GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

MONTHLY BULLETIN ON TÜRKİYE

AUGUST 2024

CONTENTS

1.ECONOMIC AND MARKET SITUATION ASSESSMENT GRAPHICS

1.1.CENTRAL BANK GROSS FX RESERVES
1.2.TL LOAN GROWTH
1.3.TL LOAN GROWTH MOMENTUM
1.4 .TL LOAN INTEREST RATES
1.5.FX LOAN INTEREST RATES
1.6. TL RATES
1.7. FX DEPOSIT INTEREST RATES
1.8. RETAIL FX DEPOSITS
1.9. COMMERCIAL FX DEPOSITS
1.10. FX PROTECTED TL DEPOSITS
1.11. BREAKDOWN OF FX PROTECTED DEPOSITS
1.12. SOVEREIGN CREDIT RISK
1.13. ISHARES TUR ETF (AUM)
1.14.TL BONDS - FOREIGN OWNERSHIP
1.15. TL EQUITY- FROEIGN OWNERSHIP
1.16. TL SOVEREIGN YIELD CURVE
1.17. TURKISH LIRA SOVEREIGN BONDS
1.18. TURKEY SOVEREIGN YIELD CURVE
1.19. TURKEY USD SOVEREIGN BONDS
1.20. SWAP RATES (%)
1.21. USD/TRY CHANGE
1.22. TLREF RATE EXPECTATIONS
1.23. INFLATION EXPECTATIONS
1.24.CURRENT ACCOUNT
1.25. CURRENT ACCOUNT EXPECTATIONS

2. EVALUATION OF THE ECONOMY AND MARKET SITUATION FROM A POLITICAL PERSPECTIVE

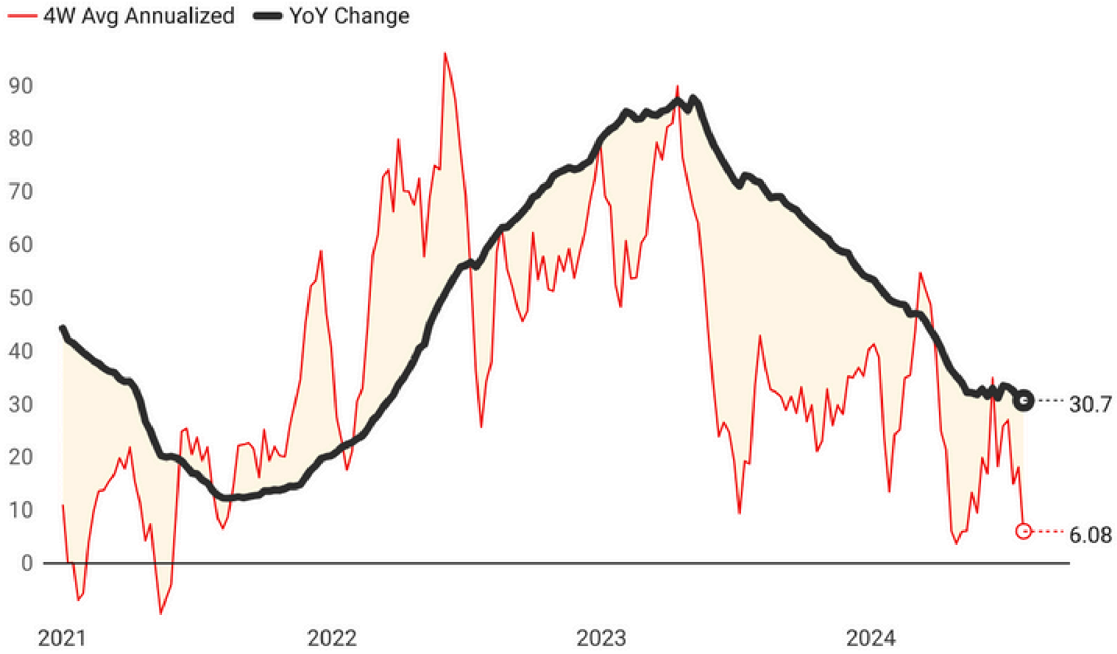
2.1. TURKEY PREVIEW : JULY SET TO KICK-OFF TWO-MONTH INFLATION PLUNGE
2.1.1. TURKEY INSIGHT: RISING FX RESERVES SUGGEST SAFETY LEVELS IN 2025
2.1.2. TURKEY REACT: RATES ON HOLD FOR NOW, LIQUIDITY TIGHTENING COMING
2.1.3. TURKEY INSIGHT: SUMMER IS ALL ROSES, POLICY CHALLENGES RULE FALL

1- Central Bank Gross FX Reserves (Bio USD, Aug 2, Daily)

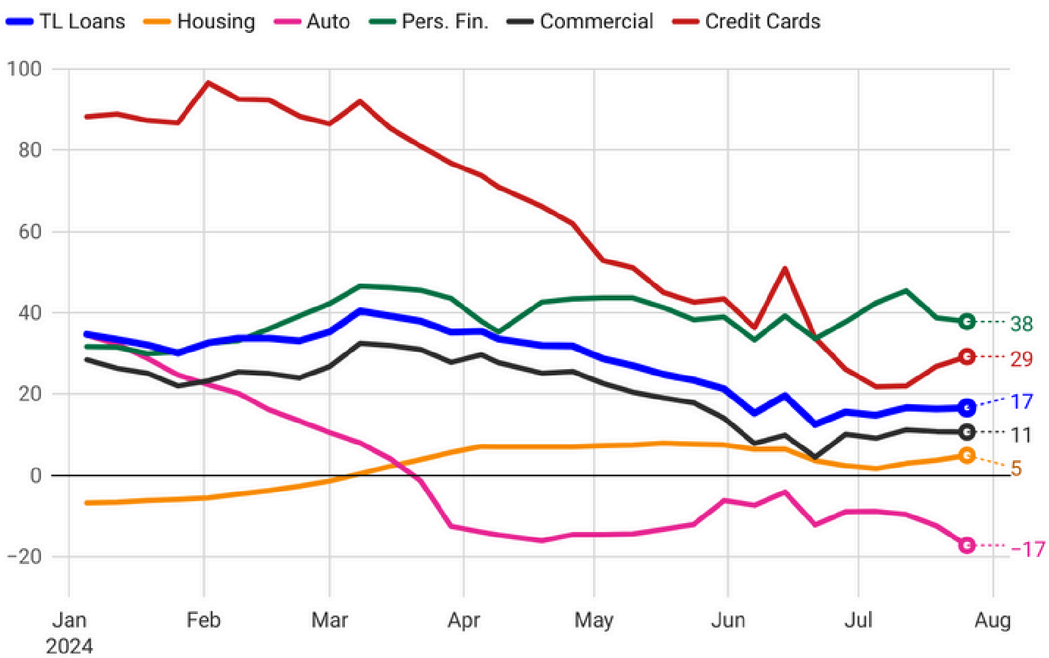
Assets (Bio USD)	29/12/23	28/07/24	YTD
Gold	47.68	59.16	+11.48
FX Banknotes	3.56	1.84	-1.72
Securities + Deposits	5.90	20.62	+14.72
Other FX Balance	87.43	69.38	-18.05
TOTAL	**144.57**	**151.00**	**+6.43**

Liabilities (Bio USD)	29/12/23	28/07/24	YTD
To Turkish Banks	74.92	77.35	+2.43
To IMF & International Insti.	29.89	23.23	-6.66
To Turkish Treasury	9.41	9.30	-0.11
To Turkish Banks in Swap Contract	48.75	0	-48.75
To Foreign Central Banks	23.35	23.35	-
TOTAL	**186.32**	**133.23**	**-53.09**

