



GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

MONTHLY BULLETIN ON TÜRKİYE

NOVEMBER 11, 2024

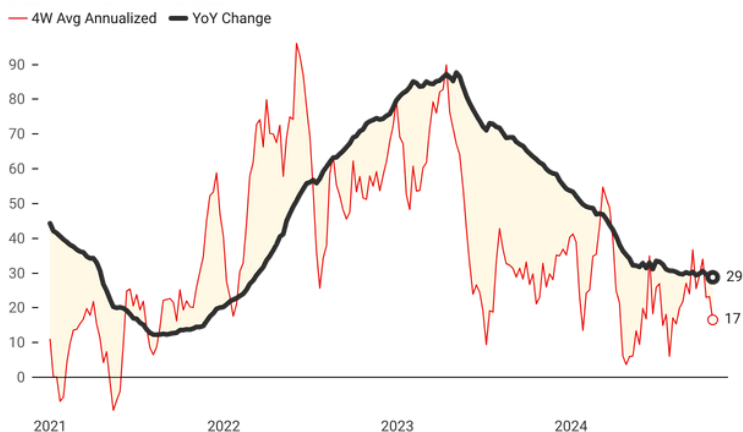
1- Central Bank Gross FX Reserves (Bio USD, Oct 31, Daily)



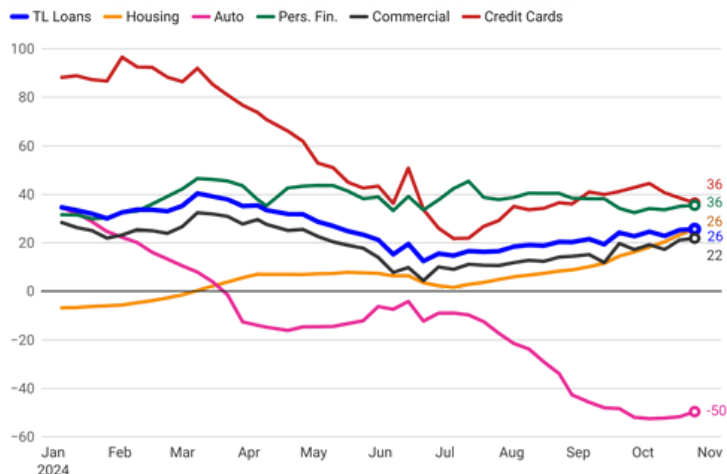
Assets (Bio USD)	29/12/23	27/10/24	YTD
Gold	47.68	65.71	+18.03
FX Banknotes	3.56	1.49	-2.07
Securities + Deposits	5.90	26.26	+20.36
Other FX Balance	87.43	65.34	-22.09
TOTAL	144.57	158.8	+14.23

Liabilities (Bio USD)	29/12/23	27/10/24	YTD
To Turkish Banks	74.92	75.75	+0.83
To IMF & International Insti.	29.89	22.59	-7.3
To Turkish Treasury	9.41	10.23	+0.82
To Turkish Banks in Swap Contract	48.75	0	-48.75
To Foreign Central Banks	23.35	21.90	-1.45
TOTAL	186.32	130.47	-55.85

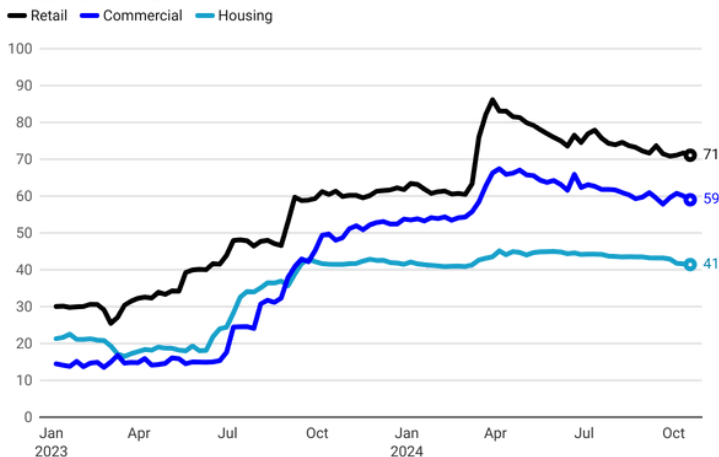
2- TL Loan Growth (as of Oct 25, YoY, %)



