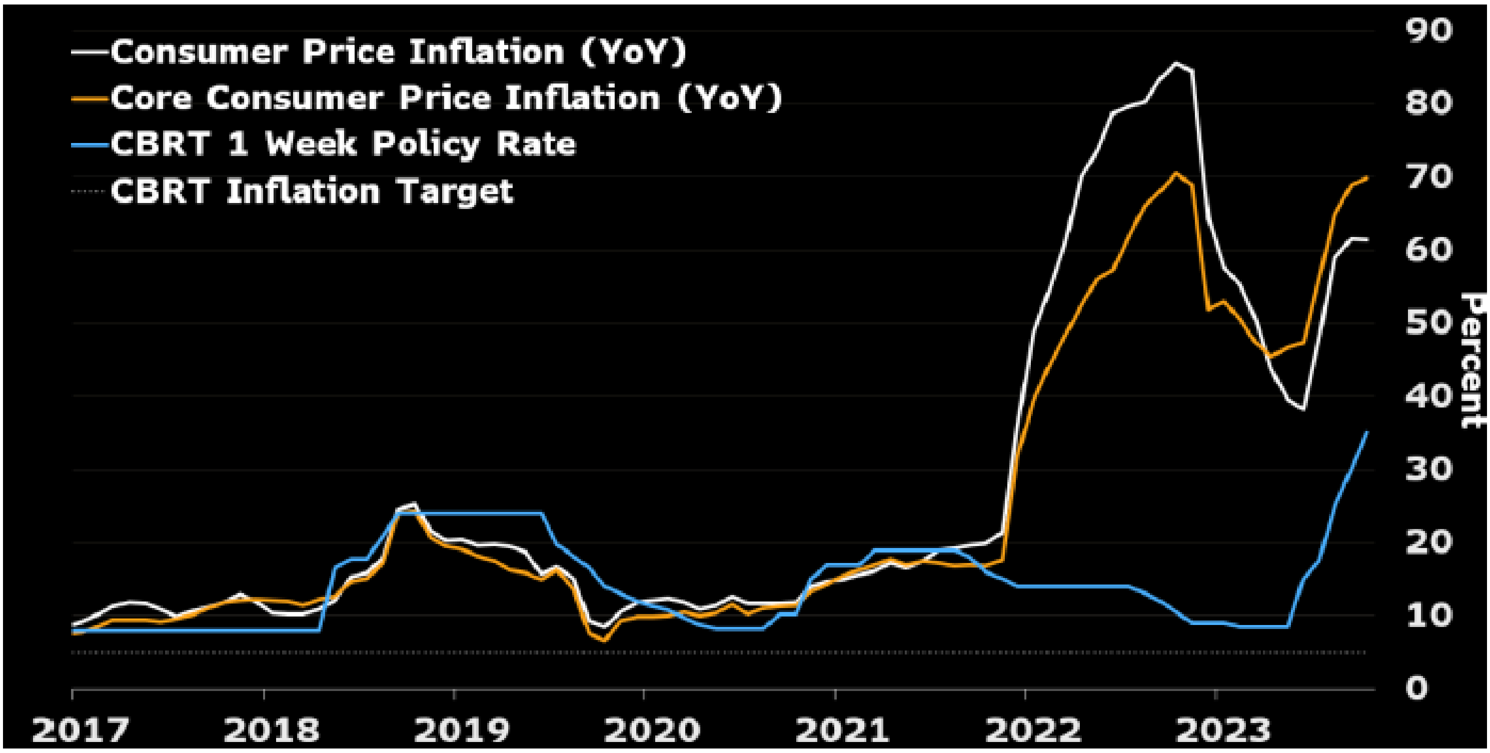
MoM Chg- basis points



TURKEY REACT: Inflation Dip Is Just a Blip, Gains to 70% Coming
11/03/2023
By Selva Bahar Baziki (Economist)
OUR TAKE: The downside surprise in Turkey's October inflation print is likely to be a temporary blip, with the rate still set to exceed 70% in the second quarter of next year. Based on this outlook, we expect the Central Bank of the Republic of Turkey to deliver higher borrowing costs, as well as tighter credit policy and regulations, to help tame price gains.

Turkey's October CPI inflation eased incrementally to 61.4% year-on-year from 61.5% for the previous month. That's below both our call for a gain to 61.9% and the median consensus expectation for a bigger jump to 62.5%.

