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INSTANT VIEW - Turkish central bank hikes rates to 12 pct

by Thomson Reuters

Jan 28 (Reuters) - Turkey's central bank sharply raised all of its main interest rates on Wednesday, bowing to market pressure to stem a slide in the lira fuelled by political turbulence at home and fears about cuts in U.S. monetary stimulus.

STORY:

KEY POINTS: At an emergency policy meeting, the bank raised its overnight lending rate to 12 percent from 7.75 percent, its one-week repo rate to 10 percent from 4.5 percent and its overnight borrowing rate to 8 percent from 3.5 percent. Against the Turkish lira, the dollar fell to 2.197 lira from 2.25 lira just before the announcement.

COMMENTS: GENNADIY GOLDBERG, INTEREST RATE STRATEGIST, TD SECURITIES, NEW YORK:

"It looks like they're really trying to stem the flight out of the country, they are trying to prop up the currency by raising rates. It looks like the lira acted positively, whether it lasts is anyone's question.

"Desperate times call for desperate measures, this is a confidence saving measure...It's really what needs to be done, but how it impacts the country going forward is difficult to say. It will definitely hurt but it might be enough to stem the bleeding.

"If you get a bit more clarity on the Turkish front, and maybe on the emerging market front more broadly, you might have people (in Treasuries) focus more on the FOMC meeting and the U.S. data."

KATHY LIEN, MANAGING DIRECTOR, BK ASSET MANAGEMENT, NEW YORK

"This is a bold move. It goes a long way toward illustrating to the market how committed they are to shoring up their currency. That's very risk-positive. We've seen a massive rally in the Australian dollar. Taking such an aggressive measure restores confidence and also limits spillover effects in other markets."

BERNARD BAUMOHL, MANAGING DIRECTOR AND CHIEF GLOBAL ECONOMIST AT THE ECONOMIC OUTLOOK GROUP IN PRINCETON, NEW JERSEY:

"They significantly raised the short-term rate, and I think that will likely succeed in stabilizing the currency. Whether this is going to lead to any stability in the very acrimonious political system is still unclear. We think there's a long way to go before things calm down and foreign capital can be encouraged to go back in. This is a very bold step, and it won't be easy for the people there, but it means the country won't have to bleed more of its foreign exchange reserves.

"While futures are higher now, I don't think this will have a long-term impact on markets here. There are much more important issues."

ADAM BUTTON, CURRENCY ANALYST AT FOREXLIVE.COM, MONTREAL:

"It's a great sign for broader risk appetite. It shows that the Turkish central bank understands the risks and is taking dramatic action. Not only is the main rate much higher than expected, but the one-week repo rate and the overnight borrowing rates were also hiked - and that's something very few traders were expecting.

"The initial reaction is upbeat. I'm noticing a move away from yen and other safe havens.

"The market is just fixated on Turkey and emerging markets. So for the Fed, it makes the decision to taper much easier. We might see euro selling versus the dollar."

MARKET REACTION:

STOCKS: U.S. stock index futures rallied sharply FOREX: The dollar gained against the yen and dipped briefly against the euro. The dollar fell against the Turkish lira.

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