



EXECUTIVE SUMMARY

- Net International Reserve (NIR) should have rose by \$1.7B whereas the NIR data announced in the stand-by balance sheet fell by \$ 0.2B in the same period. The difference is probably due to the negative effects of the CBRT's gold stock from ounce movements as ounce slipped 6.2% in February.
- Total value of the swap transactions showing the net TL generated by foreign investors reached \$23.1B and recovered significantly from its all-time low level of \$1.98B at the end of October.
- Economists' monthly median estimate of the Consumer Price Index (CPI) for March is 1.04%.
- CBRT's total reserves and net reserves decreased significantly in the week of March 26
- CBRT's total OMO funding rose to TRY340B, TRY80B was provided by one week repo (19%) rate. Therefore, the average funding cost closed by 19%.
- President Erdogan announced a full weekend lockdown is to be in place during the month of Ramadan and restaurants would only serve as delivery and take-away.

CBRT's net foreign exchange reserve accumulation channels in February

On April 1, 2019, we drew attention to the issue of unexplained movements in the Central Bank's foreign exchange reserves, long before it came to the market agenda. We have been following it regularly since then. Since the issue came to the political agenda, AK Party Deputy Chairman Nurettin Canikli announced that the CBRT reserves of \$93.3B were used in the sale to the market in 2020.

On the other hand, since no foreign exchange sales interventions were made by using the CBRT reserves after the change in economy management on November 6, we started to publish monthly changes in channels that affect only the CBRT reserves since last month.

The table shows the monthly changes of the main items affecting the Net International Reserves (NIR), which we compiled from publicly available sources.

- Since the CBRT has not held regular foreign exchange buying and selling auctions for a long time, the most important role in accumulating reserves is "export rediscount credits". In February, there was an inflow of 0.9 billion dollars from this channel.
- On the other side, foreign exchange sales to public institutions, especially BOTAS, were not made in February.

- The sum of swap transactions initiated by the CBRT in its own market in March 2019 and then expanded to the BIST market and swap transactions with foreign central banks decreased by \$1.2B in February.

- The net amount of the Treasury's foreign borrowings, especially Eurobond and foreign debt repayments amounted to \$0.1B in January.

- Net borrowing of \$2.1B recorded in the Treasury's foreign currency-gold domestic borrowing in February.

When all these items are sum up, the size of the Net International Reserve (NIR) should have rose by \$1.7B. But the NIR data announced in the stand-by balance sheet fell by \$ 0.2B in the same period. The difference is probably due to the negative effects of the CBRT's gold stock from ounce movements. The ounce slipped 6.2% in February.

TL funding provided by banks with swaps made with non-residents slightly decreased in February

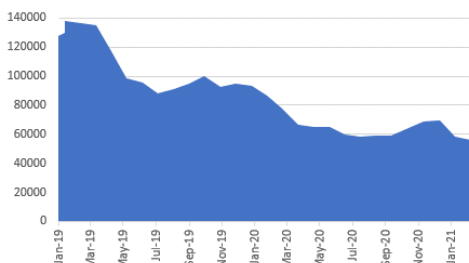
The Turkish banking system has an on-balance sheet short position structurally due to the weight of foreign currency in deposits and foreign borrowings. However, due to the equity limits brought to the FX Net General Position after the 2001 crisis, off-balance sheet transactions are used to hedge this risk and most of these transactions are currency swaps.

	B USD	Rediscount	BOTAS	Swap	Treasury Net Foreign Debt	Treasury Net Domestic Debt	Total	NIR
2021	January	1,0	0,0	-2,7	3,4	-1,3	0,5	0,1
	February	0,9	0,0	-1,2	-0,1	2,1	1,7	0,2

Currency swaps can be bidirectional as buying and selling. Due to the banks' need to convert foreign currency liquidity to TL, swap money purchase in maturity is greater. For a long time, we have been analyzing the historical course of foreign investors' swap transactions using BRSA monthly data.

