

Turkish Banks

Upgrade a few longer-dated seniors to OW

- **Local demand for FX has normalised in the recent weeks**, helped by the introduction of the FX-protected deposits scheme by the authorities, and less so potentially, an increase in TRY deposit rates towards the end of 2021 (Figure 1). At the time, high inflation expectations and volatility in TRY prompted demand for FX, property or other items of value, and incentivised competition for TRY funding among banks, which contributed to this increase in TRY deposit rates.
- **Reduced dollarisation pressures allowed the central bank to limit the use of FX reserves**, with their gross liquid FX reserves (the measure that we mostly track, see Figure 2 for the definition) remaining stable around \$50bn since the start of 2022.
- Barring any significant upward surprises in inflation or further policy easing, or political events, **we expect local FX demand to remain orderly for now, and with this some stability in the credit market too in the very near-term.**
- **We upgrade a few higher yielding bank seniors, as a reflection of this view. Specifically, we upgrade TCZIRA 26s** (offered at \$94, 7.1%), **TSKBTI 26s** (\$94.75, 7.4%) and **EXCRTU 26s** (\$95, 7.1%) **from N to OW, and initiate on VAKBN 5.5 26s** (\$93.5, 7.2%) **with an OW.**
- **Our other recommendations in Turkish banks remain unchanged.** We are UW in banks' shorter-dated seniors, and mostly neutral in longer-end seniors and in subs. We are OW in all subs of GARAN and AKBANK. See Table 1 for a full list of our bond recommendations.
- **Our current recommendation to position (OW) in more sensitive bank bonds is a short-term (i.e. 3 month) trade idea. Given the macro risks, we will be revisiting our recommendations regularly.**
- We are cautious on the above mentioned risks that can fuel local FX demand. We would also treat a rapid take-up of the FX-protected deposits scheme negatively. The scheme bears inflation and fiscal risks, and we think could materially affect pricing of usual TRY and FX deposits and raise risk of deposit outflows later on.
- The take-up of this scheme still remains modest and we expect this to remain the case for some time. The sector statistics and feedback from banks imply to us that retail clients are rolling only about 30% of their maturing TRY term deposits into this new product (most conversions come from usual TRY deposits), and keeping the remainder in usual TRY deposits. Low visibility on ultimate returns, low flexibility and

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CEEMEA Corporate Research

Konstantin Rozantsev ^{AC}

(44-20) 7742-0275

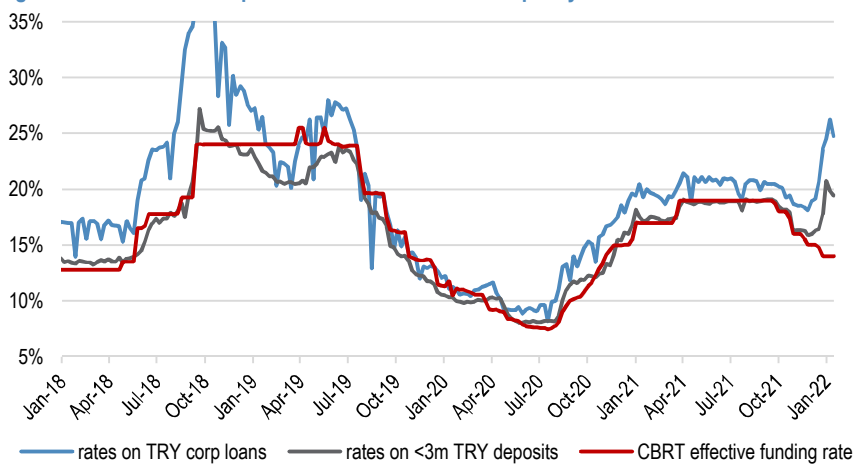
konstantin.rozantsev@jpmorgan.com

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comparably lower rates on these FX-protected deposits (relative to usual TRY deposits) weigh on the depositors' interest in this product.