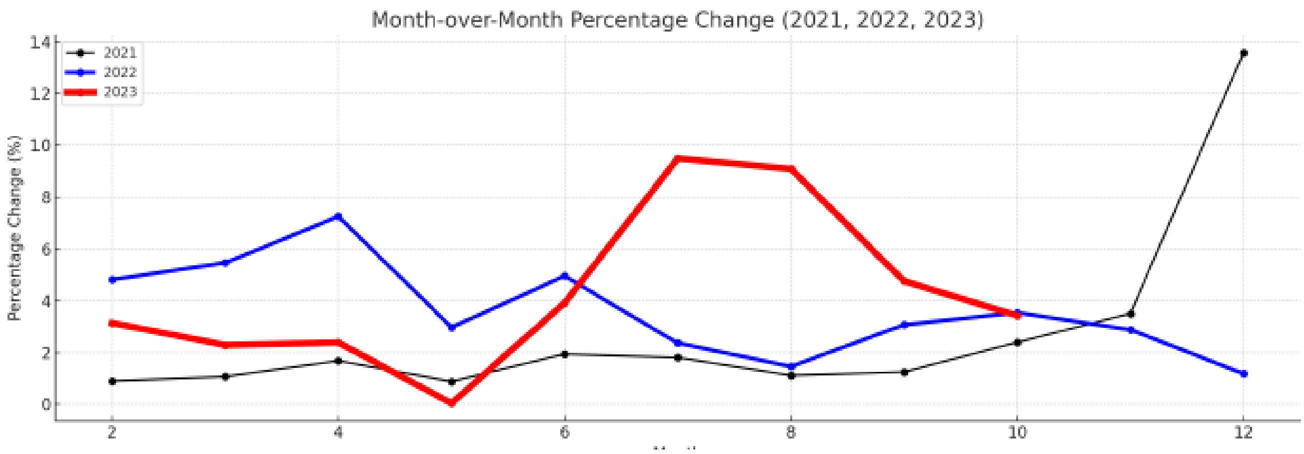
Price gains, meanwhile, remain broad based, which will be worrying news for policymakers. Core inflation (excluding food, beverages, energy, tobacco and gold) moved in the opposite direction to the headline indicator, leaping to 69.8% from 68.9% in September. Gains in some services prices continued to remain hot – hotels and restaurants were the leading main category, with the inflation rate here at 94.1% year-on-year.

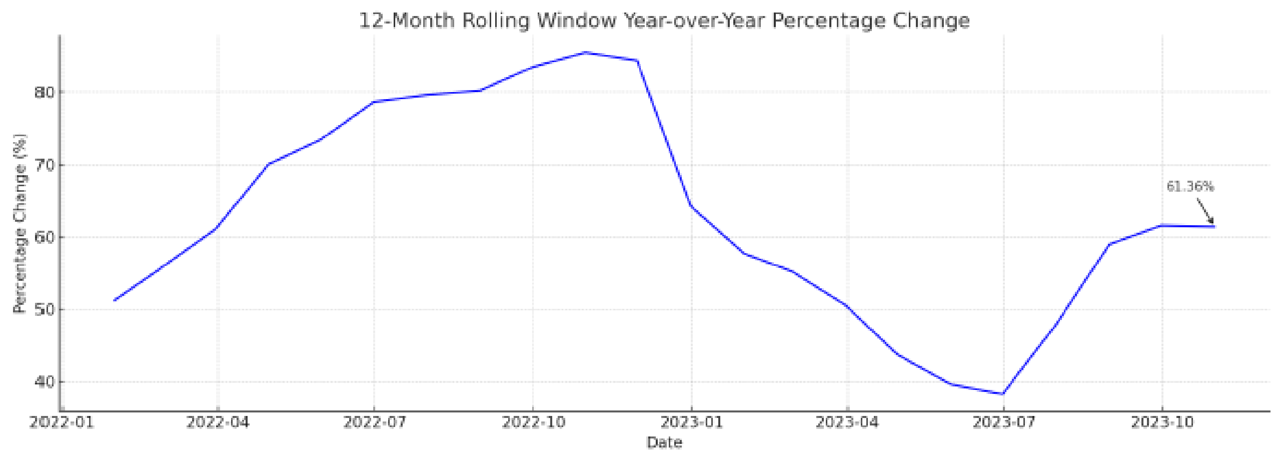


Turkey Inflation Goes From Mountain to Hill

· The bad news does not end there. We expect inflation to pick up pace in the months ahead. Our forecast shows an end-2023 rate of 68%. That's set to climb to a peak for the current cycle of 73% in 2Q24. We then expect price gains to start to slow toward an end-2024 rate of 42%. A likely oil price surge and further currency depreciation keep upside risks to this outlook alive.

