

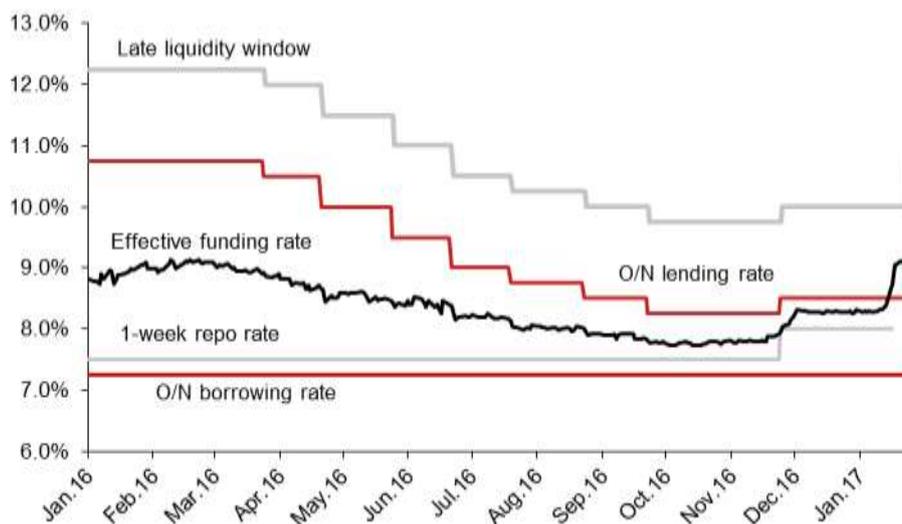
### Turkey: TCMB hopes to ride this wave out

The MPC officially confirmed the end of its simplification rhetoric by widening the interest rate corridor northwards and keeping the 1-week repo rate unchanged. In our view, today's decision shows that the TCMB is not ready to deliver decisive, orthodox hikes even so soon after TRY hit all-time lows in a move that seemed on the verge of turning disorderly. Moreover, this decision does not show a willingness to get ahead of the curve in defending the currency. In the absence of a more permanent improvement in risk-reward profile, we think TRY remains exposed to further depreciation pressures. On a side note, we do not yet know when the next MPC meeting will be, which adds to the general sense of uncertainty about Turkish monetary policy.

#### Deeper into unorthodox territory

The TCMB's Monetary Policy Committee (MPC) kept the O/N borrowing and 1-week repo rates unchanged at 7.25% and 8% respectively, while hiking the O/N lending rate by 75bp to 9.25% and the late liquidity window rate by 100bp to 11%. The increases in the latter two rates were in line with market consensus, while the unchanged O/N borrowing and 1-week repo rates were against consensus. Our expectation, meanwhile, was for 50bp hikes in all rates, with the possibility of larger hikes in the top two rates.

Fig. 1: Policy rates and weighted average cost of funding



Source: TCMB

The rate statement was more hawkish as it highlighted the inflationary impact of currency weakness and kept further tightening on the table. But it was also telling that the TCMB said that liquidity measures would be taken in response to “unhealthy pricing behaviour in the FX market”. Clearly, the TCMB is satisfied with the impact of recent liquidity measures in stabilising TRY in the current global environment where the dollar is on the back foot against trade partners, and hopes to ride this wave out relying on this policy.

Based on this observation, we have two takeaways from today's decision. First, the TCMB is not ready to hike formally to shift the entire corridor higher – even so soon after TRY hit all-time lows in a move that seemed on the verge of turning disorderly. The first line of defence will remain liquidity measures in an unorthodox policy framework, which

#### Global Markets Research

24 January 2017

Visit [Themes and Trades](#) website for strategic cross asset ideas.

#### Research analysts

##### EEMEA Research

Inan Demir - Nlplc  
 inan.demir@nomura.com  
 +44 (0) 20 710 29978

relies even on the highly unusual lender of last resort facility. This would imply potentially intermittent tightening rather than a more permanent improvement in the risk-reward profile for TRY.

