

Data Snapshot

Balance of Payments: Adjustment in non-energy CAD continues

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November's monthly current account deficit came in at USD 5.2bn, in line with our in-house forecast (USD 5.2bn) and slightly lower than the market consensus of USD 5.3bn. The 12-month rolling CAD declined to USD 77.8bn from USD 78.6bn registered in October as the monthly deficit compares favorably with the USD 6.0bn registered in November 2010. The USD 0.4bn improvement in service balance, and USD 0.3bn in trade balance over a year ago were the main factors behind the improvement in the CAD, as income balance improved by USD 0.1bn.

Meanwhile, the adjustment in non-energy CAD continued in November in 12-month rolling terms. It declined by USD 1.9 billion to USD 31.2 billion in November, following the USD 0.4bn improvement in October. We expect the narrowing in the non-energy CAD to continue in the upcoming period mainly due to the slowdown in non-energy imports.

Table 1: Current Account Developments (USD, mn)

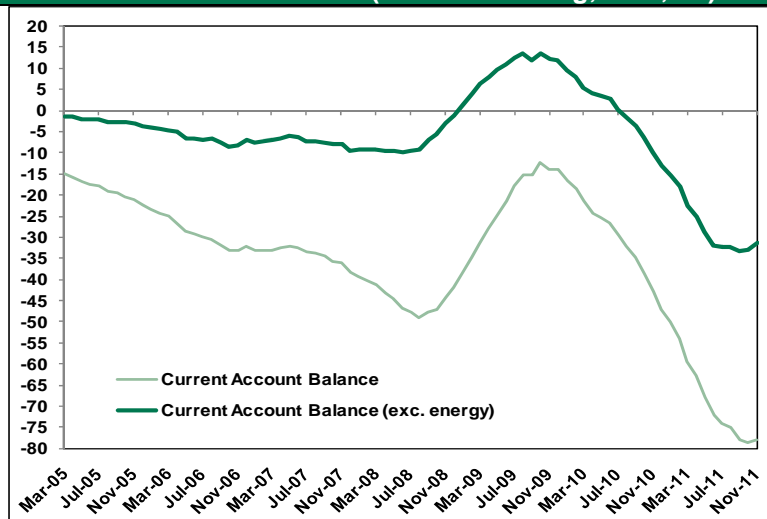
	Nov		Jan-Nov		12-month rolling	
	2011	2010	2011	2010	Nov	Oct
Current Account	-5,188	-5,975	-70,241	-39,522	-77,820	-78,607
o/w: Non-Energy 1/	-805	-2,658	-27,154	-9,008	-31,219	-33,072
Trade Balance	-6,255	-6,517	-82,744	-49,187	-90,002	-90,264
Exports	11,788	9,927	130,266	108,508	142,660	140,799
%	19	4	224	111	240	225
Imports	-18,043	-16,444	-213,010	-157,695	-232,662	-231,063
%	10	36	398	347	437	463
Services (net)	1,310	894	18,284	14,715	18,604	18,188
o/w: Tourism (net)	1,226	1,012	18,037	15,355	18,663	18,449
%	21	-3	243	-59	238	214
Income (net)	-351	-452	-7,114	-6,313	-7,940	-8,041
o/w: Interest Expenditu	-334	-310	-4,483	-4,794	-5,116	-5,092
Current Transfers	108	100	1,333	1,263	1,518	1,510
Memorandum Items: 2/						
Trade Balance	-7,533	-7,752	-86,174	-61,027	-106,467	-106,686
Energy 3/	-4,383	-3,317	-43,087	-30,514	-46,601	-45,535
Non-Energy	-3,150	-4,436	-43,087	-30,514	-59,866	-61,151

1/ Current account less energy deficit by TURKSTAT definition, i.e. energy imports including cost-insurance-freight.

2/ TURKSTAT definitions.

3/ STIC definition; including crude oil, petroleum products and natural gas.

