



GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

MONTHLY BULLETIN ON TÜRKİYE

MAY 2024

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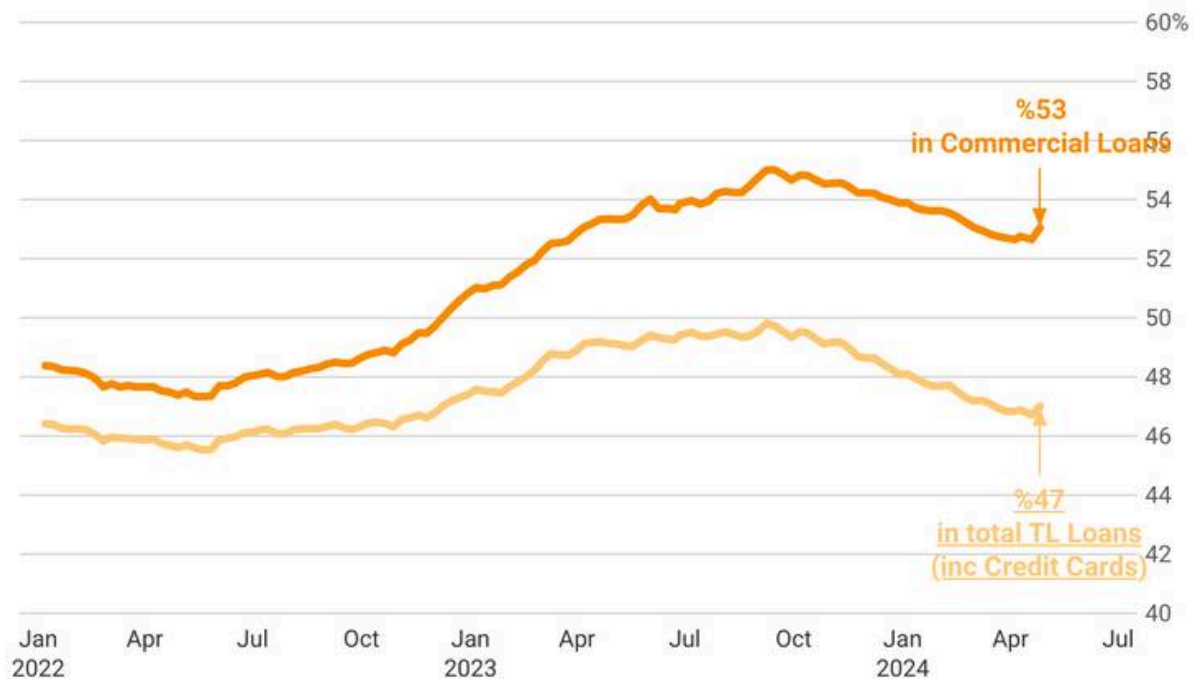
CBRT Gross Reserves (Bio USD, as of May 3)



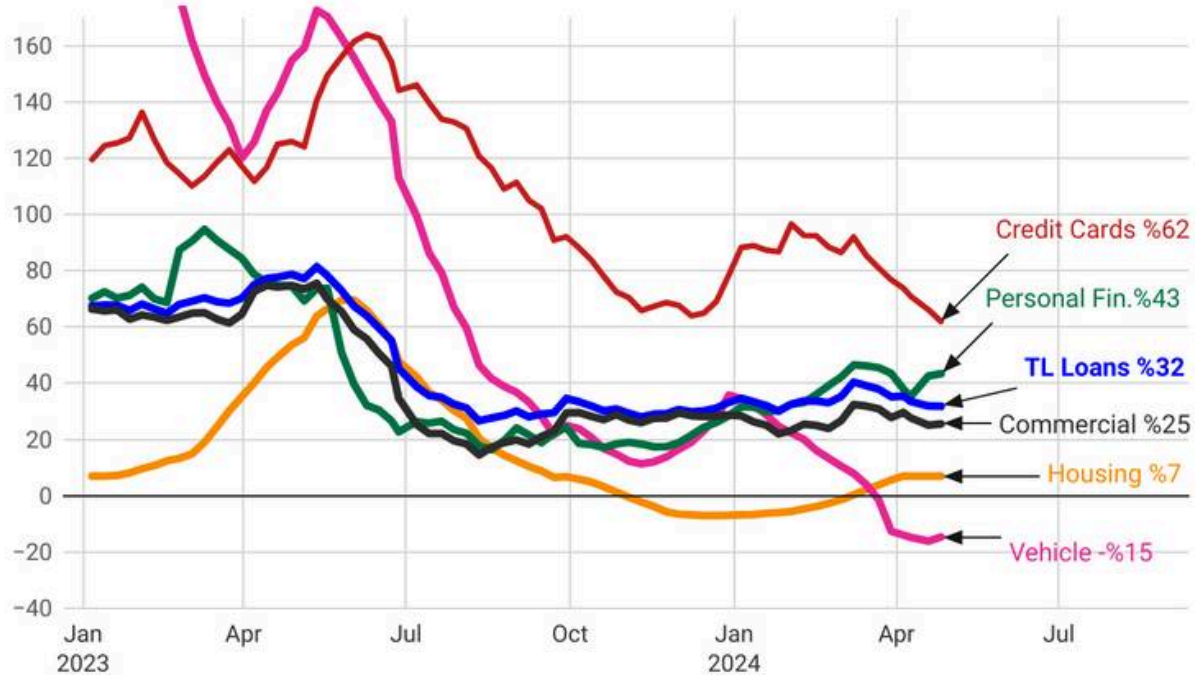
Assets (Bio USD)	29/12/23	21/04/24	YTD
Gold	47.68	59.12	+11.44
FX Banknotes	3.56	3.07	-0.49
Securities + Deposits	5.90	13.57	+7.67
Other FX Balance	87.43	50.05	-37.38
TOTAL	144.57	125.81	-18.76