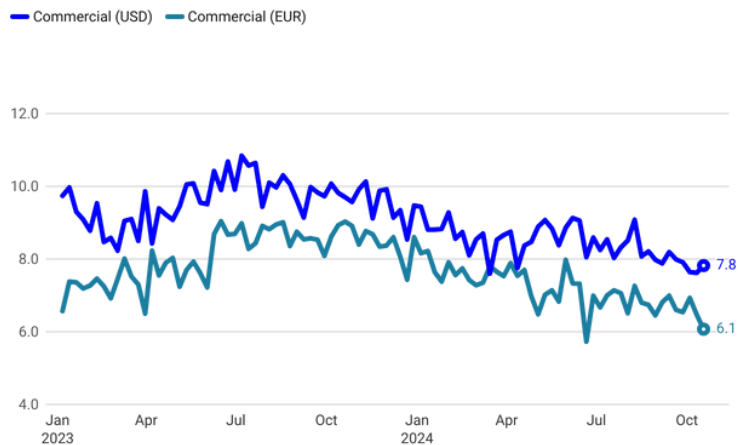
2.1- TL Loan Growth Momentum (Oct 25, 13W Ann., YoY, %)



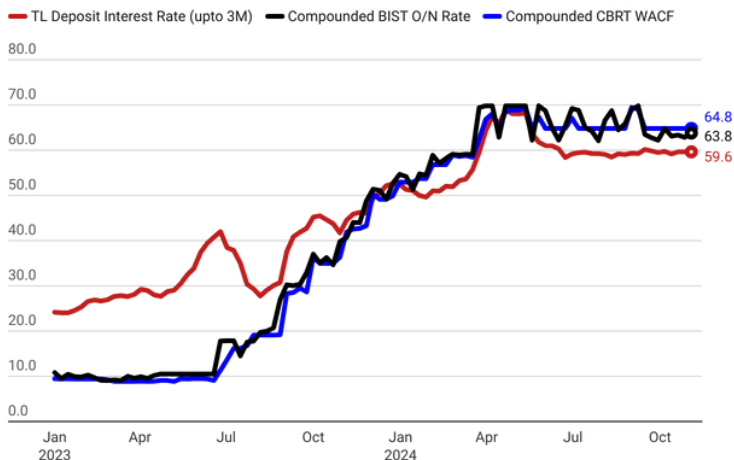
3- TL Loan Interest Rates (% , Oct 18)



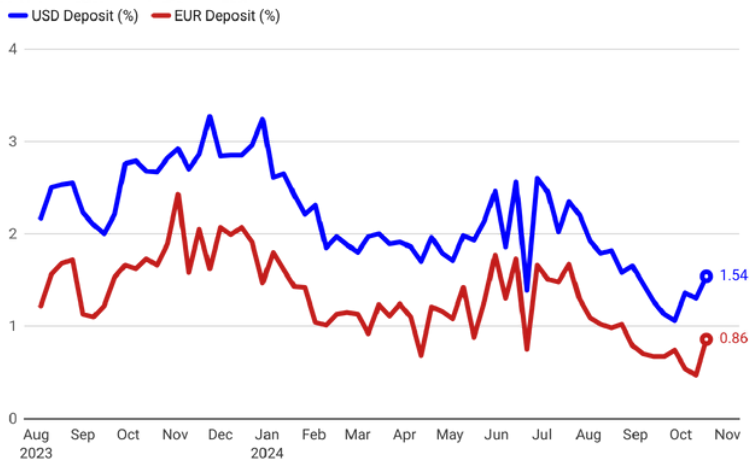
3.1- FX Loan Interest Rates (% , Oct 18)



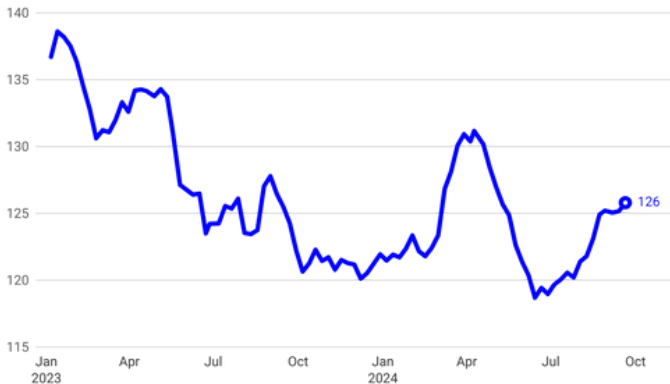
4- TL Rates (% , Oct 25)



