

Balance of Payments

Annual CAD eased below USD40bn by October

Key Takeaways

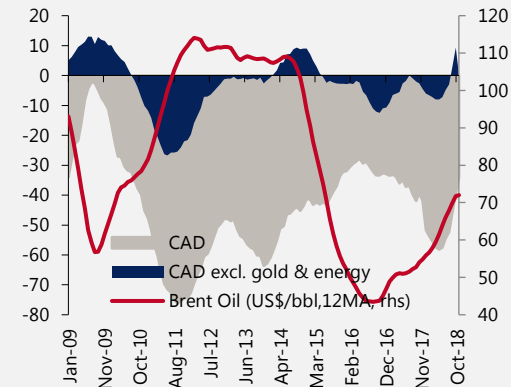
- October current account balance produced a record high monthly surplus at USD2.77bn better than the consensus estimate at USD2.5bn. As a result, the annual current account deficit has eased to USD39.4bn (4.9% of GDP) from previous month's USD46bn (5.8% of GDP).
- For November, the foreign trade figures released by the Trade Ministry have also implied a surplus at around USD0.7bn. All of these factors pose downward risks to our recently revised CAD towards USD30bn from USD33bn.
- As per the capital movements front, inflows (though at lesser amounts) from net direct investment (USD699mn), net portfolio investments (USD491mn) and net errors and omission (USD355mn) were the helping sources.

October current account balance produced a record high monthly surplus at USD2.77bn better than the consensus estimate at USD2.5bn and our house estimate at USD2.3bn. As a result, the annual current account deficit has eased to USD39.4bn (4.9% of GDP) from previous month's USD46bn (5.8% of GDP). The much faster than expected CAD adjustment since May has resulted in USD18.8bn of narrowing in annual terms. Annual Core Current Account Balance, moved further into the positive territory to USD9.3bn (the highest since October 2014) from previous month's USD2.7bn. The pace of the amelioration in CAD has been much better than our estimates, which also imply the negative course of the economic activity.

For November, the foreign trade figures released by the Trade Ministry have also implied a surplus at around USD0.7bn. All of these factors pose downward risks to our recently revised CAD towards USD30bn from USD33bn. For 2019, we believe the deficit would ease towards USD20bn. We think that, **(i)** weaker domestic demand activity, **(ii)** further normalization in gold trade (30% of the ease in annual CAD stems from lower gold imports since May), **(iii)** lower global oil prices, **(iv)** higher exports thanks to the higher competitive advantage after sharp depreciation in TRY and constructive global demand, **(v)** last but not least a strong tourism sector performance, will pave the way for gradual narrowing trend in CAD in the coming period.

As per the capital movements front, inflows (though at lesser amounts) from net direct investment (USD699mn), net portfolio investments (USD491mn) and net errors and omission (USD355mn) were the helping sources. With these financing sources together with surplus registered at the current account balance side, the official reserves achieved to post an increase by USD1.7bn. Yet in year-to-date terms, the official reserves lost ground at an amount of USD15.1bn.

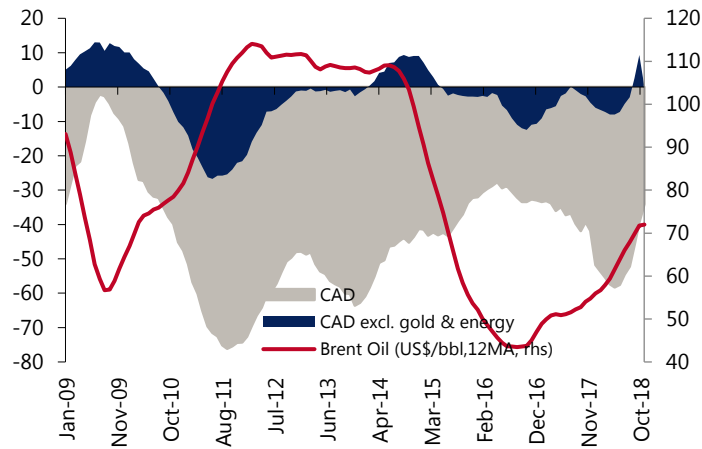
CAD- excl net energy & gold imports
(12-m rolling, US\$ bn)



Source: CBT, Bloomberg, Tacirler Investment

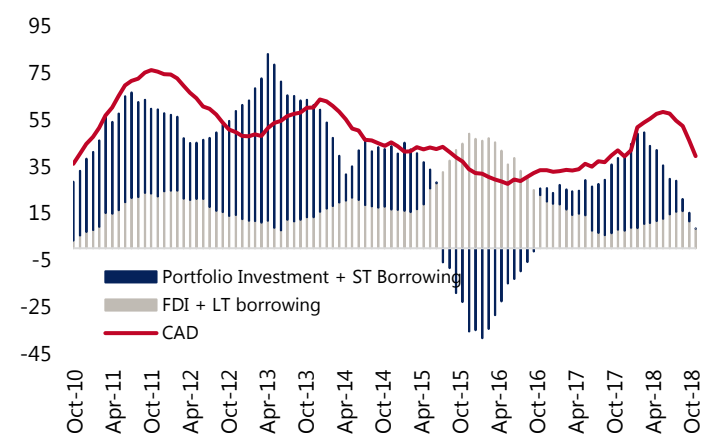
Ozlem Bayraktar Goksen
Chief Economist
ozlem.bayraktar@tacirler.com.tr
+90 212 3552637

CAD -- excl net energy & gold imports (annual, USD bn)