Liabilities (Bio USD)	29/12/23	24/3/24	YTD
To Turkish Banks	74.92	81.12	+6.2
To IMF & International Insti.	29.89	29.89	-
To Turkish Treasury	9.41	10.82	+1.41
To Turkish Banks in Swap Contract	48.75	44.48	-4.27
To Foreign Central Banks	23.35	23.35	-
TOTAL	186.32	189.66	+3.34

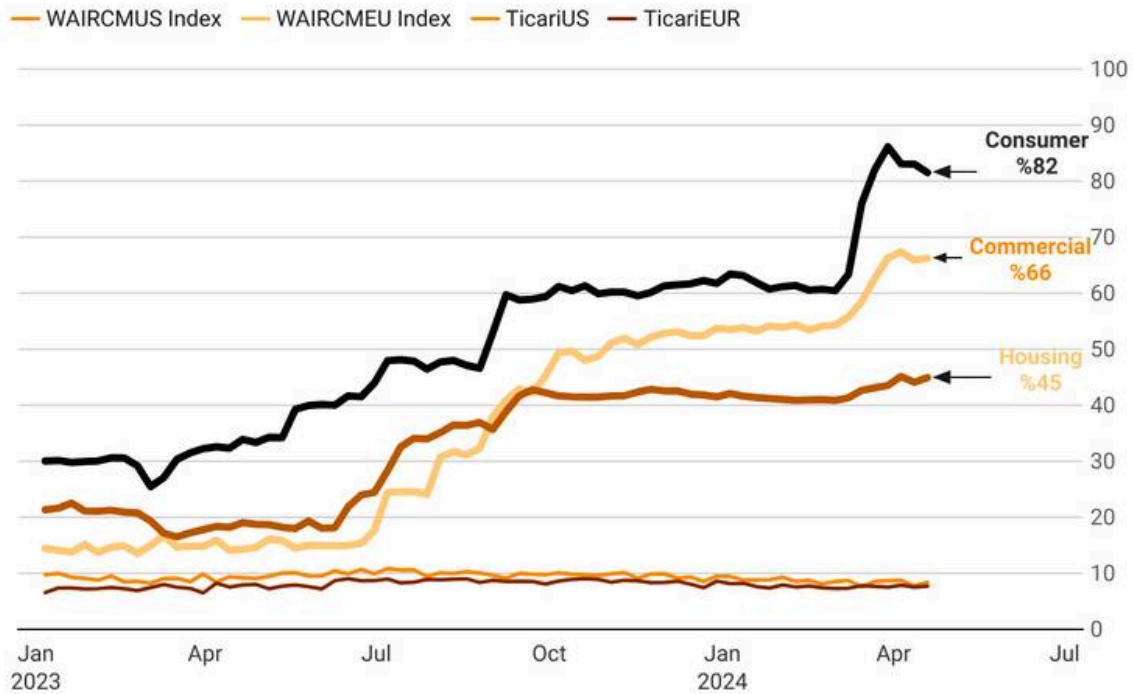
Share of Public Banks in TL Loans (%)



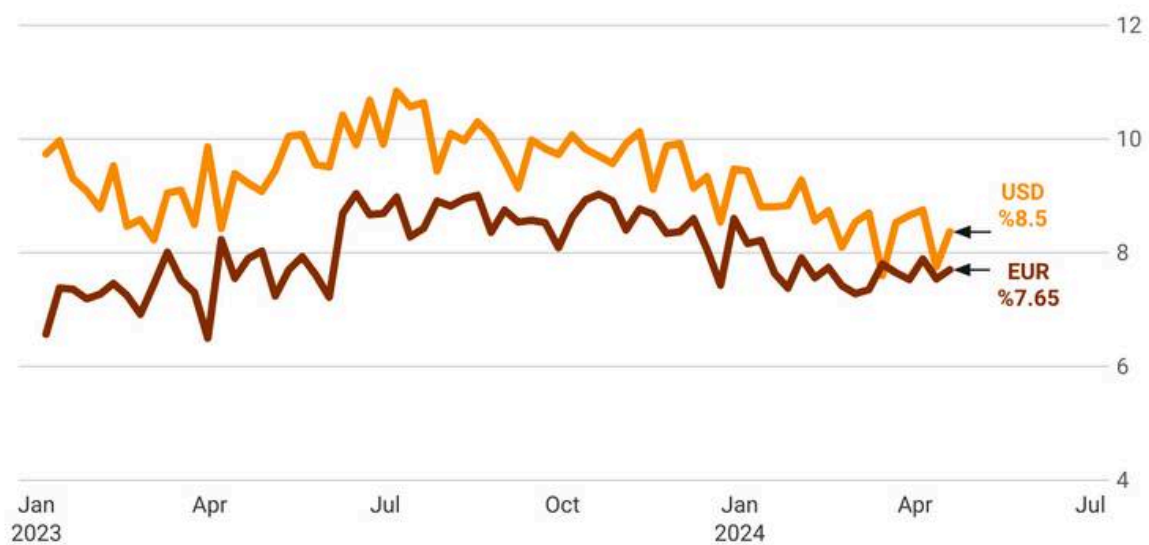
TL Loan Growth Momentum (Apr 26, 13 Week. Ann., %)



