Data Snapshot - October balance of payments

C/A deficit continues its swift shrinkage

Serkan Gonencler
Economist
sgonencler@sekeryatirim.com.tr

In October, Turkey printed a USD2.8bn C/A surplus (USD3.8bn deficit in the same month of 2017), slightly above the USD2.55bn consensus and our USD2.6bn expectation. As a result, the 12-month rolling C/A deficit declined to USD39.4bn from USD46.0bn.

On the other hand, there was a USD1.4bn capital outflow from official sources, but a USD0.4bn inflow through net errors and omissions. Consequently, official reserves rose by USD1.7bn following a USD11.6bn decline in the previous two months.

For the Jan-Oct period, there was a cumulative USD27.2bn C/A deficit (vs.USD35.1bn in the same period of last year), while there was also a USD6.4bn outflow from the capital account (vs. USD39.8bn inflow in the same period of 2017). On the other hand, net errors and omissions Y-t-d reached USD18.4bn, which somewhat limited the decline in official reserves to USD15.2bn.

Table 1: Balance of Payments (Billion USD)

	Monthly		Ytd		12-month	
	Oct-18	Oct-17	Oct-18	Oct-17	Oct-18	Sep-18
Current Account	2.8	-3.8	-27.2	-35.1	-39.4	-46.0
Foreign Trade (BoP basis)	0.8	-5.6	-40.2	-46.6	-52.5	-58.9
Foreign Trade	-0.5	-7.3	-51.6	-61.2	-67.2	-74.1
Shuttle trade, freight	1.3	1.7	11.4	14.6	14.7	15.1
Services	3.0	2.6	22.1	18.2	23.9	23.5
Primary Income	-1.2	-1.0	-9.6	-8.9	-11.8	-11.7
Secondary Income	0.1	0.3	0.5	2.1	1.0	1.2
Capital Account; exc. reserves (-)	1.4	-5.9	6.4	-39.8	8.1	0.8
Foreign Direct Investment (-)	-0.7	-1.5	-6.0	-7.3	-6.8	-7.6
Net acquisition of financial assets (-)	0.3	0.2	3.1	2.0	3.8	3.7
Net incurrence of liabilities	1.0	1.6	9.2	9.3	10.7	11.3
Portfolio Investments (-)	-0.5	-1.6	3.2	-25.3	4.2	3.0
Net acquisition of financial assets (-)	0.2	0.2	1.8	-0.9	2.4	2.4
Net incurrence of liabilities	0.7	1.9	-1.4	24.4	-1.8	-0.6
Equities	-0.1	0.1	-1.4	3.1	-1.3	-1.1
Government bonds	0.1	0.1	-0.8	7.6	-1.2	-1.2
Eurobonds (Treasury)	2.0	0.0	2.3	5.3	2.8	0.8
Eurobonds (banks)	-1.3	1.0	-0.5	7.2	-1.2	1.1
Eurobonds (corporates)	0.0	0.7	-0.9	1.2	-0.9	-0.2
Loans (-)	1.4	-3.9	4.7	-1.9	2.3	-2.9
Net acquisition of financial assets (-)	0.0	-0.2	-0.3	0.4	-0.1	-0.3
Net incurrence of liabilities	-1.4	3.7	-4.9	2.3	-2.5	2.7
o/w banks	-1.4	2.4	-10.8	0.2	-9.2	-5.4
o/w corporates	0.0	1.4	6.5	3.1	7.7	9.1
Currency and deposits (-)	1.0	0.7	4.2	-2.1	8.2	7.9
Net acquisition of financial assets (-)	0.8	0.6	13.2	0.3	16.4	16.1
Net incurrence of liabilities	-0.2	-0.2	9.0	2.5	8.2	8.3
Trade Loans (-)	0.2	0.3	0.5	-3.3	0.2	0.3
Net acquisition of financial assets (-)	1.0	1.1	2.0	2.6	3.2	3.3
Net incurrence of liabilities	0.8	0.8	1.6	5.9	3.0	3.0
Reserve Assets	1.7	5.0	-15.2	4.5	-27.9	-24.6
Net Errors and Omissions	0.4	2.9	18.4	-0.2	19.5	22.1
memo:						
Private Sector's Total Borrowing	-2.7	5.5	-5.7	11.7	-3.5	4.6

Source: CBT

Capital outflows through banks continued in October

Similar to September, banks displayed the significant portion of capital outflows in October. Banks granted new long-term loans with a 91% rollover ratio, leading to a USD0.4bn outflow. Including the net USD1.0bn redemption in short-term loans, total outflows through loans reached USD1.4bn. Banks were also net debt payers to the tune of USD1.3bn through Eurobond issuances. Banks also repaid USD0.75bn through transactions with offshore branches and non-residents withdrew USD0.15bn of deposit from the banks. As a result, total capital outflows through banks reached USD3.6bn. Note that banks' capital transfers to offshore branches have reached USD18.3bn since May, which might be related to decelerating swap activity.

Despite banks' USD1.3bn net Eurobond redemption, portfolio investments registered a USD0.7bn inflow thanks to the Treasury's USD2.0bn Eurobond issuance. There were miniscule flows through equities and domestic bonds. Meanwhile, there was also USD0.7bn inflow through net FDI.