4.1- FX Deposit Interest Rates - 3M Maturity (% , Oct 18)



5- Retail FX Deposits (Bio USD, Oct 25)



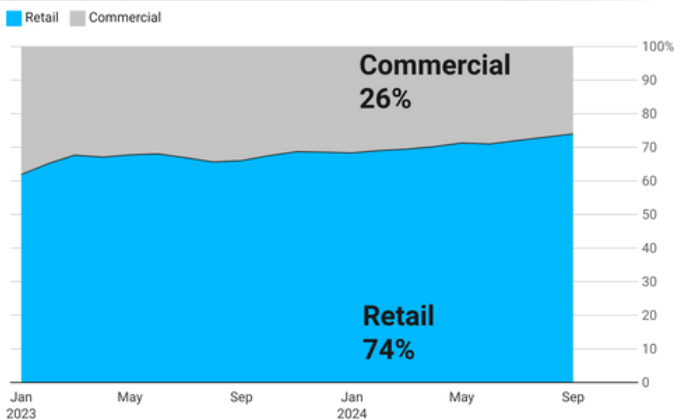
5.1- Commercial FX Deposits (Bio USD, Oct 25)



6- FX Protected TL Deposits (Bio USD, Oct 31)



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



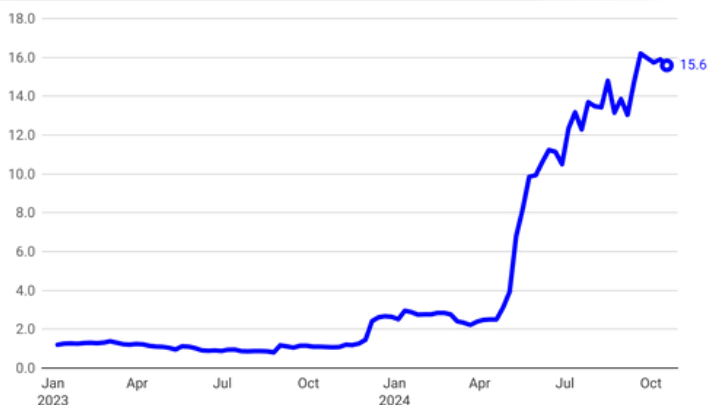
7- Sovereign Credit Risk (bps, Oct 31)



7.1- Ishares TUR ETF (AUM, Mio USD, Oct 31)



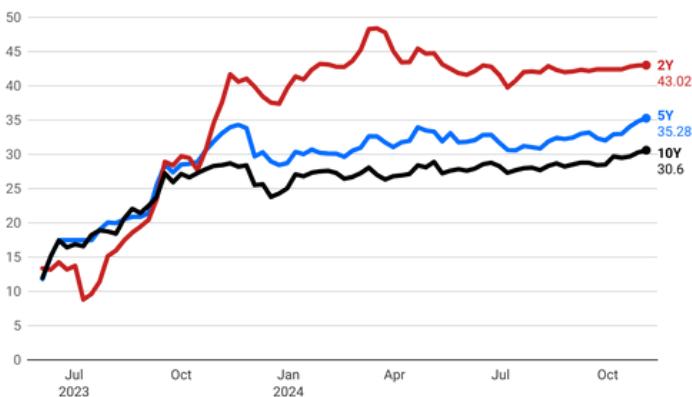
8- TL Bonds - Foreign Ownership (Bio USD, Oct 18, Mcap.)



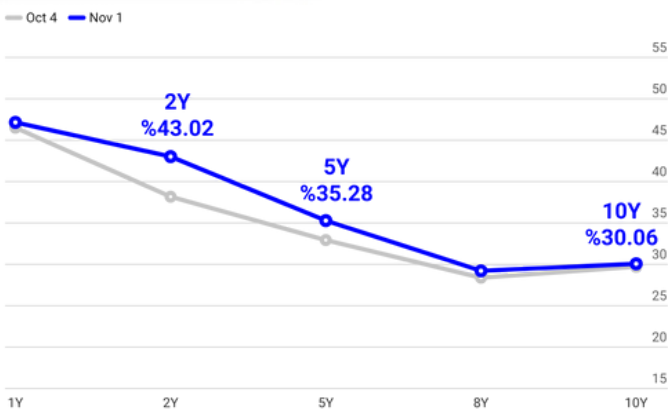
8.1- TL Equity - Foreign Ownership (Bio USD, Oct 18, Mcap.)