· The CBRT's latest forecasts from its quarterly inflation report – issued Nov. 2 –follow a similar path,albeit at lower rates. The central bank sees end-2023 inflation at 65%, up from 58% previously, matching the government's call from September's Medium-Term Program. The CBRT's 2024 projection of 36% is a more muted update versus its earlier forecast of 33%. We take this as a signal that tighter monetary policy is coming. We expect the CBRT to lift its key policy rate to 40% in 2Q24, supporting its rate hikes with stringent regulatory steps and credit and deposit policies.



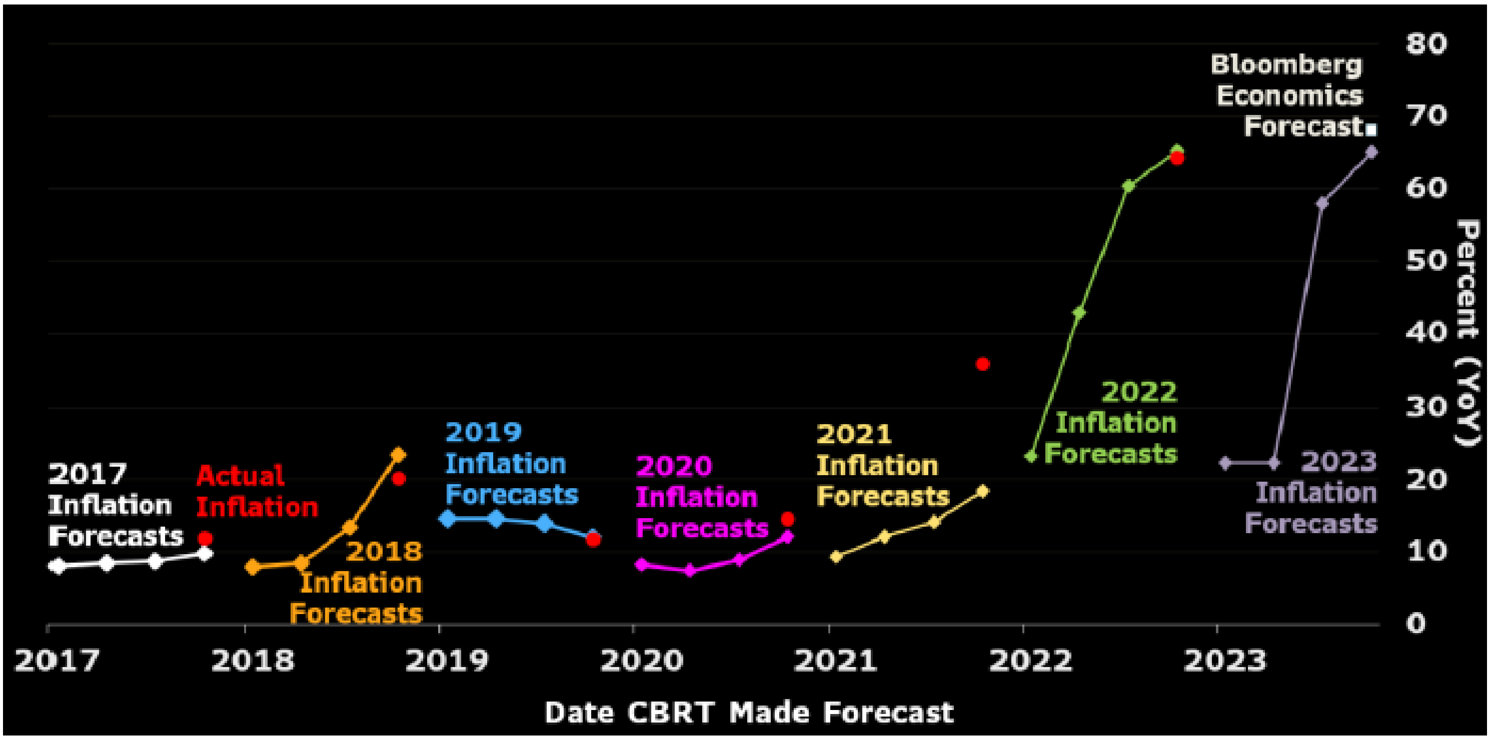


TURKEY REACT: Inflation Forecast Revision Flags Higher Rates
11/03/2023
By Selva Bahar Baziki (Economist)

