

EXECUTIVE SUMMARY

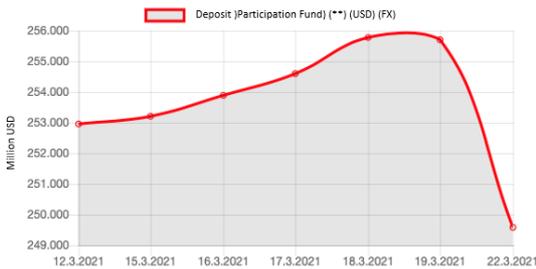
- FX deposits of residents reduced by over \$ 6.1B, following the sharp decline in the Turkish Lira on the first transaction day after the replacement of the CBRT Governor.
- Year-to-date total inflow reached \$1.32B. Also the total inflow since the 6th November surged to \$5.2B.
- CBRT's weekly data of "Debit Card and Credit Card Total Expenditure Amount" shows that total transaction amount declined by 3.4% last week and reached TRY26.4B.
- CBRT's total swaps exceeded \$ 62B last week rising \$4.4B WoW as of March 19.
- The Constitutional Court will make its first examination of the Supreme Court's Office of the Chief Public Prosecutor's request for the closure of the HDP on March 31.
- CBRT will release the Real Sector Confidence Index and Capacity Utilization Rate today at 10AM (GMT+3). Also Sectoral Confidence Indices are expected to announced by TurkStat today at 10AM (GMT+3).

Individuals sold \$6.1B

As per the daily data announced by BRSA for the banking sector; residents reduced their FX deposits by over \$ 6.1B, following the sharp decline in the Turkish lira on the first day of the transaction after the replacement of the CBRT Governor.

The volume of FX deposits fell to \$249.6B, dropped by \$6.1B on March 22. FX deposit slipped by \$4.6B in real persons, while a decline of \$1.5B was observed in legal entities.

In the relevant day, parity and ounce almost remained unchanged. Therefore, in this decrease observed herein, it can be envisaged that; the price effect has a limited contribution. Thus, we can say that residents consider the sharp rise in exchange rates as an opportunity.

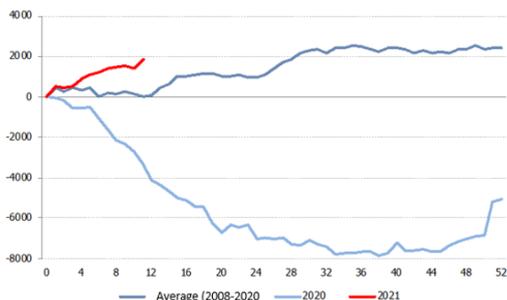
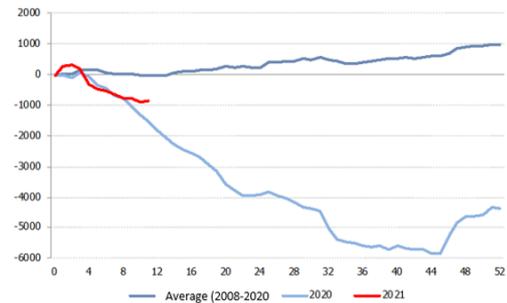


Foreign investors moved in the direction of inflow during the MPC week

CBRT's weekly data on portfolio movements of non-residents in the week ended by March 19, displayed that foreigners bought stock certificate and bond, following the policy rate hike.

In the relevant week foreign investors bought around \$60M of stock certificates \$427M of government bond, whereas their private sector bonds position remained unchanged, thus the total net inflow amounted \$487M.

