MNI CBRT Preview - November 2022

Details:

Monetary policy decision: 1100GMT, 1200CET, 0600EST, Thursday 24th November 2022.

MNI Point of View

The CBRT is largely expected to cut rates again by 150bp this month, leaving the one-week repo rate at 9.00%. This is in line with President Erdoğan's calls for single-digit rates by year-end as the bank remains highly politically influenced and willing to look through inflation in excess of 85%. In October the CBRT delivered a larger-than-expected 150bp rate cut, the third consecutive cut in the cycle.

The CBRT sees the accommodative financing conditions remaining of paramount importance as the economy loses further momentum. The October policy statement has laid the path for the final cut, disclosing that the CBRT *"evaluated taking a similar step in the following meeting and ending the rate cut cycle"*. Looking ahead, the possibility of further rate cuts beyond November is a dwindling tail risk, reflecting President Erdoğan's unwillingness to tighten policy and the risk of signalling any doubt over his monetary policy approach.

Since March 2021, Governor Kavcıoğlu has overseen 850bps of rate cuts for the CBRT, clearly going against the trend of global monetary tightening. Markets perceive this as suggestive of political motivation during the current period of rapid inflation. The bank has argued that global economic weakness, domestic and international recession risks as well as waning foreign demand is necessitating further monetary loosening. The addition of *critically* in describing the importance of financial conditions remaining supportive to maintain industrial and employment growth momentum rationalised the acceleration to the 150bp cut.

Despite remaining robust, employment growth is losing momentum and quarter-on-quarter GDP is expected to weaken. Deteriorating goods exports alongside high energy and gold imports continue to drag on the current account, which has posted monthly deficits since the initial onset of the crash of the lira in October 2021. The CBRT sees a sustainable current account balance as a key factor in ensuring price stability.

The CBRT's assessment of inflation has remained broadly unchanged, justifying the recent increase in inflation by pointing to external factors and rising commodity prices, again cited as due to *"lagged and indirect effects of rising energy costs resulting from geopolitical developments, …not supported by economic fundamentals".*

The previous CBRT statement again highlighted concerns regarding the spread between the benchmark policy rate and the effective loan rate (*"the spread between policy rate and the loan interest rates […]is closely monitored."*) which the bank perceives as hampering the transmission of their monetary policy. Macroprudential measures will be encouraged to tighten this spread going forward, with the bank recently moving to cut bank commissions on lending operations, bending to the requests of industry – that have flagged they're not receiving the full benefits of previous rate cuts.

Since the last meeting, Turkey recorded a -1.6% m/m contraction in September industrial production and a deepening of the current account deficit. The manufacturing PMI slipped further into contractive territory, signalling a failure to expand since March. A modest uptick in consumer confidence was recorded, yet largely due to 12-month expectations of the economy as personal financial outlooks worsened further.

