



## EXECUTIVE SUMMARY

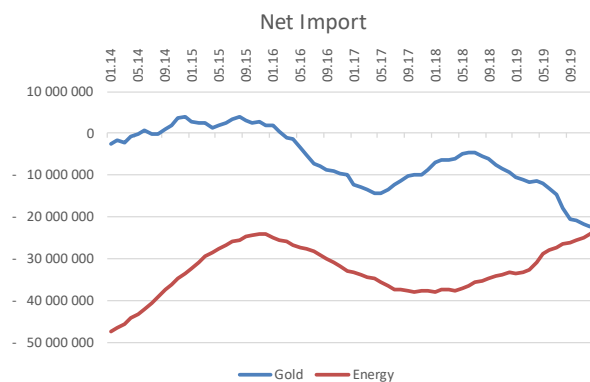
- Turkey's foreign trade deficit rose to \$3.3B from \$3B in the same month previous year, according to the country's statistical authority.
- Gold and energy excluded (core) foreign trade balance, followed as an important guide for the long-term trend of the balance, posted a \$4.8B deficit and deteriorated slightly.
- Latest foreign trade data signal that the current account balance may post a deficit of \$2B in February.
- IIBA's (Independent Industrialists and Businessmen's Association-MUSIAD) Purchasing Managers' Index (PUMAX-PMI) stood at 51.1, down 0.4 points MoM in March. The index fell to 36.8, its lowest level in April 2020, and reached 56 in July, the highest value since April 2018.
- Turkey's Economic Confidence Index reached 98.9 points in March, up 3.3% the month before, the country's statistical office said.
- After the dismissal of the CBRT governor, the volume of FX deposits fell to \$246.6B, dropped by \$9B. FX deposit slipped by \$7.4B in real persons, while a decline of \$1.6B was observed in legal entities.

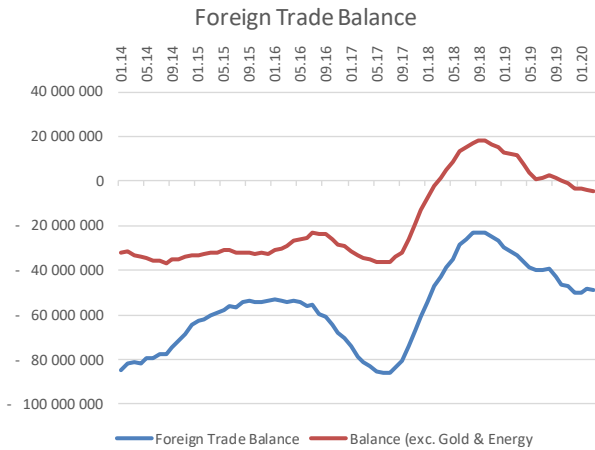
## Foreign trade deficit increased, Balance excluding energy and gold continued to deteriorate

Turkey's foreign trade deficit rose to \$3.3B from \$3B in the same month previous year, according to the country's statistical authority. Thus, on a yearly basis the foreign trade deficit surged to \$48.7B in February. Exports rose by 9.6% year-on-year to \$16B, while imports increased by 9.4%, reaching \$19.3B in February. Also, exports to the EU stood at \$6.9B in February, rising 11.8% on a yearly basis. On the other hand, to the extent we see from the daily data of the exporters' associations, exports in March will be around 37% above last year with the contribution of the workday surplus and the base effect. Imports growth may remain high as domestic demand and production growth did not lose significant momentum.

- The decline in net energy imports by \$0.5B on an annual basis reduced the foreign trade deficit. Also the decrease in net gold imports compared to the previous year, pulled the annual foreign deficit down by around \$0.3B.
- Gold and energy excluded (core) foreign trade balance, followed as an important guide for the long-term trend of the balance, posted a \$4.8B deficit and deteriorated slightly. This figure rose to a surplus of \$18B last August.
- Total imports hiked by 9.4% on an annual basis; among the sub-groups, imports of capital goods, consumption goods and intermediate goods jumped by 21.2%, 7.5% and 7.8%, respectively.

