



EXECUTIVE SUMMARY

- The real sector confidence (RSCI) surged by 1.5 points to 110.8 points in March compared to the previous month. Turkey's manufacturing industry used 74.7% of their capacity this month, dipping 0.2 points compared to previous month.
- Fixed capital investment expenditure index rose to 117.7 in March, reaching its highest level in the last three years.
- In March, CBRT's total swap stock rose to \$62.1B. Net International Reserves (NIR) stood at \$13.7B during the same period. Hence, NIR's value excluding swap operations dropped to -\$48.4B.
- Seasonally and currency effect-adjusted loan growth has been continuing to accelerate towards 10% in the mid-March.
- As per the BRSA/Banking Regulation Supervisory Board's data for the week ended by March 19, public banks' FX Net General Position declined to \$46M surplus level by a decrease of \$99M. In the same week, private banks' excess positions surged to \$3.6B, whereas foreign banks' positions rose to \$2.5B.

Manufacturing sector largely maintained its strength in the first quarter

Among the key indicators monitored for the course of economic activity, the Real Sector Confidence Index and Capacity Utilization Rate showed a continued recovery.

Turkey's manufacturing industry used 74.7% of their capacity this month, dipping 0.2 points compared to a month earlier. On a seasonally adjusted basis the Capacity Utilization Rate stood at %75.6, up 0.1 from a month earlier. Yet, this level still remain well below the historical averages of last year and the same month. The real sector confidence (RSCI) surged by 1.5 points to 110.8 points in March compared to the previous month. The seasonally adjusted RSCI stood at 110.2, up 1.5 the month before. This figure has been recorded as the second highest level seen after the pandemic.

Turkey's Purchasing Managers' Index (PMI) for the manufacturing sector which is an indicator similar to RSCI slipped to 51.7 in February, down 2.7 points the month before. The RSCI for March signals that the manufacturing PMI may remain above the critical threshold of 50.

In a nutshell, the leading indicators of manufacturing reflected that the momentum captured in the previous period was mostly maintained in Q1'21.

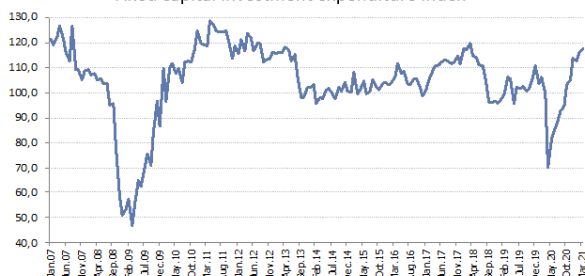
Capacity utilization rate remaining above the critical threshold of 75% has a positive effect on private investments. As a matter of fact, the fixed capital investment expenditure index rose to 117.7 in March, reaching its highest level in the last three years. This development is a promising sign for private investments in Q1'21.

Although the trend growth rate of credit volume has declined below the averages of previous years since the end of last year, leading indicators reflected that no significant slowdown in economic activity has been observed yet. Hence, the growth expectation for 2021 surged to 4.4% in the latest Expectation Survey of the CBRT.

However, even if there is a loss of momentum in the economic recovery this year, GDP growth will still maintain its strength to a certain extent, primarily driven by the base effect.

For instance, even if quarterly GDP growth remains flat in 2021, GDP growth will remain strong at %5.7.

Fixed capital investment expenditure index



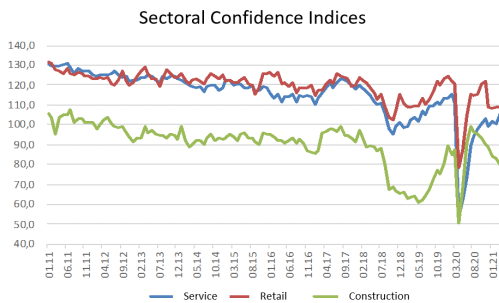
On the other hand, in case of additional tightening in the monetary policy of the Central Bank, quarterly growth rates may turn to negative. Accordingly, we maintain our GDP growth rate expectation of around 4.5% for 2021, but we think that the upside risks are eliminated.

Recovery in non-manufacturing sectors (exc.construction) continues

Confidence in Turkey's non-manufacturing sectors offered a relatively positive sign in December, according to the country's statistical authority.

Seasonally adjusted confidence index increased by 5.1% in services sector and 0.2% in retail trade sector, while decreased 4.0% in construction sector in March compared to February.

Confidence in the construction sector continues to weaken due to the rise in loan rates. Retail slightly weakened due to market shopping. Therefore, recovery in retail continues to be limited. The service sector, which experienced the strongest loss of confidence, started to improve with the easing of restrictions. As a result, leading indicators maintain an outlook similar to the Q4'20 in the first quarter of this year in non-manufacturing activity.



Confederation of Turkish Trade Unions' data pointed out that the annual increase in fruit and vegetable prices continues to decline

Annual food prices fell to 16.6% in March, from 20.4% the month before according to figures released in the "Hunger and Poverty Limit Research" by the Confederation of Turkish Labor Unions. On a monthly basis, annual food prices rose 0.63% in March.