Hence, the year-to-date total inflow reached \$1.32B. Also the total inflow since the 6th November surged to \$5.2B. On the other side, as per the recent data regarding the developments in domestic residents' deposit and foreign currency accounts in participation banks in the week ended by March 19, a significant increase was observed in the volume of FX deposits (including gold) in terms of real and legal persons. Cumulative Movements in the Stock and GDSS Market (\$M)



Real persons' domestic currency deposit rose by \$700M, while legal entities' domestic currency climbed by \$1.5B, thus the increase in total domestic currency belonging to domestic citizens rose to \$2.16B. The data of the total domestic currency deposits consists of foreign currency accounts (FCA) and precious metal deposit accounts (gold). In terms of its distribution, FCA volume rose by \$1.6B, while the gold deposit increased by \$565M. In this week, considering the total changes in domestic currency in terms of fixed parity and fixed ounce; it is hereby calculated that the increase was seen to be a limited amount which is around \$1.6B. In the relevant period, the ounce rose around 1%, while parity remained unchanged. Thus, the change of accumulated foreign currency deposit year-to-date is calculated as \$3.1B, whereas fixed parity and ounce increase is calculated as \$2.1B. In 2020, change of accumulated foreign currency deposit was \$42B, whereas fixed parity and ounce increase was \$27.6B.

According to CBRT's weekly foreign currency reserve data; in the week ended by March 19, total reserves increased by \$1.5B. Gold reserves rose by \$315M and gross foreign currency reserves surged by \$1.2B.

In the relevant week, gold reserves under CBRT's property rose by \$766M. As a conclusion, gross foreign currency reserve rose to \$53.9B and total reserves increased to \$93.2B, while net international reserves (NIR) stood at \$13.7B, rising \$2.7B. In that week, FX and gold swap transactions made by CBRT through long term tenders and weekly transactions stock (including ISE) increased by \$1.1M WoW and were closed around \$44.8B. In addition, in the relevant week the Treasury had eurobond redemption of \$1.7B. Banks' foreign currency changes have not affected Net International Reserves (NIR) item, but the changes in treasury foreign currency deposits, swap transactions change the NIR level.

The final note regarding the changes in the same week is that; CBRT's use of rediscount loans in terms of TL remained at TRY9.8B level, whereas use of foreign currency rediscount loans increased to \$19.4B

Updates from the latest MPC meeting summary

CBRT published the summaries of the March MPC meeting yesterday. Below we share only important topics that contain new information. To put it briefly, the CBRT underlined the upside risks in inflation from energy and services prices in the near term, and stated that there may be a slowdown in food inflation. Economic activity was strong in the first quarter as well. The upside risks on the year-end forecast target increased significantly due to the increase in credit momentum and the rise in import costs. The important headings in the summary are as follows;

Inflation

-Leading indicators signal that annual food inflation may slow down led by unprocessed food prices.

-The uptrend in oil prices continued in March, however, the sliding scale system curbed the effects coming through this channel. As per the EPDK decision of 17 March 2021, a price cap practice was introduced for every province for a period of 2 months and fuel oil prices decreased thereafter. Despite the curbing effect of the sliding scale system, the Committee has noted that the annual energy group inflation will significantly increase in the next two months due to the low base in the previous year.

-Medicine prices, which increased by 6.09% on a monthly basis due to the reference price practice, prevented a more favorable outlook in this group. It is anticipated that the portion of the increase in medicine prices that were extended to March will be higher and will continue to affect other core goods inflation adversely. The Committee maintained its emphasis on the upside risks to clothing inflation that was curbed by weak demand conditions due to the pandemic.

-The Committee drew attention to the upward impact of the controlled normalization process on some service prices in the light of leading indicators. The Committee also noted that the accumulated costs during pandemic lockdowns as well as capacity-limiting measures may lead to unit cost-driven inflationary effects in certain sectors, particularly in the restaurants-hotels groups.

-Inflation expectations increased in March. The 12-month-ahead inflation expectation increased by 0.11 points to 10.47% and 24 month-ahead inflation expectation increased by 0.15 points to 9.18%. In this period, inflation compensations derived from bond yields increased as well. The Committee underlined that this course of inflation expectations increased the risks to pricing behavior and the medium-term inflation outlook.