Second, the TCMB will not get ahead of the curve. For instance, the Bank could have formalised the 10% marginal funding rate by pushing the O/N lending rate to that level, which would help avoid using the late liquidity window on a regular basis. But today's decision falls short of even that – hardly a display of forceful, decisive support for the currency.

These two points, we think, will keep TRY exposed in the coming weeks and months, especially if the recent dollar trend reverses. Currently, three-month outright USD/TRY forwards stand at 3.86, while we think the TCMB's current policy framework could push the pair to 4.00 in three months.

On a side note, at the time of writing, we still do not know when the next MPC meeting will be held. This adds to the general sense of uncertainty regarding Turkish monetary policy.

# Appendix A-1

## Analyst Certification

I, Inan Demir, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Important Disclosures

### Online availability of research and conflict-of-interest disclosures

Nomura Group research is available on [www.nomuranow.com/research](http://www.nomuranow.com/research), Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx> or requested from Nomura Securities International, Inc., or Instinet, LLC on 1-877-865-5752. If you have any difficulties with the website, please email [grpsupport@nomura.com](mailto:grpsupport@nomura.com) for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA rules, may not be associated persons of NSI or ILLC, and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. ("NGFP") Nomura Derivative Products Inc. ("NDPI") and Nomura International plc. ("NIplc") are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

### ADDITIONAL DISCLOSURES REQUIRED IN THE U.S.

Principal Trading: Nomura Securities International, Inc and its affiliates will usually trade as principal in the fixed income securities (or in related derivatives) that are the subject of this research report. Analyst Interactions with other Nomura Securities International, Inc. Personnel: The fixed income research analysts of Nomura Securities International, Inc and its affiliates regularly interact with sales and trading desk personnel in connection with obtaining liquidity and pricing information for their respective coverage universe.

### Valuation methodology - Fixed Income

Nomura's Fixed Income Strategists express views on the price of securities and financial markets by providing trade recommendations. These can be relative value recommendations, directional trade recommendations, asset allocation recommendations, or a mixture of all three.

The analysis which is embedded in a trade recommendation would include, but not be limited to:

- Fundamental analysis regarding whether a security's price deviates from its underlying macro- or micro-economic fundamentals.
- Quantitative analysis of price variations.
- Technical factors such as regulatory changes, changes to risk appetite in the market, unexpected rating actions, primary market activity and supply/ demand considerations.

The timeframe for a trade recommendation is variable. Tactical ideas have a short timeframe, typically less than three months. Strategic trade ideas have a longer timeframe of typically more than three months.

**For the purposes of the EU Market Abuse Regulation, the distribution of ratings published by Nomura Global Fixed Income Research is as follows:**

58% have been assigned a Buy (or equivalent) rating; 82% of issuers with this rating were supplied material services\* by the Nomura Group\*\*.

0% have been assigned a Neutral (or equivalent) rating.

42% have been assigned a Sell (or equivalent) rating; 70% of issuers with this rating were supplied material services by the Nomura Group.

As at 3 January 2017.

\*As defined by the EU Market Abuse Regulation

\*\*The Nomura Group as defined in the Disclaimer section at the end of this report

## Disclaimers

This publication contains material that has been prepared by the Nomura Group entity identified on page 1 and, if applicable, with the contributions of one or more Nomura Group entities whose employees and their respective affiliations are specified on page 1 or identified elsewhere in the publication. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries including: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Instinet, LLC ('ILLC'); Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at <http://dis.kofia.or.kr>); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'),

Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; NIHK, Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; CIN No: U74140MH2007PTC169116, SEBI Registration No. for Stock Broking activities : BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034; SEBI Registration No. for Merchant Banking : INM000011419; SEBI Registration No. for Research: INH000001014 and NIplc, Madrid Branch ('NIplc, Madrid'). 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under an agreement between CNS and NSL. 'NSFSPL' next to an employee's name on the front page of a research report indicates that the individual is employed by Nomura Structured Finance Services Private Limited to provide assistance to certain Nomura entities under inter-company agreements. 'BDO NS' next to an analyst's name on the front page of a research report indicates that the analyst is employed by BDO Unibank Inc. ('BDO') who has been assigned to BDO Nomura Securities Inc. (a Philippines securities dealer which is a joint venture between BDO and the Nomura Group), to provide research assistance services to NSL under an agreement between BDO, NSL and BDO Nomura Securities Inc.

