

ISTANBUL BILGI UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES
INTERNATIONAL POLITICAL ECONOMY MASTER'S DEGREE
PROGRAM

**CURRENCY DEPRECIATION AND FOREIGN POLICY DISCOURSE:
THE TURKISH CASE**

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ISTANBUL
2019

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THE TURKISH CASE**

**PARA BİRİMİ DEĞER KAYBI VE DIŞ POLİTİKA SÖYLEMİ:
TÜRKİYE ÖRNEĞİ**

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Date of approval: ..29.08.2019

Total number of pages: ..122..

Anahtar Kelimeler

- 1) Türkiye ve ABD ilişkileri
- 2) Kur Krizi
- 3) Söylem Analizi
- 4) Dolar/TL kuru
- 5) Recep Tayyip Erdoğan

Keywords

- 1) Turkey and U.S. relations
- 2) Currency Crisis
- 3) Discourse Analysis
- 4) Dollar/lira Exchange Rate
- 5) Recep Tayyip Erdoğan

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ABBREVEATIONS

AA	Anadolu Agency
AKP	Adalet ve Kalkınma Partisi (Justice and Development Party)
CBRT	Central Bank of the Republic of Turkey
CEO	Chief Executive Officer
CIA	Central Intelligence Agency
DAESH	al-Dawla al-Islamiya fi al-Iraq wa al-Sham (ISIS)
MIT	Milli İstihbarat Teşkilatı (National Intelligence Organization)
D.C.	District of Columbia
ECB	European Central Bank
EM	Emerging Markets
EU	The European Union
IMF	International Monetary Fund
ISIS	Islamic State of Iraq and Syria
MHP	Milliyetçi Hareket Partisi (Nationalist Movement Party)
MSCI	Morgan Stanley Capital International
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
n.d.	no date
PKK	Partiya Karkerên Kurdistanê (Kurdistan Workers' Party)
PYD	Partiya Yekîtiya Demokrat (Syrian Kurdish Democratic Union Party)
SA	Seasonally Adjusted
SDF	Syrian Democratic Forces
TRY	Turkish Lira
U.S.	The United States of America
UN	The United Nations
USD	United States Dollar
YPG	Yekîneyên Parastina Gel (People's Protection Units)

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ABSTRACT

2018 was an extraordinary year for Turkish-American relations. Turkey's one of the most serious diplomatic crises with the U.S. in decades precipitated an unprecedented Turkish lira currency crisis. Against this background, this study examines the influence of the U.S. policies on Turkey and the following dollar/lira exchange rate fluctuations on Turkish President Recep Tayyip Erdogan's U.S.-related discourse. In order to better understand the relationship, the study provides a brief summary of the historic and current political frictions between the two NATO allies. This overview is followed by a discourse analysis of Erdogan's speeches from September 1, 2017 until December 31, 2018. After that, the market moving news flows (e.g. the imprisonment of American Pastor Andrew Brunson) and reports published by international banks are examined in order to find out the U.S.-related determinants of the currency movements and discourse changes. Finally, the study points out the interactions between the U.S. actions, lira valuation and Erdogan's U.S. related discourse. It is observed that negative U.S. steps caused the lira to depreciate, positive U.S. steps led to a lira appreciation. In conclusion, it can be said that there has been an observable influence of the U.S. policies on Turkey and the following dollar/lira exchange rate fluctuations on Turkish President Recep Tayyip Erdogan's U.S.-related discourse.

ÖZET

Uluslararası politika ve ekonomi bakımından 2018 Türkiye ve ABD ilişkileri için sıradışı bir yıl oldu. ABD ile uzun yıllar sonra yaşanan büyük diplomatik krize Türk lirası kur krizi eşlik etti. Çalışma bu gelişmeleri göz önünde bulundurarak, ABD'nin Türkiye'ye yönelik politikaları ve devamında yaşanan dolar/TL kurundaki dalgalanmaların Cumhurbaşkanı Recep Tayyip Erdoğan'ın ABD'ye yönelik söylemi üzerindeki etkisini ele alıyor. ABD ile Türkiye ilişkilerini daha iyi anlamak için iki ülke arasında geçmişte yaşanmış büyük çaplı sorunlar ile 2018 yılı itibariyle devam eden anlaşmazlıklar da inceleniyor. Bu incelemenin ardından Erdoğan'ın 1 Eylül 2017 ile 31 Aralık 2018 arasındaki ABD'ye yönelik söylemleri analiz ediliyor. Daha sonra ise aynı periyotta lira üzerinde etkili olan ABD bağlantılı gelişmeleri bulmak için (Örneğin Rahip Andrew Brunson sorunu) finans odaklı ajansların haber akışları ile uluslararası bankaların raporları inceleniyor. Son olarak ise ABD'nin Türkiye'ye yönelik adımları, Erdoğan'ın söylemleri ve lira değerlemelerinin birbiri ile etkileşimi inceleniyor. Araştırmada, ABD'nin Türkiye'ye yönelik negatif adımlarının Türk lirasında değer kaybına neden olduğu, pozitif adımların ise değer kazancına yol açtığı tespit ediliyor. Sonuç olarak ABD'nin Türkiye politikaları ve devamında görülen dolar/lira hareketlerinin, Erdoğan'ın ABD'ye yönelik söylemi üzerinde etkili olduğu gözlemleniyor.

