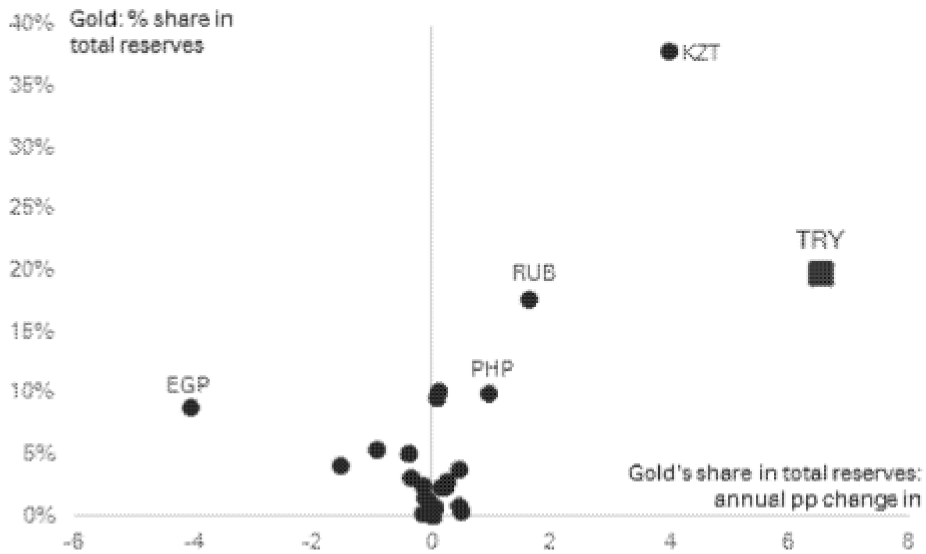
locals remaining heavily dollarized. EMFX sentiment holistically does not feel good and TRY feels like a weak link with ingrained bearishness not fully expressed via positioning. US-Turkey relations do feel like they are bouncing somewhat off the lows with Pompeo not a massive shift from Tillerson... he is not a new face having been in Istanbul as recently as early Feb. Kubilay has been doing a great job of tracking this selloff... two things to watch / consider as this trade develops.

Gold deficit stabilizing / turning?
Gold imports have accounted for 1.4% of the 6m rolling avg CAD (6% of GDP). CBT has taken steps to curb gold imports and we have seen stability in these numbers over the last 3 weeks. Given already lofty levels perhaps this CAD pressure could ease / revert and provide a positive lira impetus.

Change in gold reserves over past year



source: DB Research

Will the CBT tighten in response to FX weakness?
Frontend rates have not been insensitive to the pressure in the bond curve (which disregards the low rollover ratio from Treasury) with frontend gaps showing over 100bp of hikes priced out to the 1y date. Kubilay's response mechanism tree shows further tightening fairly far down the line for CBT, especially with cash loan rates around 20% and credit growth down substantially. Expectations are high and sticky but the survey yesterday did not show major de-anchoring with yearend CPI actually down a few bp. A political overlay to this worth considering are recent moves to allow interparty coalitions (benefiting the AKP-MHP alliance) and decreasing barriers to fraud could increase likelihood of early elections. If Erdogan renews his mandate then CBT might be freer to hike... but this is several steps down the road. Overall risk premium in rates has increased but we are likely within sight of a levels worth fading.

Credit growth hanging at the lows