

Subject: FW: Turkey: good as gold?  
From: Xavier Avila <[REDACTED]>  
Date: Wed, 28 Mar 2018 19:07:04 -0400  
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Paul, on TRY see attached slides. A bit of mixed feelings here, one of the worlds cheapest currency from a fundamental value perspective, carry at multi year highs of 12% at 1y (local yields of almost 14%vs 2% USD), and implied vol relatively high, all seems attractive...even though we expect further nominal depreciation...

Some ideas

USDTRY Spot Ref	4.01
20 Dec 18 Fwd	4.34
Sell 4.00 Call 20 Dec 18	Receive 8.80% USD Premium
Sell 4.00 Call 20 Dec 18 American KI 4.75	- Receive 5.50% USD Premium
Sell 4.00 Call 20 Dec 18 American KI 4.75 American K0 3.90	- Receive 3.75% USD Premium

Let's discuss tomorrow.

Thanks

Xavi

From: Sebastian Livesey (DEUTSCHE BANK SECURI)  
[mailto:[REDACTED]]

Sent: Friday, March 16, 2018 9:01 AM  
Subject: Turkey: good as gold?

Substantial increase in interest in Turkey over the past couple weeks as a persistently cheap currency moves in the direction of fire sale and offshore bond outflows continue. The lira does not look attractive quite yet despite offshore speculative \$ longs rising, bond positions decreasing, and 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

Source: DB Research

Conclusion: TRY will be worth scaling into longs 2-3% from here. TURKGB have repriced substantial with curve steepening bringing some value in the belly. Buying bonds there with FX hedge (roughly flat carry) could be a good way to dip ones toe.

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