

EXECUTIVE SUMMARY

- The CPI-based Real Effective Exchange Rate of the Turkish lira stood at 69.45 in March, down 5.4% compared to a month earlier. On the downside, TL may again become the cheapest currency in the world in the following period
- The CBRT highlighted that the core inflation indicators remained high despite some decline. Moreover, due to the recent increase in exchange rates, Bank is not satisfied with the inflation outlook.
- Turkey's current account is expected to record a deficit of \$2.4B for February ranging between \$1.7B and \$2.9B, according to the Foreks poll of fourteen economist. We took part in the survey expecting a \$ 2.4B deficit.
- The Treasury is expected to announce March cash balance data at 17.30 PM GMT+3. According to our calculations, the cash budget of the Treasury will post TRY58.6B primary surplus and TRY46.3B total surplus in March.

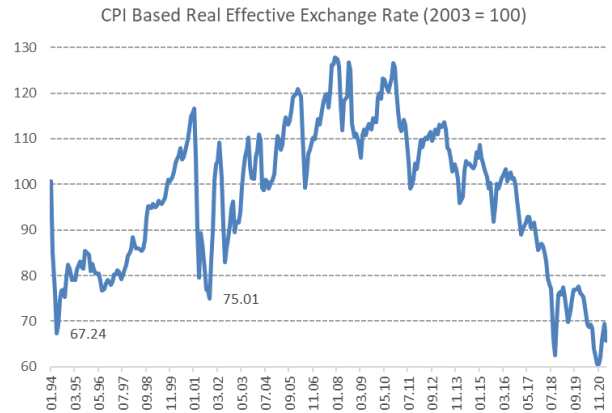
The real exchange rate to be reached in April is the same as the September 2018 bottom level, and above November 2020

The CPI-based Real Effective Exchange Rate of the Turkish lira stood at 69.45 in March, down 5.4% compared to a month earlier, according to data released by the Central Bank of Turkey.

The nominal monthly change of the average exchange rate basket decreased by 7% in March, while Turkey posted a 1.08% monthly rise in CPI in the same month. In addition, considering the difference between inflation and external inflation, a significant real depreciation was reported in the currency. The latest figure points to the lowest level since December 2020. The currency basket stood at 8.9 at the beginning of March, rising 6.4% compared to the previous months average. If it continues to stay that way, considering that inflation will be around 1.5%, the Real Effective Exchange Rate Index may slump to 62.5. The index shrank to its all time low of 60.5 in October 2020.

On the other hand researches that include the real exchange rate index (2010-based) of all countries in the world published by the BIS, Turkey's real exchange rate index rose to 56.8 in late February. Among similar EM countries, Brazil's real exchange rate fell to 56.6, whereas South Africa's real exchange rate recovered to 75.6.

Argentina's real exchange rate is still the cheapest money in the world, although it slightly increases to 52.5. However, due to the latest developments, TL may be the cheapest currency in the world.



The CBRT is not satisfied with the outlook as it does not see partial improvement in core trend as permanent

The CBRT Monthly Price Development Report for March noted that the rise in inflation was driven by energy, services and core goods, whereas inflation in the food group decreased.

The following statements have been included in the report: "Services inflation increased due to the upward effect of the controlled normalization process on some subcategories as well as the lagged effects of the rise in special communication tax.

The uptrend in core goods inflation continued due to developments in sectors excluding durable consumption goods. Producer prices displayed a rapid rise and continued to climb because of the rise in international commodity prices led by oil and industrial metals, the recent outlook of the Turkish lira and ongoing supply constraints in some products. Against this background, annual inflation of the B and C indices increased while their trends remained high despite some decline. “

