Şeker Securities

Macronote

MPC meeting:
CBRT may be at the peak of the 'normal' day concept

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No change in the interest rates as expected. The Monetary Policy Committee (MPC) kept the policy rate (one-week repo rate) unchanged at 5.75%. The walls of the interest rate corridor, O/N lending and borrowing rate, were also maintained at 5.00% and 12.50% respectively, as is the case in the O/N lending rate for primary dealers (12.00%).

Rebalancing in the economy continues and the current account deficit will continue to decline gradually, according to the CBRT. The bank expects a moderate course for domestic demand growth, which will limit secondary effects of temporary price movements, and accelerate the decline in inflation in the last quarter of the year thanks to base effects.

The CBRT reiterates that tight monetary conditions will prevail for a while in order to keep the inflation outlook in line with medium-term targets. On the other hand, the CBRT preserves its flexibility of adjusting the amount of funding provided through one-week repo funding due to the uncertainties with regard to the global economy.

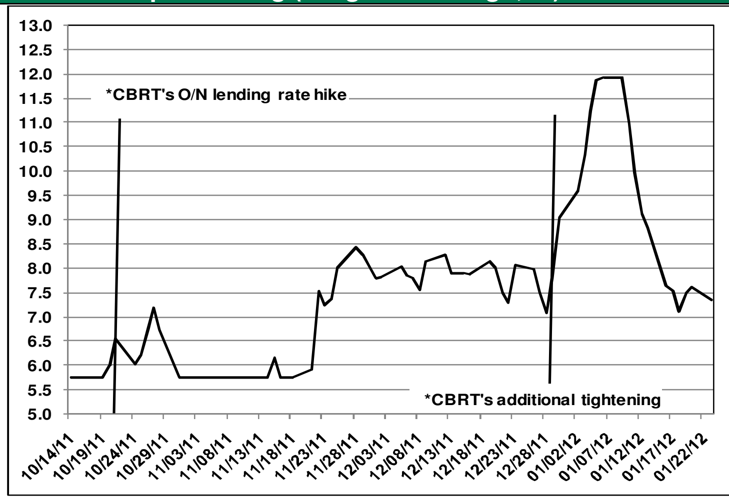
CBRT likely to continue its policy of 'normal days' for a while barring a major deterioration in the risk appetite. However, removal of the regular FX selling auctions and increasing the limits of one-month repo funding point to the fact that we may be at a dip for funding costs and for the currency basket for now.

CBRT removes regular FX selling auctions, in which it sells USD 50mn. The CBRT removed regular FX selling auctions starting tomorrow (January 25th) thanks to improvement in the current account balances and sudden changes in global conditions (increased risk appetite in our words). Instead of regular auctions, the bank will continue to use intraday FX selling auctions if needed, in which the bank will sell USD 50mn in each auction and a maximum daily amount of USD 500mn until the next MPC meeting (February 21st).

More funding through one-month repo funding at high rates is possible until the next MPC meeting. As for lira liquidity, the bank will continue to open one-week repo auctions of TRY 3 – 7bn at 5.75% in normal days, when it opens an auction until February 21st. On the other hand, the upper limit provided in one-month repo auctions increased to TRY 5bn from TRY 3bn (total monthly amount from TRY 12bn to TRY 20bn). However, the CBRT adds that in case there are extraordinary changes in liquidity conditions the bank may not obey funding limits.

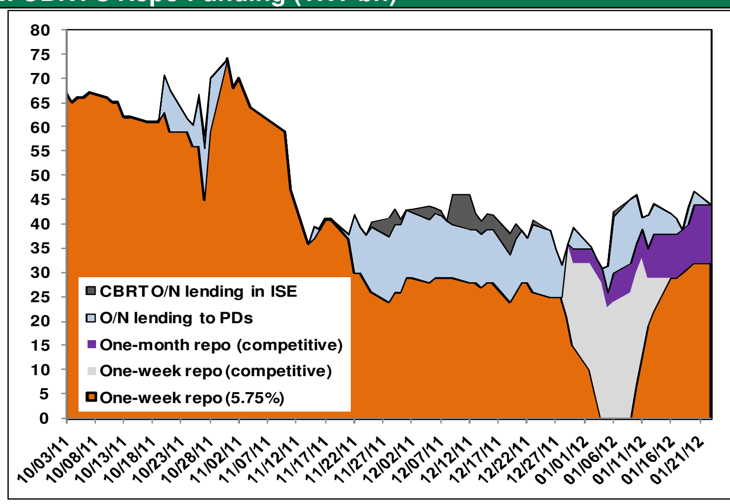
Increasing weight of one-month repo may increase funding costs more than half a point. Due to liquidity needs in the market, the CBRT may increase lira liquidity by increasing the amount provided in competitive one-month repo auctions instead of one week repo auctions at 5.75%. The banks borrowed at an average simple rate of 11.34% last Friday (January 20th) in the one-month repo auction. We calculate that if the central bank uses the full limit in one-month repo auctions, and keeps the other funding sources at current levels, the cost of funding from the CBRT would rise to 8.00% from the current 7.34%.

Graph 1: Cost of Repo Funding (Weighted average; %)



Source: CBRT, Seker Securities

Graph 2: CBRT's Repo Funding (TRY bn)



Source: CBRT, Seker Securities

Another bout of currency weakness due to European debt concerns may increase funding costs easily. The recent decline in bond rates from around 11.6% on January 5th to 9.99% (the minimum intraday level today) is understandable as the cost of CBRT funding declined to 7.34% as of yesterday from 11.93% on January 6th. In our opinion, the Treasury's hefty redemptions of domestic debt also had a role in causing the CBRT to fund the market at a lower cost, in addition to the improved risk appetite, which supported the lira. However, we have to urge investors that the CBRT has no commitment to provide funding around an average rate of 7.5% as it maintains flexibility. Therefore, another bout of currency weakness due to European debt concerns may increase funding costs easily. It is a reason why we question the sustainability of the current decline in the benchmark bond rate in addition to our inflation outlook which envisages annual inflation remaining within the 9-11% range until the last quarter. Other than these, some TRY 47-48bn in hefty domestic debt redemptions during February-April is another factor which makes the decline in the bond rate seems unsustainable at least for now.

All in all, the CBRT's announcement increased the likelihood of an end in the decline in bond rates and the appreciation in the lira in the very short-term.

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