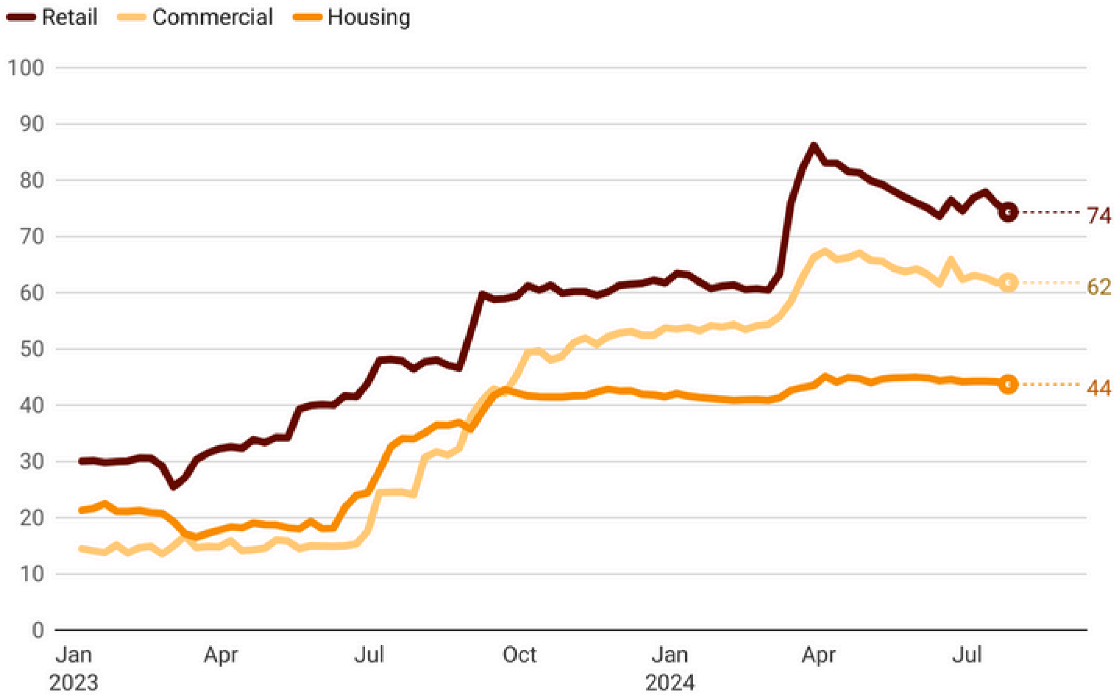
2- TL Loan Growth (as of Jul 26, YoY)



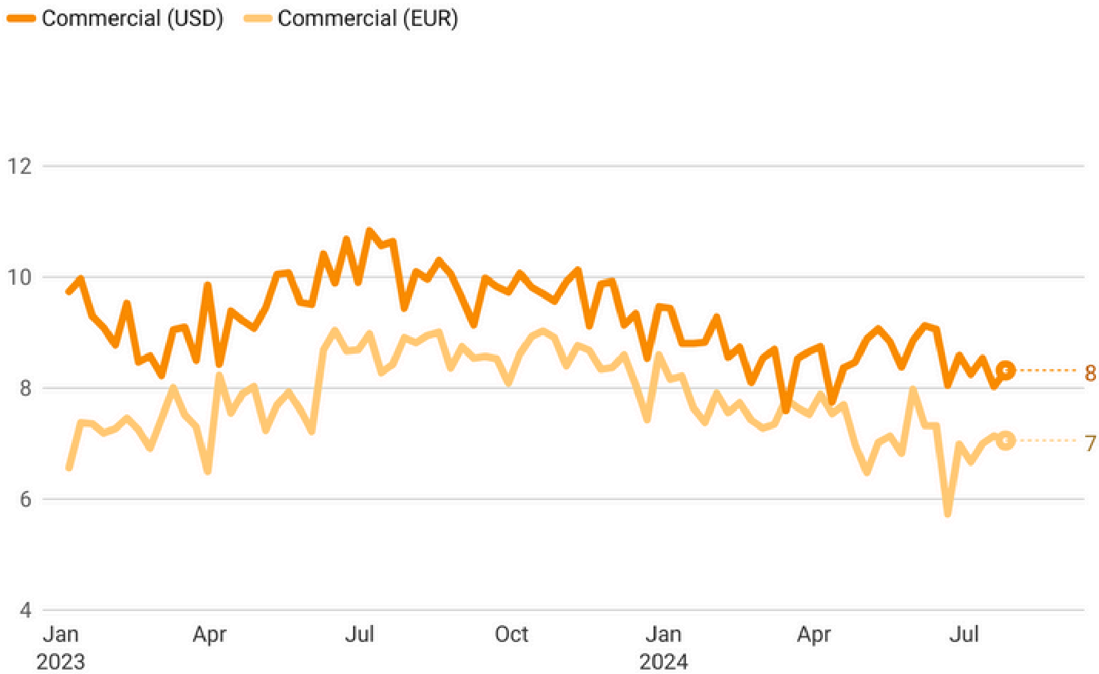
2.1- TL Loan Growth Momentum(Jul 26, 13W Ann., YoY %)



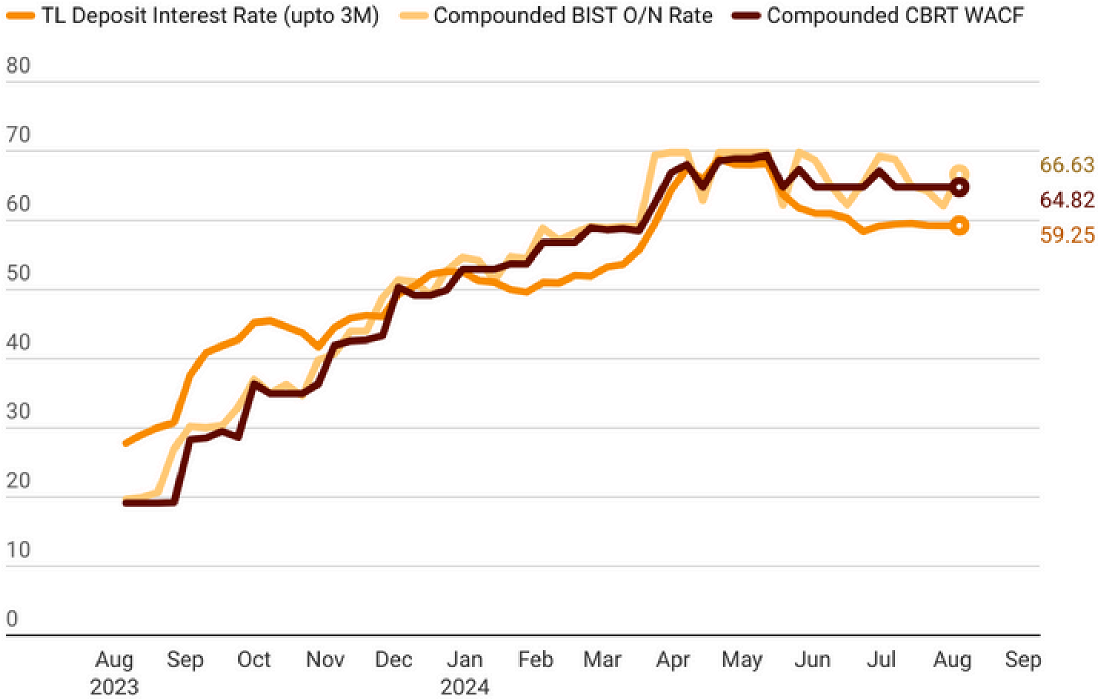
3- TL Loan Interest Rates (Jul 26)



