



EXECUTIVE SUMMARY

- Upward trend in foreign swap transactions continues with \$15B since November 6.
- Commercial loan interest rose by 0.6 points to 20.5%, housing loan interest dropped by 0.2 points to 18.2%, consumer loan interest by 0.3 points to 22% and personal loan interest by 0.2 points to 22.7%.
- The effect of the hike in communication tax on CPI and budget revenues will be limited.
- Tourism revenue declined to \$12.2B in 2020 with a deterioration of 65.1%, and tourism revenue loss reached \$22.4B.
- MUSIAD's (Independent Industrialists and Businessmen's Association) PUMAX-PMI increased by 2.9 points and realized as 55.8 in January'21.
- The Presidential Cabinet is expected to meet today in Ankara with the coronavirus agenda and decide whether to loosen the measures.
- ICI (Istanbul Chamber of Industry)'s Turkey manufacturing PMI index for January will be posted at 10 AM (GMT+3) today. Also, ICC (Istanbul Chamber of Commerce) will post Istanbul Retail Price Index for January at 12 PM today.

Despite the decelerated hike in the foreign trade deficit, the current account deficit in 2020 will exceed \$38B

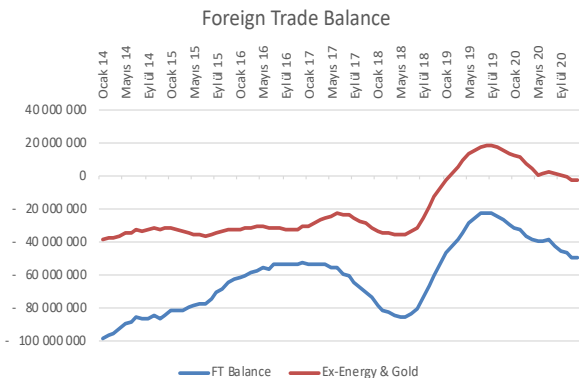
According to the foreign trade data announced by TURKSTAT, the foreign trade deficit in December decreased by 3% compared to the same month of the previous year, from \$4.6B to \$4.5B. On an annual basis the foreign trade deficit increased by 69.1% from \$29.5B to \$49.9B.

Exports reached \$17.9B in December with an increase of 16% compared to the same month of the previous year, while imports increased by 11.6% YoY to \$22.4B. Exports to the EU also rose by 21.6% year over year in December to \$7.2B. On the other hand, as we can see from the daily figure of the exporters unions, it is understood that the exports in January will be around 5% less than the previous year with the effect of the lack of working days. It may be that the increase in domestic demand has not lost much momentum yet and the increase in imports will remain high with the recovery in the industry.

Therefore, the improvement in the foreign trade balance will be limited. YoY decrease of \$1B in energy imports reflected positively on the foreign trade balance, the \$0.6B increase in YoY net gold imports negatively contributed to the foreign trade balance.

Energy and non-gold intermediate goods are the main inputs of the manufacturing sector, rose by 5.5% on a yearly basis in euro terms, which is similar to the previous month, suggesting that unadjusted industrial production may be strong in the annual positive zone in December.

-In the December foreign trade data, the current account balance is expected to have a deficit of \$3.1B in December. The current account balance, which resulted in a deficit of \$2.7B in the same month last year, will reach a deficit of \$38.3B in 2020.

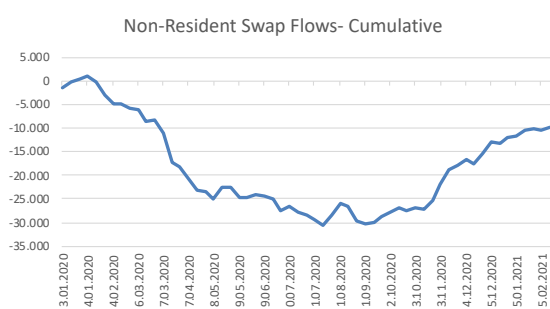


Increase in foreign swap transactions has exceeded \$15B since November 6

Portfolio movements and derivative transactions of foreign investors and residents are reported on a weekly basis in order to understand the course of the supply-demand balance in foreign exchange.