Based on March figures, the price rise in dairy products and meat groups stopped, while the price of pulses remained unchanged. In addition only olive oil price increased in the oil group. stated by the Confederation of Turkish Labor Unions.

The average increase in fruit and vegetable prices declined from 6.2% to 3.2% MoM in March, stated in the latest report prepared by Confederation of Turkish Trade Unions. Thus, it is calculated that the annual average increase in fruit and vegetable prices slipped from 9% to 5.9%.

There is not always a strong positive correlation between this data and the food price index of TurkStat.

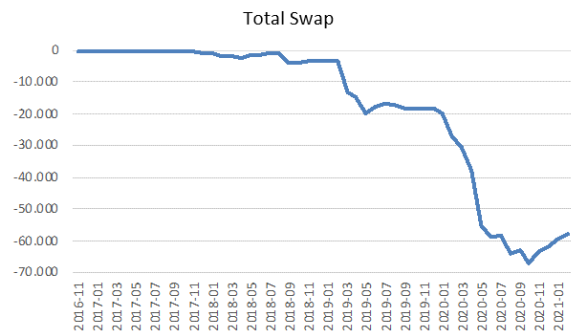
However, we are of the opinion that the correlation between Confederation of Turkish Labor Unions' fruit and vegetable prices and TurkStat's unprocessed food group prices is higher. In March 2020, unprocessed food prices rose 3.1%, while fresh fruits and vegetables increased more limitedly by 1.8%. Also processed food prices up 0.8%. CBRT also stated in its latest MPC summary that leading indicators signal that annual food inflation may slow down led by unprocessed food prices.

Swaps slipped to \$ 58.0B at the end of February, net international reserve excluding swap recovered to \$ -44.1 B

According to CBRT's monthly International Reserves and Foreign Currency Liquidity Developments report; Central Bank's total of its net liabilities born from swap transactions made with domestic and foreign banks slipped to \$58B, down by \$1.2B at the end of February compared to last month. \$19B of this amount consists of one month-maturity deposits, while \$52.9B of it consists of foreign currency swaps and the remainder amount of \$5.1B consists of other (gold) swaps.

Besides, from the detailed data, CBRT swap transactions distribution can be also calculated. CBRT's total swap amount made with domestic banks by the end of February amounts to \$40.4B, in which \$4.7B was made over ISE. In the relevant period, the amount of swap made with Central Banks was \$17.6B.

Accordingly, the value of Net International Reserves (NIR) excluding swap operations which was \$13.9B recovered to -\$44.1B at the end of February. In March, CBRT's total swap stock rose to \$62.1B. NIR stood at \$13.7B during the same period. Hence, NIR's value excluding swap operations dropped to -\$48.4B showing an apparent alteration thereof.



Credit volume trend growth continues to accelerate towards 10%

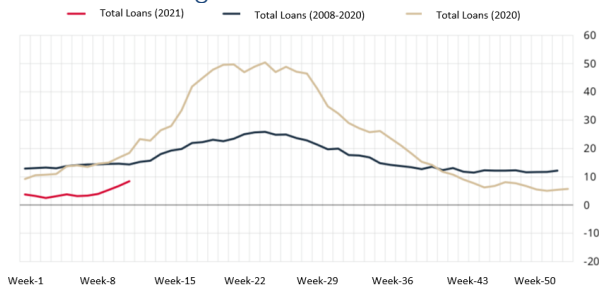
In regards to the loan and deposit volume data announced weekly by CBRT, in the week ended by March 19, loan volume allocated to non-financial section addressed a decrease of TRY30.1B, while the deposit volume deposit volume decreased slightly by TRY0.5B. Thus, the annual change provided to the non- financial section fell to 26.9% whereas the total deposit growth is around 26.2%, which is lesser.

The total loan decrease in last week hereby is sourced from the decline in FX loans.

TL loans rose by TRY6.6B, whereas public deposit banks loans increased by TRY0.6B.

Therefore, annual change of the public banks TL loans regressed to 40.2%. Total deposit has been completely brought down by the decrease in TL deposits, whereas increase of TRY equivalent of FX deposits, has created a stabilizing effect.

On the other hand, TL deposit dropped to TRY20.3B upon the decline of checking account deposit. Non-performing loans slumped by TRY0.3B this week. Accordingly, the rate of non-performing loans remained unchanged at 4.17%.The seasonally and currency effect-adjusted course of loans' rate of growth (13 weeks-annualized moving average- trend) has been continuing to accelerate towards 10% in the mid-March. Yet, this rate remains still below the long term (2008-2019) growth averages. According to loan-deposit interest data announced by CBRT on a weekly basis, in the relevant week, loan and deposit interests rose slightly. Commercial loan interest reached to 20.5% rising 0.6 point, whereas residence loan interest regressed to 17.6% ,down 0.1 point. Consumer loan interest and personal finance loan interest remained unchanged at 21.4% and 22.3%, respectively. On the other hand, average deposit interest surged to 16.8% by a rise of 0.3 point compared to the previous week, furthermore; 1-3 months maturity deposit interest which comprises the main part of the deposit remained unchanged at 17.4%.