Source: CBRT

Graph 1: Current Account Balance (12-month rolling; USD, bn)

Source: CBRT

On the financing side of the equation, we see net FDI remaining weak at USD 0.2bn in November, while there were USD 1.9bn inflows to portfolio instruments, as foreign investors sold USD 0.3bn in equities in ISE, and debt securities saw an inflow of USD 2.2bn (USD 1.5bn was to government's domestic debt securities). USD 2.8bn in asset drawdown by local banks from abroad was another significant financing item in November. On the other hand, official reserves rose USD 1.9bn in November thanks to the increase of the ratio of FX that can be held as required reserves for TRY liabilities to 40% from 20% in late October. Meanwhile, there was an inflow of USD 0.7bn under net errors and omissions in November, which brought year-to-date financing under this item to USD 12.9bn.

Table 2: Capital Account (USD, mn)

	Nov		Jan-Nov		12-month rolling	
	2011	2010	2011	2010	Nov	Oct
Current Account Deficit	-5,188	-5,975	-70,241	-39,522	-77,820	-78,607
Capital Account	6,442	5,586	60,973	46,886	70,115	69,259
Direct Investment	218	733	10,023	5,726	11,926	12,441
Portfolio Investment	2,692	1,054	19,093	16,102	19,084	17,446
o/w: Equity	-269	730	-1,231	4,253	-2,016	-1,017
Debt Securities 1/	2,181	1,170	17,131	15,566	17,714	16,703
o/w: Domestic Issues	1,545	294	11,540	10,262	11,993	10,742
Other Investment	3,532	3,799	31,857	25,058	39,105	39,372
Assets	3,307	1,641	13,796	6,772	14,115	12,449
Liabilities	225	2,158	18,061	18,286	24,990	26,923
Short Term	482	1,596	13,136	10,234	18,321	19,435
Long Term	172	432	8,604	-2,782	8,536	8,796
o/w: Corporate Sector	346	143	4,493	-6,265	3,829	3,626
IMF Credits	-590	-391	-2,682	-1,800	-3,041	-2,842
Other	161	521	-997	12,634	1,174	1,534
Net errors and omissions	684	2,337	12,913	4,037	12,814	14,467
Reserve Assets 2/	-1,938	-1,948	-3,645	-11,351	-5,103	-5,113

1/ Including domestic issues to non-residents.

2/ Minus sign means reserve build up.

Source: CBRT

The banks paid USD 0.1bn net MLT (medium to long term) debt with a rollover ratio of 85% in November, significantly below 194% observed on average during August-October, but one number does not make a trend. Meanwhile, the corporate sector borrowed a net USD 0.3bn with a rollover ratio of 128%, higher than the 113% during August-October. Combined with FDI, the share of net MLT borrowing in CAD financing during January-November was still very low at 27%.

Despite the expected slowdown in the world economy, oil price (Brent) is likely to stay above \$100/bbl on average this year as tensions between Iran and Western countries is an important factor that prevent oil prices sliding below the \$100 mark. We revised our oil forecast back to \$105 from \$93, which caused an expansion of some USD 5 billion in our CAD forecast for 2012. We forecast a CAD of USD 78 billion (10.3% of GDP) for 2011 before the deficit narrows marginally to USD 66 billion (8.9% of GDP) this year.

As for the lira, today's CAD figures should be neutral as they are broadly in line with the market consensus. However, the figures are positive for the lira in a medium-term perspective as they show that the adjustment is continuing.

Another factor affecting the lira is the liquidity provided by the CBRT. The increased amount of liquidity provided at 5.75% by the CBRT in the last two days is lira negative. Today, the CBRT announced that it opened a one-week repo auction at 5.75% of TRY 6bn, which would bring the outstanding amount to TRY 13bn compared to zero on Monday. Recall that the bank provided the market TRY 7.0bn of funds at 5.75% and did not open a competitive one-week repo auction yesterday. In addition, the bank did not hold an intraday FX selling auction yesterday and held only a regular FX selling auction, in which it sold USD 50mn. The recent CBRT actions with regard to FX and lira liquidity signal that the bank returned to the "normal day" concept in which the bank increases one-week repo funding at 5.75%.

Although the return to the "normal day" concept is bond positive, its sustainability is questionable as the CBRT has the flexibility to turn to other options easily. However, it may continue a few days more before Treasury auctions start on January 17th, barring a notable depreciation in the lira.



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