Changes in banks' off-balance sheet FX position (OBS) are monitored as an indicator for foreign investors to take derivative positions in favor of TL (swap and forward). In the February-May period of 2020, the total outflow reached \$26B.

Last week (January 22), the change in OBS was limited to increase of \$259M in banks, considering that the weekly and long-term swap positions of the CBRT including BIST transactions dropped by \$1.1B in the same week, it seems that there was an increase of \$1.4B in foreign swap positions. However, as the cumulative course of swap positions since the beginning of 2020 could be seen below table, approximately \$10B is still needed for the positions to reach their previous levels.



On the other hand, the increase in the TL positions of foreign investors in the relevant week improved the OBS FX positions of state banks (\$4.9B in the trailing 11 weeks). The Banking Regulation and Supervision Agency (BRSA) data indicates that in the week ending January 22, the FX Net General Position of the state banks shrank by \$ 0.1B to a deficit of \$ 0.3B recorded.

However, the surplus position of private banks increased to \$3.3B. The short position is limited to 20% of the legal equity for banks. Therefore, the equity capital of the state banks is \$31.7B, allowing the short position to reach a maximum of \$6.2B.

Week	OBS	ex-CBT swaps	Portf. Flws	FX Dep.	Net	FX Basket
25.12.2020	627	2.573	93	-703	1.963	8,4569
31.12.2020	-2.248	-351	130	-856	-1.077	8,1742
8.01.2021	725	1.404	774	-197	1.981	8,1038
15.01.2021	-135	19	14	514	547	8,1850
22.01.2021	259	1.405	-58	-763	584	8,1717
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

Downward trend in the credit growth continues

Central Bank of The Republic of Turkey (CBRT)'s figures on loan and deposit volume in banks indicate a decrease of TRY 3.5B in the volume of loans to the non-financial sector in the week ending January 22 whereas the volume of deposits increased by a limited amount of TRY 2.3B. In this direction, the annual change in the loans given to the non-financial sector has dropped to 34% which is at almost same level with the total deposit growth of 34.6%. The main reason for the drop in total loans in the last week is due to the slight decrease in TL loans and TL equivalent of FX loans. TL loans dropped by TRY 2.1B, a significant decrease was observed in public deposit money banks loans with TRY2.3B. Thus, annual change in TL loans of state banks plunged to 50.4%. The increase in total deposits was mainly affected by the increase in the TL equivalent of FX deposits, while TL deposits declined by TRY 1.9B due to the decrease in demand deposits.

This week, a decrease of TL 0.3B is observed in the NPL item. Accordingly, the ratio of NPLs remained flat at 4.31%. After these results, when the loans are analyzed seasonally and adjusted for exchange rate effect, the 13-week annualized moving average (trend) continues to grow at a low rate with a course below 5% in the third week of 2021. In addition to that, growth in current trend continues to remain below last year's levels and long-term averages (2008-2019). Loan-deposit rates data announced weekly by the CBRT pointed out that there was a slight decrease in loan and deposit rates in the relevant week.

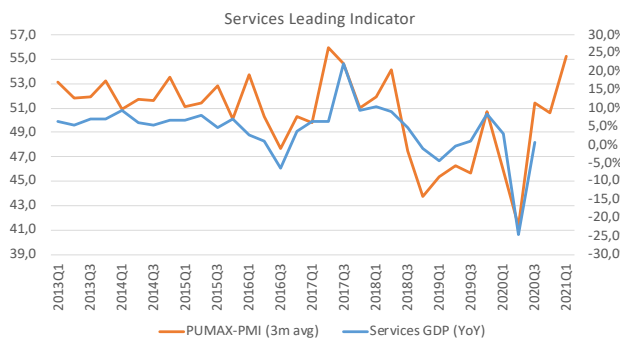
The leading indicator of the service sector made a strong start to the year

IIBA's (Independent Industrialists and Businessmen's Association-MUSIAD) Purchasing Managers' Index (PUMAX-PMI) rose by 2.9 points MoM to 55.8 in January. The index was dropped to the bottom level with 36.8 in April 2020, reached the highest value since April 2018 with 55.9 in July. Among the sub-indices, the Service Index rose by 3.7 points to 55.3, while the Industrial Index fell by 2.2 points to 53.8.

