

MPC Meeting

75bps hike at Late Liquidity Window

Key Takeaways

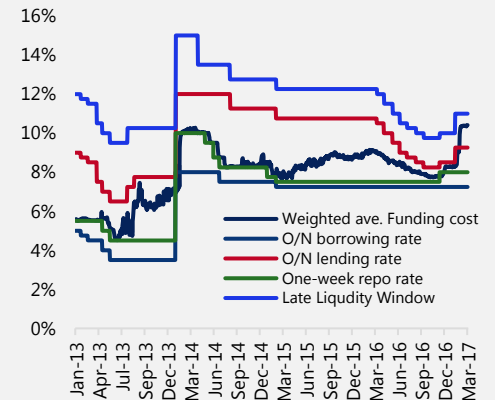
- The MPC has decided to raise the Late Liquidity Window Lending Rate to 11.75% from 11% holding 75bps hike, while kept the other short term rates constant.
- As per the statement, slight improvement in expression over the course economic activity attracts the attention. Yet, the cost push pressures and volatility in food prices were emphasized again and the MPC repeated their expectations of rising annual inflation in the short term.
- The MPC, moreover, kept its forward guidance almost unchanged underlining that it will continue to use all available instruments in pursuit of the price stability objective.
- The CBT will most probably start to provide funding through the O/N lending as of tomorrow. A funding blend of 40% from O/N lending and 60% from LLW corresponds to a WACF of ca.10.8%. In this respect, the investors will keep a close eye on daily funding scheme and the level of WACF by tomorrow. Especially after yesterday's FOMC meeting, which produced quite a dovish rhetoric, we interpret today's MPC decision as TL positive and expect some buying activity at the long end of the yield curve.

The MPC has decided to raise the Late Liquidity Window Lending Rate to 11.75% from 11% holding 75bps hike, while kept the other short term rates constant. (O/N Borrowing at 7.25%, O/N Lending at 9.25%, one-week repo rate at 8%). The median estimate for the MPC decision was 50-100bps hike at O/N lending and 100bps hike at LLW. However, following FOMC's decision yesterday which produced quite a dovish rhetoric, the expectations were revised for a milder MPC move. In fact, we have noted that, contrary to our initial expectations (75bps hike at O/N lending and 100bps at LLW), the MPC would not touch to the O/N lending today but could hold a measured hike on the Late Liquidity Window. Yet one should note that 75bps hike on LLW seems sufficient to provide room for the CBT in case of escalating market volatility.

As per the statement, slight improvement in expression over the course economic activity attracts the attention. Accordingly, the MPC replaced the wording "partial" with "gradual" when expressing the status of the economic activity. In fact, it also dropped the wording of support coming from the aggregate demand developments on disinflation. Yet, the cost push pressures and volatility in food prices were emphasized again and the MPC repeated their expectations of rising annual inflation in the short term. Our house estimate for headline CPI points a gradual increase to 11.5-12% as of May, which will follow with favorable base effect in summer months.

The MPC, moreover, kept its forward guidance almost unchanged underlining that it will continue to use all available instruments in pursuit of the price stability objective, while tight stance in monetary policy will be

Policy Rates and O/N Money Market Rate



Source: CBT, Tacirler Investment

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added that inflation expectations, pricing behavior and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered.

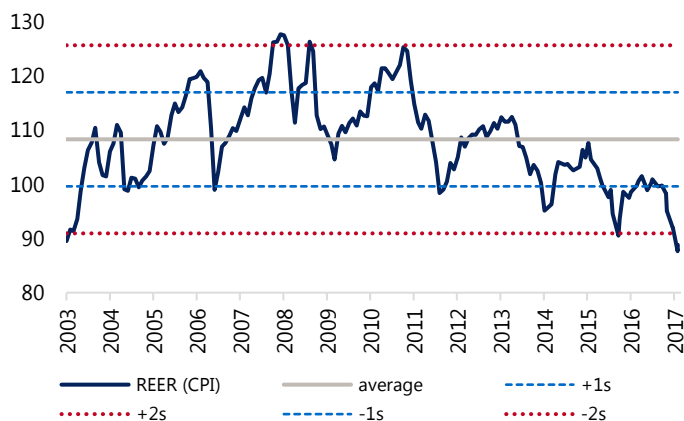
The CBT will most probably start to provide funding through the O/N lending as of tomorrow. The current weighted average cost of funding is at 10.8% and the daily funding combination has been emphasized significantly by LLW as funding through O/N lending consists only 10% of the total daily funding. With today's move, the CBT will most probably start to provide funding through the O/N lending as of tomorrow. A funding blend of ca.40% from O/N lending and ca.60% from LLW corresponds to a WACF of 10.8%. In this respect, the investors will keep a close eye on daily funding scheme and the level of WACF by tomorrow. Yet the CBT made it clear that with today's move it has some room in case of further volatility in the coming period. Especially after yesterday's FOMC meeting, which produced quite a dovish rhetoric, we interpret today's MPC decision as TL positive and expect some buying activity at the long end of the yield curve.

