

Turkish lira rallies after Erdogan wins elections
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Turkish assets rose today after Prime Minister Tayyip Erdogan's (pic) party scored a robust victory in local elections seen as a referendum on his rule.

The result yesterday night of the nationwide poll has raised hopes political turbulence that has pushed the lira currency to a record low will ease. Erdogan's first electoral test since anti-government protests swept through major cities last summer, saw his AK party hold onto the local government of commercial capital Istanbul and likely to keep control of capital Ankara.

By 0820 GMT the lira traded at 2.1630 to the dollar, gaining from a level of 2.1921 late on Friday, and touching its strongest level in more than two months.

"This is a bullish outcome for the local market simply because investors are not keen on heightened political uncertainty and instability," Benoit Anne, head of emerging markets strategy at Societe Generale, wrote in a note.

"We anticipate a pretty healthy rally for both the lira and local rates."

Stocks were also buoyant, opening almost 2% higher to hit their strongest levels in three months, before paring gains to trade up 0.34% at 69,349 points, in line with the MSCI index of emerging stocks.

Turkey's 10-year benchmark bond yield fell to 10.48% from Friday's close of 10.5.

A long and bitter election campaign was dominated by the corruption scandal that engulfed Erdogan's government and a rift between the prime minister and a United States-based Turkish cleric, Fethullah Gulen, followed by many of Erdogan's core supporters.

With around 98% of the vote counted, polls showed Erdogan's AK party winning 45.6% of the vote, and the largest opposition party, the CHP, winning 28.3%.

Supporting assets further were economic figures today, which showed Turkey grew by 4.4% in the fourth quarter of 2013, beating a 4% growth forecast in a Reuters poll of analysts. In 2013 as a whole the economy expanded 4%.

Finance Minister Mehmet Simsek said growth would slow this year although the positive trend would continue, and that reduced political risk following the local election victories for his AK party would support the growth outlook.

Other data showed Turkey's trade deficit was US\$5.1 billion, well below a forecast US\$6.8 billion in February as exports rose 6% and imports fell 6%.

"Foreign investors will be inclined to buy Turkey risk on the back of these numbers, assuming political risks ease back," Standard Bank analyst Tim Ash said in a note, adding a weaker lira and higher interest rates were helping the central bank cool domestic consumption and rein in deficits.

Short-lived boost?

But although the AK Party's victory would ease political turbulence for now, analysts warned the poll had underscored the scale of divisions in Turkey between Erdogan's support base of poorer conservative Muslims, and the more secular population. Victory could also embolden Erdogan in his authoritarian tendencies.

"A newly strengthened and thus even more relentless Prime Minister might be more likely to lead to new political conflicts than a weakened head of government who has to rely on finding a compromise with opposition parties. The 'stability' which today's election result seems to signal might well be misleading," said Commerzbank analyst Ulrich Leuchtman.

Erdogan's tough response to the corruption scandal, purging thousands of police officers, taking more control of the judiciary, and banning Twitter and YouTube, had unnerved investors and raised concerns about the future.

"Sentiment towards Turkish assets was already improving before the election and is likely to improve further," said Nicholas Spiro, head of Spiro Sovereign Strategy.

"Yet any sense of relief ... needs to be tempered by the realisation that the election has thrown the bitter political divisions in Turkish society into even sharper relief."

The lira has gained around 9% since touching a record low of 2.39 on January 27, prompting the central bank to raise interest rates massively the next day.

It lost 17% in 2013, however, and remains below the 1.8 level it was trading at before last summer's protests.

Erdogan's strong grip on Turkey brought a period of stability in which the country blossomed from a financial backwater into one of the world's fastest-growing economies.

Yet the political turbulence has come at a bad time for Turkey, exacerbating concerns that its wide current account gap and reliance on capital inflows mean it will be hit hard by cuts in US stimulus. – Reuters, March 31, 2014

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