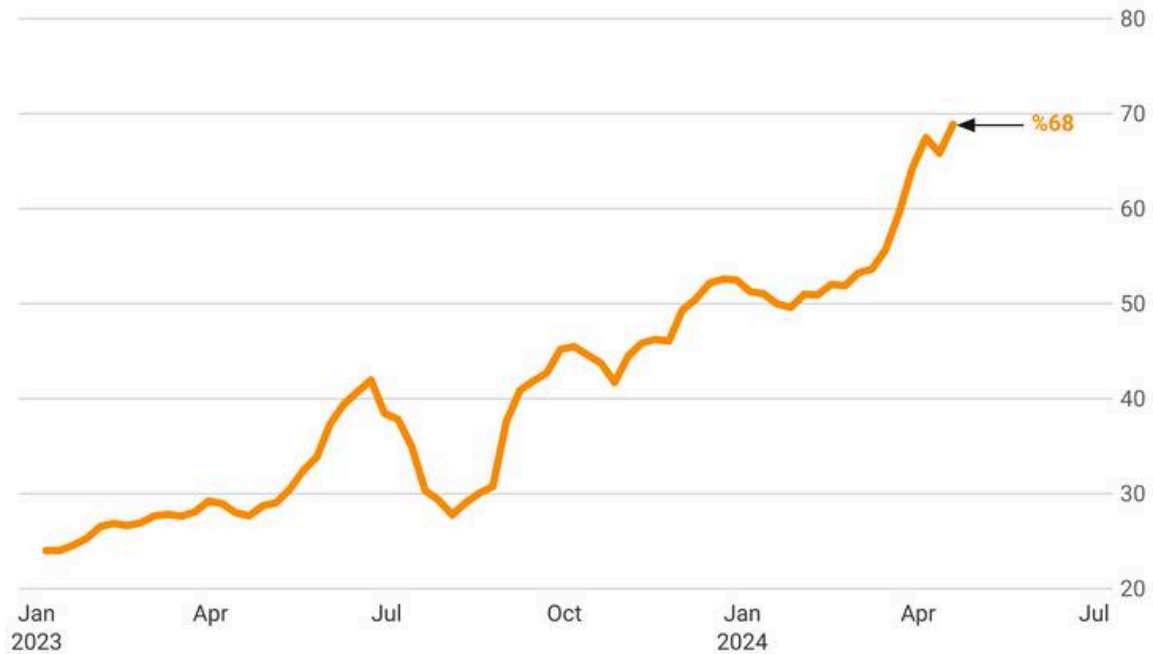
TL Loan Interest Rates (Apr 19)



FX Loan Interest Rates (Apr 19)



TL Deposit Interest Rates - 3M Maturity (Apr 19)



USD Deposit Interest Rates - 3M Maturity (Apr 19)



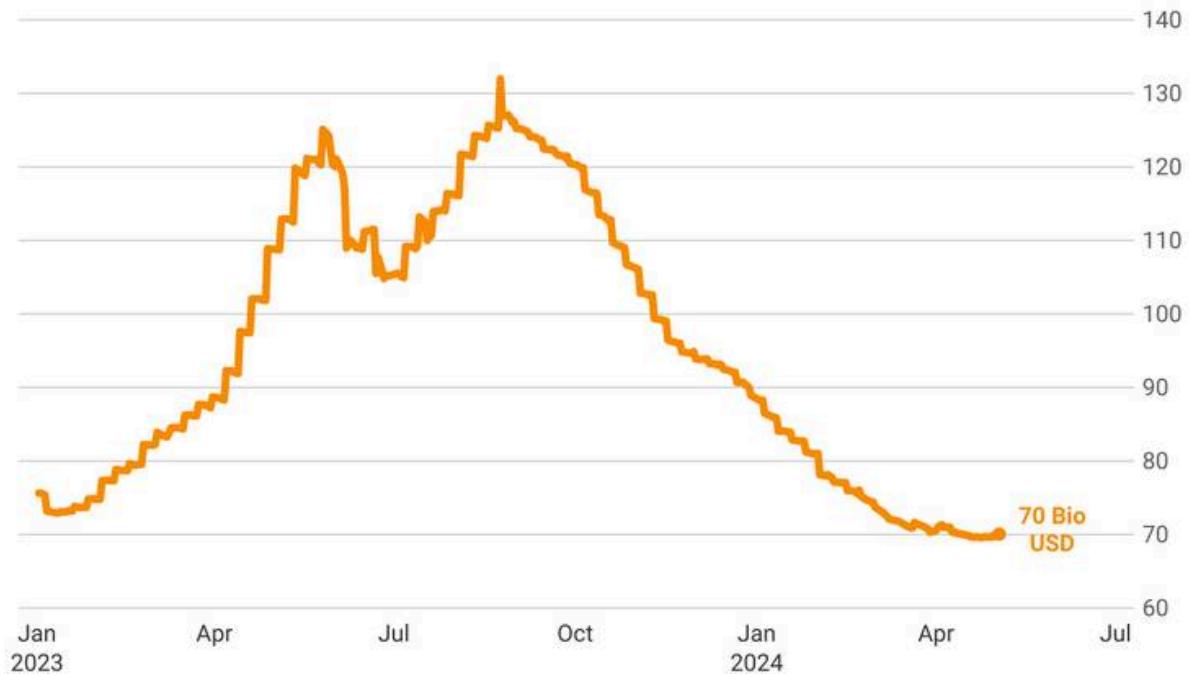
Retail FX Deposits (Apr 26)