Significant increase in foreign investor swap transactions after MPC

In order to understand the direction of the supply-demand balance in foreign exchange, we hereby report the foreign investor and domestic residents' portfolio moves and derivative transactions on a weekly basis. As the indicator for the foreign investor's taking derivative position purchase in favor of TRY; we are following the change of the banks' off-balance sheet FX position. In 2020, total outflow during February-May period had reached \$26B.

In the next period, after following a more fluctuating course, along with the changes in the economy management, the loaded entries as of 6th day of November reached around \$14B in total. While inflows have slowed in the last weeks, there was an outflow of 1.5B\$ in the last week of February.

Last week, (19 March), banks off-balance FX position rose up by \$5.9B, but in the same week, considering that weekly and long term swap positions including CBRT's Istanbul Stock Exchange (ISE) transactions increased by \$4.6B, foreign swap positions displayed an increase around by \$1.3B.

On the other hand, in the relevant week, public banks stopped their increase in on balance sheet positions, whereas domestic and foreign private banks increased their positions.

As per the BRSA/Banking Regulation Supervisory Board's data for the week ended by March 19, public banks' FX Net General Position declined to \$46M surplus level by a decrease of \$99M. In the same week, private banks' excess positions surged to \$3.6B, whereas foreign banks' positions rose to \$2.5B.

As is known, banks' short position is hereby limited by 20% of their legal shareholders' equity. We will only be able to see to what extent the public banks, which increased their on-balance sheet foreign exchange short positions in previous exchange rate attacks, reacted to this latest exchange rate attack only when the data were released next week.

Week	OBFX	MB(exc.Swap)	Portfolio	FX-account	Net	Currency Basket
29.01.2021	-619	155	-85	509	579	8,1470
5.02.2021	-672	-258	-9	2,672	2,405	7,8442
12.02.2021	-240	773	74	-2,703	-1,856	7,7889
19.02.2021	251	514	80	894	1,488	7,6697
26.02.2021	-1,020	-1,510	-56	2,059	493	7,9868
5.03.2021	-62	22	36	2,251	2,309	8,2146
12.03.2021	-266	-131	-225	95	-261	8,1721
19.03.2021	5,916	1,301	487	-2,167	-379	8,1843

Swaps with banks declined by \$2B last week

The Central Bank's total OMO funding rose to TRY340B, TRY80B was provided by one week repo (19%) tender. Therefore, the average funding cost closed by 19%. Meanwhile, upon CBRT's withdrawn liquidity amount through 17.5% quotation slumped to TRY7.8B, whereas net funding amount increased to TRY322.2B.

Valid overnight repo interest average increased to 19.34% compared to yesterday and occurred above the CBRT's policy rate.

On the other side, \$365M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. In addition, with the one-month swap auction, \$1B equivalent TL liquidity was provided at 18.5% interest rate. Thus, FX swap stock reached \$29.5B.

Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 8672kg.

The short position amounted to \$5.1B.

Istanbul Stock Exchange (ISE) transactions amounted to \$500M yesterday while the swap stock fell to \$8.1B, the CBRT data showed. The total short position reduced to \$42.8B at the end of the day.

The total swap, decreased reached \$2B WoW and the year-to-date decrease reached \$1.3B.

Wednesday 10:00 AM – GMT+3

- Foreign trade figures for February will be announced by the country's statistical authority. According to Ministry of Trade's the preliminary estimates of February foreign trade, exports rose by 9.6% year-on-year to \$16B, while imports increased by 9.8%, reaching \$19.4B. Meanwhile, the trade deficit equaled \$3.3B, rising 10.7% annually.

- Economic Confidence Index for March will be released by TurkStat. Turkey's economic confidence index fell to 95.8 points in February, down by 0.5% from 96.2 the month before.

Thursday 10:00 AM – GMT+3

- Turkey's manufacturing Purchasing Managers' Index (PMI) for March will be released. The Purchasing Managers' Index for Turkey's manufacturing sector declined to 51.7, falling 2.7 points MoM in February, according to a report by the Istanbul Chamber of Industry prepared in cooperation with London-based global data firm IHS Markit. Real Sector Confidence Index, which is an indicator similar to PMI, rose in March. This development is a signal that the PMI index may also increase.

Thursday 12:00 AM – GMT+3

- Istanbul Retail Price Index for March will be announced by the Istanbul Chamber of Commerce (ICC). Retail inflation in Istanbul, rose by 0.33% in the same month previous year, while the food subgroup surged by 0.98%.

- Ministry of Trade's the preliminary estimates for March foreign trade is expected to announce. Foreign trade deficit posted a \$5.4B deficit in the same month last year.

Contact information

BÜRÜMCEKÇİ RESEARCH & CONSULTANCY

www.burumcekci.com

Phone: +90 533 644 36 02

E-mail: haluk@burumcekci.com

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