OUR TAKE: The Central Bank of the Republic of Turkey's revisions to its inflation forecast signal a tighter monetary stance is coming. We expect this to take the form of a higher policy rate, tighter credit conditions and more stringent banking regulations. That's good news for the struggling currency, but likely to be negative for growth.

· The CBRT raised its 2023 year-end inflation forecast to 65% in its latest quarterly inflation report, that's up from the 58% outlook issued in late July. The new figure is close to our year-end call of 68%.

· Surprisingly, the central bank's end-2024 inflation forecast saw only a muted revision, with an increase to 36% from 33%. That's lower than our end-2024 estimate of 42% and suggests the 40% peak we see for the CBRT's policy rate may be a lower bound for policymakers.



Central Bank's Year-End Inflation Call at 65% for a Second Year

We still see the rate path featuring a pause before local elections in March and then a resumption of hikes in the second quarter of 2024. We also expect the central bank to continue employing a policy mix that supports higher borrowing costs with tighter credit policy, as well as regulatory changes that favor liradeposit growth and slower credit expansion. Achieving this will require the deposit and lending rates to be nudged even higher.

That's good news for the weak lira, which is down by about 34% against the dollar year-to-date. On the other hand, a tighter CBRT will likely take a toll on growth, which we already forecast at an underwhelming 3% for 2024.

The central bank's outlook on activity corroborates this view. The central bank has penciled in a negative output gap from 2Q24 through to 3Q26, the end of the forecast horizon. That suggests rates will likely peak at a higher level in order to steer demand below its long-term trend.

It's worth noting that even with this signal for a tighter policy stance, Turkey's inflation problem will linger for a long time. The central bank sees inflation at 14% by end-2025, nearly three times its 5% target rate.

Turkey Gets Surprise Inflation Reprieve Ahead of More Rate Hikes
11/03/2023
· Price growth unexpectedly slowed in October to stay below 62%
· Central bank raised inflation outlook and vows tighter policy
By Beril Akman and Baris Balci

Turkish inflation slowed for the first time since June, a surprise deceleration likely to prove fleeting as the country's top central banker vows to curb cost pressures with tight monetary policy.

Consumer prices rose 61.4% in October from the previous year, a slightly smaller gain than in September, data from the statistics office showed Friday. Only two of 21 economists expected a deceleration in a Bloomberg survey whose median forecast was 62.5%.

Monthly momentum is also on the wane. Inflation was 3.4% in October from the previous month, extending a stretch of slower decreases that started in August. The Turkish central bank revised up its inflation outlook for 2023 and 2024, with Governor Hafize Gaye Erkan saying disinflation will only begin in the second half of 2024.

Highlights from inflation data

· The core gauge, which excludes volatile items such as food and energy, reached 69.8% from a year earlier, compared with 68.9% in September
· The cost of food and non-alcoholic beverages, which make up about a quarter of the inflation basket, slowed to an annual 72% in October, from 75.1% in the previous month
· Services inflation accelerated to 88.7% from 86.5% during the same period
· Producer prices – an early indicator of inflationary pressures – slowed to 39.4%, from 47.4%

Erkan's bleak assessment on Thursday still means officials will need press forward with more tightening measures as part of a campaign to reverse the legacy of unorthodox policies under President Recep Tayyip Erdogan. They've already introduced measures to curb lending and draw out excess liquidity from the market.

The governor said the steps taken so far are beginning to pay off. She cited stronger demand for the lira and the stabilization of domestic demand among factors already putting a lid on prices.

TURKEY INSIGHT: Lira Deposits Meh, Equities and Property Yeah
11/06/2023
By Selva Bahar Baziki (Economist)

Turkey's policymakers will probably struggle to attract a surge into regular lira deposits, as the return on these accounts fall short of providing shelter against rising price gains. The good news, though, is this does not necessarily mean an increase in foreign-currency demand – other lira assets still offer positive real returns.