Commercial FX Deposits (Apr 26)



FX Protected TL Deposits (Apr 19)



Turkey's FX-Protected Deposits

(Bloomberg Intelligence) -- Turkey's FX-protected lira deposit scheme offering savers insurance against the currency's losses has helped reduce the lira's volatility but has proven to be a costly endeavor. Policymakers once lauded the program as a lifeline for the currency - but almost two years later, the Central Bank of the Republic of Turkey is eager to end it.

The pace of the phaseout needs to strike a delicate balance. Too fast, and the demand for hard currency from those exiting the scheme could hit the CBRT's already deeply negative reserves. Too slow, and the CBRT may rack up another loss on exchange rate movements after the large one it posted in 2023. (04/17/24)

Sovereign Credit Risk (May 3)



Ishares TUR ETF (AUM, May 3)



TL Treasury Bonds - For. Ownership (Apr 26, Mcap.)



TL Equity - For. Ownership (Apr 26, Mcap.)



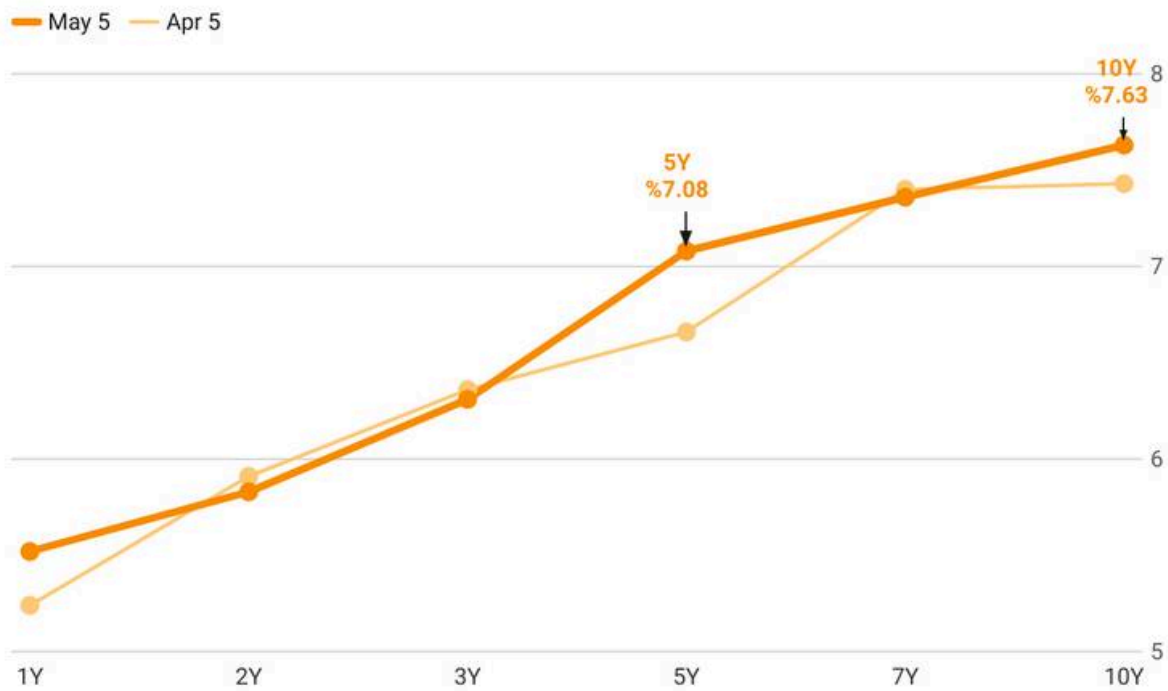
TL Sovereign Yield Curve



Turkish Lira Sovereign Bonds (May 3)