The graphics and data in the analysis reflect the direction of the position taken in domestic banks. For example; TL purchase title at maturity indicates that the domestic bank sells TL to foreign residents on the spot leg, and means that the transaction will make TL purchases at the maturity of the transaction. In short, they are the transactions that the former management of the economy called "dirty swaps" and where the foreigner can create a short position by borrowing TL from the local. On the other hand, TL sales in maturity is a process of creating a TL (clean swap) in the spot leg, which is used much more intensively by domestic banks and is also dominant in terms of amount. The charts show the values of both transactions with non-residents in TL since the beginning of 2019. In the maturity after November 6, TL sales transactions increased rapidly and became an important funding channel for the banking system again. After the funding provided in various maturities surged to TRY234.8B at the end of January, however it reached TRY222.2B billion due to the moderate swap decline in February.

TL buying at the maturity - in Turkish Lira



In the table, we try to reflect the net funding provided by the banking system in dollars. Accordingly, the banking system's TL sales with swap in maturity was at the level of \$71.3B at the end of February. However, when other transactions that give TL to the counterparty are also taken into account, the net sale of money with swap in maturity was at the level of \$63.5B. \$40.4B of this amount was the swap transaction made with the CBRT at the end of February. Hence, the total value of the transactions showing the net TL generated by foreign investors reached \$23.1B and recovered significantly from its all-time low level of \$1.98B at the end of October. This value stood at \$ 47.1B at the end of 2017.

Off-Balance Sheet Transactions (million \$) - 2021/02	TL	FX	Total
Money Swaps (a + b)	79,042	185,628	264,670
a) Swap Money Buy	7,762	119,288	127,050
b) Swap Money Sell	71,280	66,340	137,620

CBRT's total reserves and net reserves decreased significantly in the week of March 26

Based on the CBRT's weekly foreign currency changes data, in the last week (19 March), total reserves surged by \$1.5B. Gold reserves rose by \$315M, while gross foreign currency reserves rose by \$1.2B. Thus, total gross foreign currency reserves increased to \$53.9B and total reserves increased to \$93.2B. Net International Reserves (NIR) stood at \$13.7B, rising \$2.7B.

In the relevant week, FX and gold swap transactions made by CBRT's long term tenders and weekly transactions stock stood at \$44.8B, up by \$4.6B WoW. In addition, the Treasury had a \$1.7B redemption in the relevant period.

Last week's (March 26) reserve developments will be announced on Thursday. But we have the same week's analytic balance sheet.

Foreign assets and total foreign currency reserves are closely related with each other, thus, we expect that; in the relevant week, total reserves (including gold) may reach to \$90.7B, down \$2.5B.

The change in the banks' foreign currency deposits is important for the liabilities in terms of NIR. In that week, banks' foreign currency deposits decreased by \$1.6B. Besides, public foreign currency deposits are followed as internal liability, therefore despite the increase of external assets, foreign liabilities will not be changed and NIR level is provided to be higher than net foreign currency position.

In the same week, public foreign currency deposit declined by \$1B. On 24 March, the Treasury borrowed \$1.2 billion with gold-denominated bonds and lease certificates. Therefore, magnitude of NIR will decrease to \$13B-level by a decline of \$0.9B.

In the same week, FX and gold Swap transactions made by CBRT's long term tenders and weekly transactions (including ISE) stock regressed to \$42.8B down \$2B WoW. Banks' foreign currency changes do not affect the NIR item, but the changes in treasury foreign currency deposits, swap transactions and CBRT's foreign exchange buying-selling transactions change the NIR item. On the other hand, CBRT's net foreign currency position stood at - \$0.8B, dipping \$1.8B last week.

CBRT Analytical Balance Sheet	19 March	26 March	Diff
ASSETS	111.7	108.7	-3.0
A.1 FOREIGN ASSETS	95.1	92.5	-2.5
A.2 DOMESTIC ASSETS	22.8	23.2	0.4
A.3 FX REVALUATION ACCOUNT	-6.2	-7.0	-0.8
LIABILITIES	111.7	108.7	-3.0
P.1 TOTAL FOREIGN LIABILITIES	94.0	93.3	-0.7
P.1a-Liabilities to Non-Residents	7.0	8.9	1.9
P.1b-Liabilities to Residents	87.0	84.4	-2.6
P.1ba-Public Sector and Other FX De	14.2	13.2	-1.0
P.1bb-FX Deposits of Banking Sector	72.8	71.2	-1.6

Funding and overnight repo rates declined

The Central Bank's total OMO funding fell to TRY331B, TRY48B 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 TRY7.3B, whereas net funding amount dropped to TRY323.7B.

