

Macronote

MPC Decision:

A little bit surprise

Hilmi Yavas

Economist

+90 212 334 91 04

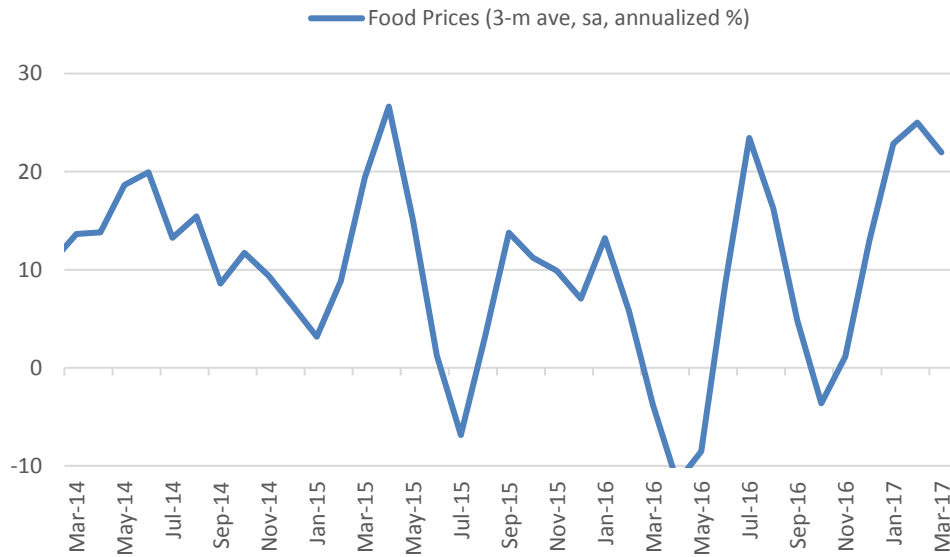
hyavas@sekeryatirim.com

- The CBRT MPC has raised the O/N late liquidity rate to 12.25% from 11.75%, thus surprising the markets, which had a consensus expectation of no change (other rates were unchanged as expected).
- We deem the decision positive, boosting the inflation-fighting credentials of the CBRT as medium-term inflation expectations have further de-anchored and inflation will hover at above 12% in the near future.
- The rebound in economic activity seems to have lowered the bar for the Bank to raise rates. Stability of the TL had been behind the consensus expectation of no change in rates, despite a deteriorating inflation outlook. We believe, the most important factor that must have led to a rate hike was the deteriorating inflation
- However, food prices are still on a rising path as signaled by capital city Ankara's cost of living index, and inflation may surprise on the upside going forward given a probably narrower than expected output gap and lags in cost-driven inflation. This would still mean a below 0 real policy rate against a backdrop of solid M3 growth. Hence, pressure on TL may not subside immediately, despite a more hawkish CBRT reaction curve.
- In the accompanying note the phrase “a significant rise in inflation is expected to continue in the short term due to lagged pass-through and the base effect in food prices” was replaced with “although recent improvement in risk appetite contains some of the upside pressures from cost factors, currently elevated levels of inflation pose risk to pricing behavior”.
- The elimination of lagged pass-through and the base effect in food prices was surprising, as the aforementioned risks are ongoing. Instead, the Bank seemed to be more concerned with the effects on pricing behavior. We believe we are likely to see higher food prices due to higher fruit prices in April which saw unseasonably cold weather this year. We could have another spike in the food inflation momentum in April from an already high level in 1Q17 (see chart below).

Why we are concerned?

- Given the supply&demand dynamics and weakened transmission mechanism, coupled with deterioration in pricing behavior, we expect inflation to continue picking up going forward. Especially, food prices are of concern of late, given sequentially rising prices and an exceptionally low base from last year in the remainder of the year.
- Given very strong export growth and robust domestic demand, surveys point to notably higher capacity utilization in manufacturing sector as anecdotal information from durable goods manufacturers points to capacity constraints.

- Lagged effects of cost-push inflation (% change in annual PPI being near high-teens) will continue to spill over to consumer prices, and we believe that elimination of the aforementioned risks from the accompanying note was unwarranted.
- Ex-post real policy rates continue to be non-existent or risk being negative. In fact, recent TL-denominated SME loans with a 3-year-maturity extended by banks within state credit guarantee scheme (TRY140bn in volume) yielded as low as 14%, even below marginal deposit rates, as reported by the Press.
- We believe, upcoming inflation data releases for April and May, will remain more critical for FX&FI pricing than MPC decisions given they are mostly of reactive nature and incremental in effect.





Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No:171
Metrocity A Blok Kat 4-5
Sisli - ISTANBUL 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 of Research	+90 (212) 334 33 81	ktezeller@sekeryatirim.com
Burak Demirbilek	Utilities, Mining	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
Ovunc Gursoy, CFA	Banking & Insurance	+90 (212) 334 33 33-228	ogursoy@sekeryatirim.com
R. Fulin Önder	Aviation, Telecom, Steel, Cons. durables	+90 (212) 334 33 33-245	fonder@sekeryatirim.com
Fatih Tomakin	Technical Analyst	+90 (212) 334 33 33-251	ftomakin@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

Economy

Hilmi Yavas	Economist	+90 (212) 334 91 04	hyavas@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

DISCLAIMER

I, Hilmi Yavas, hereby certify that the views expressed in this research accurately reflect my personal views about the subject Invest 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 Invest 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.