

Macro Alert – MPC rate decision

CBT rate hike; a bit lightweight

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At its long awaited MPC meeting, the CBT hiked only the late liquidity window (LLW) rate by 50 bps, which is below market expectations. Accordingly, the LLW rate increased to 12.75% from 12.25%, while the O/N lending and weekly repo rates remained stable at 9.25% and 8.0%, respectively.

CBT hikes rates but disappoints markets

The CBT's decision is far from the wider market expectation of a 100 bps LLW rate hike, and even fails to satisfy the most dovish expectation of the market survey, which was for a 75bps hike in the LLW rate. Our expectation, on the other hand, was for a combined 75-100 bps hike for both the LLW rate and the O/N rate.

In our macro note where we discussed the potential scenarios for the MPC's decision (published yesterday), we attached only a 5-10% probability for a 50 bps hike since we believed that if the CBT were to hike rates, it would prefer to do something more than what the market already expects, or else meet market expectations, at the very least. Nevertheless, it seems that political resistance against rate hikes has played a bigger role in the CBT's decision making criterion than market expectations. As a result, the CBT took an action that it sees as a mid-way solution.

Upbeat global sentiment might restrain negativity in currency and rates going forward

Following the CBT's decision we witnessed an initial negative market reaction as expected (as the USD/TRY mounted to 3.88 from 3.82 and the 10-year bond yield also rose to 12.36% from 12.12%). Nevertheless, as we had stated in yesterday's macro note, we think that global sentiment will continue to be the determining factor for the evolution of rates and currency going forward, and that if global sentiment remains upbeat, we may even retreat to previous price levels (observed before the meeting).

On the other hand, the CBT now has no monetary policy flexibility, thus might be forced to hike more

On the other hand, with a mere 50 bps hike, the CBT will have little or no monetary policy flexibility (to increase the average funding rate) in case of a reversal in market sentiment. Therefore, we also believe that there is a considerable likelihood that the CBT might be forced to continue rate hikes at upcoming MPC meetings, or even hold an extraordinary meeting in the interim until the next ordinary MPC meeting (scheduled for 18 Jan).

If the CBT shifts some of its funding to the O/N lending channel, we would expect negative reaction to intensify

The MPC's decision means that the CBT will stick to its current monetary standing, in other words it will continue to use the LLW in an effective manner. Markets will now want to see whether the CBT will continue to provide the whole funding from the LLW tomorrow, or else shift some (let's say 10%) of the funding to the O/N lending channel, as was the case before 22 Nov. If it shifts 10% of its funding to the O/N rate, the increase in the average funding rate could be as low as 15 bps (average funding: 12.40%). If this becomes the case, we would expect the negative reaction to intensify.

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