Valid overnight repo interest average slipped to 19.04% compared to yesterday and occurred above the CBRT's policy rate.

On the other side, \$166M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. In addition, with the three-month swap auction, \$1.5B equivalent TL liquidity was provided at 17.9% interest rate. In the previous three-month auction, the interest was higher, at 18.3%. Thus, FX swap stock reached \$29.7B. Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 11863kg. The short position amounted to \$5.1B.

Istanbul Stock Exchange (ISE) transactions amounted to \$493M yesterday while the swap stock rose to \$8.2B, the CBRT data showed. The total short position surged to \$43B at the end of the day.

Annual CPI for March is expected to rise to 16.2%

Economists' monthly median estimate of the Consumer Price Index (CPI) for March is 1.04%. Thus the median estimate for annual inflation for March is expected to reach 16.2%. Forecasts ranged between 0.49% and 1.75% according to the Forex poll of 21 economists. The survey also showed the year-end CPI is expected reach 12.5% rising 1.2 points MoM, with estimates ranging between 11% and 15.5%. CPI for March will be released at 10 AM (GMT+3) on April 5 by the country's statistical authority.

CBRT will make a large transfer to the Treasury after the General Assembly Meeting

The 89th Ordinary General Assembly Meeting of the CBRT will release today at 14:00 (GMT+3) According to the balance sheet of the CBRT regarding the 89th fiscal period ending on December 31, 2020 published in the Official Gazette on March 15, net profit for the year 2020 stood at TRY34.5B after the deduction of TRY9B corporate tax provision.

Also the reserve fund amounted to TRY5.9B. The CBRT may transfer 90% of its net profit and the entire reserve fund to the Treasury with the approval of the General Assembly. Last year, TRY44.5B was transferred with the sum of these two items.

Before the meeting, the newly appointed Central Bank Governor Şahap Kavcıoğlu said he does not think prejudiced expectations of a rate cut in April or the following months are true, in a written response to questions by Bloomberg. "In the new period, we will continue to make our decisions with an institutional monetary policy approach to ensure the permanence of the decline in inflation," he also noted. Kavcıoğlu, on the question of using reserves to support the Turkish lira, replied, "the exchange rate will be formed as to the supply and demand balance under free market conditions." Kavcıoğlu also stated that he found it wrong to comment on previous decisions in principle and ethically.

Other statements of the new Governor are as follows;

- We will maintain the operational framework of the monetary policy, the one-week repo rate will continue to be our main policy tool in terms of monetary policy. We see that the simplified operational monetary policy framework strengthens the transmission mechanism and allows for a simpler and clearer communication of decisions and practices.
- We see that besides conjunctural conditions, structural factors are also effective in inflation. This situation can systematize price changes that are outside the central bank's sphere of influence.

Turkey to tighten weekend COVID-19 measures

Turkish President Tayyip Erdogan announced a full weekend lockdown is to be in place during the month of Ramadan and restaurants would only serve as delivery and take-away. Erdogan stated that the curfew imposed across the country between 21.00 pm and 05.00 am continues. It was also stated that the number of very high-risk provinces increased to 58 and the curfew restrictions in these provinces will now continue as full weekend.

Contact information

BÜRÜMCEKÇİ RESEARCH & CONSULTANCY

www.burumcekci.com

Phone: +90 533 644 36 02

E-mail: haluk@burumcekci.com

Investment information, comments and recommendations contained herein are not within the scope of investment consultancy. Investment consultancy service is offered by authorized institutions individually, taking into account the risk and return preferences of the individuals. The comments and recommendations contained here are of a general nature. These recommendations may not be suitable for your financial situation and risk and return preferences. Therefore, making an investment decision based solely on the information contained herein may not produce results in line with your expectations. The data and graphics have been compiled from solid sources that we believe to be reliable, and the comments made only reflect the opinion of BÜRÜMCEKÇİ RESEARCH AND CONSULTANCY. Our Company cannot be held responsible for the results of future investments made or to be made in the light of this information. In addition, without the written permission of BÜRÜMCEKÇİ RESEARCH AND CONSULTANCY, its content cannot be partially or completely published, acquired, quoted or used by third parties in any form or medium. The message is personal and exclusive to the person sent to it. In addition, all our claims and litigation rights arising from the legal regulations in the countries where this report is sent and in line with our explanations above are reserved.