· The Central Bank of the Republic of Turkey remains focused on incentivizing a switch to regular lira deposits by employing regulatory changes that have thus far mostly focused on making non-lira deposits costlier for banks to hold. In this regard, the central bank's latest step increased the required reserves holdings for banks on FX-protected and regular-FX accounts.

· These measures have been successful in initiating a flow into regular lira accounts, but not at rates significantly above those needed to match their ambition. The share of non-lira (foreign currency and precious metal) accounts in total deposits was just above 39% in September – or only increments down from May's level.

· This is likely because of the negative real return (relative to both current inflation and 12-month out expectations) offered on these accounts, which reduces the appeal of the lira as a preferred savings medium. In our view, the situation is likely to persist until the second quarter of next year, which is when we expect the CBRT to lift its key rate to 40%.

· In the meantime, there is a silver lining – investors have other lira denominated assets as viable options. Equity and property markets have both delivered sizable real returns in the latest data. The central bank's recent measures to terminate the securities holding requirements for banks may also see a recovery in real lira-denominated bond returns.

The Bond Trade of 2024 in Emerging Markets May Be in Turkey
11/06/2023
· Lira debt increasingly drawing interest of Amundi, Abrdn, Itau
· Foreigners abandoned market after years of unorthodox policies
By Ugur Yilmaz and Beril Akman

Some of the world's largest investors are taking a fresh look at an unloved Turkish bond market that could prove to be next year's biggest bright spot in the $8 trillion local debt universe of developing nations.

Few are taking the plunge just yet, however, despite record-high yields on offer.

Almost half a year into a rewrite of economic policies under President Recep Tayyip Erdogan, money managers including Amundi SA, which has $2 trillion under management, are clamoring for Turkey to take another step up the ladder of interest rates and possibly allow for a weaker currency to make lira bonds investable again.

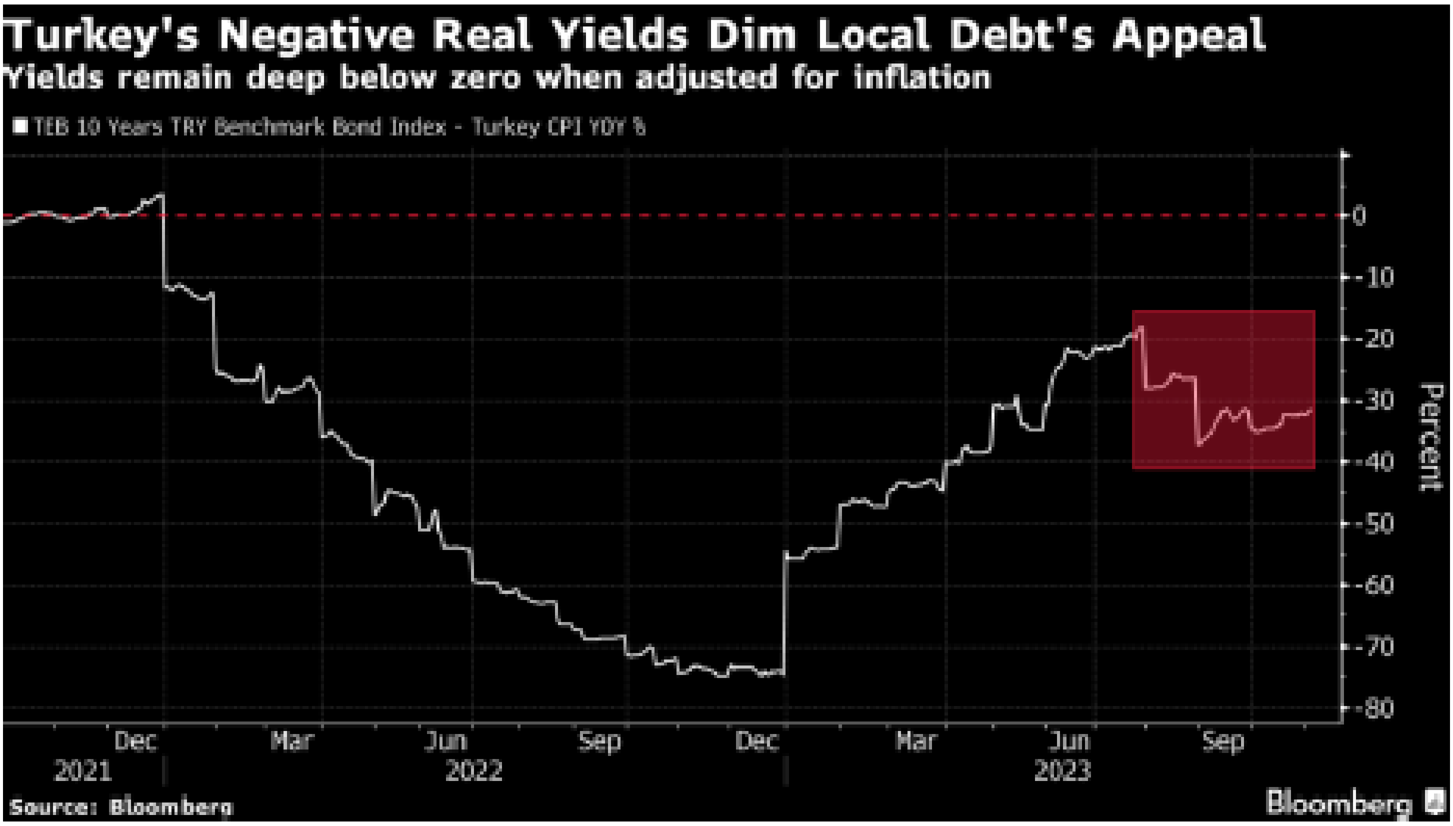
Even after five consecutive hikes, official borrowing costs are still below the inflation rate the central bank projects for the end of next year. Policymakers have signaled more rate increases are likely on the way.