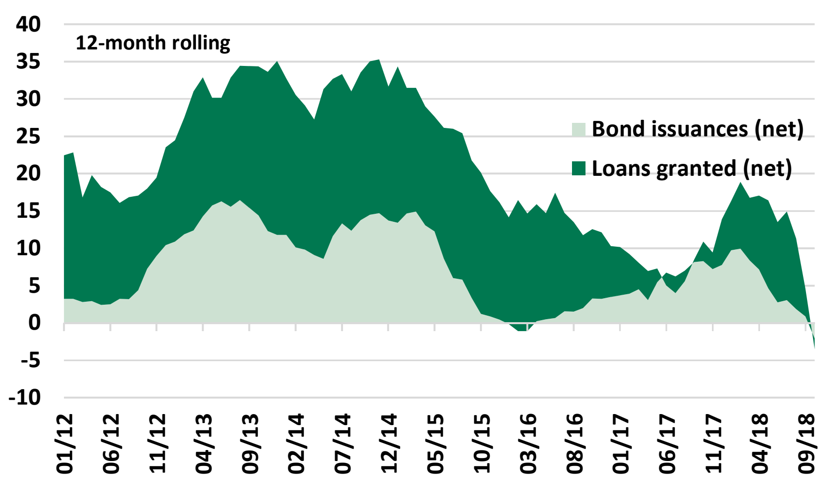
Y-t-d capital outflows mostly attributable to a weakening in portfolio investments

For the January-October period, there is a USD6.4bn capital outflow compared to the USD39.8bn inflow of the same period of last year, This YoY deterioration is mostly attributable to portfolio investments; last year's USD25.3bn inflow turned to a USD3.2bn outflow this year. Specifically, there are respective USD1.4bn and USD0.8bn outflows from equities and local currency bonds this year, vs. respective USD3.1bn and USD7.6bn inflows last year.

Deleveraging in the private sector was also a significant factor in capital outflows

The banking and corporate sector had issued net USD8.4bn of Eurobonds last year (of which USD7.2bn belongs to banks), while this year redeeming a net USD1.4bn. Taking loans and Eurobond issuances together, we note that there has been a USD5.7bn reduction in private sector debt this year so far, vs. a USD11.7bn increase in net debt last year. This deleveraging process also explains the ongoing growth slowdown.

Graph 1: Private sector's total international borrowing

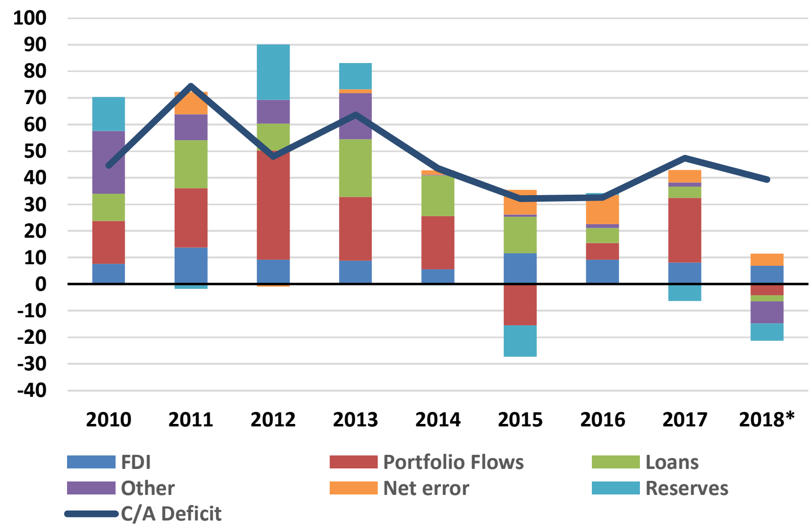


Source: CBT, SEKER Invest

The swift correction in C/A deficit is likely to continue at an accelerated pace going forward

The nose-dive of the foreign trade deficit continued in November with a mere USD0.6bn from USD6.4bn in the same month of 2017), which suggests that the 12-month rolling C/A deficit is likely to retreat to below USD34bn in November (down from the USD58bn May peak). We might see the C/A deficit edging further to USD26-27bn in December. If the pace of the past few months is maintained, it would not be surprising to see the C/A deficit below USD20bn (actually close to USD15bn) in 1Q. This downward trend in the C/A deficit might continue to support TRY stabilization (ceteris paribus).

Graph 2: C/A deficit and its financing (USD Billion)



Source: CBT, SEKER Invest

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

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

For additional information, please contact:

Research

Kadir Tezeller	Head	+90 (212) 334 33 81	ktezeller@sekeryatirim.com
Burak Demirbilek	Utilities, Mining	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
R. Fulin Onder	Aviation, Cons. Dur., Telcos, Iron & Steel, Oil&Gas	+90 (212) 334 33 33-245	fonder@sekeryatirim.com
Engin Degirmenci	Glass, Cement	+90 (212) 334 33 33-201	edegirmenci@sekeryatirim.com
Mehmet Mumcu	Auto, Retail, REIT	+90 (212) 334 33 33-228	mmumcu@sekeryatirim.com
Sevgi Onur	Banks	+90 (212) 334 33 33-150	sonur@sekeryatirim.com
Fatih Tomakin	Technical Analyst	+90 (212) 334 33 33-251	ftomakin@sekeryatirim.com
Atasav Can Tuglu	Database Associate	+90 (212) 334 33 33-334	atuglu@sekeryatirim.com.tr

Economy & Politics

Serkan Gonencler	Economist	+90 (212) 334 91 04	sgonencler@sekeryatirim.com

Institutional Sales

Batuhan Alpman	Head	+90 (212) 334 91 01	balpman@sekeryatirim.com
Deniz Keskin	Trader	+90 (212) 334 33 36	dkeskin@sekeryatirim.com
Feriha Sarı	Trader	+90 (212) 334 33 88	fsari@sekeryatirim.com

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