

Turkey's Lira Plunges to Record Low as Erdogan Refuses to Release Missionary

President Tayyip Erdogan told Turks on Friday to exchange their gold and dollars into lira, with the currency in free fall as President Donald Trump escalated a feud with Ankara by doubling tariffs on metals imports.

The lira has long been falling on worries about Erdogan's influence over monetary policy and worsening relations with the United States. That turned into a rout on Friday, with the lira diving as much as 18 percent at one point, the biggest one-day drop since Turkey's 2001 financial crisis.

Reverberations spread through global markets, with European stockmarkets especially hit as investors took fright over banks' exposure to Turkey. U.S. stocks were also rattled, with banks again in focus.

The lira, which has lost more than 40 percent this year, hit a new record low after Trump took steps to punish Ankara in a wide-ranging dispute. He said he had authorized higher tariffs on imports from the United States' NATO ally, imposing duties of 20 percent on aluminum and 50 percent on steel.

The lira, he noted on Twitter, "slides rapidly downward against our very strong Dollar!"

"Our relations with Turkey are not good at this time!" he said in an early morning post.

Turkey's trade ministry said the U.S. tariff moves were against World Trade Organisation rules.

Without naming countries, Erdogan said supporters of a failed military coup two years ago, which Ankara says was organized

by a Muslim cleric, were attacking Turkey in new ways since his re-election two months ago to a new executive presidency.

The new duties on Turkey are double the level that Trump imposed in March on steel and aluminum imports from a range of countries. The White House said he had authorized them under Section 232 of U.S. trade law, which allows for tariffs on national security grounds.

While Turkey and the United States are at odds over a host of issues, the most pressing disagreement has been over the detention of U.S. citizens in Turkey, notably Christian pastor Andrew Brunson who is on trial on terrorism charges. Turkish officials held talks in Washington this week but there was no breakthrough.

The lira sell-off has deepened concern over whether over-indebted Turkish companies will be able to pay back loans taken out in euros and dollars after years of overseas borrowing to fund a construction boom under Erdogan.

His characteristic defiance has further unnerved investors. The president, who says a shadowy "interest rate lobby" and Western credit ratings agencies are attempting to bring down Turkey's economy, appealed to his countrymen's patriotism.

"If there is anyone who has dollars or gold under their pillows, they should go exchange it for liras at our banks. This is a national, domestic battle," he told a crowd in the northeastern city of Bayburt.

"Some countries have engaged in behavior that protects coup plotters and knows no laws or justice," he said. "Relations with countries who behave like this have reached a point beyond salvaging."

Ankara wants the United States to extradite Fethullah Gulen, a Pennsylvania-based cleric who Turkish authorities say masterminded the 2016 coup attempt in which 250 people were

killed. Gulen denies the allegation.

Brunson, an evangelical Presbyterian from North Carolina, was jailed for allegedly supporting a group that Ankara blames for the failed coup.

Brunson denies the charge and his cause resonates with Christian conservative supporters of Trump, who could also be influential as Republicans seek to retain control of Congress in midterm elections in November.

“AMERICAN-MADE CRISIS”

Erdogan enjoys the support of many Turks even though food, rent and fuel prices have all surged. “This crisis is created by America,” said Serap, a 23-year-old clerk at a clothes store in central Istanbul.

Some economists were less impressed by the government’s handling of the crisis.

“Confidence needs to be regained. It is obvious how it will be done: since the final decision-maker of all policies in the new regime is the president, the responsibility of regaining confidence is on his shoulders,” said Seyfettin Gursel, a professor at Turkey’s Bahcesehir University.

Turkey’s sovereign dollar-denominated bonds tumbled, with many issues trading at record lows. Hard currency debt issued by Turkish banks suffered similar falls.

Meanwhile the cost of insuring exposure to Turkey’s sovereign debt through five-year credit defaults swaps has spiraled to the highest level since March 2009, topping levels seen for serial defaulter Greece , which has three bailouts in the last decade.

THE TWEET AND THE SWORD

New Finance Minister Berat Albayrak – Erdogan’s son-in-law –

rolled out the government's new economic plan on Friday, promising central bank independence and tighter budget discipline, but giving few details to reassure investors.

This did nothing to revive the lira. "The tweet is mightier than the Turkish sword," Cristian Maggio, head of emerging markets strategy at TD Securities, said in a note to clients, with reference to Trump's comments. "Albayrak's plan was uninspiring at best."

Erdogan, a self-described "enemy of interest rates," wants cheap credit to fuel growth, but investors fear the economy is overheating. His comments on interest rates – and his choice of a family member as finance minister – have heightened perceptions that the central bank is not independent.

The central bank raised interest rates to support the lira in an emergency move in May, but it did not tighten at its last meeting. {eo}

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