CBRT Preview: March 2023

Details:

Monetary policy decision: 1100GMT, 1200CET, 0700EST, Thursday 23rd March 2023.

MNI Point of View:

The CBRT are expected to keep rates on hold at their March meeting following guidance in February's meeting statement that current rates are now "adequate" to support the economy. However, some sell-side analysts see another 50bps cut as the government looks to support both the earthquake recovery and President Erdogan's re-election bid ahead of the May 14 vote. It is worth noting that the CBRT cut rates in September and October last year when rates had been described as "adequate" in previous policy statements.

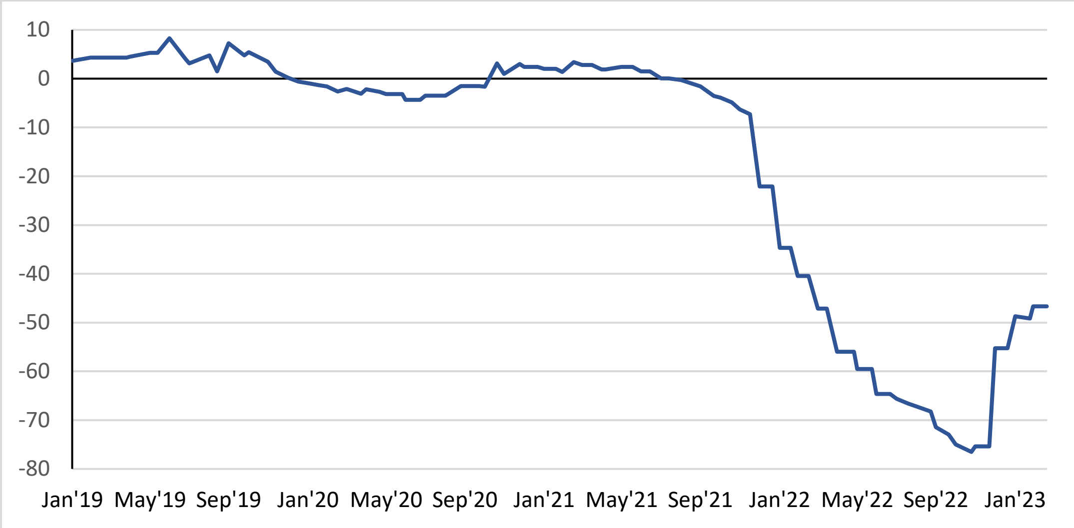
The CBRT cut the one-week repo rate by 50bps in February to 8.5% following a two-month pause, with the accompanying press release describing current rates as "adequate to support the recovery in the aftermath of the earthquake". While the earthquakes are expected to have a near-term impact, the CBRT anticipate that they will not have a permanent impact on the performance of the Turkish economy in the medium term. They say effects of the earthquake driven supply-demand imbalances on inflation will be closely monitored. Since then, the Treasury and Finance Ministry has estimated the cost of the earthquakes to exceed $100bln.

Data-wise, Turkish CPI jumped by +3.15% m/m in February, while prices accelerated by 55.18% y/y, marginally lower than anticipated though the decline was largely on the back of base effects. Furthermore, both GDP and industrial production figures beat expectations (GDP: +3.5% y/y vs. 2.9% expected; IP: +4.5% y/y vs. 2.1% expected). President Erdogan is likely to use the mechanical decline in inflation and uptick in GDP to claim victory over financial instability and as evidence of the success of his government's low-interest policy.

The CBRT also released an update of its economic forecasts in March. Turkey's inflation in the next 12 months is seen at 31.63%, up from 30.75% prior. The year-end inflation estimate was 37.72%, while USDTRY is seen at 22.91 as of end-2023 (Prior: 22.84). 2023 GDP growth is estimated at 3.5% (Prior: 3.6%). 2024 GDP growth estimated 4.4% (Prior: 4.5%).

The date of the first round of the Presidential and Parliamentary elections has been confirmed as May 14. Leaders of the opposition alliance united behind Kemal Kilicdaroglu as their joint candidate to take on the incumbent Erdogan. The first opinion poll carried out with Kilicdaroglu as the presidential candidate for the main opposition alliance shows the CHP head leading President Erdogan by 56.8% to 43.2%. If this result were replicated in the election, it would see Erdogan defeated in the first round. Recently, Kemal Kilicdaroglu met leaders of the pro-Kurdish HDP for talks ahead of the elections. Winning support of HDP, the largest non-aligned party, is crucial for Kilicdaroglu's election bid which would see a return to orthodox monetary policy and independent institutions. The HDP say they will make a statement on its stance in the elections in a few days.