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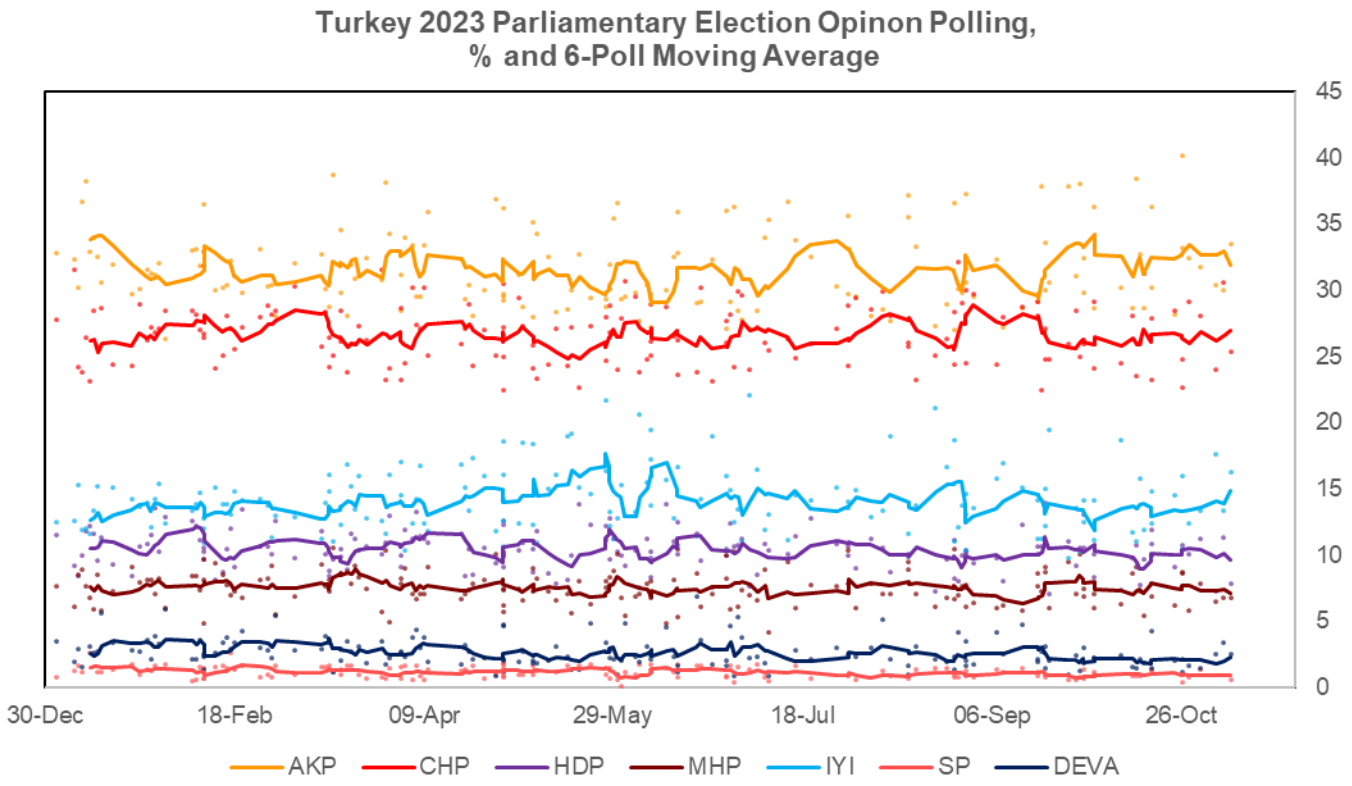
Turkish inflation increased by +3.54% m/m and +85.51% y/y in October (vs. 83.45% in Sep); a fresh multi-decade high (highest since 1997). This is 17 times the 5% medium-term target set by the CBRT. The weakness of the lira continues to propel input inflation higher. Price pressures are becoming increasingly broad-based, as core CPI ticked up approx. 2.4pp to 70.45% y/y. The lira has largely plateaued since October, having lost close to 2.2x its value since mid-2021.

As the June 2023 Turkish presidential and parliamentary elections edge nearer, the path of Turkish macroeconomic policy in H2 2023 could shift drastically. A re-election of President Erdoğan's Justice and Development (AKP) party would imply a continuation of emphasis on ultraloose monetary policy and the further implementation of the range of macroprudential instruments including the Liraisation strategy.

Current polling suggests that the election is in the balance. However, the opposition is fractious and may find it difficult to unite throughout the entirety of the election campaign. The impact of the terrorist attack in Istanbul could bolster Erdoğan given he presents a more hard-line stance on security issues. If the opposition were to be successful, the CBRT could see swift and forceful tightening. In previous periods of extremely high inflation of the late 90s, the one-week repo rate was hiked to 60-80%.