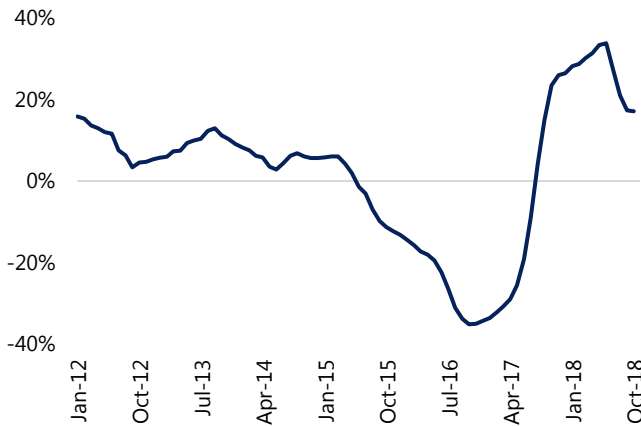
Source: CBT, Bloomberg, Tacirler Investment

CAD Financing (annual, USD bn)



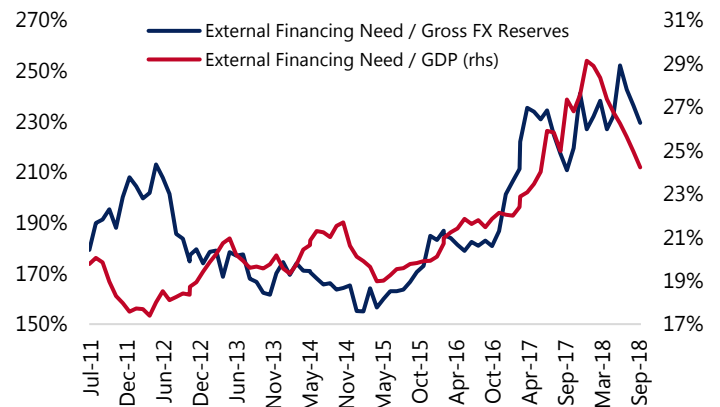
Source: CBT, Tacirler Investment

Net Tourism Revenues (annual, y/y)



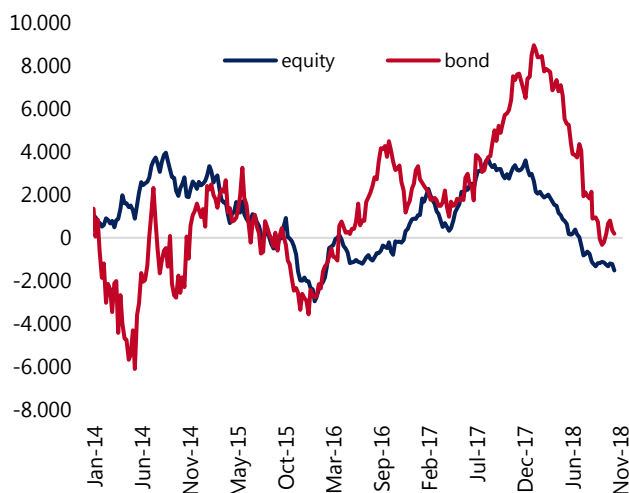
Source: CBT, Tacirler Investment

External Financing Need (annual)



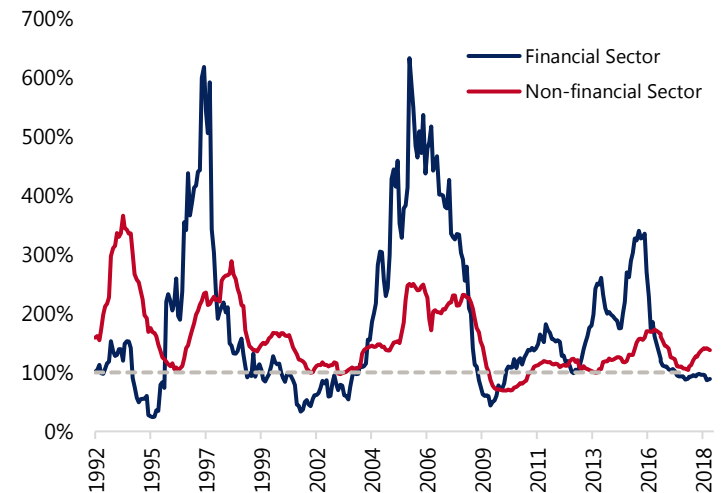
Source: CBT, Tacirler Investment

Foreign portfolio flows (12-m cum., US\$m)



Source: CBT, Tacirler Investment

Corporate Sector LT Borrowing Rollover Ratio (12-m trailing)



Source: CBT, Tacirler Investment

Copyright © Tacirler Investment, 2018. All rights reserved

This document was produced by Tacirler Yatırım Menkul Değerler A.Ş. ("Tacirler Investment"), solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient.

This document does not constitute an offer of, or an invitation by or on behalf of Tacirler Investment to any person to buy or sell any security. The information contained herein has been obtained from published information and other sources which Tacirler Investment considers to be reliable. Tacirler Investment does not accept any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document.

Recipients of this document are urged to base their investment decisions upon their own appropriate investigations that they deem necessary and they should make their own independent decisions as to whether an investment or instrument is proper or appropriate based on their own individual judgment and their risk-tolerance. Any loss or other consequence arising from the use of the material contained in this publication shall be the sole and exclusive responsibility of the investor and Tacirler Investment accepts no liability for any such loss or consequence. Not all investment strategies are appropriate at all times, and past performance is not necessarily a guide to future performance.

Tacirler Investment may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or their derivative securities thereon either on their own account or on behalf of their clients.

Tacirler Investment may perform or seek to perform securities, investment banking or other services for such issuer or its affiliates presented in this document.