- Although the-12 month rolling net gold imports declined to \$21.4B, eliminated the advantage of the net energy imports, which fell to \$22.5B in the same period.
- Furthermore, imports of gold and energy excluded intermediate goods, which are the main inputs of the manufacturing sector, rose by 7.7% on an annual basis in euro terms and strengthened compared to previous months. This means that the annual increase in industrial production in February could be strong again.
- Latest foreign trade data signal that the current account balance may post a deficit of \$2B in February. Since current account balance posted a \$1.3B deficit in the same month last year, the 12-month rolling current account balance may rise to the deficit level of \$35.8B.





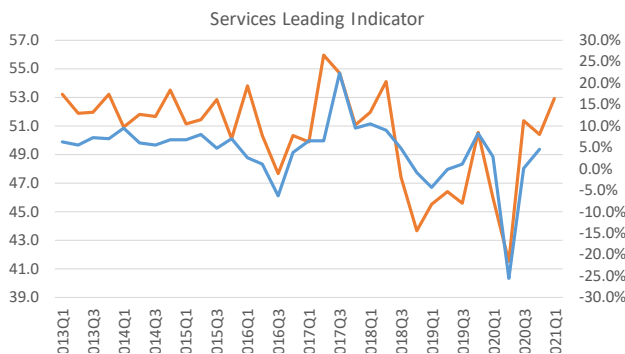
### Service sector leading indicator continued to decline in March

IIBA's (Independent Industrialists and Businessmen's Association-MUSIAD) Purchasing Managers' Index (PUMAX-PMI) stood at 51.1, down 0.4 points MoM in March. The index fell to 36.8, its lowest level in April 2020, and reached 56 in July, the highest value since April 2018. Among the sub-indices, the Service Index declined by 1.1 points to 50.6, while the Industrial Index fell by 0.9 points to 50.8 MoM.

In the statement of IIBA, it was mentioned that the slowdown in the rate of input purchases in the service sector had a negative effect on the business volume. The statement also reported that the production exceeded the reference value despite the decrease in new orders in the industrial sector.

The industrial 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 March results of the IIBA's PMI data as follows:

- The seasonally adjusted industrial index fell from 51.7 to 50.9 in March and moved in the opposite direction with Real Sector Confidence Index (RSCI), which rose in the same period. This signals to uncertainty for the Turkey's PMI to be announced today



- One of the most important features of the IIBA's PMI is that being only leading indicator for the service sector in Turkey. The relationship between the service sub- index of PMI and the value added of the services sector, which is included in the sub-distribution of GDP, is quite strong. Although the Service Index fell by 1.1 points to 50.6 in March compared to the previous month, it still indicates that it has made 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.

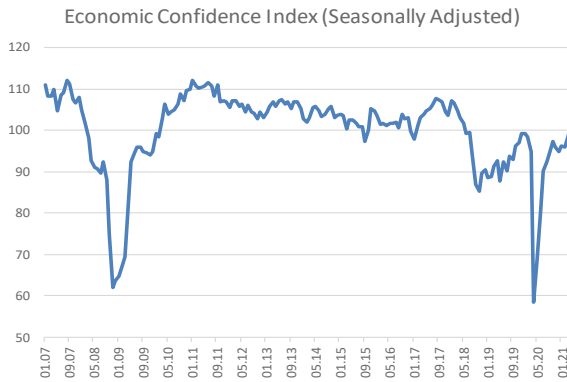
- In addition, the publication of the service sub-index of PMI on the basis of sub-groups is useful in terms of seeing the employment trend in the services sector, which is critical for employment. Although the employment index decreased in March compared to the previous month, the average of the first quarter of the index is above the average of the last quarter of the last year.

### Economic confidence recovers to near pre-pandemic levels

Turkey's Economic Confidence Index reached 98.9 points in March, up 3.3% the month before, the country's statistical office said. Thus, the index exceeded its pre-pandemic figures and reached its highest level since January 2020. The index dropped to its all-time low of 58.4 in April.