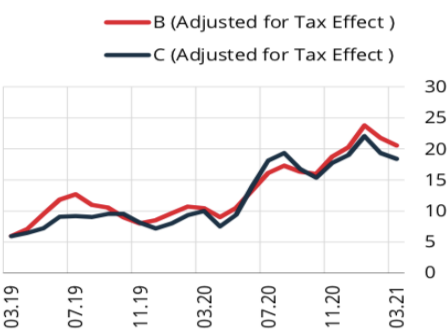
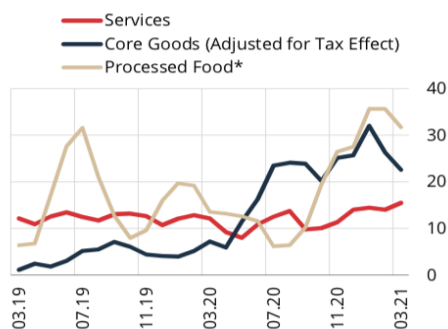
In the CBRT's Monthly Price Developments Report, B C indices and core goods trends (seasonally adjusted, annualized 3-month) are published as an adjusted for tax effect. The CBRT prefers the B index as the core inflation indicator in its Price Developments Report. The index B is calculated by subtracting only unprocessed food, not all food, from headline inflation

The content of the CBRT Monthly Price Development Report for March includes the following statements regarding core inflation:

"Three-month averages of seasonally adjusted core inflation indicators suggest that the trends of B and C indices remained high despite some decline."

According to the graphics in the report, the tax effect adjusted B and C index declined to around 20% and 18%. In addition, the service inflation trend increase reached around 16%, whereas the core goods trend slowed down to 22%.

As a result, although the CBRT does not give a direct message about monetary policy, drawing attention to the high core inflation indicators, it implies that the tight stance in monetary policy will need to be maintained for a long time.



Current account deficit is expected to rise significantly in February

Turkey's current account is expected to record a deficit of \$2.4B for February ranging between \$1.7B and \$2.9B, according to the Foreks poll of fourteen economist. We took part in the survey expecting a \$ 2.4B deficit. Turkey's current account balance posted a \$ 1.3B deficit in the same month last year. If the median estimate holds, the current account balance post an annual deficit of \$37.7B. The survey also predicted the end-2021 current account balance is expected to show a deficit of \$26B, with estimates ranging between \$23B and \$38.5B. The Turkish Central Bank is expected to announce February current account data at 10.00 AM GMT+3 on April 12.

Total funding surged

The Central Bank's total OMO funding fell to TRY348B, TRY72B 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 fell to TRY4.8B, whereas net funding amount up to TRY343.2B.

On the other side, \$360M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. Thus, FX swap stock reached \$31B.

Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 2600kg. The short position amounted to \$5.2B. Istanbul Stock Exchange (ISE) transactions amounted to \$275M yesterday while the swap stock declined to \$5.3B, the CBRT data showed. The total short position reduced to \$41.5B at the end of the day.

Erdogan's statements regarding the declaration of admirals

Regarding the statement announced by 103 retired admirals, President Erdogan made the assessment that "This action, which took place at midnight, is definitely a malicious attempt".

Regarding the reflection of a photograph of Naval Supply Commander Rear Admiral Mehmet Sari wearing a "turban and robe" to the press, he expressed his opinion that "we do not look positively at the soldier who gave photographs incompatible with the discipline of the Turkish Armed Forces".

Erdogan made a statement after his meeting in Bestepe, and the prominent topics about Montreux are as follows;

- In 1936, we signed the Montreux Convention with states unrelated to the Straits. It is an important achievement in the conditions of the period. We continue this contract until we find the opportunity for the better.

- However, this declaration published the previous night is out of this scope. This is our struggle for domination. In particular, the Canal will allocate our sovereignty in the Istanbul Bosphorus.

- We do not have any work on getting out of Montreux. However, if such a result comes out in the future, we do not hesitate to evaluate everything that comes before us in detail.

Today 17:30 PM – GMT+3

- The Treasury is expected to announce cash balance data. According to our calculations using the Treasury's domestic-foreign borrowings and repayments during the month and the TL-FX deposit movements with the CBRT, the cash budget of the Treasury will post TRY58.6B primary surplus and TRY46.3B total surplus in March. The CBRT's profit transfer of TRY44.3B recorded on the last day of the month and the tax collection amounting to TRY23B of the previous month was also realized in March. However, due to the volatility between the Treasury's foreign exchange deposits at the CBRT and the foreign exchange deposits in public banks, our prediction accuracy has weakened. Treasury Cash Balance in Turkey posted TRY29.5B primary deficit and TRY40.5B budget deficit in the same month last year.

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