In the statement made by IIBA (MUSIAD), the strong course of input purchases in the service sector was mentioned, and the sharp decline in the rate of increase of new orders in the industrial sector was also mentioned. The sub-index of the PMI data announced by IIBA has strong relationship with the Real Sector Confidence Index and the Turkey's Purchasing Managers' Index (PMI), which was prepared by Istanbul Chamber of Industry together with IHS Markit. Our evaluation on the January results of the IIBA's PUMAX-PMI data as follows:

-The seasonally and calendar adjusted industrial index fell from 56 to 53 in January and moved in the same direction with the Real Sector Confidence Index(RSCI), which declined in the same period.

-IIBA's PUMAX-PMI is the only leading indicator for the service sector in Turkey as it is one of the most important features of the index.



The relationship between the service index and the value added of the services sector, which is included in the sub-breakdown of national income data, is quite strong. As a matter of fact, while the service index shrank to an average of 41.3 in the second quarter in 2020, the service sector contracted at a record level with 24.6%.

In the third quarter, the index pointed to the strongest quarter with an average of 51.5 since the second quarter of 2018, while the sector's value added increase was in the positive zone with 0.8%. In the last quarter, a limited slowdown was observed with an average of 50.6.

- Index rose by 3.7 points MoM to 55.3 in January, indicating a strong start to the first quarter of 2021. This suggests that the recovery that started in the third quarter of last year in the service sector, the sector worst affected by the epidemic, has gained strength despite the restrictions applied in some service sectors.

- In addition to these, IIBA (MUSIAD)'s PUMAX-PMI service is also useful in terms of seeing the employment trend in the services sector, which is critical for employment. Although the employment index declined in January compared to December, it stood above the average of the last quarter.

CBRT swaps continued their downward trend, declining by \$ 2.4B since the beginning of the year.

Total open market operations (OMO) funding of the Central Bank (CBRT) rose to TRY 282B, a one-week repo (17%) auction raised TRY 80B.

Accordingly, the lending facilities (18.5%) were not utilized yesterday. Thus, the average cost of funding stood at 17%. Meanwhile, the amount of liquidity withdrawn by the CBRT with 15.5% quotation slightly increased to TRY 8.5B, while net funding rose to TRY 273.5B. Even though the average overnight repo rate stood at 17.01% compared to yesterday which was above the CBRT's policy rate.

In the meantime, \$620M of transactions were made in the CBRT swap transaction market. Thus, FX swap stock reached \$31.6B. Total transaction amount in CBRT's Turkish Lira-Gold swap market reached 12143 kg. The total open position at the end of the day declined to \$41.6B. The weekly decline was \$0.7B, while the total swap started the year with \$44B.

Tourism revenue shrank by 65.1% to \$12.2B in 2020, with revenue loss of \$22.4B

The number of foreign visitors dropped by 67.4% YoY in December with 699K people, the Ministry of Culture and Tourism announced. 2.1M visitors were registered in the same month last year. Thus, the number of tourists in the whole of 2020 reduced by 71.7% compared to last year.

The number of cumulative tourists, which declined to 12.7M people in 12-month rolling, continued to move away from its all-time peak of 45.6M. 75.4% in the number of tourists visiting Turkey from Germany, the number of tourists coming from European countries, whereas in 69.7% from the 49.6% decrease was observed from Britain and the Netherlands.

Bulgaria was the country which sent most tourists to Turkey in December. The number of Russian tourists entering in Turkey with 90K people last year showed a decrease of 30.7% compared to the same period. Last year, while the total number of tourists reached its new record with 45.6M people, tourism income reached \$34.5B, as TURKSTAT announced.

On the other hand, TURKSTAT posted that tourism income decreased by 50.4% in the fourth quarter of October-December period to \$ 3.9B compared to the same quarter of the previous year, and the total revenue dropped by 65.1% to \$ 12.1B in 2020.

However, in the same period, the number of visitors departing from our country decreased by 69.5% compared to the previous year. Therefore, the average expenditure per capita of \$ 762 rose by 14.4% YoY.

Increase in communication tax

Special Communication Tax (SCT/ÖTV) rates applied to communication services (such as voice calls, messaging, internet) within the scope of electronic communication management were increased from 7.5% to 10%.