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) OTHER THAN DISCLOSURES RELATING TO THE NOMURA GROUP, BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Other than disclosures relating to the Nomura Group, the Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by the Nomura Group are hereby excluded and the Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. The Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The Nomura Group does not provide tax advice.

The Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. The Nomura Group companies may also act as market maker or liquidity provider (within the meaning of applicable regulations in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

The intellectual property right and any other rights, in Russell/Nomura Japan Equity Index belong to Nomura Securities Co., Ltd. ("Nomura") and Frank Russell Company ("Russell"). Nomura and Russell do not guarantee accuracy, completeness, reliability, usefulness, marketability, merchantability or fitness of the Index, and do not account for business activities or services that any index user and/or its affiliates undertakes with the use of the Index.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis and quantitative analysis; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. The Nomura Group publishes research product in a number of different ways including the posting of product on the Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

**With respect to Fixed Income Research:** Recommendations fall into two categories: tactical, which typically last up to three months; or strategic, which typically last from 6-12 months. However, trade recommendations may be reviewed at any time as circumstances change. 'Stop loss' levels for trades are also provided; which, if hit, closes the trade recommendation automatically. Prices and yields shown in recommendations are taken at the time of submission for publication and are based on either indicative Bloomberg, Reuters or Nomura prices and yields at that time. The prices and yields shown are not necessarily those at which the trade recommendation can be implemented.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by NIplc. NIplc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. NIplc is a

member of the London Stock Exchange. This document does not constitute a personal recommendation within the meaning of applicable regulations in the UK, or take into account the particular investment objectives, financial situations, or needs of individual investors. This document is intended only for investors who are 'eligible counterparties' or 'professional clients' for the purposes of applicable regulations in the UK, and may not, therefore, be redistributed to persons who are 'retail clients' for such purposes. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. The entity that prepared this document permits its separately operated affiliates within the Nomura Group to make copies of such documents available to their clients. This document has not been approved for distribution to persons other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia ('Saudi Arabia') or 'professional clients' (as defined by the Dubai Financial Services Authority) in the United Arab Emirates ('UAE') or a 'Market Counterparty' or 'Business Customers' (as defined by the Qatar Financial Centre Regulatory Authority) in the State of Qatar ('Qatar') by Nomura Saudi Arabia, Nlplc or any other member of the Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or in Qatar or to any person other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' located in Saudi Arabia or 'professional clients' in the UAE or a 'Market Counterparty' or 'Business Customers' in Qatar. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are an 'Authorised Person', an 'Exempt Person' or an 'Institution' in Saudi Arabia or that you are a 'professional client' in the UAE or a 'Market Counterparty' or 'Business Customers' in Qatar and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia or Qatar.

For report with reference of TAIWAN public companies or authored by Taiwan based research analyst:

THIS DOCUMENT IS SOLELY FOR REFERENCE ONLY. You should independently evaluate the investment risks and are solely responsible for your investment decisions. NO PORTION OF THE REPORT MAY BE REPRODUCED OR QUOTED BY THE PRESS OR ANY OTHER PERSON WITHOUT WRITTEN AUTHORIZATION FROM NOMURA GROUP. Pursuant to Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers and/or other applicable laws or regulations in Taiwan, you are prohibited to provide the reports to others (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities in connection with the reports which may involve conflicts of interests. INFORMATION ON SECURITIES / INSTRUMENTS NOT EXECUTABLE BY NOMURA INTERNATIONAL (HONG KONG) LTD., TAIPEI BRANCH IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT BE CONSTRUED AS A RECOMMENDATION OR A SOLICITATION TO TRADE IN SUCH SECURITIES / INSTRUMENTS. NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF THE NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

The Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

**Additional information regarding the methodologies or models used in the production of any investment recommendations contained within this document is available upon request by contacting the Research Analysts listed on the front page. Disclosures information is available upon request and disclosure information is available at the Nomura Disclosure web page:**

<http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>

Copyright © 2017 Nomura International plc. All rights reserved.