

MNI CBRT Preview: April 2025

Details:

Monetary policy decision: 1100BST/1200CET/ 0600ET, Thursday 17th April 2025.

MNI Point of View: Easing Cycle Hits Major Roadblock

Following the bank's unscheduled overnight lending rate hike in late March (just weeks after the 250bps cut to the benchmark one-week repo rate), the CBRT's easing cycle has hit a significant roadblock, and cuts to the one-week repo rate are unlikely in the very near-term. This confirms financial stability as the policy preference over slowing headline CPI.

The vast majority of analysts surveyed see no change in policy at this month's meeting, although a not insignificant minority see a real risk of policy tightening this week. HSBC note that this meeting could prove difficult and while the bank have succeeded in returning stability to TRY markets, it has come at a heavy cost of bank reserves. Reports of intervention via public banks were widespread following Imamoglu's detention, which were gauged at \$5-10bln and supposedly targeted the 40.00 level in USD/TRY. The bank also began selling TRY-settled FX forwards to further cushion volatility and liquidity issues – all of which would be unsettled by further easing at this stage. Underscoring the importance of reserves, Fitch Ratings specified that the trajectory of reserves will be key in assessing sovereign credit implications going forward.

The bank's decision to conduct an emergency 200bps hike to the overnight lending rate came in response to the broad pressure on TRY that resulted in some platforms quoting USD/TRY as high as 41.30 – an acute acceleration of the nominal depreciation of the currency. The price action followed the detention of opposition leader Imamoglu on corruption concerns and serves as further reminder that while the financial authorities are pursuing policy orthodoxy, positive real interest rates and orderly markets, political risk remains a key issue for the Turkish economy. This risk premium should persist, even with three year gap with the next Presidential and General Elections.

March inflation data slowed and came in below sell-side consensus, at 38.10% vs. Exp. 38.70% and 37.42% vs. Exp. 38.60%. While the data will have been a boon for the CBRT's committee, renewed inflationary risks lie in the recent cold snap across critical Turkish food-producing regions within the past two weeks. The cold snap lasted several days and was among the coldest temperatures seen at this time of year for decades, and is expected to have significant impacts on food production for April – raising the risk of a near-term crunch in staples prices, a higher dependency on foreign imports and a worsening trade deficit. While the Agricultural Ministry remains in the process of gathering damage estimates from producers, the government have pledged significant support for those effected, all of which further add to the argument for holding (or at least, not cutting) the benchmark rate at this stage.

CBRT Data Watch:

MNI CBRT Data Watch List											
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI YoY	% y/y	38.10	44.38	⬇️	49.38	⬇️					-1.41
Core CPI YoY	% y/y	37.42	45.34	⬇️	49.10	⬇️					-1.63
PPI YoY	% y/y	23.5	28.5	⬇️	33.1	⬇️					-1.42
Expected CPI	%	24.55	27.07	⬇️	27.49	⬇️					-1.48
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Industrial Production YoY	% y/y	-1.9	1.7	⬇️	-5.1	⬆️					-0.76
Trade Balance	\$bn	-7.77	-7.51	⬇️	-5.00	⬇️					-0.66
Markit PMI Mfg	Index	47.3	49.1	⬇️	44.3	⬆️					-0.04
Capacity Utilization	%	74.4	75.8	⬇️	74.9	⬇️					-1.08
Monetary Analysis		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
M3 Money Supply	TRYbn	21516.7	19389.97	⬆️	18121.2	⬆️					1.79
Foreign Transactions of Equities	%	-651.9	-101.03	⬇️	206.2	⬇️					-2.02
Foreign Transactions of Govt bond	\$m	114.0	69.00	⬆️	83.0	⬇️					0.22
Home Sales YoY	% y/y	20.1	63.60	⬇️	9.9	⬆️					-0.82
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Retail Sales YoY	% y/y	12.19	16.27	⬇️	13.80	⬇️					-0.72
Consumer Confidence	Index	61.8	62.60	⬆️	58.2	⬆️					0.97
Unemployment rate	%	8.70	8.40	⬆️	8.50	⬆️					-0.04
Foreign Tourist Arrivals	% y/y	-5.3	8.20	⬇️	2.5	⬇️					-2.08
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market (BIST 100)	Index	9659	9831	⬇️	9666	⬇️					0.60
TR 10-Year Yield	%	7.60	7.41	⬆️	6.76	⬆️					1.56
TR Yield Curve (2s-10s)	bps	617	548	⬆️	473	⬆️					-1.54
Effective Exchange Rate	Index	73.48	72.46	⬆️	67.67	⬆️					0.59