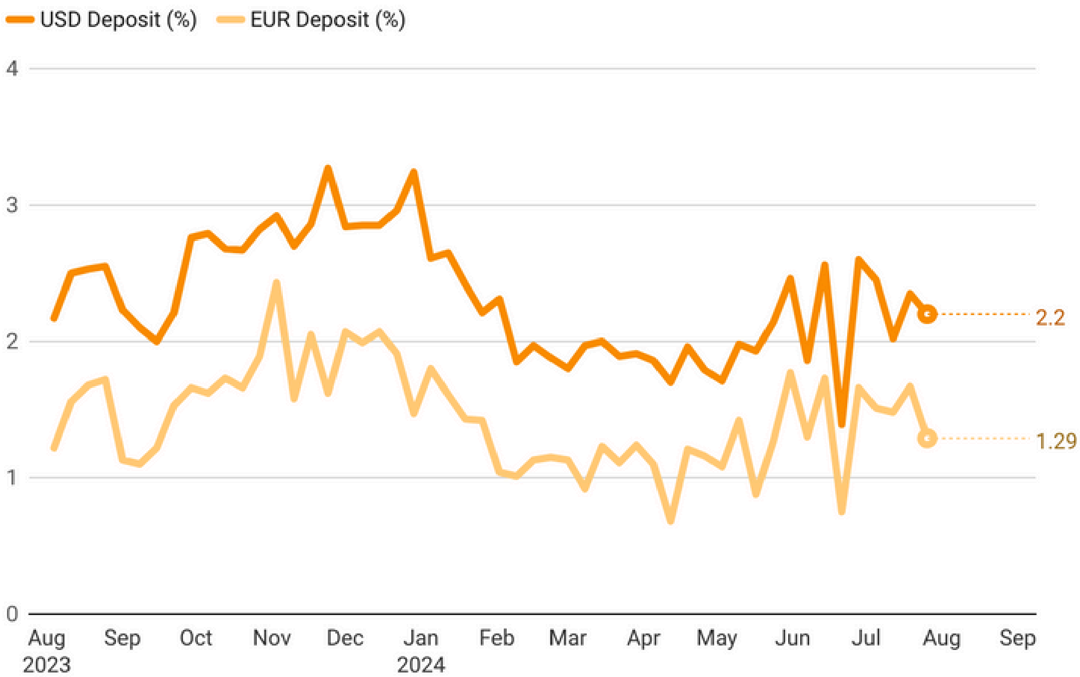
3.1- FX Loan Interest Rates (Jul 26)



4- TL Rates (%, Aug 4)



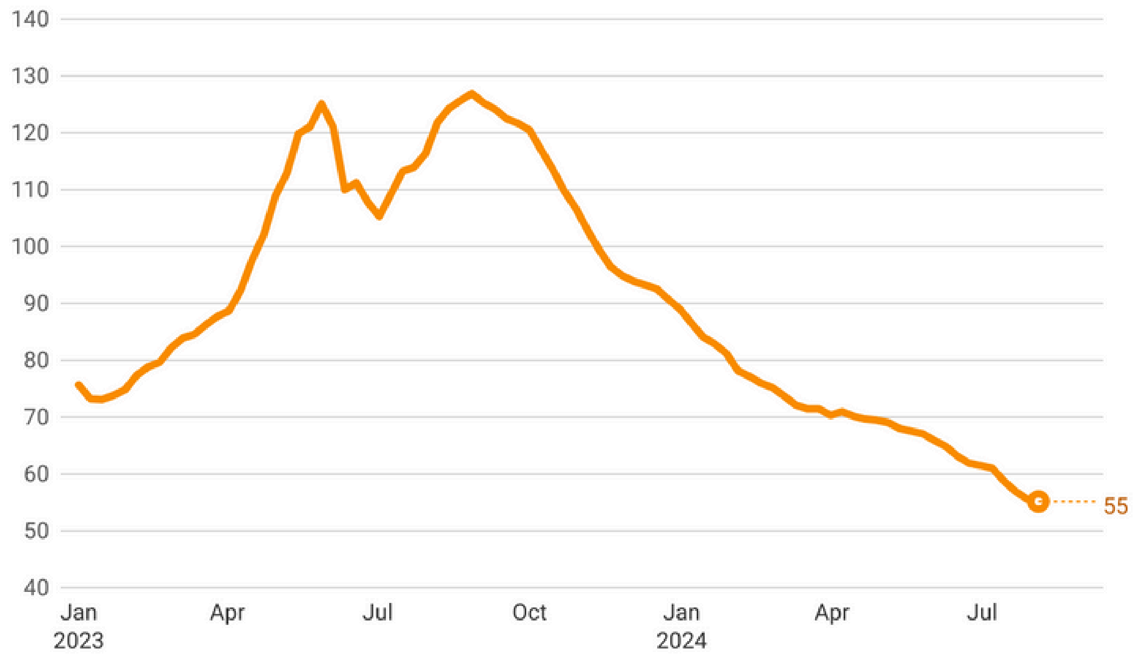
4.1- FX Deposit Interest Rates - 3M Maturity (Jul 26)



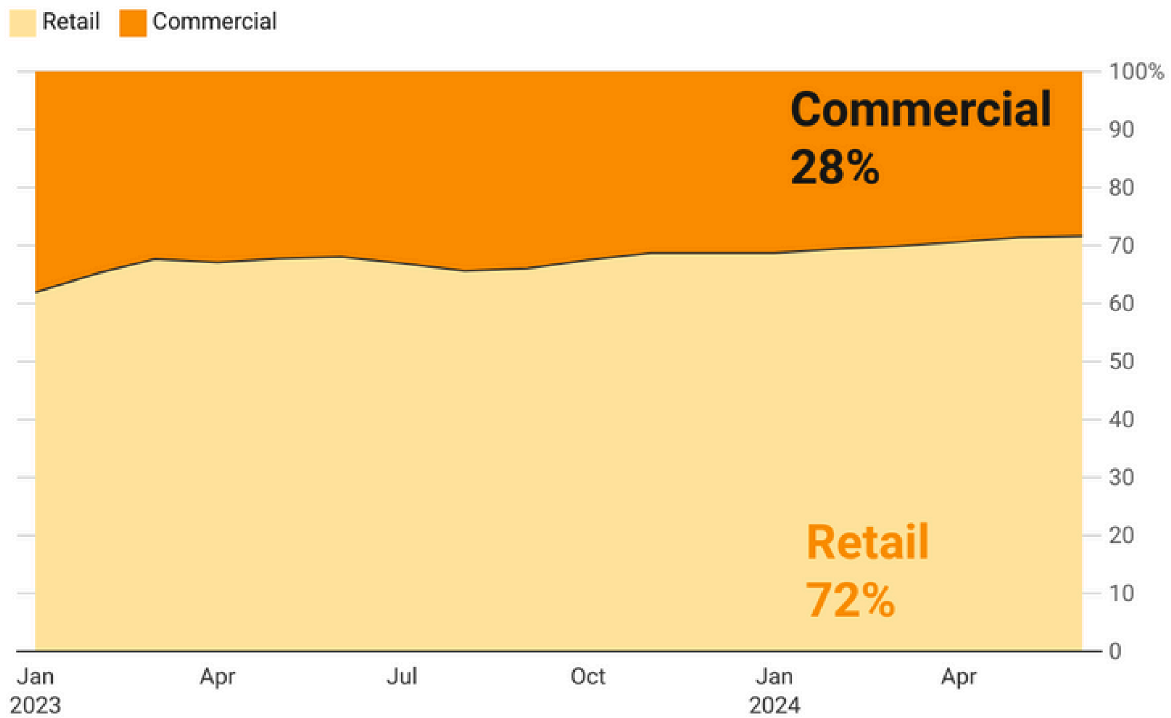
5- Retail FX Deposits (Bio USD, Jul 26)