9- Turkish Lira Sovereign Bonds (% , Oct 31)



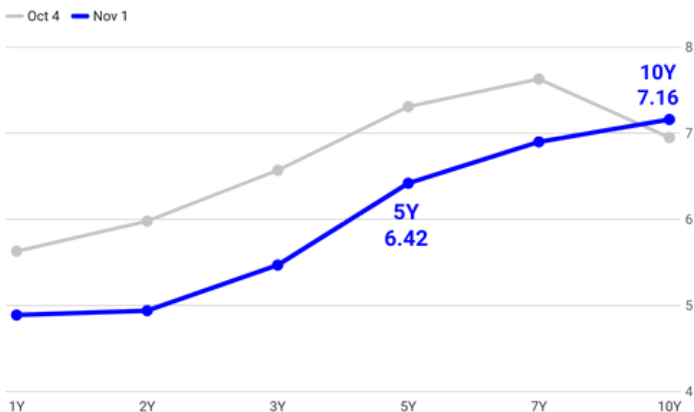
9.1- TL Sovereign Yield Curve



10- Turkey USD Sovereign Bonds (% , Oct 31)



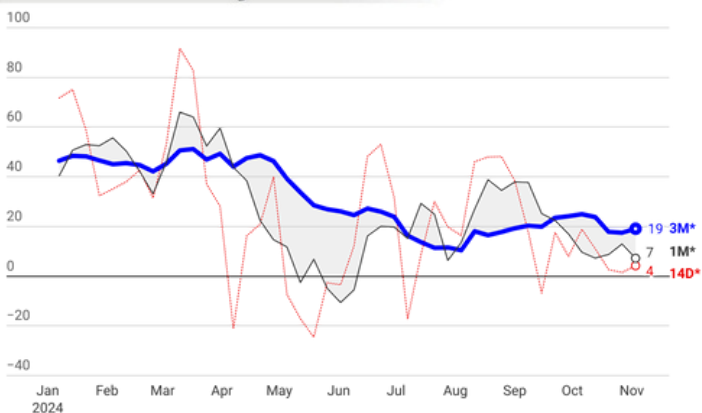
10.1- Turkey Sovereign Yield Curve (% , USD)



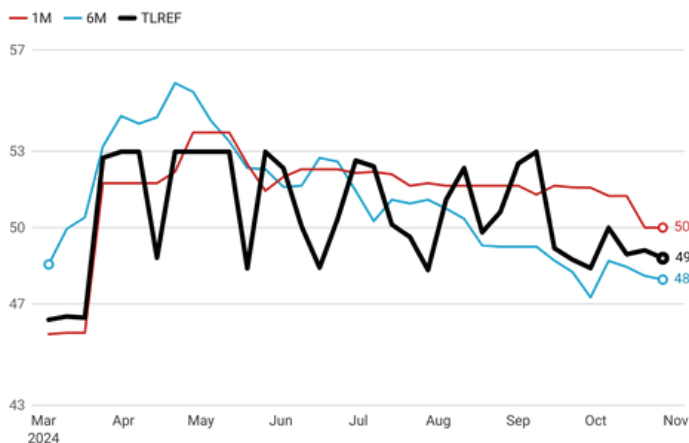
11- Swap Rates (% , Oct 31)



11.1- USD/TRY Change (% , Annualized)