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views (Alphabetic Order):

BNY Mellon: Expects unchanged given after unscheduled overnight lending rate hike

- Sharp decline in the lira last month due to domestic factors and additional global risk aversion last week means that TCMB is in no position to cut rates.
- Therefore the repo rate is expected to remain at 42.5%.
- Last month, in an unscheduled meeting, the central bank raised its overnight lending rate by 200bp to help defend the lira so any step in the opposite direction would not be consistent with current objectives.

HSBC: Expects rates unchanged in difficult decision

- We expect the policy rate to be unchanged at 42.5%, but the decision is set to be a difficult one. TRY has been very stable in recent weeks, but this has come at a heavy cost to central bank reserves.
- The current turmoil in global financial markets and growing risk aversion are additional factors arguing for a more prudent policy stance.
- Given reserve losses, we think the MPC may also consider the necessity of an interest rate rise. We previously wrote that policymakers would likely not want to see the USD50bn gain in gross reserves that occurred over the past year reverse in full.
- For now, we think the MPC will prioritise the near-term risk of lira weakness leading to higher inflation (or, in a downside case scenario, to financial stability concerns) over medium-term growth risks. Our current forecast is that the easing cycle will resume in June. But we think risks are tilted in the direction of fewer/more gradual cuts given global risk aversion and Türkiye's sizeable funding needs.

JP Morgan: Expects policy rates unchanged, but there is a risk of a rate hike

- We expect the CBRT to keep the policy rate of one week repo rate unchanged at 42.5%, and the overnight lending rate at 46.0%.
- There is a risk that the CBRT might hike the one week repo rate to prevent further dollarization among Turkish residents.
- After a pause, we see the CBRT cutting 150bp at each MPC meeting starting from June 2025 to 35% by end-25.

MUFG: CBRT to keep rates on hold at 42.50%, but a hawkish surprise is possible

- We and consensus expect CBRT will maintain its rates at 42.50%. The motivations for a pause in the easing cycle are clear – TRY depreciation following political noise in mid-March poses an upside risk to the inflation outlook, and the combination of portfolio outflows and dollarisation of residents' deposits suggests ongoing pressure on the currency. However, there are risks of a hawkish surprise.
- Their unscheduled hike actions last month led to a ~300bps increase in TRY deposit rates in recent weeks. Hence a hike to the repo rate, combined with a reopening of the repo window would not raise the cost of marginal or average lending but would be a return to the preferred policy instrument.
- The interest rate corridor around the repo rate could enhance the CBRT's flexibility to react to further shocks. Put differently, a hike to the repo rate could imply a return to orthodoxy.

SEB: Rate cutting cycle will have to paused

- The rate cutting cycle will have to be paused. Given the 350bps effective hike at the interim meeting on March 20th (which has pushed the weighted average cost of funding to 46% even with the repo rate still at 42.5%) the most likely outcome next week is the TCMB keeping the repo and the ceiling rates on hold.
- We have kept our end-of-year policy rate forecast at 32% coupled with our inflation forecast for 2025 at 35%. Both are above consensus. This is consistent with our view that underlying inflation pressures will remain more significant, and the output loss required to facilitate disinflation is larger, than what is implied in the TCMB's policy reaction function.

SocGen: Expects unchanged, with CBRT aiming for steady real appreciation of TRY

- We expect the CBRT to hold rates at 42.5% next week. It is likely that the authorities will resume a gradual nominal depreciation of the lira in 2Q25, but will aim for a steady real appreciation.
- Given the cautious CBRT, still-solid FX reserves and tourism revenues, we expect the lira to post solid overall gains in the spring and summer months.