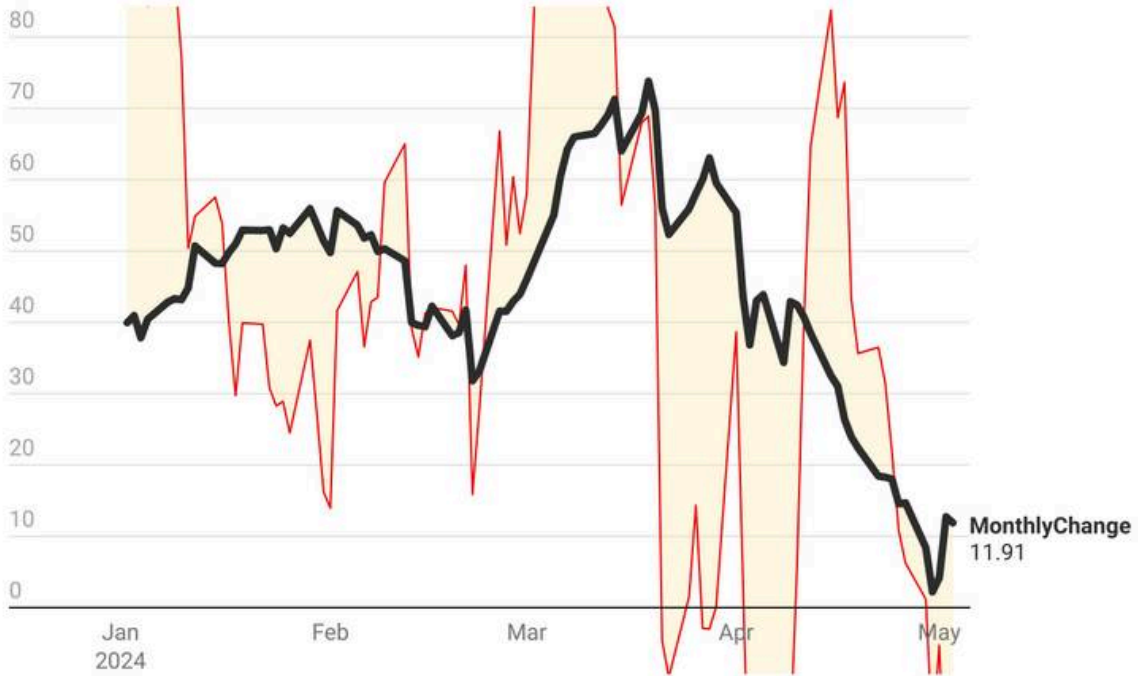
Turkey Sovereign Yield Curve (USD)



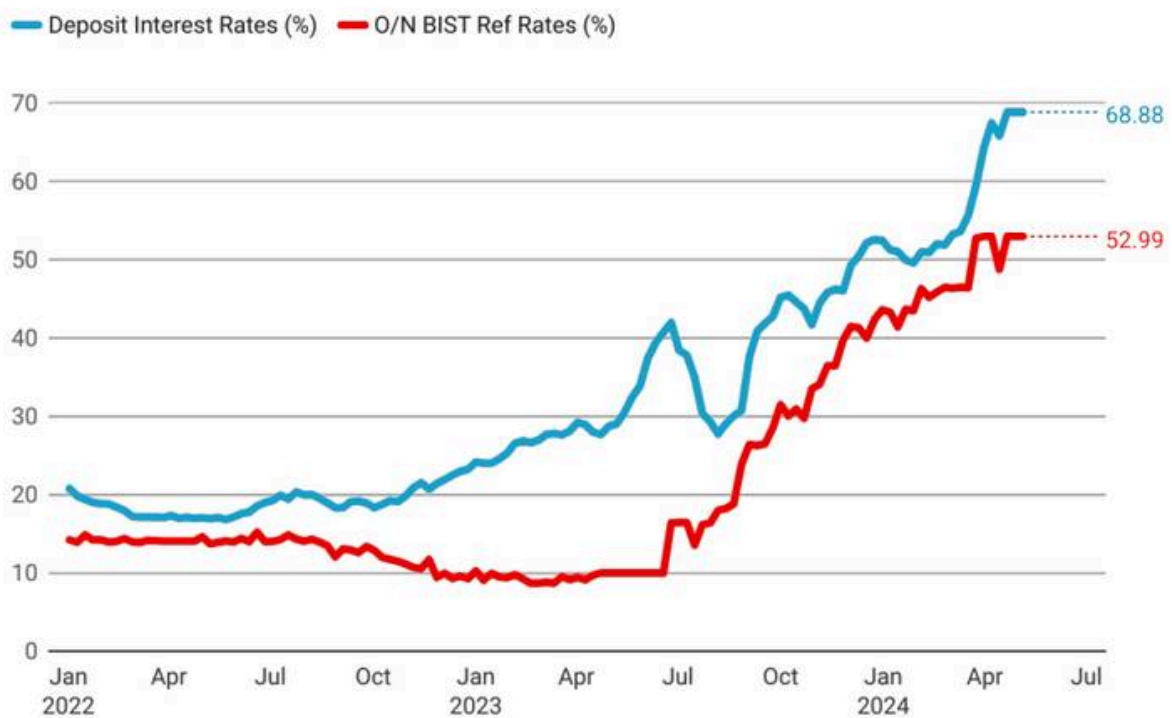
Turkey USD Sovereign Bonds (May 3)