In the CPI, the weights of mobile phone call fee and internet fee are at the level of 2.25% and 0.56%, respectively. Therefore, the CPI effect will be limited to 7 per ten thousand.

In the budget revenues, communication tax was realized at the level of TRY4.5B last year. The contribution here will also be limited. On the other hand, within the framework of transformation projects for risky buildings, value added tax (VAT) has been reduced from 18 percent to 1 in construction contracting works related to new construction sites up to 1.5 times the existing construction area belonging to immovable property owners.

Turkey Sugar Factories also announced that kg of crystal sugar price rose by 10%, reached TRY 3.57 to TRY 3.93 except VAT. Since the weight of sugar in the CPI is 0.38%, its direct effect will be 4 per ten thousand, but it will also have an indirect effect on many food products using sugar.

Finally, the price of natural gas used in residences was rose by 1%. Since the weight of natural gas in the CPI is 1.81%, its direct effect will be 2 per ten thousand.

On the other hand, Osman Dinçbas and Bülent Aksu, deputy ministers of Berat Albayrak during the Ministry of Treasury and Finance, were dismissed. Nureddin Nebati continues his duty. Cengiz Yavilioglu was replaced by Osman Dinçbas who was dismissed. Yavilioglu, a former AKP Member of Parliament from Erzurum, was serving as the Vice President of AKP Economic Affairs. Yavilioglu served as deputy minister in Finance between 2015-2018. Yavilioglu, who was the deputy minister during the Naci Agbal period, resigned from this position in 2018, when Albayrak came to the ministry. Sakir Ercan Gül was appointed to replace Bülent Aksu, who was dismissed. Prof. Erisah Arican was appointed as Turkey Welfare Fund Board Deputy Chairman. Arican also serves as the Chairman of the Board of Borsa Istanbul.

Treasury's February domestic borrowing program

Treasury announced the three-month domestic borrowing strategy that includes a total of TRY45.4B of domestic borrowing, TRY44.3B of 45.4B is from the market which is foreseen in February, and TRY45B will be redeemed in return. Thus, the domestic debt rollover ratio seems to be increased from 88.2% in the previous program to 101%.

On the other hand, foreign exchange and gold-denominated bills will be issued in the domestic market in February against the redemptions of foreign exchange and gold-denominated bills that matured in February, and the direct sales target was set at TRY 16B. In this context, 3-year Euro-denominated bond and lease certificate issues will take place in the middle of this week.

Events to follow;

Today 10:00 AM – GMT+3

ICI (Istanbul Chamber of Industry) will release Turkey's PMI for January. In December, it decreased by 0.6 points compared to the previous month with 50.8, it remained above the critical threshold value. On the other hand, the decline of the similar indicator Real Sector Confidence Index and -PUMAX index announced by IIBA in January suggests that the PMI index may decrease again.

- ICC (ICC-ISTANBUL CHAMBER OF COMMERCE) will announce the results of Istanbul Retail Price Index for January. The headline index rose 0.58% in the same month last year, while the food subgroup rose 1.78%.

- Foreign trade data for January is expected to be announced by the Ministry of Customs. There was a \$4.5B deficit in January last year

Wednesday 10:00 AM – GMT+3

January inflation data will be announced by TURKSTAT at 10:00 on Wednesday. The median expectation was an increase of 1.53%. In the surveys, the monthly highest and lowest increase expectations in CPI were 2.15% and 1%, respectively, while annual estimates were 15.35% and 14.20%, respectively.

An increase of 1.35% was recorded in the same month last year. The survey predicted the CPI median forecast for the end-2021 as 11.40%. On the other hand, the annual increase of the "B" and "C" indices, which are among the special CPI indicators that we monitor as core inflation, rose to 14.5% and 14.3% last month. It will also be important how the limited rise in headline inflation will be reflected here.

Wednesday 2:30 PM – GMT+3

CBRT will release the January Real Effective Exchange Rate Index. Although the average monthly change in the average exchange rate basket decreased by 4.1% in January, we expect the inflation to increase by 1.53% in the same month, so we expect the 100-based index to increase from 62.34 to 65.9 in the same month.

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