



# USDTRY FX Overview

March 2018

# USDTRY overview



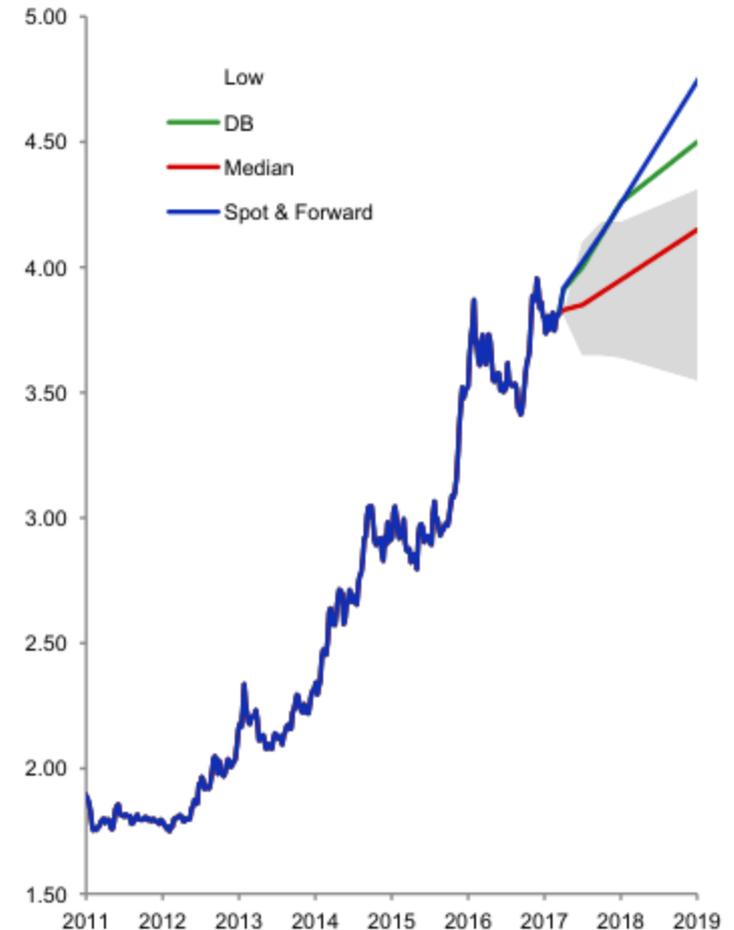
Deutsche Bank sees potential for relief rally in TRY but the lack of current account adjustment, dependence on foreign portfolio inflows and FX borrowing, and high inflation cloud the longer-term narrative

TRY remains one of the most undervalued currencies on fundamental models

## Market overview

- Economic activity looks set to lose steam; yet it should remain competitive throughout 2018 due to fiscal support as well as buoyant external demand. CBT appears to be done with tightening
- TRY can rally due to a supportive external environment, high carry, disinflation (and rising real rates), attractive valuation and light positioning.
- Further, TRY has significantly lagged the recent rally in EM FX over the past six months, providing attractive opportunities for 'catch up' appreciation

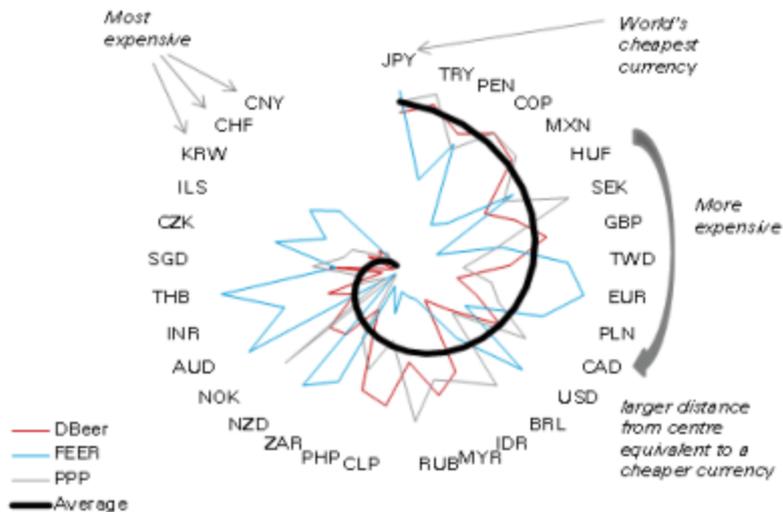
## USDTRY spot history and forecasts



## USDTRY YE Forecasts

	Q2 2018	2018	2019
DB	4.00	4.26	4.50

## TRY remains one of world's cheapest currency



# Carry, volatility and skew dynamics



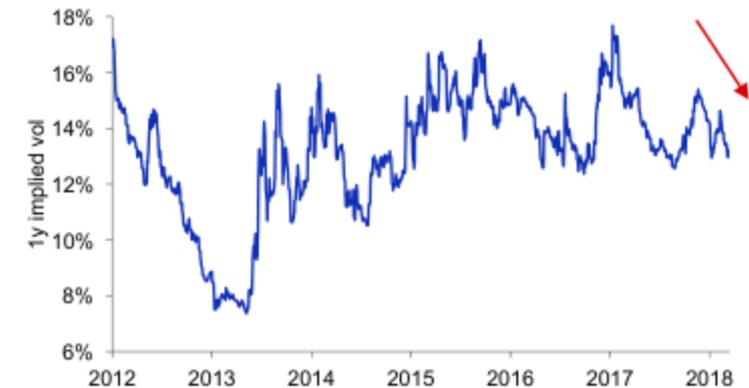
Due to high interest rate differentials, carry is historically elevated levels for USDTRY

USDTRY implied volatility has sold off in recent months and levels are now trading close to their average for past few years

USDTRY skew has become more favorable to a USD-based hedger but still remain expensive to USD puts

- Although carry remains punitive and near all time highs, volatility and skew have all moved in favor of USD call buyers:
- Carry levels are at multi-year highs
- Implied volatilities have sold off, approaching to average levels over last 6 years
- Implied volatility skew has decreased in favor of USD call buyers

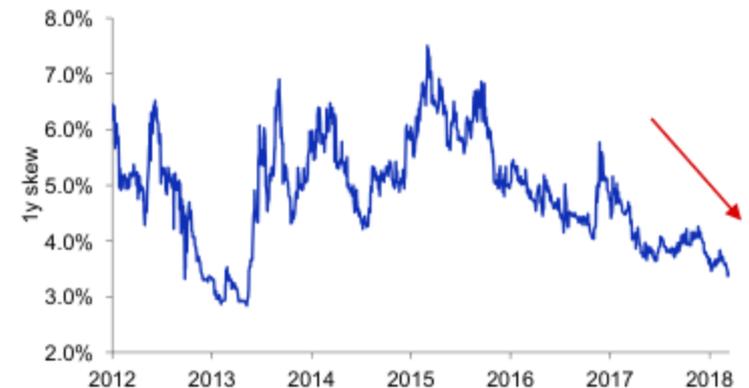
Implied volatilities have sold-off to average levels



Carry at multi-year high levels



USD calls are becoming cheaper relative to puts



Supplemental Disclosure for

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