USDTRY Change (Annualized -%)



Transmission Mechanism



TURKEY REACT: Downside CPI Surprise Won't Stop More Tightening By Selva Bahar Baziki (Economist)

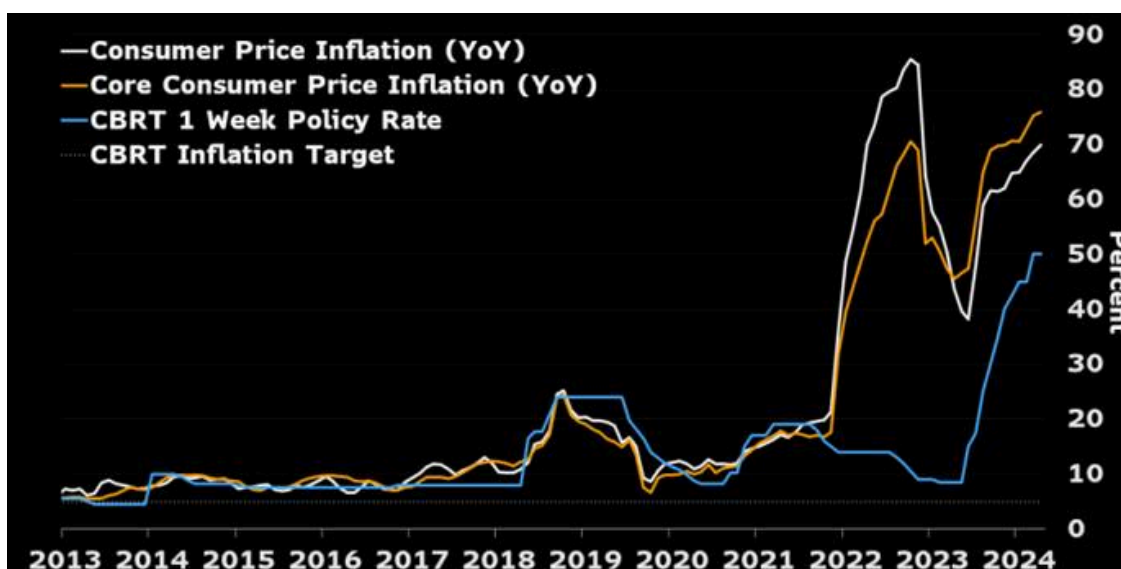
(Bloomberg Economics) -- OUR TAKE: Turkey's April inflation surprised to the downside, but underlying dynamics still warrant a more restrictive stance from the Central Bank of the Republic of Turkey . We see policymakers delivering the necessary tightening through alternative tools rather than an interest rate hike. The CBRT is also likely to ramp up use of the interest rate corridor – supplying funding through windows with higher rates.

Turkey's CPI inflation rose to 69.8% in April from 68.5% in the month prior. We were expecting a higher 70.5%, while the median estimate in a Bloomberg survey was 70.1%.

The acceleration in price gains were broad-based, but the hotels, cafes and restaurants and education categories stood out with annual gains in excess of 95%. Core inflation excluding energy, food, beverages, tobacco and gold reported 75.8%, up from 75.2% in March.

The monthly inflation rate was unchanged from March at 3.2%, putting a halt to the deceleration in monthly gains seen in the first quarter. That's a red flag for the central bank, as policymakers were eyeing easing monthly gains as a policy win

Turkey's Rates Have Peaked, Inflation Is Gaining Speed



Source: CBRT, TurkStat, Bloomberg Economics

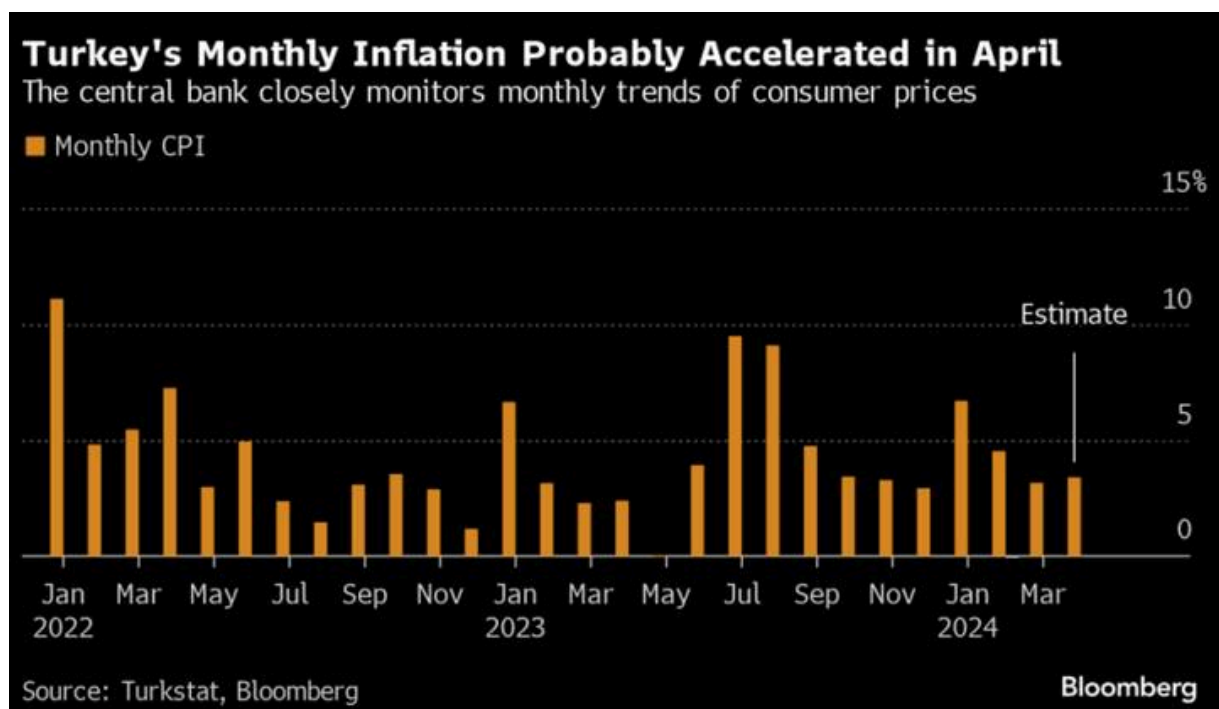
Turkish Inflation Is Moving Closer to Peak With Upswing Near 70%