The consumer confidence index indicates an optimistic outlook when the index is above 100, and a pessimistic outlook with an index below 100.

The hike in the index was driven by recovery in the real sector (manufacturing industry), retail and services confidence indices. Consumer confidence index increased to 86.7, rising 2.5%, real sector confidence index rose to 110.2, up 1.4%. and services confidence index reached 105.5, jumping 5.1% compared to a month earlier, according to TurkStat data. Also retail confidence index stood at 109.2, rising 0.2%. On the other side, construction confidence index fell to 79.8, down by 4%. However, we are of the opinion that there will be a significant loss of confidence due to developments after March 19th.



### Significant decline in FX deposits over \$9B

As per the data announced by BRSA, for the banking sector in consolidated base and daily; in the week ended by March 26 /week that exchange rates jumped after the dismissal of the CBRT governor, the volume of FX deposits fell to \$246.6B, dropped by \$9B. FX deposit slipped by \$7.4B in real persons, while a decline of \$1.6B was observed in legal entities.

In the relevant week, parity decreased by 1.2%, ounce regressed by 0.7%. Therefore, in this decrease observed herein, it can be envisaged that; the price effect has a limited contribution. On the other side, the TL-denominated Government Domestic Debt Securities (GDDS) portfolio held by non-residents fell by \$1.4B last week. Banking loan volume surged by \$121B in the same period. Yet, the rise in TL loans was limited to TRY9B, the increase in TL equivalent of FX loans was effective in the upsurge.

### Treasury significantly lowered its April borrowing target

According to the three-month domestic borrowing strategy announced by the Treasury, a total of TRY 33B will be borrowed in April, TRY24.9B of which is from the market. In return, TRY37.3B will be redeemed. In the previous month's program, the April target was TRY43B. Gold-denominated bond and lease certificate issues were added to the April borrowing program, while the 10-year bond auction, which attracted the interest of foreign investors, was removed from the program.

### Overnight repo is again below the policy rate

The Central Bank's total OMO funding rose to TRY335B, TRY53B was provided by one week repo (19%) tender. Therefore, the average funding cost closed by 19%.

Valid overnight repo interest average increased to 18.98% compared to yesterday and occurred under the CBRT's policy rate.

On the other side, \$5M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. Thus, FX swap stock reached \$29.7B. Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of TRY168M. The short position amounted to \$5.1B. No transaction was made on Istanbul Stock Exchange (ISE) yesterday, while the swap stock declined to \$7.9B, the CBRT data showed. The total short position reduced to \$42.6B at the end of the day.

### HDP indictment returned, Gergerlioglu application rejected

The Constitutional Court returned the indictment to the Supreme Court Chief Public Prosecutor's Office, which was found to be deficient in the case filed with the request of the HDP to be dissolved. The first review will be made after the Supreme Court Chief Public Prosecutor's Office completes the deficiencies and submits the indictment to the Constitutional Court. The General Assembly will meet again on a day to be determined later and decide whether the indictment is accepted or not. The Constitutional Court also unanimously rejected the application filed for the annulment of HDP's Omer Faruk Gergerlioglu's deputy membership. Since the second paragraph of Article 84 of the Constitution, which regulates the "loss of parliamentary membership due to final conviction or restriction", does not allow the application to the Constitutional Court, the application was rejected due to lack of jurisdiction. The court unanimously decided that the issue fell within the sphere of the TGNA Presidency. The application made individually by Omer Faruk Gergerlioglu will be evaluated separately.

## Today 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.

## 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%.

## 14:00 AM – GMT+3

- The CBRT has been holding technical meetings with investors, economists, and analysts. At these meetings, technical questions from the participants on general macroeconomics, monetary policy, financial markets, and banking issues are answered. Today, a new one of these meetings will be held via Webinar. After the meeting, which is closed to the press and where Chatham House rules apply, a presentation including the evaluations of the CBRT on the latest economic outlook and monetary policy can be published.

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