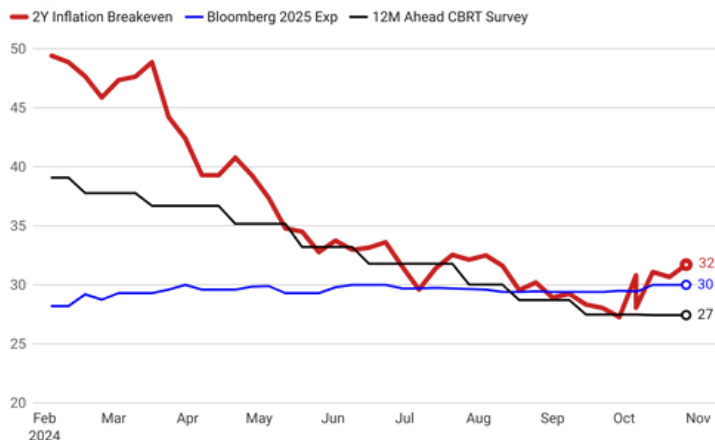


12- TLREF Rate Expectations (%)



1M and 6M Future Contracts

12.1- Inflation Expectations (%)



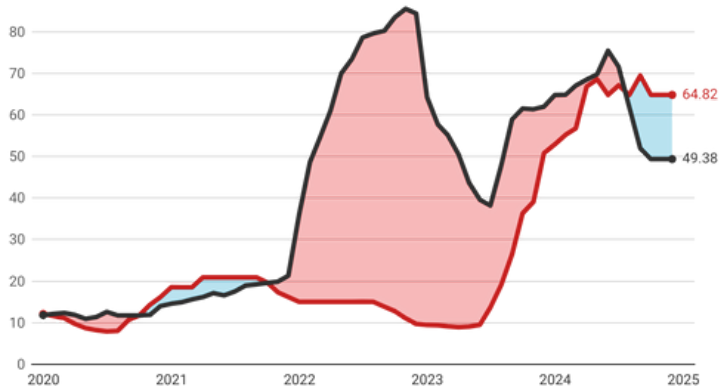
Real Exchange Rate (Sep 24, %, YoY)

— Real Exchange Rate YoY Change (%)



Ex-post Real Policy Rate (Nov 24, %)

— Turkey CPI (YoY- %) — CBRT WACF Annualized (%)



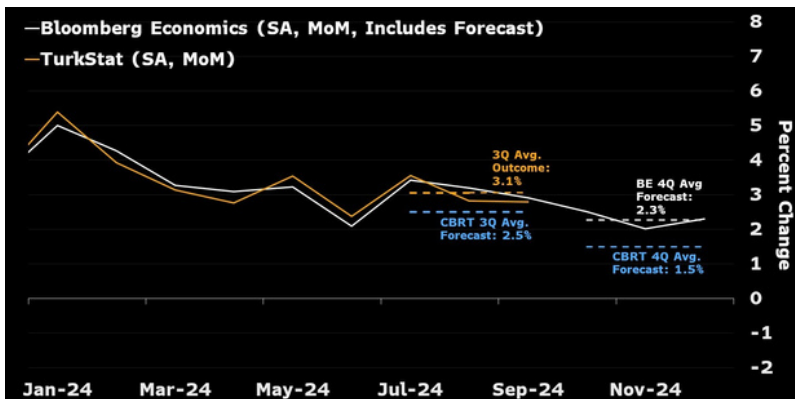
TURKEY PREVIEW: Inflation to Keep Easing Toward 43% by Year End

By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Turkey's rampant inflation will continue to cool, albeit at a slower pace in October. We expect price gains to **end the year near 43%**, with risks heavily tilted upwards. We currently predict the rate cut cycle to commence in December, but if inflationary pressures prove stubborn it could prompt the central bank to delay the first reduction to 2025.

We estimate Turkey's CPI inflation retreated to **48.3% in October**, down about a percentage point from September's 49.4%. The current median call on a survey by Bloomberg matches our forecast. On a monthly pace, our forecast corresponds to a **2.7% increase** in prices, down from September's 3%. That step down is likely due to a slow-paced easing in rent and school-related inflation.

CBRT Outlook on Monthly Inflation Increasingly Optimistic



On a seasonally adjusted basis, monthly inflation will also ease but we expect the slide to 2.5% we've penciled in for October (prior 2.8%) will come as a disappointment to the CBRT. We project an average print of 2.3% for 4Q24 in our seasonally adjusted series, well above the central bank's 1.5% forecast.