Weighted Average Cost of Funding

Daily Funding Composition		
70% O/N lending	30% LLW	10.0%
60% O/N lending	40% LLW	10.3%
40% O/N lending	60% LLW	10.8%
30% O/N lending	70% LLW	11.0%
20% O/N lending	80% LLW	11.3%
10% O/N lending	90% LLW	11.5%

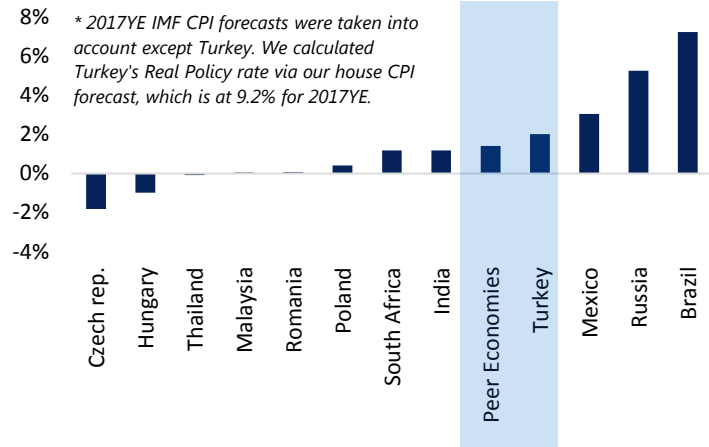
Source: Tacirler Investment

Real Effective Exchange Rate (2003=100)



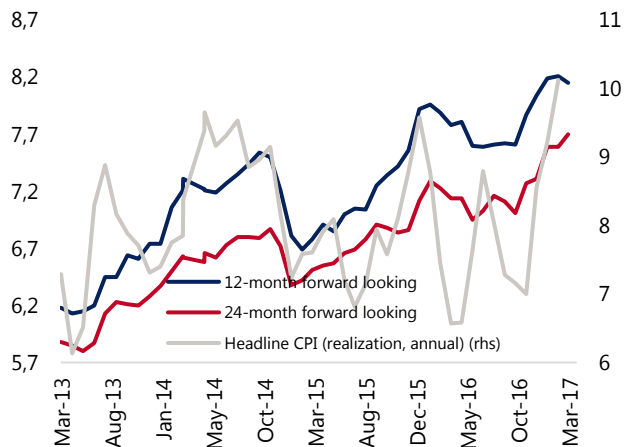
Source: CBT, Tacirler Investment

Real Policy Rates * (peer comparison)



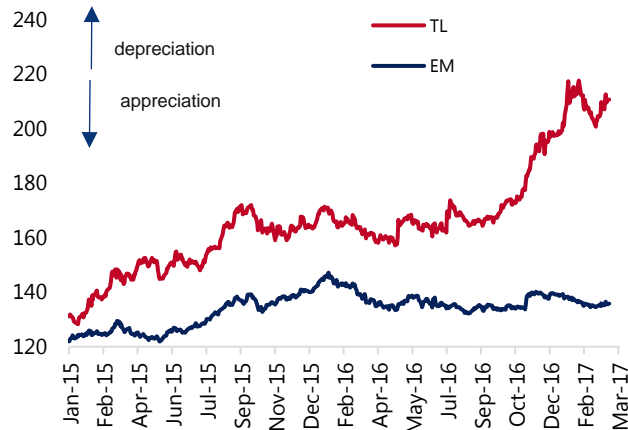
Source: CBs, IMF, Tacirler Investment

Medium Term Inflation Expectations (%)



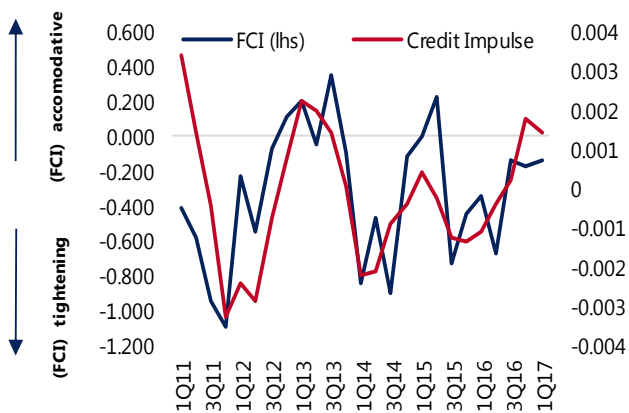
Source: CBT, Tacirler Investment

Local Currency vs. EM Peers (2013=100)



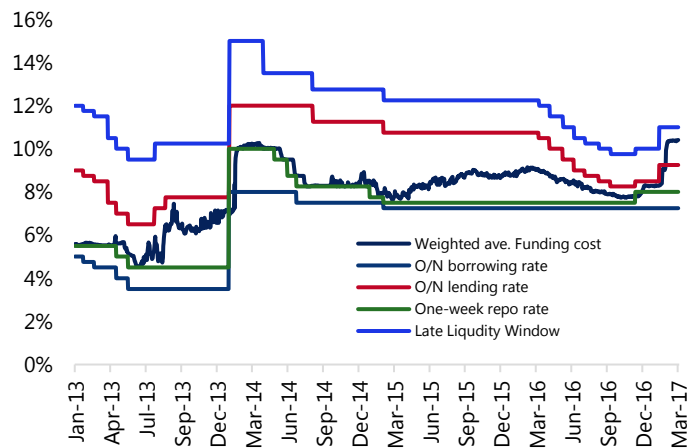
Source: CBT, Bloomberg, Tacirler Investment

Financial Conditions Index



Source: CBT, Bloomberg, Tacirler Investment

Policy Rates and O/N Money Market Rate



Source: CBT, Tacirler Investment

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