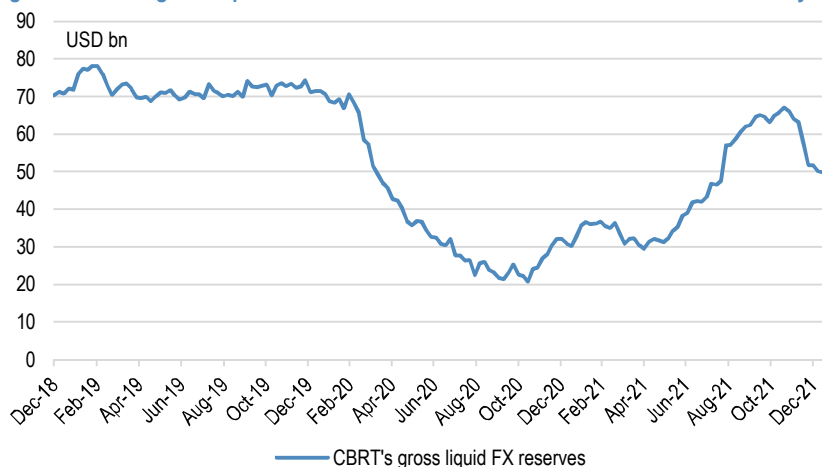
- It is not clear how high the demand from corporates is going to be in this scheme. Corporates get tax incentives to participate, but the minimum tenor of 6 months for such products is a constraint.
- **Banks' funding stress has been averted in December; in the very near-term funding risks look limited.** Some banks indicated that for a few days in December there were moderate FX deposit outflows from the system above normal levels. The sector data from the regulator on banks' transactions in FX banknotes also points in this direction (Figure 3). However in the recent weeks the situation normalised. Rollovers of short-term sensitive external debt by banks (we primarily focus on the repo funding at present, Figure 4) have so far remained healthy.

Figure 1: TRY loan and deposit rates detached from the policy rate



Source: Haver, CBRT, J.P. Morgan

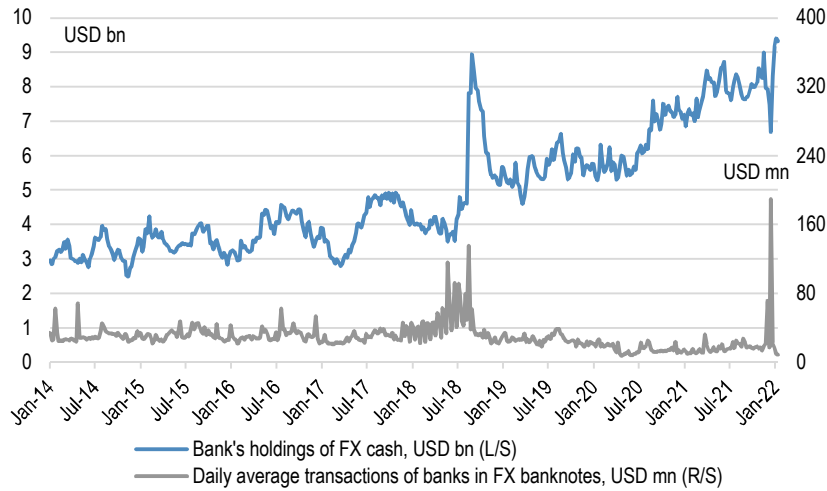
Figure 2: CBRT's gross liquid FX reserves declined and then stabilized since the 2022 year-start



Source: Haver, CBRT, J.P. Morgan

Note: we define gross liquid FX reserves as gross reserves minus gold minus receivables under swaps with foreign central banks

Figure 3: Some evidence of deposit outflows in mid-December



Source: Haver, BRSA, CBRT, J.P. Morgan

Figure 4: No outsized stress in foreign repo to Turkish banks



Source: Haver, BRSA, J.P. Morgan. Note: FX repo mainly comes from abroad

- Changes in Turkey's economic performance, and in local FX demand, represent risks to our recommendations.