That will add to the bad news policymakers received on 3Q24 inflation which clocked in at an average of 3.1% in the adjusted series versus the 2.5% the central bank had expected. Earlier, the CBRT had pointed to an easing in the monthly trend of inflation and inflation expectations as the two criteria that could trigger the first rate cut for this cycle. We predict monthly inflation to dip to 2% in November on an adjusted basis. This points to a quarterly average that exceeds the CBRT's 4Q24 projections, but is still lower than the 3.1% reading in 3Q24, thus likely fulfilling the first criteria. Earlier this week, year-out inflation expectations for firms and households also eased – albeit still remaining elevated – which the policymakers can interpret as fulfilling their second criteria.

Inflation Risks to the Upside

Risks to this outlook are tilted upwards. For one, our projection builds on an assumption that price pressure from rent and school-related items will ease swiftly in November. **An increase in energy prices** due to a potential escalation in the Middle East war is another live risk to the upside which could shift the entire inflation trajectory up. We estimate the oil price rise in early October passed through to core prices relatively quickly but the subsequent cooling in energy costs has not seen a downward adjustment in core goods prices. If these risks materialize, **the central bank could postpone the first cut into 2025.** We currently predict a **December move.**

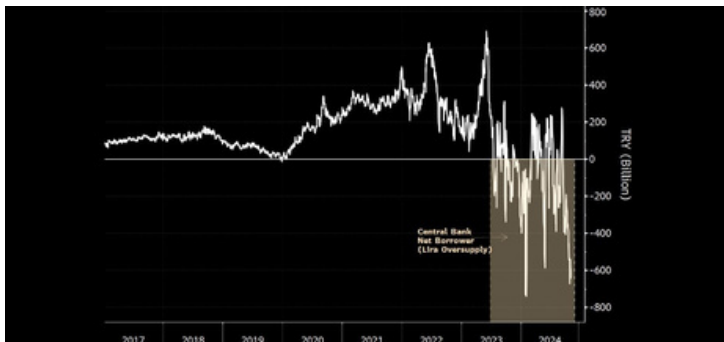
TURKEY INSIGHT: Central Bank Liquidity Inaction = Stealth Easing

By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- We expect the Central Bank of the Republic of Turkey to begin an easing cycle in December. However, by choosing not to use liquidity tools to drain excess lira from the market, policymakers may already have started easing financial conditions – a risk factor that could delay the first rate cut until next year.

Averaging about **450 billion liras (\$13.1 billion) in October**, excess lira liquidity risks prematurely easing financial conditions as the central bank becomes a net borrower from the market – a position it has held on and off since mid-2023. The central bank has kept its key policy lever – the one-week repo rate – at 50% since March. When there's an overabundance of lira, though, commercial banks could turn to alternative reference rates. Indeed, the lira overnight reference rate averaged 49.2% in October, with the last print for the month coming in at 48.6%. This suggests that, in effect, financial conditions may already have started easing. We see that warranting a move from the the central bank to drain excess liquidity from the market.

CBRT Has Been a Net Borrower for a While



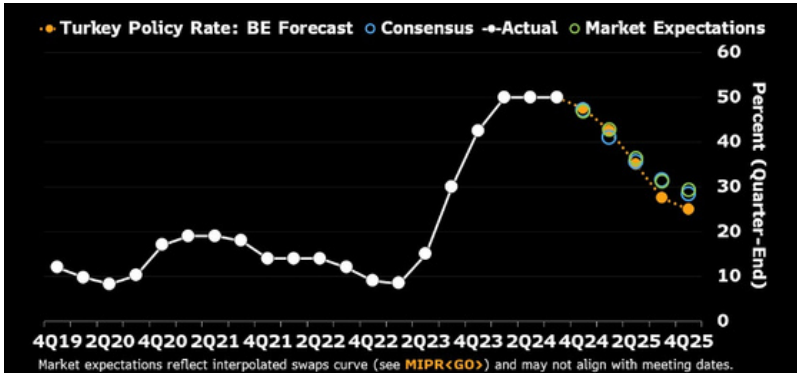
We currently expect policymakers to make **an initial 250-basis-point cut** in the key one-week repo rate in December. However, if they don't take steps soon to tighten liquidity, that will be a risk factor for our rates outlook – possibly pushing the start of the central bank's easing cycle until next year.