- April price growth likely quickened to fastest in over a year
- Central bank alert to risks after aggressive rate-hike cycle

Turkish consumer prices probably grew at the fastest in over a year, as generous fiscal policies such as minimum wage hikes keep inflation pressures elevated despite a rapid cycle of monetary tightening.

Even a month of relative lira stability after local elections in March is so far failing to reverse a deterioration in inflation expectations that's emerged as a major obstacle to a price cooldown. Annual inflation, which has picked up every month but one since July, accelerated again in April to hit 70%, according to the median forecast of economists surveyed by Bloomberg.

Monthly price growth, the gauge preferred by the central bank, likely quickened for the first time since January and reached 3.4% in April, another poll showed. Turkey's statistics service is due to publish the data on Friday.

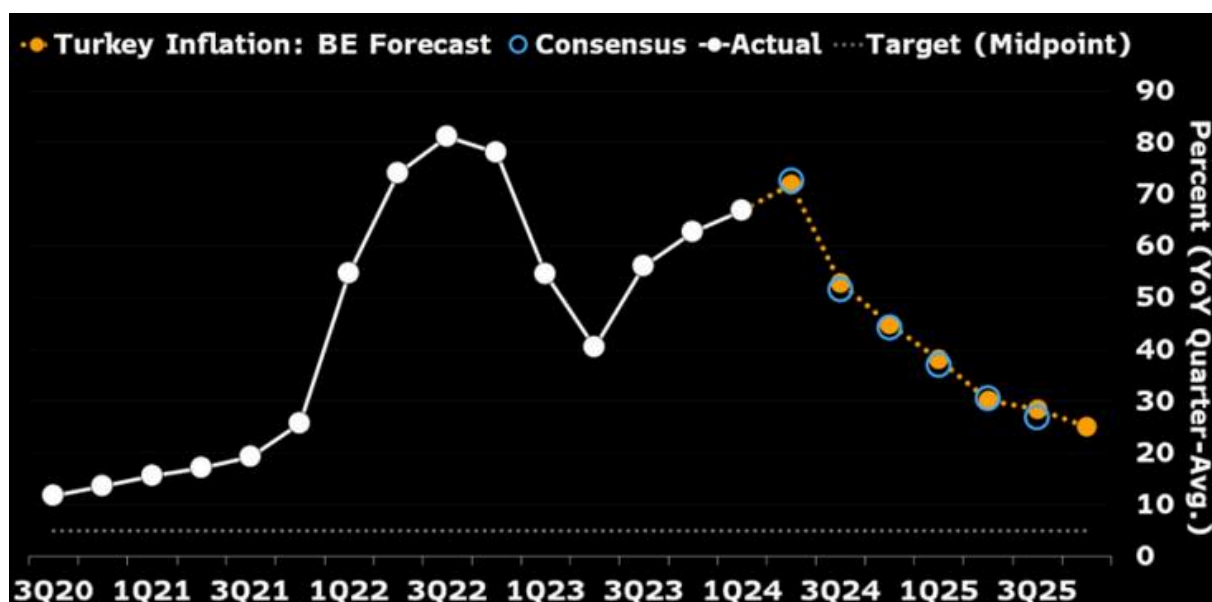


TURKEY PREVIEW: Inflation to Shrug Off Peak Rate, Surge Past 70%

(Bloomberg Economics) Turkey's April inflation print will likely show its surging price problem has worsened – even after the central bank concluded its ten month long tightening cycle in March. Our baseline projections see even faster gains in May, followed by a slow deceleration that takes the year-end print to 43% – more than eight times the central bank's 5% target.

We expect year-on-year April CPI inflation to pick up to 70.5%, from 68.5% in the month prior. The acceleration is likely to be broad-based, with significant support coming from unseasonably high services and food price gains.