5.1- Commercial FX Deposits (Bio USD, Jul 26)

6- FX Protected TL Deposits (Bio USD, Jul 28)



6.1- Breakdown of FX Protected Deposits (as of Jun 2024)



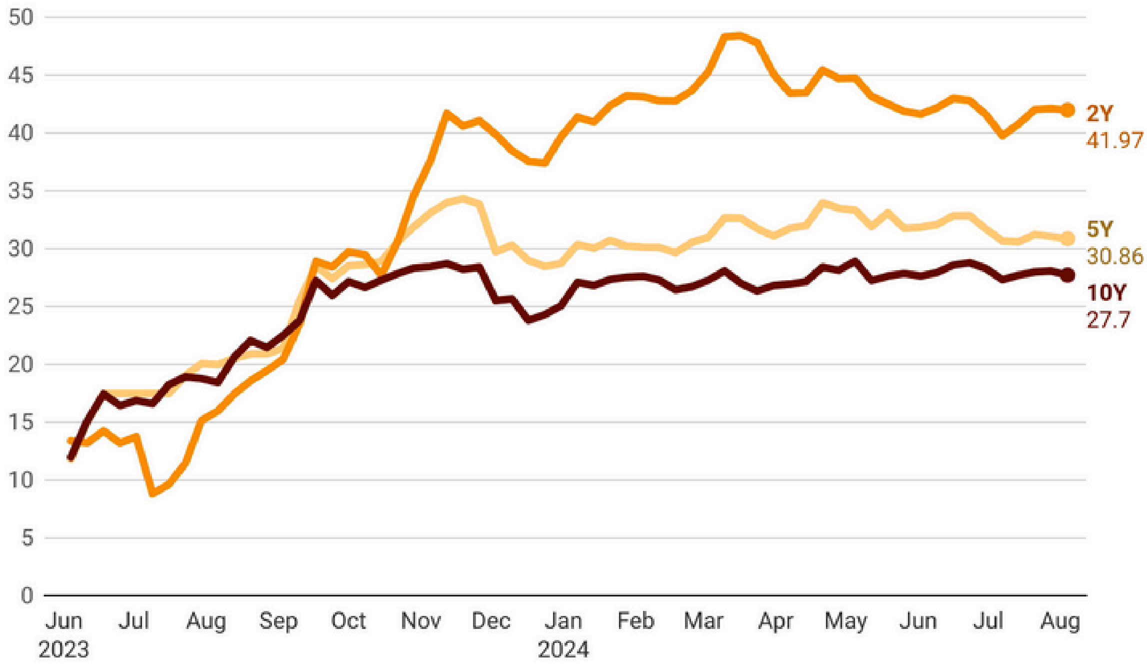
7- Sovereign Credit Risk (bps, Aug 2)

7.1- Ishares TUR ETF (AUM, Mio USD, Aug 2) (Copy)

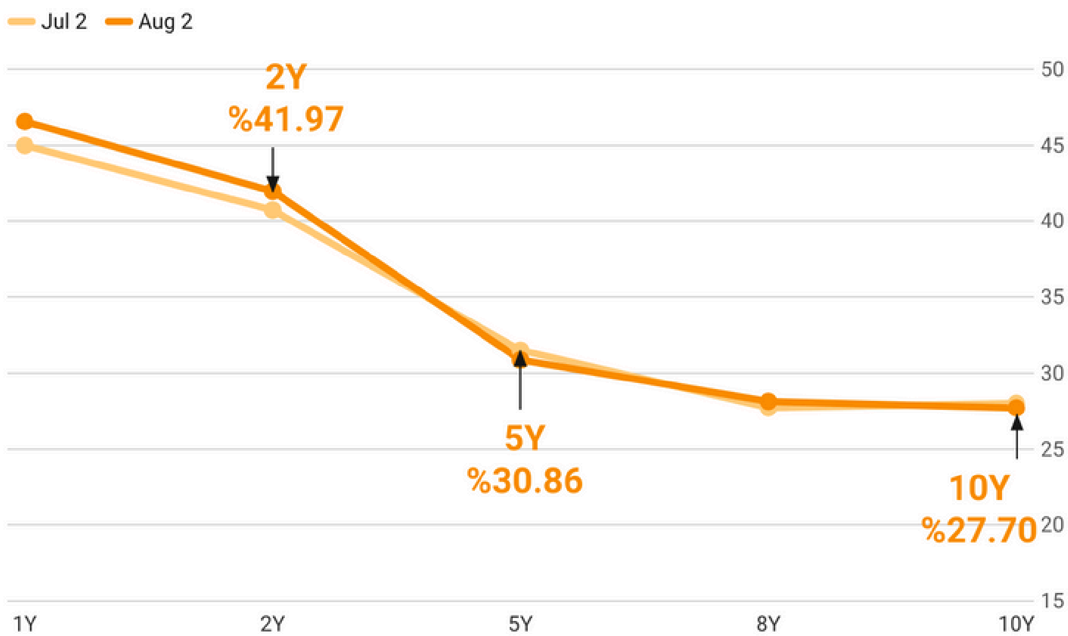
8- TL Bonds - Foreign Ownership (Bio USD, Jul 26, Mcap.)

8.1- TL Equity - Foreign Ownership (Bio USD, Jul 26, Mcap.)

9- Turkish Lira Sovereign Bonds (%, Aug 2)