Table 1: Turkish bank bond recommendations

Bond	ISIN	Amt	Call date	Maturity	Bond rating	Curr rec.	mid price	senior yield	z sprd	sprd to sov	sub YTC	sub / sen ratio	sub / sen sprd	YTM
					Mdys / SP / Fitch									
senior														
GARAN 5.25% '22	USM8931TAF68	750	.	13-Sep-22	B2 / . / B+	UW	101.6	2.6	218	.	.	.	.	.
GARAN 5.875% '23	XS1576037284	500	.	16-Mar-23	B2 / . / B+	UW	102.0	4.0	337	-20	.	.	.	.
AKBNK 5% '22	USM0375YAK49	500	.	24-Oct-22	B2 / . / B+	UW	100.6	4.1	364	.	.	.	.	.
AKBNK 5.125% '25	XS1210422074	500	.	31-Mar-25	B2 / . / B+	N	95.8	6.6	540	44	.	.	.	.
AKBNK 6.8% '26	XS2131335270	500	.	6-Feb-26	B2 / . / B+	N	99.3	7.0	569	42	.	.	.	.
ISCTR 5.5% '22	XS1508390090	600	.	21-Apr-22	B3 / . / B+	UW	100.8	2.2	204	.	.	.	.	.
ISCTR 6.125% '24	XS1578203462	1250	.	25-Apr-24	B3 / . / B+	N	99.8	6.2	519	70	.	.	.	.
YKBNK 5.75% '22	XS1571399754	600	.	24-Feb-22	B2 / . / B+	.	100.3	2.2	218	.	.	.	.	.
YKBNK 6.1% '23	XS1788516679	500	.	16-Mar-23	B2 / . / B+	UW	101.3	4.9	427	70	.	.	.	.
YKBNK 5.85% '24	XS1634372954	500	.	21-Jun-24	B2 / . / B+	.	99.3	6.2	510	53	.	.	.	.
YKBNK 8.25% '24	XS1958649854	500	.	15-Oct-24	B2 / . / B+	N	104.3	6.5	537	62	.	.	.	.
TCZIRA 5.125% '22	XS1605397394	600	.	3-May-22	B2 / . / B+	UW	100.6	2.7	253	.	.	.	.	.
TCZIRA 5.125% '23	XS1691349010	500	.	29-Sep-23	B2 / . / B+	UW	98.8	5.9	503	94	.	.	.	.
TCZIRA 5.375% '26	XS2274089288	600	.	2-Mar-26	B2 / . / B+	OW	93.5	7.2	590	61	.	.	.	.
VAKBN 5.625% '22	XS1622626379	500	.	30-May-22	B2 / . / B+	UW	100.9	3.0	276	.	.	.	.	.
VAKBN 5.75% '23	XS1760780731	650	.	30-Jan-23	B2 / . / B+	UW	101.0	4.7	410	68	.	.	.	.
VAKBN 8.125% '24	XS1970705528	600	.	28-Mar-24	B2 / . / B+	.	103.3	6.5	546	102	.	.	.	.
VAKBN 5.25% '25	XS2112797290	750	.	5-Feb-25	B2 / . / B+	.	95.3	7.0	580	92	.	.	.	.
VAKBN 6.5% '26	XS2266963003	750	.	8-Jan-26	B2 / . / B+	N	97.5	7.2	592	67	.	.	.	.
VAKBN 5.5% '26	XS2386558113	500	.	1-Oct-26	. / . / B+	OW	93.0	7.3	591	44	.	.	.	.
QNBFB 4.875% '22	XS1613091500	750	.	19-May-22	B2 / . / B+	UW	100.9	2.0	179	.	.	.	.	.
QNBFB 6.875% '24	XS1959391019	650	.	7-Sep-24	B2 / . / B+	N	105.5	4.6	348	-121	.	.	.	.
EXCRTU 4.25% '22	XS1684378208	500	.	18-Sep-22	B2 / . / B+	UW	100.5	3.4	301	.	.	.	.	.
EXCRTU 5.375% '23	XS1496463297	500	.	24-Oct-23	B2 / . / B+	UW	99.3	5.8	492	77	.	.	.	.
EXCRTU 8.25% '24	XS1917720911	500	.	24-Jan-24	B2 / . / B+	N	103.8	6.2	523	90	.	.	.	.
EXCRTU 6.125% '24	XS1814962582	500	.	3-May-24	B2 / . / B+	N	99.5	6.4	531	81	.	.	.	.
EXCRTU 5.75% '26	XS2332876106	750	.	6-Jul-26	B2 / . / B+	OW	94.5	7.2	586	46	.	.	.	.
TSKBTI 5.5% '23	XS1750996206	350	.	16-Jan-23	B3 / . / B+	UW	100.8	4.7	409	.	.	.	.	.
TSKBTI 6% '25	XS2100270508	400	.	23-Jan-25	B3 / . / B+	.	96.8	7.2	602	115	.	.	.	.
TSKBTI 5.875% '26	XS2281369301	350	.	14-Jan-26	B3 / . / B+	OW	94.3	7.6	626	101	.	.	.	.
FCFIN 6% '23	XS1711581337	300	.	25-Jan-23	. / . / B+	N	101.3	4.7	408	.	.	.	.	.
old style T2														
ISCTR 6% '22	XS0847042024	1000	.	24-Oct-22	Caa2 / . / B-	N	100.8	.	.	.	.	.	.	4.9
YKBNK 5.5% '22	XS0861979440	1000	.	6-Dec-22	Caa1 / . / B-	N	100.3	.	.	.	.	.	.	5.2
VAKBN 6% '22	XS0849728190	672	.	1-Nov-22	Caa3 / . / B-	N	100.5	.	.	.	.	.	.	5.3
B3 T2														
GARAN 6.125% '22-27	XS1617531063	750	24-May-22	24-May-27	Caa2 / . / B	OW	99.5	.	.	.	7.6	.	.	6.1
AKBNK 7.2% '22-27	XS1574750292	500	16-Mar-22	16-Mar-27	Caa2 / . / B-	OW	100.0	.	.	.	7.0	.	.	6.8
AKBNK 6.797% '23-28	XS1772360803	400	27-Apr-23	27-Apr-28	Caa2 / . / B-	OW	98.3	.	.	.	8.3	1.7	324	6.5
AKBNK 6.8% '26-31	XS2355183091	500	22-Jun-26	22-Jun-31	. / . / B-	OW	94.5	.	.	.	8.3	1.2	116	8.2