At stake are potentially billions of dollars in bond inflows for the world's fifthlargest developing economy outside Asia. With the central bank's key rate already more than quadrupling to 35% since June, Amundi and the likes of Itau Asset Management are craving a further increase of 5 to 10 percentage points, to a level some economists predict it will reach already this quarter.

"If policymakers can maintain a 40% or higher policy rate and the lira can remain broadly stable for a few months – and there is policy continuity going into 2024 – lira bonds will become very attractive for foreign investors," said Scott Grimberg, head of emerging market debt at the asset-management arm of Itau Unibanco Holding SA.

"Under these circumstances, Turkey's local debt could become the 2024 trade of the year for emerging market debt investors," he said.

Turkey's 10-year government bonds were trading at 28.4% as of 11:46 a.m. in Istanbul on Monday, while two-year bonds traded at 38.3%.



A comeback of foreign buyers to the lira bond market would bring Turkey's redemption story closer to completion.

Non-resident holdings are still at a mere $1 billion, down from a peak of more than $70 billion a decade earlier.

But Erdogan still has a lot of making up to do, after long blaming what he used to call an "interest-rate lobby" for driving up the cost of borrowing and orchestrating speculative attacks against the lira.

The government's local-currency bonds have been the worst performer across emerging markets since end-May. Apart from a brief spike in September – which has been attributed to Turkish banks' overseas branches – inflows into the market have been negligible.

A reversal in investor sentiment toward Turkey is conditional on a rate increase to at least 40-45%, coupled with a weakening in the lira to around 30-33 per dollar, according to Sergei Strigo, co-head of emerging-market debt at Amundi, Europe's largest money manager. Stabilizing inflation that's now running at near 62% is also crucial before investors make significant commitments, he said.

Market Distortions

Lira bonds stood out among all the Turkish asset classes warped by Erdogan's unorthodox economics because they became instrumental for policymakers in pursuit of other goals.

Local banks were pushed to buy the securities if they failed to meet targets for loans or didn't deter their customers from holding foreign currencies. The regulations, which were partially wound down last month, had artificially suppressed yields on government debt and discouraged investors from buying the bonds at inflated prices.

Since a shift toward more conventional policies following Erdogan's reelection in May, Turkey's benchmark 10-year bond rates have surged by over 20 percentage points to an all-time high of around 30%.

But even in a world where yields on emerging-market bonds in local currencies have fallen close to US Treasuries, the reward in Turkey isn't yet enough to turn most investors bullish.