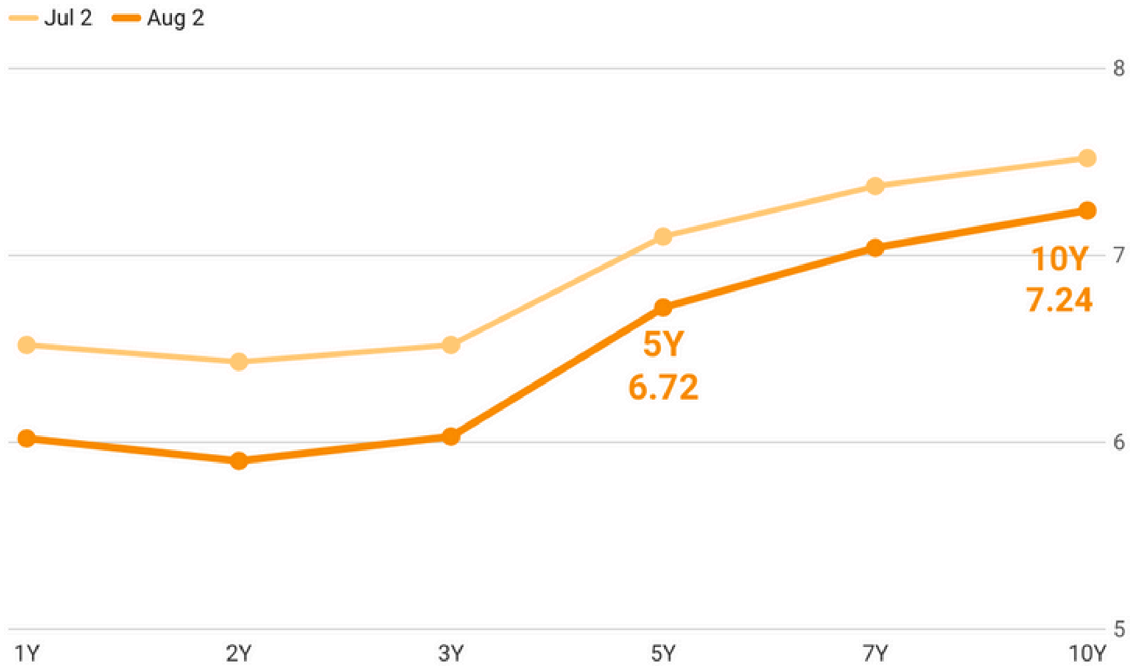


9.1- TL Sovereign Yield Curve

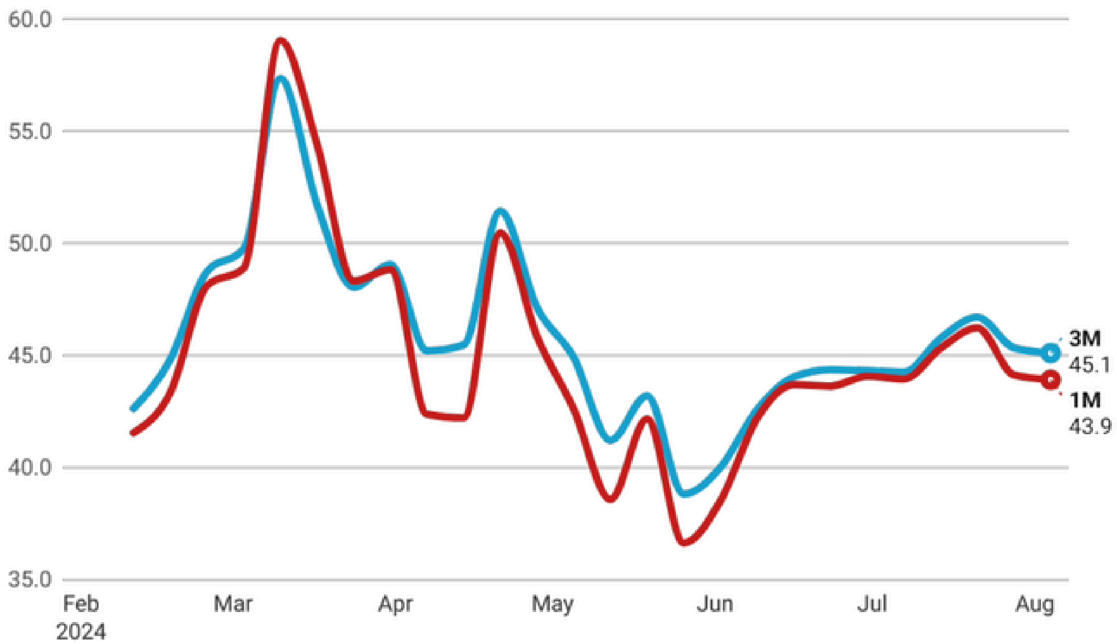


10- Turkey USD Sovereign Bonds (%, Aug 2)

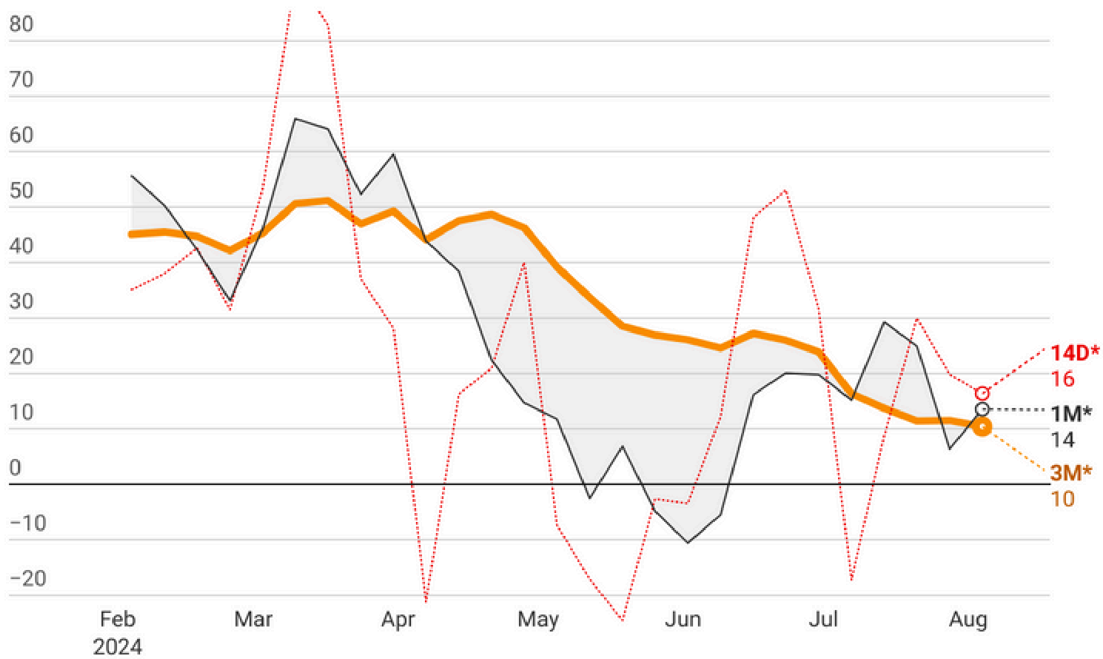
10.1- Turkey Sovereign Yield Curve (%, USD)



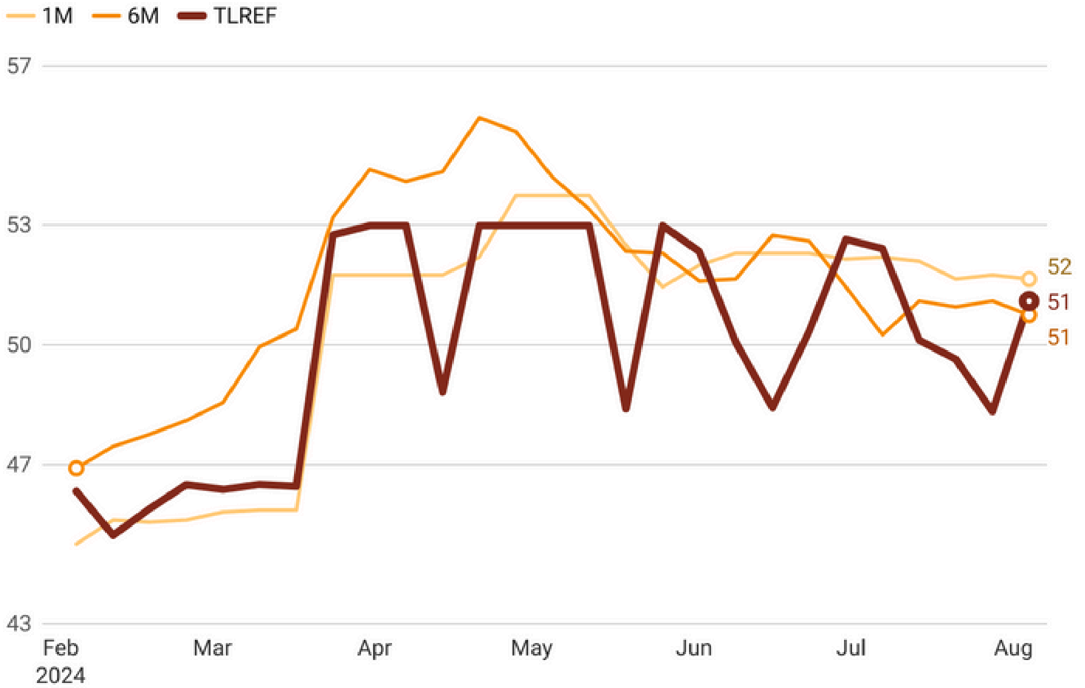
11- Swap Rates (%, Aug2)



