

WEEKLY UPDATE FROM
THE CHIEF ECONOMIST



Weekly Update from the Chief Economist

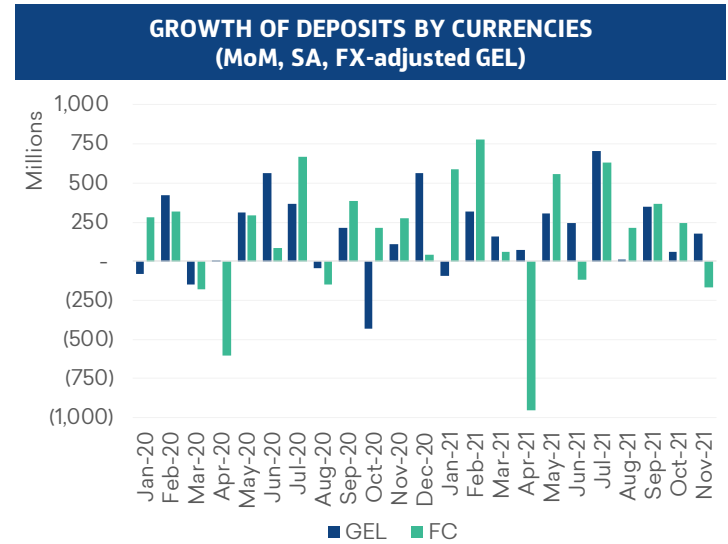
15.11.2021

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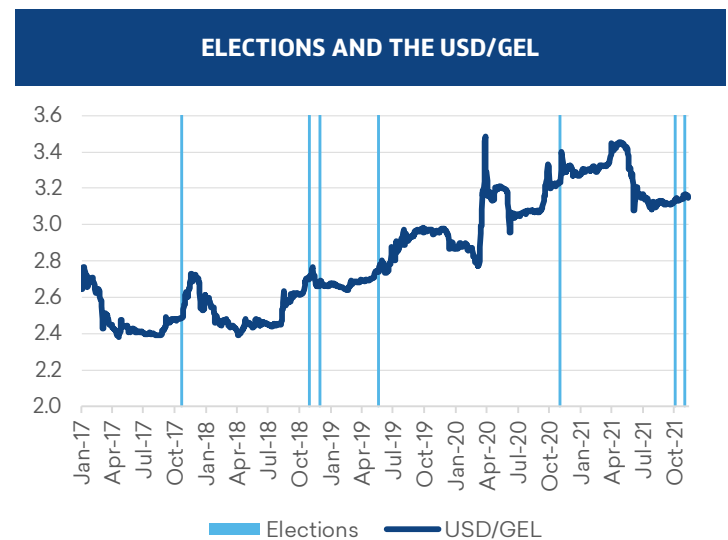
Following pressures on the GEL mainly arising likely from [post-election depreciation expectations](#), we see first signs of the reversal of conversions, [as expected](#). In particular, per our estimates based on the NBG monetary aggregate daily data, GEL deposits appear to increase stronger compared to the previous month, while FC deposits fall notably. Indeed, [record high interest rate differential](#), assuming relative stability of lari after elections, at some point should yield higher flows to the GEL.

Going forward, higher GEL appetite could also be seen on the treasury market as an increased value of the GEL treasury securities held by non-residents, however, historically, [it strongly depends on the USD benchmark rate](#).

As for the developments in the US, the last week was not GEL/USD supportive. In particular, US inflation has reached the highest since 1990, with MoM CPI at 0.9% vs expected 0.6% and YoY at 6.2% vs expected 5.9%. Though not the final nail in the coffin of transitory narrative, five out of previous seven CPI numbers have been significantly higher compared to consensus estimates, putting the dovish sentiments of the last few FOMCs under doubt and the most of the market already expecting the rate hikes as soon as June 2022 FOMC meeting. As a result of sooner hikes than anticipated, the greenback appreciated more than 7% against euro in a single day.



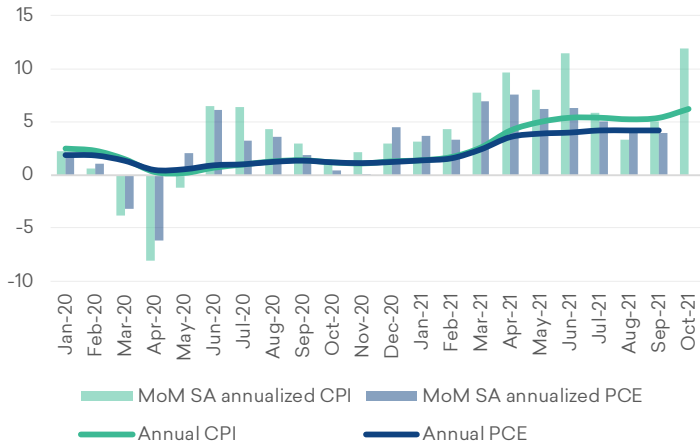
Note: Excluding government deposits; October and November estimates are based on M2 and M3 daily dynamics; as of 9-Nov-2021
Source: NBG, TBC Capital