Economic Activity

-Economic activity displays a strong quarterly momentum in the first quarter as well and being higher than projected, remains above its long-term trend. In January, the industrial production index increased by 1.0% month-on-month and 2.3% quarter-on-quarter. Intermediate and durable consumer goods continued to be the drivers of the increase in industrial production. Turnovers increased in trade and construction in January, but remained almost flat in services due to the weak course in sectors that are directly affected by the pandemic. As the pandemic-related restrictions are being eased, economic activity is expected to pick up in services and related sectors. In fact, high-frequency data indicate that economic activity has gained strength amid credit developments and controlled normalization. Nevertheless, risks for economic activity remain significant depending on possible developments regarding the course of the pandemic.

-The data released for the first quarter point to a stronger course compared to the outlook presented in the January Inflation Report regarding economic activity and the cyclical state of the economy. The Committee assessed that the underlying trend in economic activity is quite strong, considering the limiting effect of the pandemic-related restrictions. Business and household surveys indicate that the demand for durable goods is still higher than long-term averages. Some members of the Committee reiterated that personal loan demand is still brisk due to high inflation expectations.

Monetary Policy and Risks

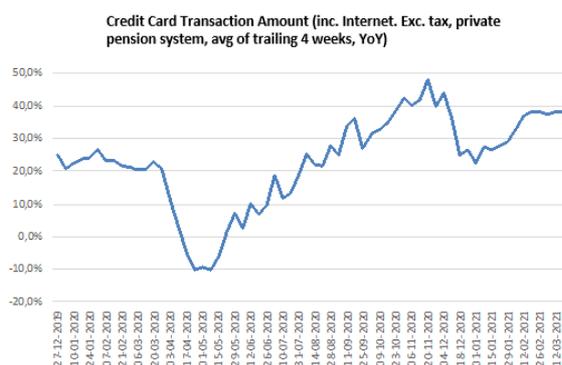
The Committee noted that global inflationary pressures might cause an earlier- than-projected tightening in monetary policies; it is assessed that a period marked by increased data-sensitivity and related volatilities in global financial markets is entered. The Committee assessed that upside risks to the year-end forecast target announced in the January Inflation Report rose significantly due to an increased credit impulse, especially since the end of January, and rising import costs.

Credit card spending gears up

CBRT's weekly data of "Debit Card and Credit Card Total Expenditure Amount", in the week ended by March 19, shows that total transaction amount declined by 3.4% last week and reached TRY26.4B. In the relevant period tax and private pension payments (total TRY0.2B) were the factors that had an upward impact this time.

For this reason, we have already started to show the trend of expenditures, excluding taxes and personal retirement insurance payments. Hardest weekly decrease was experienced in the electric-electronic, health, clothing, grocery and service sectors. On the other hand, spending on healthcare products and airlines rose, during same period. Hence, the annual change of average expenditure for the past four weeks jumped to 30.5%, the highest rise since mid-November.

On the other side, shopping made over internet which is explained separate from these transactions slumped to TRY6.7B by a weekly decline of TRY0.6B. Therefore, including the internet, the annual change of the average of the last 4 weeks relevant with the total shopping rose up to 39.7%.



The annual change in the average of the last 4 weeks of total shopping excluding tax and personal retirement insurance payments, including the internet, which we track as a better indicator to reveal true underlying trends, rose by 42.4%.

In 2020, as a general, total credit card expenses rose by 13% compared to previous year. In the second half in which the domestic demand was the strongest, the annual rise reached up to 50%. Later on, the slowdown which continued until the last week of December was replaced by an improvement in the following period. Credit card expenditures are being followed closely as an important indicator of domestic demand.

CBRT's total swaps exceeded \$62B last week

The Central Bank's total OMO funding remained unchanged at TRY330B, TRY62B 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 rose to TRY8.4B, whereas net funding amount dropped to TRY321.6B.

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

On the other side, \$615M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. Thus, FX swap stock reached \$29.8B.

Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 2696kg. The short position amounted to \$5B.

Istanbul Stock Exchange (ISE) transactions amounted to \$589M yesterday while the swap stock decreased to \$8.2B, the CBRT data showed. The total short position reduced to \$43.B at the end of the day. The total swap, reached \$62.1B, rising \$4.4B WoW as of March 19. Thus, the year-to-date decrease reached \$0.2B.