ISCTR 7.85% '23	XS1003016018	400	.	10-Dec-23	Caa3 / . / B-	N	102.5	.	.	.	.	.	.	6.4
ISCTR 7% '23-28	XS1623796072	500	29-Jun-23	29-Jun-28	Caa3 / . / B-	N	99.5	.	.	.	7.4	1.4	200	7.2
ISCTR 7.75% '25-30	XS2106022754	750	22-Jan-25	22-Jan-30	Caa3 / . / B-	N	99.0	.	.	.	8.1	1.2	136	8.1
YKBNK 7.875% '26-31	XS2286436451	500	22-Jan-26	22-Jan-31	Caa2 / . / B-	N	99.0	.	.	.	8.2	1.2	108	8.8
VAKBN 8% '22-27	XS1551747733	228	1-Nov-22	1-Nov-27	Ca / . / B-	N	100.5	.	.	.	7.3	1.8	306	7.7
TSKBTI 7.625% '22-27	XS1584113184	300	29-Mar-22	29-Mar-27	Caa3 / . / B-	N	100.3	.	.	.	6.0	.	.	7.2
ALBRK 9.371% '25	XS1301525207	250	.	30-Nov-25	. / CCC- / .	N	100.7	.	.	.	.	.	.	9.1
KFINKK 6.125% '26-31	XS2384355520	350	16-Sep-26	16-Dec-31	. / . / B	.	103.0	.	.	.	5.4	0.9	-24	6.3
FCFIN 7.75% '22-27	XS1386178237	300	24-Nov-22	24-Nov-27	. / . / B-	N	97.5	.	.	.	10.1	3.6	979	7.9
ODEABK 7.625% '22-27	XS1655085485	300	1-Aug-22	1-Aug-27	Caa3 / . / CCC+	N	75.5	.	.	.	73.7	.	.	14.1
B3 AT1														
YKBNK 13.875% '24P	XS1867595750	650	15-Jan-24	.	Caa3 / . / .	N	111.0	.	.	.	7.7	1.4	183	12.1

Source: J.P. Morgan, Bloomberg Finance L.P. Prices are as of mid-day 26-Jan-2022

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