Source: MNI / multiple domestic polling outlets (available on request)

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CBRT Data Watch List

mni

Central Bank Watch - CBRT

November 22, 2022

MNI CBRT Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI YoY	% y/y	85.51	79.60	↑	69.97	↑					1.60
Core CPI YoY	% y/y	70.45	61.69	↑	52.37	↑					1.33
PPI YoY	% y/y	157.7	144.6	↑	121.8	↑					1.35
Expected CPI	%	37.34	40.23	↓	28.41	↑					0.37
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Industrial Production YoY	% y/y	0.4	8.8	↓	9.8	↓					-0.97
Trade Balance	$bn	-9.60	-8.22	↓	-8.27	↓					-0.28
Markit PMI Mfg	Index	46.4	46.9	↓	49.2	↓					-1.28
Capacity Utilization	%	76.9	78.2	↓	77.8	↓					-1.13
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	TRYbn	7906.4	7073.08	↑	6007.9	↑					1.90
Foreign Transactions of Equities	%	-12.0	-27.00	↑	-110.0	↑					0.63
Foreign Transactions of Govt bond	$m	114.0	69.00	↑	83.0	↑					0.22
Home Sales YoY	% y/y	-25.3	-12.90	↓	38.8	↓					-0.87
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales YoY	% y/y	9.73	5.47	↑	2.70	↑					-0.36
Consumer Confidence	Index	61.8	62.60	↓	58.2	↑					0.97
Unemployment rate	%	9.90	9.70	↑	11.40	↓					-0.79
Foreign Tourist Arrivals	% y/y	38.4	52.80	↓	225.6	↓					-0.90
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (BIST 100)	Index	4745	2592	↑	2431	↑					2.81
TR 10-Year Yield	%	10.69	16.71	↓	22.25	↓					-1.38
TR Yield Curve (2s-10s)	bps	-36.0	-774	↑	223	↓					-0.01
Effective Exchange Rate	Index	55.70	53.88	↑	56.90	↓					0.85

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: Expect 150bps Cut as Signalled Given TRY Stability

- In the statement for the previous rate cut in October, the CBRT signalled that it would deliver one last 150bps cut to 9.0%.
- Given the stability in TRY recently, Barclays expect the CBRT to follow through with the 150bps cut and keep the policy rate stable at 9.0% until the elections in mid-2023.

Goldman Sachs: Expect 150bps Cut to End Cutting Cycle

- Goldman expect the CBRT to cut its policy rate by 150bps to 9.0% and end the cutting cycle. Despite the rate cuts, policy has so far remained rather restrictive compared to mid-year with continued declines in the CBRT's funding of the banks and the lack of any changes to the macroprudential framework. Hence, there is some uncertainty around policy pinning authorities' pro-growth signalling and rate cuts against stable funding and measures aimed at limiting/directing loan growth.
- In addition, Goldman think the effectiveness of monetary policy in boosting demand has fallen somewhat given the de-anchoring of inflation expectations, in their view making fiscal policy the preferred lever to affect the economy. Keeping funding tight relative to mid-year and the Lira stable via hefty interventions in the FX market (highest in September, according to Goldman estimates) limited the inflationary impact of the cuts.
- Goldman expect this trend to continue in November and forecast inflation to peak in the month and fall to +75% at year-end on base effects.

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ING: Expect 150bps Cut as Signalled

- While inflationary pressures remained broad-based in October as all 12 main CPI categories contributed positively to the increase in inflation, the Central Bank of Turkey has signalled that it intends to conclude the easing cycle with another 150bps rate cut in November.

UniCredit: Expect 150bps Cut to End Cutting Cycle, FX Intervention to Continue

- The CBRT will likely lower its policy rate by another 150bps to 9.0%. UniCredit think this will mark the end of the current cycle of rate cuts, as the monetary policy committee also hinted after its October meeting.
- That said, the overall economic policy mix could turn more expansionary over the next six months to support activity in the run-up to the elections and amid weakening external demand conditions. FX interventions, which might have exceeded USD 100bln between January and October, according to UniCredit's calculations, will likely continue.
- The CBRT could change the course of monetary policy and hike its policy rate to 45% next year if the opposition wins the elections. If the current government remains in power, however, it will likely try to maintain its low interest-rate policy, accompanied by regulations and restrictions.

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