TURKEY INSIGHT: IMF Forecasts Suggest Hawkish 2025 Policy Stance

By Selva Bahar Baziki (Economist) Bloomberg Economics)

The International Monetary Fund's latest Turkey forecasts match our outlook for the country's economy, albeit with one exception. The IMF's weaker baseline for 2025 economic growth does, however, line up with our risk scenario. If that proves to be the actual outcome, then we think it will prompt the central bank's easing cycle to run at a faster pace than our current call. According to its updated World Economic Outlook, **the IMF expects a 3% growth rate for this year, while inflation is forecast at 43% for end-2024 and 24% for end-2025.** Those estimates perfectly match up with our forecasts. There is a sizable difference between our growth forecasts for 2025, however, with the Fund expecting relatively muted expansion of 2.7% compared to our 3.2%. We think the difference between the medium-term outlooks is being driven by contrasting rate path assumptions, in particular the sensitivity of policymakers to easing activity. The IMF likely assumed the central bank will take a more hawkish stance than we are expecting. Indeed, the IMF's Turkey mission chief recently suggested further rate hikes may be needed if policymakers want to bend inflation toward the central bank's end-2025 forecast of 14%. We think this is a very unlikely scenario – a view we base on the central bank's past actions. Earlier this year, the central bank chose to tighten financial conditions through revisions to its alternative tools, even when we thought the inflation data warranted further rate hikes.

Central Bank Likely to Ease in Coming Months



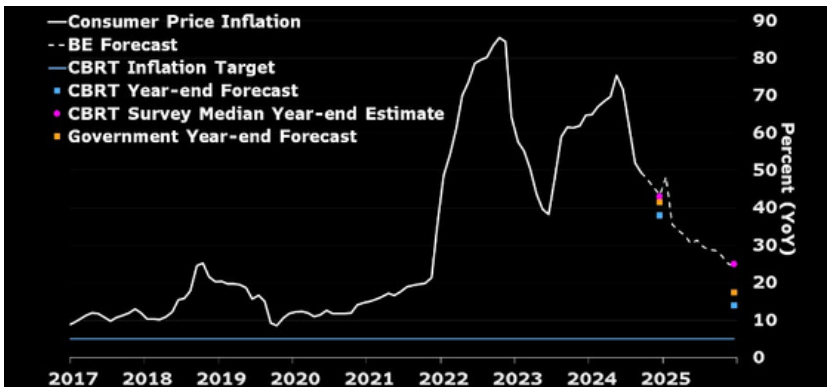
As such, we expect the central bank to reduce borrowing costs following a likely move lower in the monthly inflation trend. We see this materializing in time for a first rate cut at the December meeting. We then expect the central bank to maintain a steady pace of easing that cuts the policy rate to 25% by end-2025, down from 50% currently. If the expected deceleration in inflation disappoints – as it did in September – that could delay the opening rate cut until the first quarter of next year. Risks to the growth outlook, on the other hand, are tilted toward a faster slowdown that we see as a downside risk for the rates outlook. That would likely mean the central bank eases financial conditions at a faster pace in the second half of 2025. Market expectations currently match our short-term view, but are somewhat more hawkish for the longer term – pointing to **the policy rate finishing 2025 at about 29%.**

TURKEY INSIGHT: Budget Suggests 17% Min Wage Hike, We Expect 30%

By Selva Bahar Baziki (Economist) Bloomberg Economics)

Turkey's government appears to have assumed a **17% minimum-wage hike** next year in its 2025 budget proposal, our estimates show. That's close to matching its end-2025 inflation forecast. But we think a **30% increase is the likelier outcome**, in line with our expectations for a gradual easing of both inflation and borrowing costs. Our 17% calculation for the government's plan is based on the premise that the minimum wage exemption on income taxes extends into 2025 and the labor force expands at a rate similar to the average pace seen over the past two years. That marks a stark departure from the recent practice of raising the minimum wage at a tempo guided by past inflation. Continuing that approach would have pointed to an increase in a range that starts as low 40%'s (based on our end-2024 inflation call of 43% and the government's forecast of 41.5%) and climbs to nearly 60% — the likely average inflation rate for the year. Instead, policymakers have assumed an inflation rate closer to the government's end-2025 forecast of 17.5%. The Central Bank of the Republic of Turkey's projections for the end of next year is an even more optimistic 14%.

Policymakers Looking at Projected Inflation Rates for Wage Gains





GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

www.golderaconsulting.com