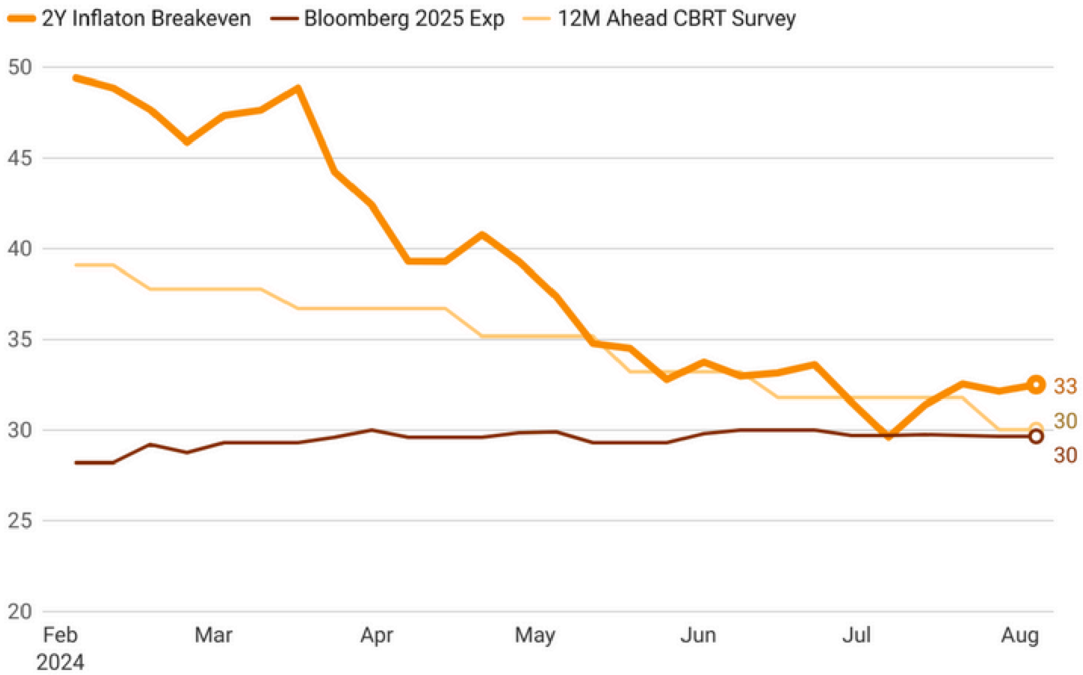
11.1- USD/TRY Change (% Annualized)



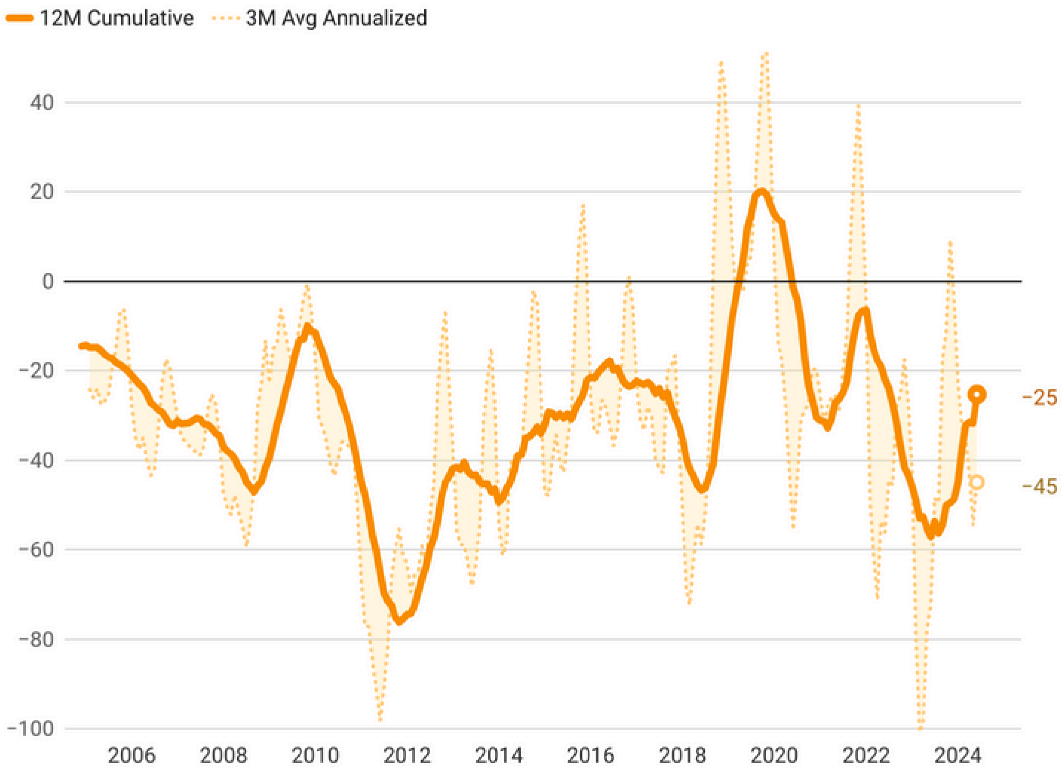
12- TLRef Rate Expectations (%)



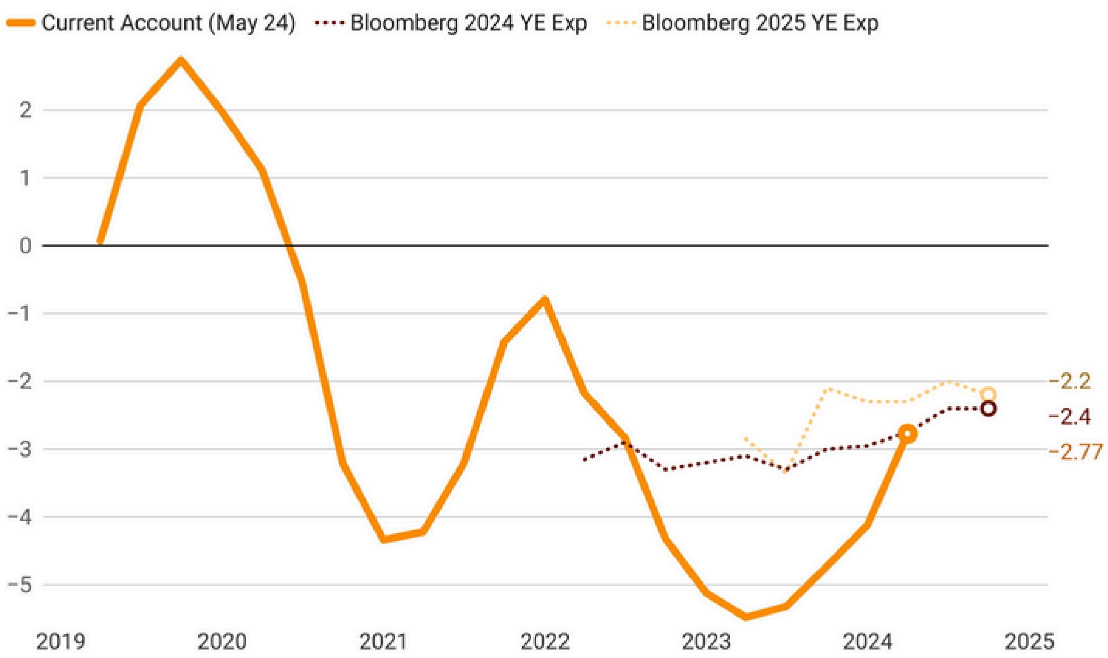
12.1- Inflation Expectations (%)



13- Current Account (May 24, Bio USD, 12M Acc.)



