

# Macronote

## MPC meeting:

### CBRT may be at the peak of the 'normal' day concept

Ibrahim Aksoy

Economist

+90 212 334 91 04

[iaksoy@sekeryatirim.com](mailto:iaksoy@sekeryatirim.com)

**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.

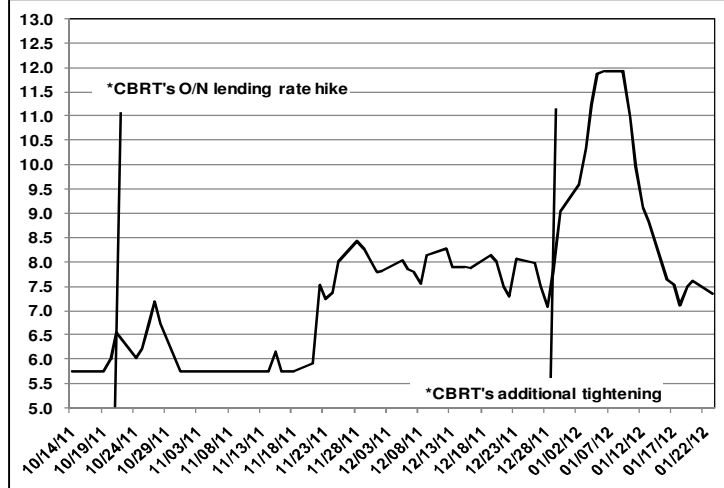
**CBRT likely to continue its policy of 'normal days' for a while barring a major deterioration in the risk appetite.** However, removal of the regular FX selling auctions and increasing the limits of one-month repo funding point to the fact that we may be at a dip for funding costs and for the currency 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 25<sup>th</sup>) 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 21<sup>st</sup>).

**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 21<sup>st</sup>. 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.

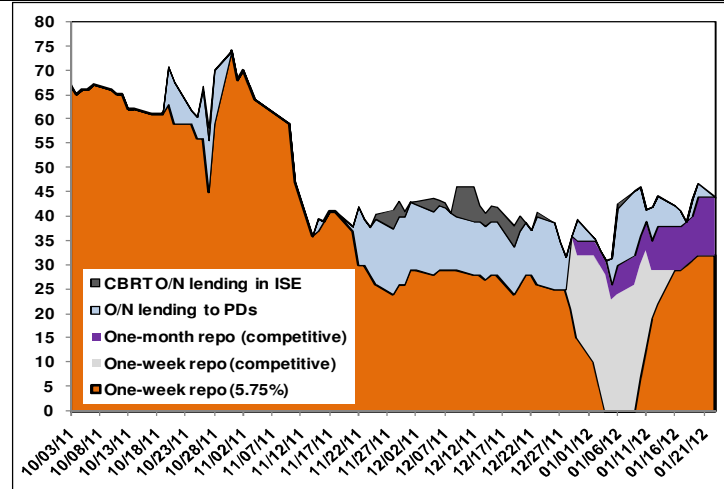
**Increasing weight of one-month repo may increase funding costs more than half a point.** Due to liquidity needs in the market, the CBRT may increase lira liquidity by increasing the amount provided in competitive one-month repo auctions instead of one week repo auctions at 5.75%. The banks borrowed at an average simple rate of 11.34% last Friday (January 20<sup>th</sup>) 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 5<sup>th</sup> 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 6<sup>th</sup>. 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.

## ŞEKER SECURITIES RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.  
İnönü Cad. Tımşah Han No: 36  
Beyoğlu - İSTANBUL  
TURKEY

TEL: +90 (212) 334 33 33  
Fax: +90 (212) 334 33 34  
E-mail: [research@sekeryatirim.com](mailto:research@sekeryatirim.com)  
Web: <http://www.sekeryatirim.com/english/index.aspx>

For additional information, please contact:

#### Research

Kadir Tezeller	Head of Research	+90 (212) 334 33 33	<a href="mailto:ktezeller@sekeryatirim.com">ktezeller@sekeryatirim.com</a>
Volkan Muhurcuoglu	Banking Analyst	+90 (212) 334 33 33	<a href="mailto:vmuhurcuoglu@sekeryatirim.com">vmuhurcuoglu@sekeryatirim.com</a>
Burak Demirbilek	Analyst	+90 (212) 334 33 33	<a href="mailto:bdemirbilek@sekeryatirim.com">bdemirbilek@sekeryatirim.com</a>
Selahattin Aydin	Analyst	+90 (212) 334 33 33	<a href="mailto:saydin@sekeryatirim.com">saydin@sekeryatirim.com</a>
Ezgi Gulbas	Analyst	+90 (212) 334 33 33	<a href="mailto:egulbas@sekeryatirim.com">egulbas@sekeryatirim.com</a>
Volkan Dukkancik	Analyst	+90 (212) 334 33 33	<a href="mailto:vdukkancik@sekeryatirim.com">vdukkancik@sekeryatirim.com</a>
Okan Uzun	Analyst	+90 (212) 334 33 33	<a href="mailto:okan.uzun@sekeryatirim.com">okan.uzun@sekeryatirim.com</a>
Engin Degirmenci	Database Associate	+90 (212) 334 33 33	<a href="mailto:edegirmenci@sekeryatirim.com">edegirmenci@sekeryatirim.com</a>

#### Economy & Politics

Ibrahim Aksoy	Economist	+90 (212) 334 91 04	<a href="mailto:iaksoy@sekeryatirim.com">iaksoy@sekeryatirim.com</a>
---------------	-----------	---------------------	--

#### Institutional Sales

Batuhan Alpman	Head	+90 (212) 334 91 01	<a href="mailto:balpman@sekeryatirim.com">balpman@sekeryatirim.com</a>
Atakan Andic	Sales Trader	+90 (212) 334 91 02	<a href="mailto:aandic@sekeryatirim.com">aandic@sekeryatirim.com</a>
Selin Gursel	Trader	+90 (212) 334 91 03	<a href="mailto:sgursel@sekeryatirim.com">sgursel@sekeryatirim.com</a>
Murat Senalp	Sales Representative	+90 (212) 334 91 05	<a href="mailto:msenalp@sekeryatirim.com">msenalp@sekeryatirim.com</a>

## DISCLAIMER

I, **Ibrahim Aksoy**, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Securities, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Securities considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Securities may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Securities. By accepting this document you agree to be bound by the foregoing limitations.