

Turkish lira dragged lower again after Erdogan power play

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The Turkish lira surrendered early gains on Tuesday as investors worried about the make-up of newly empowered President Tayyip Erdogan's cabinet, in which his son-in-law will serve as treasury and finance minister.

The new cabinet excludes former deputy prime minister Mehmet Simsek, considered the most market-friendly minister in the previous government.

The lira, which has lost nearly a fifth of its value against the dollar this year, stood at 4.7272 at 1105 GMT, having weakened as far as 4.75 overnight. It had closed at 4.5745 on Friday.

The appointment of Berat Albayrak, a former energy minister, to run the economy underscores worries among investors about Erdogan's drive for greater control over monetary policy.

It "has heightened concern that the new government will not take the appropriate

policy action required to address an overheating economy and structural problems," said Derek Halpenny, European Head of Global Markets Research at MUFG.

The yield on Turkey's benchmark 10-year bond rose to 17.84 percent from 17.35 percent at Monday's close, while the two-year bond yield rose 46 percentage points to over 20.23 percent.

Turkey's dollar bonds also fell and their average yields surged.

The market will be keeping a close eye on the new minister's comments and signals regarding Turkey's persistent double-digit inflation and wide current account deficit.

"Albayrak will have to move very quickly to reassure financial markets -- and will need to send a signal that he will listen," BlueBay Asset Management strategist Timothy Ash wrote on Twitter. "The economy faces a challenging time and this is a time for orthodoxy."

A decree on Tuesday said Turkey's new executive presidency will now appoint the central bank governor and monetary policy committee members. It also trimmed the terms they will serve to four years from five, further heightening long-running concerns about the independence of the central bank.

Istanbul's main BIST 100 share index <.xu100> fell more than 2 percent to 97,147.00 points.