Our annual inflation estimate indicates a 3.6% increase in prices over the month – that's faster than both the 3.2% reported for March and April's 2% average in our seasonally adjusted series for the past five years.



Turkey Inflation to Decelerate but Remain Elevated

- We expect price gains to accelerate further in May to an annual rate of 73%. That will probably be followed by a long-drawn deceleration that features large declines in July and August (about 10 percentage points each) aided by favorable base effects.

- Beyond the summer, we expect a year-end inflation rate of 43%, which is close to the 44.1% median estimate from the central bank's expectations survey, but well above the central bank's forecast of 36%.
- Still, we do not expect this baseline outlook to trigger further central bank hikes and see the policy rate remaining on hold at 50% – the peak for the current cycle reached in March – though 3Q24. A slow-paced easing cycle is then likely to kick off in 4Q24.
- Risks to the inflation outlook are tilted upward, with hazards including a currency slide or a further escalation in the Middle East war. Should these conditions materialize, we would expect policymakers to deliver additional tightening through alternative tools, including reserve requirements, credit policies and by shifting funding in its interest rate corridor.
- In our view, an outsized hike to the government's tax and fee schedule or an increase in the the minimum wage slated for the second half of the year are low-probability, high-impact risks to the inflation outlook that could draw out further central bank rate hikes

TURKEY REACT: Policy Rate on Hold, But Borrowing Costs Will Rise

(Bloomberg Economics) -- OUR TAKE: Turkey's central bank left interest rates on hold at its April meeting, but we still expect borrowing costs to rise. This won't happen through a higher benchmark repo rate, though. Instead, it will come from restricting access to this window and forcing lenders seeking liquidity to pay a higher price. The central bank is also likely to tighten credit growth and regulations.

The Central Bank of the Republic of Turkey maintained its one-week repo rate at 50% – the peak for the current cycle reached at the previous policy gathering in March. The announcement matched both our call and the median expectation in a Bloomberg survey.

We still expect the central bank to lift borrowing costs for commercial banks. How? By shifting some of its funding away from the main repo window, where the commercial banks can borrow at 50%, to the 'overnight lending' window, where it charges 53%. That's already happening – the average cost of CBRT funding has reached 51.6%, according to data from April 24.



Policy Outlook

- Even so, we see the underlying inflation data and outlook warranting additional central bank tightening. Price gains hit 68.5% in March. In seasonally adjusted terms, monthly inflation for the core series have been higher than the CBRT's own forecasts for the first quarter and services inflation remains elevated. The press release acknowledged this fact, stating: "In March, despite an ongoing decline, the underlying trend of monthly inflation was higher than expected."
- In addition, median year-end inflation expectations in the CBRT's survey improved only marginally to 44.1% in April from 44.5% in the month prior despite the central bank's surprise 500-bp hike in March. That stands well above the central bank's own forecast of 36%. Our estimates point to a December print of 43%.
- We think the central bank is likely to lean on its alternative tools in response to any unfavorable developments in the inflation outlook. That places the CBRT's key lever on hold at 50% through 3Q24 and at 45% by year-end – after the central bank kicks off a slow-paced easing cycle in 4Q24.
- Risks to this outlook are tilted upward on potential outsized fiscal steps (including hikes to the government's tax and fee schedule) or a further escalation in the Middle East war adding to inflationary pressures.

Turkey Is in ‘Whatever It Takes’ Mode But Rate Hike Now Unlikely

- Central bank is expected to leave key rate at 50% on Thursday
- Wider rate corridor allows policymakers to raise cost of funds

Turkey’s central bank probably won more time before having to consider another increase in interest rates, a month after surprising markets with a big hike and delivering additional tightening since then.

Policymakers have recently been extending costlier liquidity to banks than implied by their benchmark and have room to push the price of funding even higher without needing to raise rates yet. The flexibility of a wider rate corridor means the central bank can skip a hike this week for only the second time since starting its aggressive tightening campaign last June.

All but two economists surveyed by Bloomberg predict the one-week repo rate will be kept at 50% on Thursday, with the rest seeing an increase. The pause will likely last through the third quarter before rate cuts begin in the final three months of the year, according to Bloomberg Economics.

“Financial conditions should remain tight until you see a decline in sequential inflation or a big improvement in expectations,” James Walsh, the International Monetary Fund’s mission chief to Turkey, said in an interview in Washington.

“Fiscal policy should reinforce monetary policy, and in this case that would mean that the fiscal deficit should probably be brought down a little bit this year,” Walsh said. Echoing the central bank’s guidance, he said that “if there’s a worsening of inflationary dynamics, then it makes sense to raise rates.”

Indicators released since the central bank's meeting in March show domestic demand is on the rise and appetite for credit is still strong despite higher rates, according to QNB Finansbank economists, who are alone in predicting a hike of 500 basis points this week.

The rationale for such an increase is to ensure that the one-week repo rate remains the main policy tool, they said in a note. The average cost of funding provided by the central bank exceeded 52% last week, approaching the upper bound of the rate corridor that policymakers widened in March.



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