Figure 1: Real rates remain deeply negative despite the decline in inflation on base effects



Source: MNI/Bloomberg

CBRT Data Watch List:

Central Bank Watch - CBRT

March 21, 2023

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	55.18	84.39	↓	80.21	↓					0.22
Core CPI YoY	% y/y	50.58	68.91	↓	66.08	↓					-1.30
PPI YoY	% y/y	76.6	136.0	↓	143.8	↓					-1.49
Expected CPI	%	30.75	37.47	↓	41.99	↓					-1.34
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	4.5	3.3	↑	3.3	↑					-0.56
Trade Balance	$bn	-14.24	-7.89	↓	-10.70	↓					-2.05
Markit PMI Mfg	Index	50.1	45.7	↑	47.4	↑					1.47
Capacity Utilization	%	75.2	75.9	↓	76.7	↓					-1.28
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	8867.2	8094.96	↑	7370.2	↑					1.67
Foreign Transactions of Equities	%	-261.0	24.00	↓	-32.0	↓					-1.43
Foreign Transactions of Govt bond	$m	114.0	69.00	↑	83.0	↑					0.22
Home Sales YoY	% y/y	-18.0	-34.10	↑	-12.7	↓					-0.19
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	33.87	11.64	↑	2.62	↑					2.03
Consumer Confidence	Index	61.8	62.60	↓	58.2	↑					0.97
Unemployment rate	%	10.30	9.90	↑	10.60	↓					0.73
Foreign Tourist Arrivals	% y/y	56.5	38.40	↑	52.8	↑					-0.09
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	4975	4978	↓	3171	↑					1.94
TR 10-Year Yield	%	11.54	10.96	↑	18.45	↓					-0.98
TR Yield Curve (2s-10s)	bps	-63.0	-300	↑	-244	↑					0.94
Effective Exchange Rate	Index	58.73	55.80	↑	52.83	↑					1.79

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

Analyst Views (Alphabetic Order):

Goldman Sachs: Expect Rates to be Cut 50bps to Support Earthquake Recovery and Erdogan Re-Election

- Goldman Sachs expect the Committee to deliver a 50bp cut to the repo rate to 8%. Their conviction in this call is low and the risk is skewed towards no change following the CBRT's assessment of the current monetary policy stance after the February MPC meeting.
- However, in the past they have added the same guidance sentence and proceeded to cut in any case at the next meeting. Furthermore, in Goldman's view, the pressure on the CBRT to cut rates has increased because of two important developments. First, as the hit to activity from the earthquake becomes clearer, the authorities will likely want to further signal the expansionary direction of policy. Second, considering that the polls continue to point to President Erdogan trailing the opposition by close to 10%, Goldman think the government will want to emphasise the core principles of its economic and political programme, one of which is a preference for lower rates.
- However, Goldman continue to think that under Turkey's currently heterodox policy framework which relies more on macroprudential measures than rates, the transmission mechanism from the policy rate to financial conditions is weak.
- Hence, in their view, the rate cut will mostly be symbolic as the CBRT's funding to banks (both through repo auctions and swaps), which is a better indicator of its monetary stance, has actually declined since the disaster.

ING: Expect Rates to be Held, Macroprudential Measures to Maintain Favourable Financial Conditions

- ING expect the bank to remain on hold this month, given the CBRT signalled last month that rate cuts would not continue as a series.
- But ING expect further macroprudential measures to maintain favourable financial conditions with the objective of minimising the effects of the earthquakes in the period ahead.

JP Morgan: Expect Rates to be Held Until May Elections

- JP Morgan expect the CBRT to stay on hold at 8.5%. The CBRT signalled no further rate cuts in its February rate decision by stating the measured 50bp rate cut is adequate to support the necessary recovery in the aftermath of the earthquake.
- JP Morgan expect the CBRT to stay on hold at 8.5% until the May 14 elections. That said, they do not completely rule out further rate cuts since the CBRT highlighted the importance of supportive financial conditions in order to minimise the effects of the disaster.

Scotiabank: Expect Rates to be Held in-line with Prior Guidance

- Scotiabank expect the one-week repo rate to remain unchanged at 8.5%.
- Prior easing in response to a devastating earthquake was accompanied by guidance that it was enough.

UniCredit: Expect Rates to be Cut 50bps, Another Cut Likely in April Also

- UniCredit expect the CBRT to reduce its policy rate by another 50bp to 8%.

- While the MPC assessed the monetary policy stance as “adequate” to support the post-earthquake recovery, they had made similar assessments in its August and September meetings last year, which were followed by further rate cuts in the next meetings (September and October).
- In this respect, UniCredit are inclined to take the CBRT’s guidance with a pinch of salt. They think additional rate cuts are likely in April, which will be the last MPC meeting before the presidential election on 14 May, given the government’s desire for lower rates.