

Top News:

Uncertainty continues as credit rating agencies downgrade Turkey

Two major credit rating agencies have downgraded their ratings for Turkey due to the country's increasing financial stress and a perceived inadequate response from policymakers.

Moody's has downgraded Turkey's long-term issuer ratings to Ba3 from Ba2 and changed its rating outlook to negative, concluding the review for downgrade that was initiated on 1 June. The key driver was "...the continuing weakening of Turkey's public institutions and the related reduction in the predictability of Turkish policy making," Moody's says in a note.

"That weakening is exemplified by heightened concerns over the independence of the central bank, and by the lack of a clear and credible plan to address the underlying causes of the recent financial distress, notwithstanding recent statements by the government," the agency continues. "The tighter financial conditions and weaker exchange rate, associated with high and rising external financing risks, are likely to fuel inflation further and undermine growth, and the risk of a balance of payments crisis continues to rise."

The Turkish lira has lost some 40% of its value against the US dollar since the start of the year. Consumer price inflation reached 15.85% in July, up over 5 percentage points since the start of the year and the highest inflation rate since December 2003.

"While Turkish banks have so far managed to maintain access to the international inter-bank markets for funding, the tightening financing conditions and the weakening lira will further increase pressure on domestic borrowers with foreign-currency debt," Moody's says.

Standard & Poor's, meanwhile, has lowered its unsolicited long-term foreign currency sovereign credit rating on Turkey to 'B+' from 'BB-' and its unsolicited long-term local currency sovereign credit rating to 'BB-' from 'BB'. The outlook is stable.

"The downgrade reflects our expectation that the extreme volatility of the Turkish lira and the resulting projected sharp balance of payments adjustment will undermine Turkey's economy," S&P says. The agency forecasts a recession next year, with inflation peaking at 22% over the next four months before subsiding to below 20% by mid-2019.

"We anticipate that 2019 will be the first year since 2009 in which nominal credit growth will be less than inflation, implying a major shift in real domestic financing conditions," S&P observes.

A third ratings agency, Fitch, downgraded Turkey's sovereign rating to 'BB' from 'BB+' and assigned a negative outlook on 13 July.

Last week Turkish scrap import prices remained stable at \$300/t cfr Turkey, after coming crashing down in a flurry of bookings. This was also after the lira briefly tumbled past TRY 7 per dollar following Turkey's trade spat with the US. Turkish rebar and billet export prices were consequently slashed significantly and the effects have already been visible in key markets such as the CIS.

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Can trade cases alone restart written-off domestic capacity?

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Will Turkish steel remain competitive in Asia?

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What are US steel trade policies based on?

KORE 62% Fe / Qingdao CFR USD/t

W-o-w avg change -1.24%

24 Aug 2018	\$	65.84	
23 Aug 2018	\$	65.43	low
22 Aug 2018	\$	66.09	
21 Aug 2018	\$	65.98	
20 Aug 2018	\$	67.37	high
Average	\$	66.14	

17 Aug 2018	\$	66.95	
16 Aug 2018	\$	65.95	low
15 Aug 2018	\$	66.62	
14 Aug 2018	\$	67.22	
13 Aug 2018	\$	68.09	high
Average	\$	66.97	

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Global Overview

North America

- US plates stands out as general prices fall
- Canada ups import pressure
- Mexico to discuss US sanctions

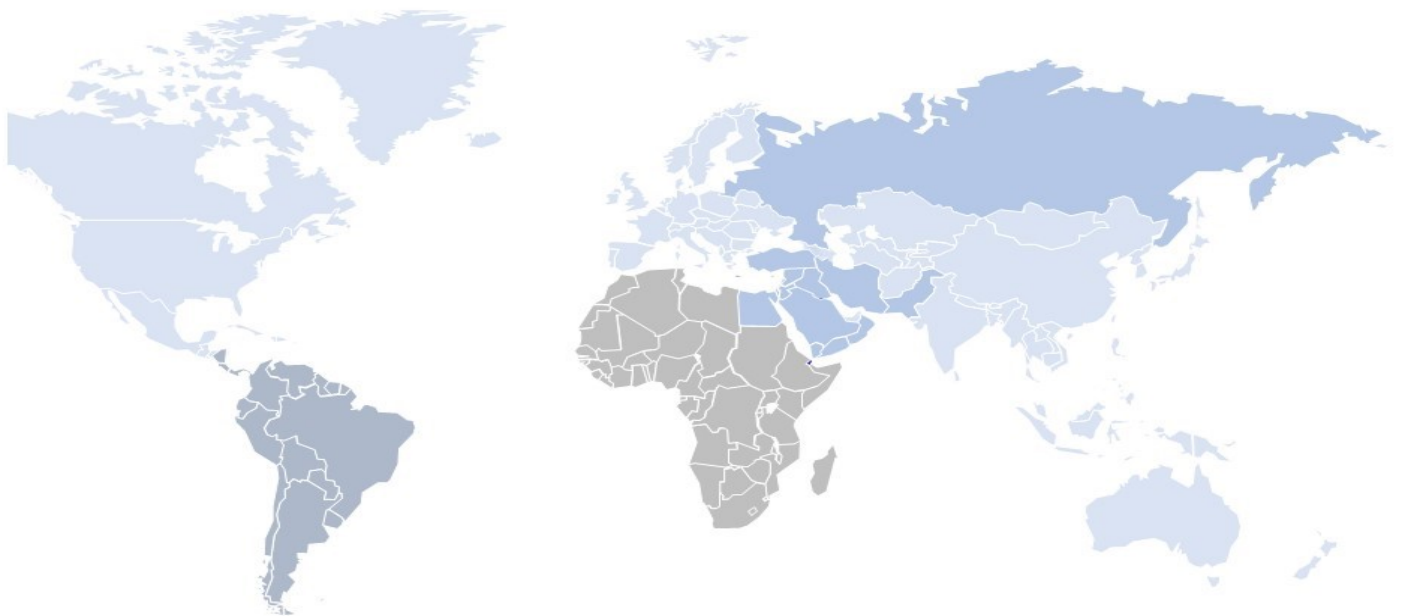
Europe

- EU scrap prices start moving down
- Longs and flats prices remain firm
- Ilva deal continues to be questioned

Asia

- Iron ore holds above \$65/t
- Chinese rebar prices under pressure
- Turkish attractive prices reported in S.E. Asia

Global Sentiment Map



Weak

Strong

Middle East

- Turkish scrap rebounds in fresh US deal
- Turkish steel attracts Asia interest
- Turkey requests US WTO consultations

CIS

- CIS billet prices drop under Turkish pressure



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