13.1- Current Account Expectations (% of GDP)



TURKEY PREVIEW: July Set to Kick-Off Two-Month Inflation Plunge By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Turkey's annual inflation is set to tumble by about 10 percentage points in July, chiefly driven by base effects. That would mark the first of two significant moves lower we are expecting, with a similar plunge likely in August. The road beyond the summer will be stickier, though, making a decline to the Central Bank of the Republic of Turkey's year-end expectation unlikely.

We forecast inflation fell to 61.8% year on year in July, a rapid descent from the 71.6% seen in June. The large slowdown in the headline indicator will be mainly due to elevated gains last year that formed a favorable base effect.

Despite the easing in the annual rate, monthly inflation is set to double to 3.2% in July from 1.6% in the month prior. Still, we don't think this will trigger the central bank into action given our estimates show about 2 percentage points of the monthly gain should be due to government updates to taxes and administered prices. Looking ahead, we expect the 38% increase to wholesale gas price for households, effective August 1, to drive up monthly inflation by about 1.5 ppts. Even so, further base effects should see the fast paced easing in the year-on-year rate we forecast for July to be repeated in August and take the reading to the low-50%'s.

The deceleration in the annual rate is likely slow from September, restricting the decline to a year-end rate of 43%. That's well above the central bank's 5% target and outside its 34%-42% projection band issued in May.

Even as annual gains remain elevated, our baseline view is that the expected easing in monthly gains from September coupled with weakening activity will likely see the central bank deliver a total of 500 basis points of rate cuts in the final two months of the year. That would take the policy rate to 45% by December. Risks to the inflation outlook are tilted to the upside and include a possible escalation in the Middle East war that could result in increased energy costs. If the risks materialize, we expect the central bank to tighten policy via its alternative tools rather than further rate hikes.

TURKEY INSIGHT: Rising FX Reserves Suggest Safety Levels in 2025 By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Turkey's foreign currency reserves have made significant gains following the local elections in March, but benchmarked against two key adequacy metrics they still remain well below vital risk thresholds. We expect further improvements in the short term, albeit at a slower pace, ensuring those safety levels are hit in 2025.

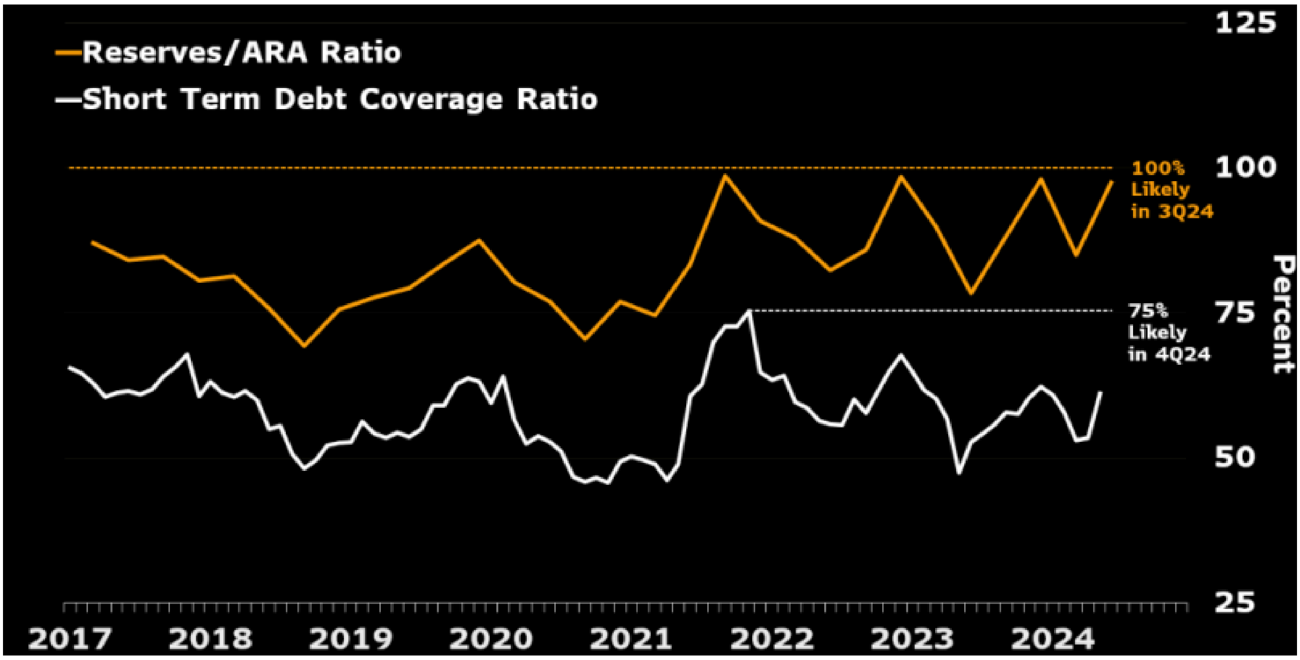
Favorable interest-rate differentials and a stable lira have resulted in large investment flows and a significant uptake in the preference for lira assets since the March 31 vote. As a consequence, the Central Bank of the Republic of Turkey saw its net reserves expand by nearly **$90 billion between the start of April and mid July**, according to our calculations.

Despite the dramatic increase, reserves still remain well below the levels that offer comfortable buffers against major risks, including capital flight or rollover. That's based on two major adequacy indicators for reserve coverage: the International Monetary Fund's Assessing Reserve Adequacy (ARA) metric and short-term debt.

Relative to the ARA metric – a composite measure that captures risks associated with capital flight, debt rollover and external demand – and building on available data and our assumptions, we estimate reserves could reach the standard safety level of **100% coverage in 3Q24**. That level, however, is a bare minimum. Getting nearer to the midpoint of the IMF's suggested 100%-150% range is more likely in the new year.

The metric of reserve coverage over short-term debt, which measures potential rollover risk for debt within a given year and is the most widely used adequacy indicator, also shows reason for optimism. Our calculations indicate this measure rose to **61% in May**, a vast improvement on the 53.5% for April. Even so, that still falls short of the 100% standard safety-threshold – a rate Turkey has not touched in data available since 2011.

A more realistic goal for Turkey, at least in the short run, may be a return to the recent peak of 75% set in 2021. If both reserves and short-term debt evolve in line with our assumptions, which are based on recent trends, that level looks possible in 4Q24. If the same pace is maintained, the historic peak of 82% could arrive by mid-2025.



A premature easing in monetary policy is the chief risk to this outlook. If that were to happen, the flow into reserves would slow faster than expected – not only due to lighter capital inflows, but also because of a likely rise in domestic FX demand.

External debt could also rise faster than we account for if, for example, an escalation in the Middle East war pushes up energy costs. One final key risk is major central banks extending their tight policy stance, which would slow investment flows into emerging markets – including Turkey.

