

Macro note – MPC Rate Decision

CBRT keeps the policy rate unchanged at 50% in line with expectations. Taken as a whole, the policy statement leaves the door open for a rate cut in December, barring a surprise in November inflation...

Abdulkadir DOGAN

Chief Economist

adogan@sekeryatirim.com.tr

(+90) 212 334 33 33/313

The CBRT Monetary Policy Committee (MPC) kept the policy rate unchanged at 50% at this month's meeting in line with expectations. A dovish tone was preferred throughout the decision text. It was clearly emphasized that demand inflation has fallen to desired levels. On the other hand, it was stated that the improvement in services inflation, which was postponed to the last quarter, has become more evident in the current situation. While goods inflation remains low, unprocessed food inflation remains elevated due to supply conditions. Although inflation expectations have improved, they remain a risk factor. We believe that one of the most critical parts of the policy statement is the emphasis on the importance of coordination with fiscal policy. The CBRT implicitly implied that the variables under the control of monetary policy have reached the desired level and that fiscal policy has a greater role to play in the next phase of the fight against inflation. In case of a deterioration in the inflation outlook, the CBRT reemphasized that monetary policy tools will be used effectively instead of monetary tightening. Another important addition to the text is that the tightening of monetary policy will be adjusted by taking into account both inflation realization and expectations. This is another signal of a rate cut. Although current inflation remains high, an improvement in expected inflation may open the door to interest rate cuts. Therefore, we think that both inflation expectation surveys and November inflation realization will be the two most important factors in the CBRT's December decision. If expectations do not deteriorate and November inflation does not surprise upwards, a December rate cut seems highly likely. CBRT reiterated that it will support monetary transmission through macroprudential measures in case of unexpected developments in the credit and deposit markets. It was stated that liquidity conditions are closely monitored and sterilization tools will continue to be used effectively.

In the details of the decision text, the rationale for the tight stance and current developments were included. Accordingly, "The underlying trend of inflation decreased in October. Indicators for the last quarter imply that domestic demand continued to slow down and reached levels supportive of disinflation. Core goods inflation remained low, while signs of improvement in services inflation became more evident. Unprocessed food inflation remains elevated due to temporary supply conditions. Inflation expectations and pricing behavior display an improving trend, yet remain a risk factor for the disinflation process." The fall in the underlying trend of October inflation is considered a positive development. Domestic demand has reached disinflation levels and we can say that demand inflation is at the desired level. The fact that services inflation has also become more evident indicates that goods and services inflation will converge to the desired level in the near future. When this section is evaluated as a whole, we can say that there have been positive developments in the fight against inflation.

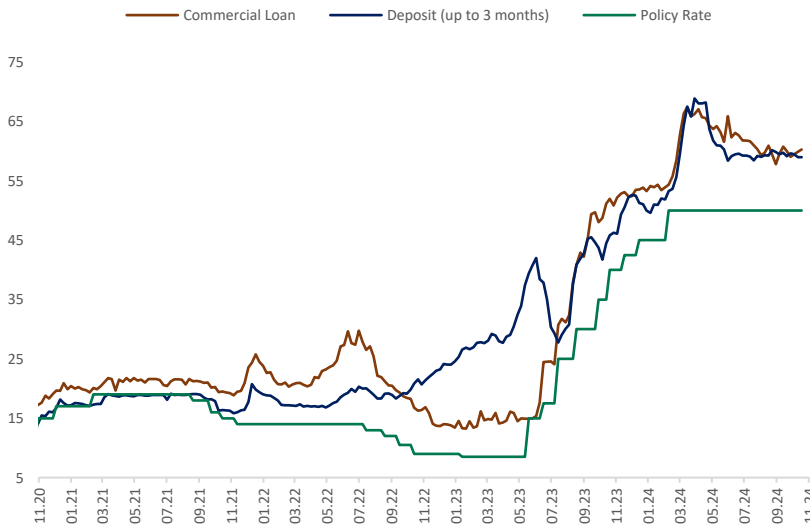
The section on the rationale for the interest rate decision is summarized as follows. "The decisive stance in monetary policy will bring down the underlying trend of monthly inflation and strengthen the disinflation process through rebalancing in domestic demand, real appreciation in the Turkish lira and improvement in inflation expectations. Increased coordination of fiscal policy will also contribute significantly to this process. The tight monetary policy stance will be maintained until the underlying trend of monthly inflation declines significantly and permanently and inflation expectations converge to the projected forecast range. Accordingly, the level of the policy rate will be set to provide the tightness required by the envisaged disinflation process, taking into account inflation realizations and expectations. The Committee reiterated its cautious stance against upside