Strategists at JPMorgan Chase & Co. have said they see fair value of the 10-year lira notes at around 35.7% and will "stay sidelined" until they hit that level.

"While it is encouraging to see the initial positive steps from the new and capable economic team, the challenge is enormous," said Viktor Szabo, investment director at Abrdn in London. "We are not getting involved yet. Both rates and the currency need to adjust more."

The skepticism underscores the task facing Erdogan's new team of technocrats anchored by Finance Minister Mehmet Simsek and central bank Governor Hafize Gaye Erkan.

Restrictions still in place in the offshore lira swaps market highlight the competing priorities pulling at policymakers. Turkish authorities won't ease a cap on overseas lira supply in the near-term, according to people familiar with the matter, since that would risk an increase in short-selling. But limits on swaps deals also create a dearth of liquidity that leaves foreign investors unable to hedge their exposure to lira assets by borrowing the currency from local lenders.

The domestic political cycle also makes timing the entry difficult for foreigners. A local election slated for March is a worry if the government again starts to put a premium on economic growth over tighter policy.

The biggest unknown is Erdogan himself. In his quest to shape the economy to his liking, Erdogan has previously ousted central bank governors to end earlier attempts to normalize policy after just months.

Officials like Simsek have been reassuring investors that Erdogan is fully supportive this time. The message appears to resonate with Societe Generale SA.

‘Right Track’

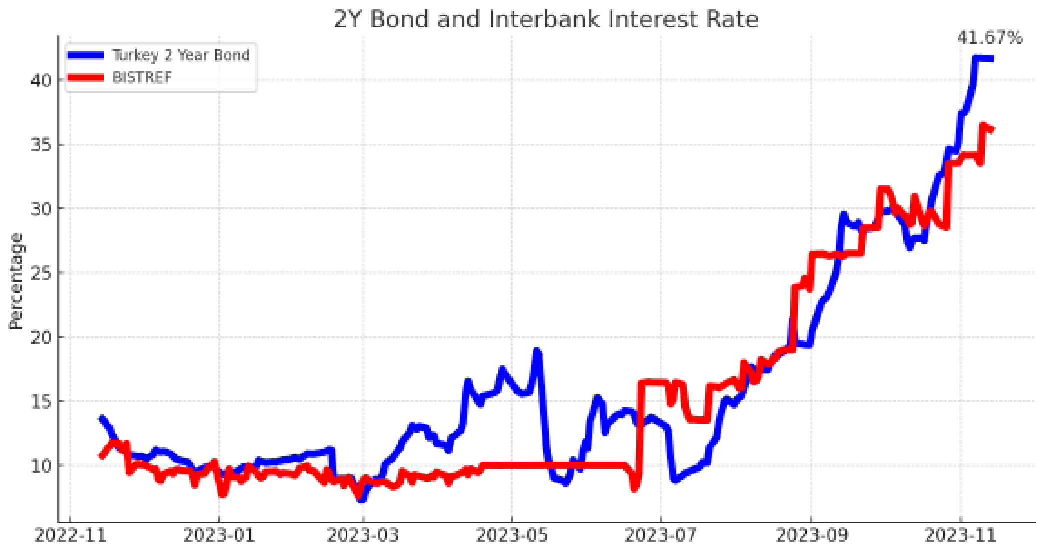
“If the new economic team manages to align the Turkish economy to the right track, significant investment flows may take place next year,” said Marek Drimal, a Societe Generale strategist.

Looking beyond the municipal ballot in 2024, the electoral calendar is clear in the following four years, potentially giving time to enact orthodox policies. Van Eck Associates Corp., which now only owns short-dated inflation linkers, is sensing an opportunity if the resolve doesn’t begin to erode.

“We need to see how unwinding past policies will impact market rates,” said David Austerweil, a deputy portfolio manager at Van Eck. “With only local elections ahead, it lowers the risk for another swift policy change in the near term.”

Turkey 2 Year Bond Signals Higher Inflation

Interbank funding rates, such as the BISTREF in Turkey, are crucial indicators for fixed income investors, as they reflect the cost of short-term borrowing among banks. This rate often influences the yield of other debt securities, including government bonds like Turkey's 2-year bonds. A rising interbank rate can signal increasing borrowing costs and potentially higher inflation, which might lead to higher yields on longer-term bonds to compensate for the increased risk.



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