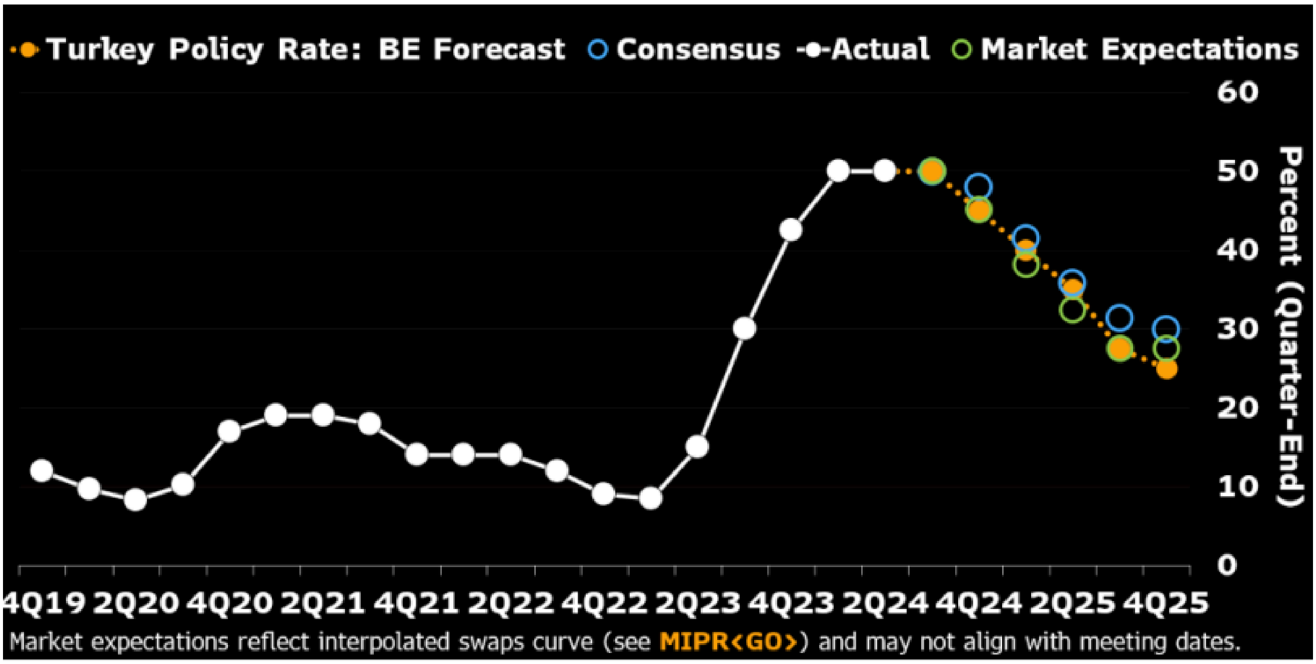
TURKEY REACT: Rates on Hold for Now, Liquidity Tightening Coming By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- OUR TAKE: The Central Bank of the Republic of Turkey's decision to keep rates on hold is a sign of things to come – any threats to the inflation outlook will likely be addressed with tightening via alternative tools. We also expect the central bank to tackle the market's ongoing lira oversupply with liquidity steps.

The CBRT maintained its policy rate at 50% at its July meeting, in line with our expectation and the median call in a Bloomberg News survey. The central bank has now kept the rate on hold for four consecutive meetings after reaching a peak for the current cycle back in March.

The central bank continued to deliver a hawkish tone in its decision announcement – matching our earlier call. We read the CBRT's language bias as being part of an effort to quash any expectations for an early rate cut, rather than as a sign that rates will remain on hold for longer than is currently anticipated.

We also expect the CBRT to take steps to drain lira liquidity in the market, which it implied will arrive " whenever needed." The market's lira abundance has resulted in the central bank being a net borrower on and off since mid-2023 and, more recently, continuously since July 12.

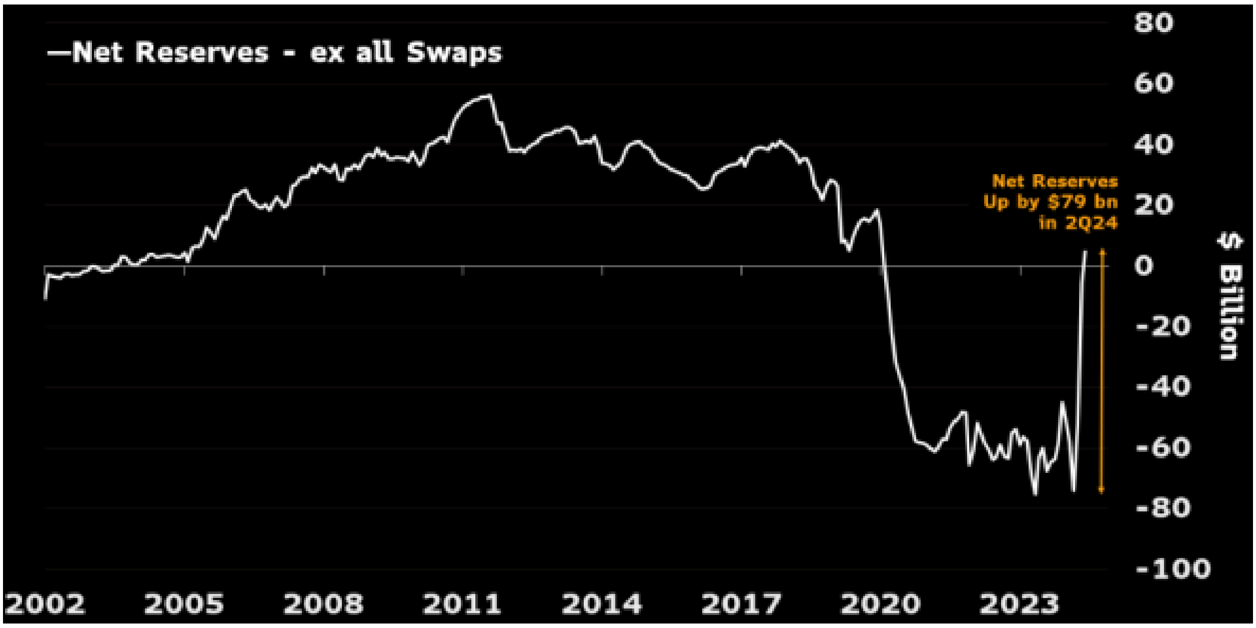


TURKEY INSIGHT: Summer is All Roses, Policy Challenges Rule Fall By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Turkey is heading for a summer of smooth sailing: inflation is firmly on the path of deceleration and the central bank is building reserves as a lira preference from both domestic and foreign investors buoys the currency. Beyond the summer, though, avoiding troubled waters will depend on the central bank maintaining its tight policy stance.

Turkey's pivot away from its accommodative stance resulted in the policy rate going on a ten-month trek that saw it climb to 50% in March from 8.5% in May 2023. Inflation, meanwhile, finally started a move lower in June after hitting an annual peak of 75.5% in May 2024. Indeed, we expect inflation's dive to pick-up pace over the summer amid favorable base effects, shedding about 10 percentage points in each of July and August.

The central bank's decision to maintain its policy pivot after the March 31 local elections led to a spike in investment flows in the second quarter, including $23 billion that we estimate was related to the carry trade. That contributed to the Central Bank of the Republic of Turkey's foreign reserves net of obligations shooting up at an impressive pace of $79 billion in 2Q. With the addition of tourism related inflows that are likely to bolster the lira, its looking like a summer in paradise for the CBRT.



GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT