

## MNI CBRT Preview - June 2022

### Details:

**Monetary policy decision:** 1200BST, 1300CET, 0700ET, Thursday 23<sup>rd</sup> June 2022.

### MNI Point of View

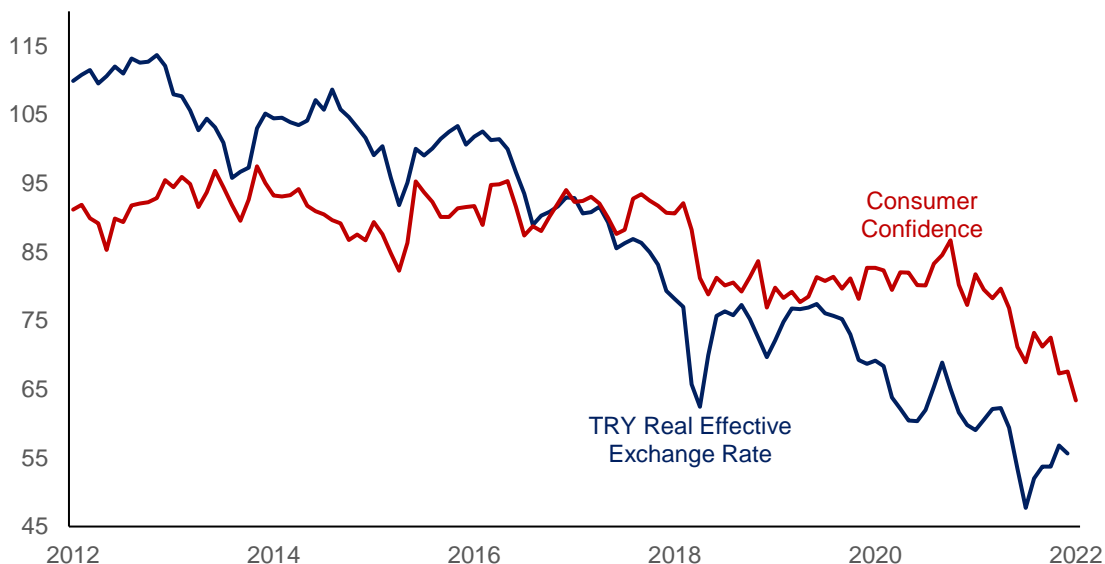
The CBRT are firmly expected to keep policy rates unchanged at 14.00% in June. This would mark the sixth consecutive unchanged decision at the bank, which remains highly politically influenced and willing to look through soaring cost pressures and inflation expectations. For policy going forward, rate hikes remain an unlikely tail risk, with Erdogan this month reiterating his firm opposition to tighter headline rates. As such, most analysts expect rates at 14.00% into year-end.

In the accompanying policy statement, the bank will likely continue to cite the Russia-Ukraine crisis, high commodity prices and supply constraints as a key driver of price pressures which, once passed, will allow for a wave of disinflation and a return to sustainable prices and financial stability. This reiteration should further bake in market expectations of unchanged policy for the CBRT across the coming months, and possibly into the end of the year, although a number of sell-side analysts see the potential for policy tightening by year-end, as the inflationary impulse persists.

Following the appointment of Kavcıoğlu last year, the CBRT's easing cycle has seen 500bps of rate cuts. Across the same period, the annual core CPI rate has risen from circa 17% to this month's all-time high of 73.5%. While current global supply chain issues and lofty commodity prices will be fuelling much of the gains in inflation, a continued bias toward easing policy will keep inflationary expectations unanchored even if exogenous factors fade into the second half of the year.

Instead, the CBRT – in conjunction with banking regulators and the finance ministry - have become more active on macroprudential measures in an attempt to curb loan growth, incentivise Liraization and stem price pressures. These measures vary from tighter conditions for credit card use to adjusting collateral requirements for TRY-denominated bond portfolios.

**Figure 1: Consumer confidence still closely tied to the exchange rate**



Source: MNI/Bloomberg

On Liraization, the banking regulator this month cut the risk-weighting of FX-denominated commercial loans in order to prevent FX purchases with loans made in TRY, while the finance ministry staged a fierce defence of the costs of their TRY savings programmes – a key tenet in the authorities’ drive to push savings to TRY and from FX and precious metals. The importance of the exchange rate will not be lost on the authorities, with consumer confidence this month dropping to its lowest levels on record – in a relationship that remains tightly wound with the strength (or lack thereof) of the TRY.

A recent survey carried out by Hurriyet will make for troubling reading for Erdogan, showing that gold remains the favoured investment for Turks. More concerning is the increased favour of foreign currencies, with 24% preferring FX investments relative to just 8% one year ago.

As such, extra-monetary policy tools will remain a market focus going forward, with the longer-term concerns including more extreme measures such as capital controls, external lending programmes, or further exchange rate destruction.

## CBRT Data Watch list

MNI CBRT Data Watch List						2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>										
CPI YoY	% y/y	Current	3m ago	3m Chg	6m ago	6m Chg				
		11.75	12.62	↓	11.86	↓				-0.70
Core CPI YoY	% y/y	11.32	11.64	↓	10.49	↑				1.10
PPI YoY	% y/y	14.3	6.2	↑	8.5	↑				1.88
Expected CPI	%	10.15	9.03	↑	9.51	↑				1.79
<b>Economic Activity</b>										
Industrial Production YoY	% y/y	Current	3m ago	3m Chg	6m ago	6m Chg				
		10.4	-19.4	↑	8.3	↑				1.38
Trade Balance	\$bn	-6.28	-3.43	↓	-3.00	↓				-1.66
Markit PMI Mfg	Index	52.8	53.9	↓	48.1	↑				0.46
Capacity Utilization	%	75.4	70.7	↑	61.6	↑				0.95
<b>Monetary Analysis</b>										
M3 Money Supply	TRYbn	Current	3m ago	3m Chg	6m ago	6m Chg				
		3378.6	3146.34	↑	2779.7	↑				1.87
Foreign Transactions of Equities	%	-102.0	-112.00	↑	-257.0	↑				0.53
Foreign Transactions of Govt bond	\$m	116.0	-46.00	↑	-274.0	↑				1.70
Home Sales YoY	% y/y	-6.9	209.70	↓	3.4	↓				-0.55
<b>Consumer / Labour Market</b>										
Retail Sales YoY	% y/y	Current	3m ago	3m Chg	6m ago	6m Chg				
		11.94	-20.44	↑	9.54	↑				1.50
Consumer Confidence	Index	61.8	62.60	↓	58.2	↑				0.97
Unemployment rate	%	13.42	12.84	↑	13.79	↓				0.17
Foreign Tourist Arrivals	% y/y	-71.2	-99.30	↑	3.8	↓				-0.19
<b>Markets</b>										
Equity Market (BIST 100)	Index	Current	3m ago	3m Chg	6m ago	6m Chg				
		1145	1165	↓	896	↑				1.37
TR 10-Year Yield	%	6.88	6.74	↑	8.39	↓				-0.56
TR Yield Curve (2s-10s)	bps	552	514	↑	637	↓				-0.86
Effective Exchange Rate	Index	62.21	69.29	↓	73.00	↓				-1.53

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.  
Source: MNI, Bloomberg

## Sell-side Views

### **Barclays: Sees rates unchanged throughout 2022**

- Despite ongoing pressure on the TRY and deteriorating inflation, we do not expect the CBT to change its stance.
- Although we keep our policy rate forecast unchanged at 14% for the rest of this year, there is a high a non-negligible risk of a big rate hike in Q4 22, as the energy bill is likely to exert significant pressure on foreign reserves in winter months.
- If this risk materializes, we would expect the CBT to deliver a big front-loaded hike.

### **JP Morgan: Expects rates unchanged through the rest of 2022**

- The CBRT has recently taken some macroprudential measures to restrain loan growth and there is as yet no indication that orthodox measures will be used to fight inflation.
- We expect the CBRT to keep rates unchanged until the end of the year. We expect no new policy guidance in the interest rate announcement note.

### **Scotiabank: Market confidence severely damaged**

- June's decision has most expecting no change to the 14% one-week repo rate—despite an inflation rate of about 74% y/y. Market confidence has been severely damaged as the lira has depreciated by 135% since early 2021 and has kept sinking this year.
- President Erdogan's extraordinarily unorthodox belief is that "We will pull down inflation and exchange rates with low-rate policy. High rates make the rich richer, the poor poorer. We won't let that happen." In reality, inflation is a highly regressive tax on the poor who have their President to thank for ruining their livelihood.

### **TD Securities: Sees CBRT holding back on hikes for yet another month**

- The CBRT has demonstrated all its resolve to hold rates at 14% in the face of inflation at 74%. Real rates are massively negative, and the lira is suffering as a consequence.
- But we think they will hold back from delivering emergency hikes for yet another month. Accordingly, we push back one month to July our 300bps hike expectation. We adjust the rate trajectory accordingly.

### **UniCredit: Expects sixth consecutive unchanged decision**

- We expect the CBRT to leave its policy rate unchanged, at 14%, for the sixth consecutive month. Despite runaway inflation and the ongoing tightening cycle globally, rate hikes remain off the table in Turkey as President Recep Tayyip Erdogan explicitly declared again earlier this month.
- Recently, the authorities opted for a set of macroprudential measures. First, the banking regulator and the CBRT took complementary steps aimed at tightening lending conditions for consumer loans and commercial cash loans (excluding agricultural, export and investment purpose loans and SME loans).
- Second, the CBRT adjusted its collateral requirements for banks to support demand for fixed-rate TRY-denominated bonds and hence to alleviate borrowing cost for the Treasury.
- Third, the CBRT changed the utilization conditions of export rediscount loans. Accordingly, the maturity for export rediscount loans (extended at a cost below the policy rate) has been increased but exporters borrowing these loans are required to sell an additional 30% of their FX-denominated export receipts to a commercial bank (on top of the existing 40% selling requirement to the CBRT).