Critical 8-to-7 balance in Constitutional Court

The Constitutional Court will make its first examination of the Supreme Court's Office of the Chief Public Prosecutor's request for the closure of the HDP on March 31. In this meeting, 15 court members will discuss whether to accept the indictment prepared by the Supreme Court Chief Prosecutor's Office. If accepted, the indictment will be sent to the HDP and a written defense will be requested. On the other hand, the court will decide on the same day the request of HDP Kocaeli Deputy Ömer Faruk Gergerlioğlu to annul the procedure for the removal of his parliamentary membership.

Constitutional Court has three options in the closure case. Pursuant to Article 69 of the Constitution, the HDP can be permanently dissolved, or partially or completely deprived of state aid depending on the severity of the actions, and the case may be rejected on the merits. The decision of the Constitutional Court, which has a total of 15 members, to close down the HDP or to be deprived of treasury aid has to be made only by two-thirds of the members. President Recep Tayyip Erdoğan elected 7 members of the Constitutional Court, the 11th President Abdullah Gül, 5 members, and the Turkish Grand National Assembly 3 members.

According to the distribution of votes used by the members in the critical case files discussed in recent years, there is a vote split of 8 to 7. Finally, with the appointment of İrfan Fidan, a majority group of 8 people became strongest bloc in the Constitutional Court. The common point of 8 people is that they sign decisions against rights and freedoms in important cases. In the files where the ruling party reveals its side, it is seen that the game of these 8 members generally acts as a block. The most concrete example of this was experienced in the individual application of detained activist Osman Kavala, who was interviewed last December. The Supreme Court ruled, by 8 votes to 7, that Kavala's detention was not unlawful. These 8 members consist of the following names: Muammer Topal, Rıdvan Güleç, Kadir Özkaya, Recai Akyel, Yıldız Seferinoğlu, Selahattin Menteş, Basri Bağcı and İrfan Fidan. Opposite the 8-person majority in the Constitutional Court, there are names that can be called "opponents". Chairman Zühtü Arslan, Deputy Chairman Hasan Tahsin Gökcan, members Engin Yıldırım, Hicabi Dursun, Celal Mümtaz Akıncı, Yusuf Şevki Hakyemez and Emin Kuz are the members on this list.

Even if there is no decision to close down the HDP, there is a possibility that a decision may be taken to cease treasury aid. A similar situation happened with the AKP closure case in 2008. In this case, 6 members voted for closure, while 5 members voted for "rejection". If one more member voted to close, the AKP would have been closed. However, since the qualified majority could not be reached in the voting, the AKP was saved from dissolution. In the subsequent voting, it was decided to cut the Treasury aid by 1/2 with 10 votes against Haşim Kılıç's rejection. In other words, 4 out of 5 members who were against the closure changed their vote in favor of the treasury aid cut.

Leading indicators of manufacturing and other sectors for March will be announced

CBRT will release the Real Sector Confidence Index and Capacity Utilization Rate today at 10AM (GMT+3). Also Sectoral Confidence Indices are expected to be announced by TurkStat today at 10AM (GMT+3). The Capacity Utilization Rate (CUR) in the Turkish manufacturing industry fell to 74.9%, down by 0.5% MoM in February, according to figures released by the CBRT. On a seasonally adjusted basis, the CUR declined to 75.5%, dipping 0.1% MoM in the month.

Turkey's Real Sector Confidence Index (RSCI) surged to 109.3, rising 2.3% MoM in February, the CBRT announced. The seasonally adjusted RSCI declined to 108.7, down 0.3% MoM in the same month. Turkey's Purchasing Managers' Index (PMI) for the manufacturing sector which is a similar indicator of RSCI slipped to 51.7 in February down from 54.4 the month before. Seasonally adjusted confidence index decreased by 1.4% in services sector and 1.3% in construction sector, while increased 0.4% in retail trade sector in February compared to January, according to figures released by TurkStat.

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