Markit Recap – 3/25/2019

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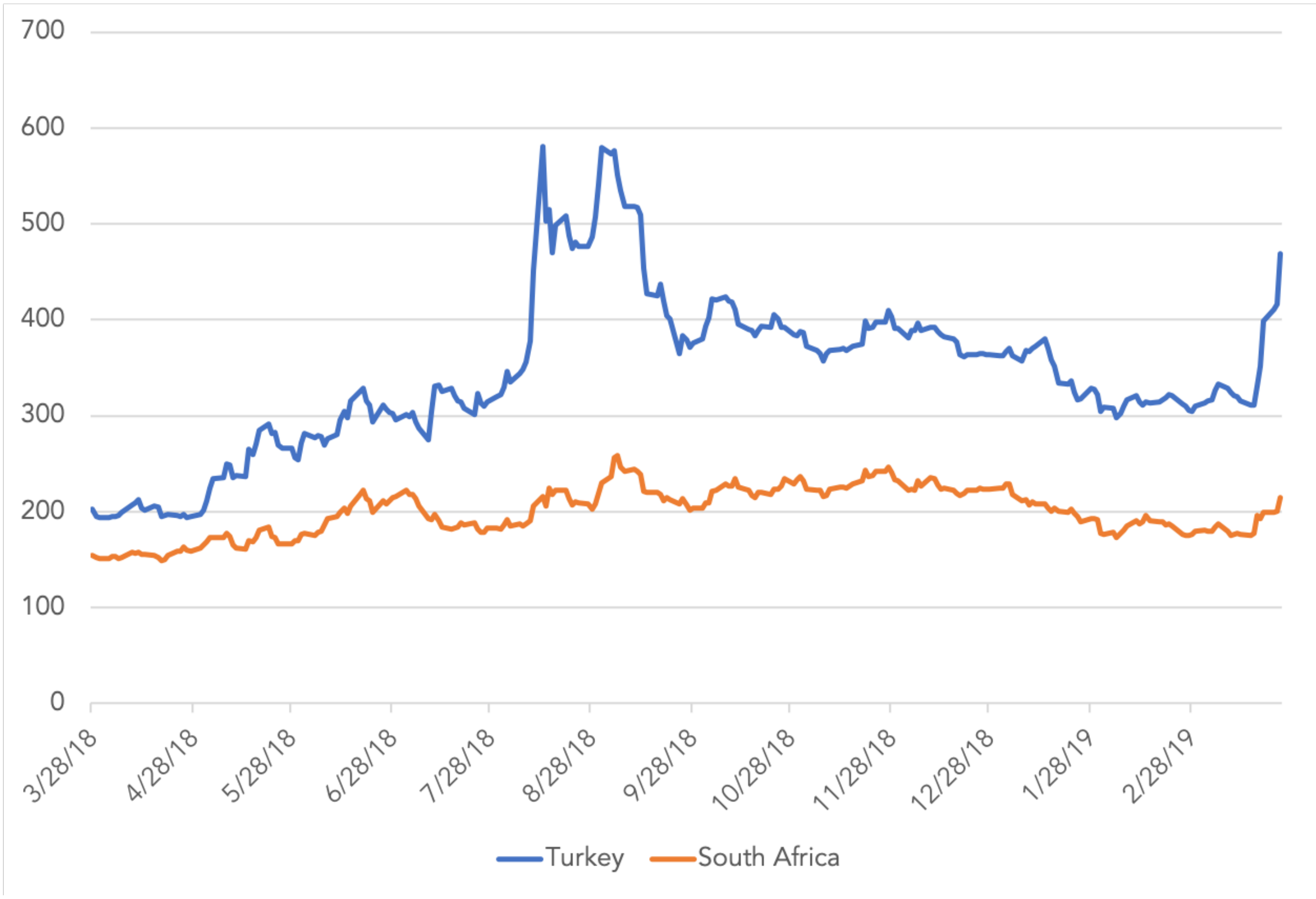
Chart



Economics undergraduates know that credibility is vital for monetary policy. But this fact is seemingly elusive for Turkey and their President Tayyip Erdogan. The sovereign is in the midst of yet another crisis, with the lira tumbling and the overnight offshore swap rate spiralling to over a 1,000%. A rapid increase in inflation – prompted by the depreciating lira – has placed enormous pressure on the government, in particular its ability to intervene in the currency markets by using its FX reserves.

The credit markets responded in the expected manner. Turkey's five-year CDS spreads widened from 310bps to 468bps in little more than a week. They are now approaching the 580bps reached in the last crisis in the summer of 2018. President Erdogan has once again blamed invidious speculators for the country's problems. Credibility, once lost, is very hard to win back.

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