risks to inflation. In case of a significant and persistent deterioration in inflation, monetary policy tools will be used effectively." The emphasis on fiscal policy indicates that the room for maneuver of monetary policy has narrowed. Therefore, if inflation is not created by the public sector, the path to disinflation will become more effective. It was re-emphasized that the tight stance will continue until the underlying trend of inflation declines on a monthly basis. The effective use of monetary policy tools in case of disinflation indicates that other tools will be preferred over the policy rate.

The paragraph on macro financial stability was amended as follows. "In case of unanticipated developments in credit and deposit markets, the monetary transmission mechanism will be supported by additional macroprudential steps. Liquidity conditions are closely monitored in view of possible developments. Sterilization tools will continue to be used effectively." It was re-emphasized that deterioration in the credit and deposit spreads will not be allowed. The TL surplus arising from FX outflows and capital inflows will continue to be sterilized with appropriate instruments and the tight stance will be maintained.

In summary, in today's interest rate decision, the Central Bank kept the policy rate unchanged at 50% in line with expectations. In addition to the monthly inflation rate, inflation expectations were stipulated as a prerequisite for the start of the interest rate cut cycle. This is a message that these prerequisites will be evaluated together and that interest rate cuts can start if inflation expectations improve, even if current inflation remains high. The apparent improvement in services inflation indicates that both goods and services inflation have reached the desired levels. The CBRT maintains its determined stance in the fight against inflation, both by using its main policy tool effectively and by adjusting liquidity through complementary macroprudential measures. In this context, if November inflation does not surprise and inflation expectations do not deteriorate, a rate cut in December is highly likely. We would like to underline that the policy rate stance may be revised in case of new supply or demand shocks.

Graph 1: Policy, Loan, and Deposit Rates (%)



Source: CBRT, ŞEKER Invest

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
 Büyükdere Cad. No: 171 Metrocity
 A Blok Kat 4-5 34330 SİSLİ /İST
 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, Pharmaceutical, Defense Industry	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
Sevgi Onur	Banks	+90 (212) 334 33 33-150	sonur@sekeryatirim.com
Engin Degirmenci	Glass, Cement	+90 (212) 334 33 33-201	edegirmenci@sekeryatirim.com
A. Can Tuglu	Food & Bev., Retail, Auto, Aviation, Oil&Gas	+90 (212) 334 33 33-334	atuglu@sekeryatirim.com
Esra Uzun Ozbaskin	Telcos, Iron & Steel, Cons. Dur.,	+90 (212) 334 33 33-245	euzun@sekeryatirim.com

Economy & Politics

Abdulkadir Dogan	Chief Economist	+90 (212) 334 91 04	adogan@sekeryatirim.com
------------------	-----------------	---------------------	--

Institutional Sales

Batuhan Alpman	Head	+90 (212) 334 33 70	balpman@sekeryatirim.com
Deniz Keskin	Trader	+90 (212) 334 33 36	dkeskin@sekeryatirim.com
Muhammed Kerim Culum	Trader	+90 (212) 334 33 33-316	kculum@sekeryatirim.com.tr

DISCLAIMER

I, Abdulkadir Dogan, 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 Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest 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 Invest 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 Invest. By accepting this document you agree to be bound by the foregoing limitations.

Copyright © 2024 Şeker Invest, Inc.