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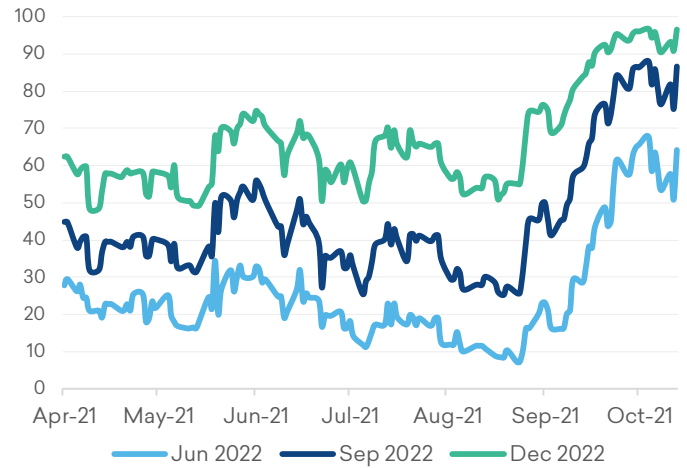
What we can say going forward? In the short term, the likelihood of stronger dollar is probably higher, though in the medium to long term, [we still bet on the stronger euro](#). As for the GEL, [our outlook](#) remains broadly same on the back of likely stronger appetite towards the GEL, however, at the same time taking into account the strengthening of the USD.

CPI AND PCE INFLATIONS IN THE USA (%)



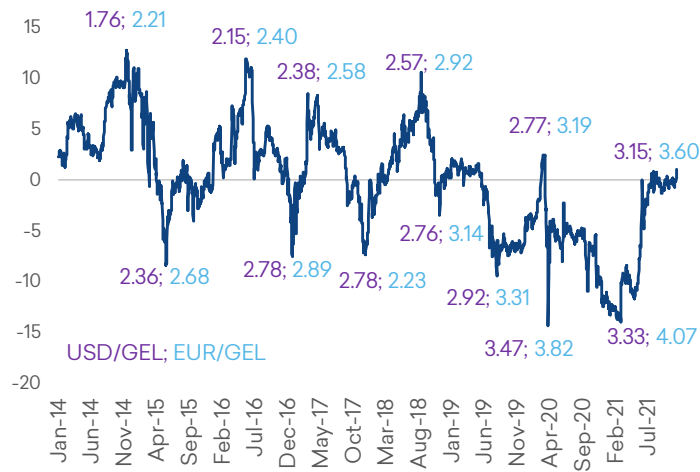
Source: U.S. BLS

MARKET EXPECTATION OF RATE HIKE AT FUTURE FOMCS (% probability)



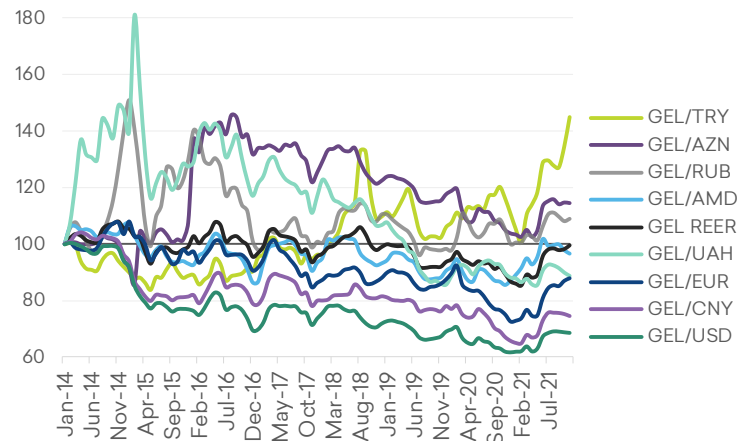
Source: CME

THE GEL REER, DAILY ESTIMATES (% deviation from period average)



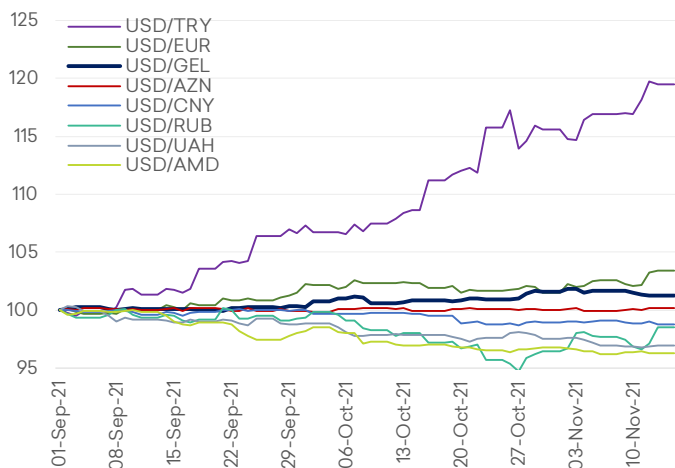
Note: As of 12-Nov-2021, increase means GEL appreciation
Source: NBG, corresponding statistical entities, TBC Capital

RER INDICES OF THE GEL (Jan-14 = 100)



Note: As of 12-Nov-2021, increase means GEL appreciation
Source: NBG, corresponding statistical entities, TBC Capital

GEORGIA'S MAJOR TRADE PARTNERS' CURRENCIES TO USD (1-Sep-2021 = 100)



Note: As of 12-Nov-2021
Source: NBG

Data releases to watch this week:

- Nov 15 – External Trade Express Data, October 2021;
- Nov 15 – Money Transfers, October 2021;
- Nov 19 – Indicators of the Labor Force, III Quarter, 2021;
- Nov 19 – External Trade Detailed Statistics, October, 2021;
- Nov 19 – Producer Price Index, October, 2021.

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