INTRODUCTION

Turkish lira was battered against the U.S. Dollar on August 10, 2018, marking its worst meltdown since the 2001 financial crisis. Dollar-lira exchange rate rose as much as 24 percent within a couple of hours. Although the 2018 Turkish currency crisis is inextricably linked to financial developments, the existing political economy literature mostly focuses on its underlying political causes, thereby not fully taking the financial side and its interaction with the political discourse into account. That is why this study aims to examine if or how the U.S.'s Turkey policies and following lira valuations had an influence on Erdogan's U.S.-related discourse during the 2018 lira crisis.

Erdogan's rhetoric towards the U.S. have been hard-hitting, defiant and uncompromising over the last years, especially after the failed coup attempt in Turkey in 2016. However, against this backdrop, Erdogan took a soother role in Turkey-U.S. relations during the 2018 lira crisis. Therefore, the study aims to investigate the drivers of the change in Erdogan's discourse towards the U.S. and attempts to reveal the interaction of which it lira valuations and the U.S.'s policies against Turkey.

In order to get a better understanding for Erdogan's discourse, this study scrutinizes an overview of the current political frictions between Turkey and the U.S. in the first section. This section starts with looking into the sequence of main historical crises between Turkey and the U.S. in the past decades and ends with the ongoing political issues in 2018.

In the second section, the research analyses Erdogan's speeches between September 1, 2017 and December 31, 2018. This period covers the time when the United States took concrete political and economic measures against Turkey and when the lira slid to historic lows. Out of over 1,000 pages of Erdogan's public speeches, 65 U.S.-related remarks were selected for the purpose of this research.

In some speeches, Erdogan addresses the United States without naming the country, so the research also looked at some other keywords to not miss the relevant remarks. Some of these other keywords that were utilized to weed out speeches are “Donald Trump”, “strategic partner”, “pastor”, “Brunson”, “Halkbank”, “Hakan Atilla”, “visa” and “S-400.” After a thorough screening process, about 100 individual speeches by Erdogan between September 2017 and December 2018 were selected. Out of these speeches Erdogan’s indirect or vague messages towards the United States were excluded. The study disregarded some of his brief and evasive statements, such as replying to a journalist’s question. Furthermore, the speeches on Palestine-Israel conflict and Iran-U.S. tension were taken no account of due to their indirect relation to this study’s purpose.

The research categorizes 65 selected Erdogan statements under positive, neutral and negative classifications, which were determined in consideration of Erdogan’s tone in his remarks as well as the content. Erdogan’s direct accusations and criticisms against the U.S. are labelled as ‘negative’. Also, the remarks in which he uses harsh or aggressive nouns, verbs or adjectives against the U.S., its institutions or its president, such as “shame on you”, “disappointment” or “it is a wrongdoing” are considered as negative. Finally, the speeches in which he questions the partnership with the U.S. or threatens to cut the ties between the two countries are labelled as negative as well.

The selected speeches qualified in a discourse analysis due to the tones of their contents negative, neutral or positive. Discourse analysis is a research technique that analyses the structure of speeches by taking into account not only their content but also their context. The theoretical framework of the conducted discourse analysis is based on the studies of Milliken and van Dijk, both internationally renowned researchers in that field.

Another question in the analysis is whether the lira valuations driven by the actions of the U.S. had influence on Erdogan’s discourse. Turkish lira is a free-

floating emerging market currency. For this reason, its value is highly sensitive to political statements. Also, due to the U.S.'s central role in international finance, the political issues between the U.S. and Turkey play an important role in the lira's movements since Turkish economy heavily depends on foreign finance. Therefore, in the third section of this study, the market moving news flows are examined by analysing the Turkey-related coverage of financial news provider Bloomberg and other news outlets such as Reuters and Financial Times as well as international banks' Turkey-related reports. By doing so, the relevant dates when U.S. policies affected lira price movements are succinctly identified.

As a last step, the fourth section combines the findings of the second and third sections by analysing if the U.S. actions that moved the lira had an influence on Erdogan's tone and made him change the nature of his discourse. To do that, concrete U.S. steps against Turkey, these actions' impact on lira valuations and Erdogan's response to the U.S. steps are examined to understand the relations between them. By doing so, the study aims to reveal whether lira valuations before, during and after 2018 currency crisis has an influence on Erdogan's approach towards the U.S.

SECTION ONE

TURKEY-U.S. BILATERAL RELATIONS

Currency depreciations are usually complex events that are influenced by many factors. Among these factors the political background generally plays an important role. Especially developing country economies' currencies are prone to fluctuate due to political uncertainties (see 3.1). In Turkey's case, the political correspondence with the U.S. has always been of major importance. Therefore, an overview of the past political frictions between Turkey and the U.S. will be examined in the following section in order to present a basic understanding of the recent political issues (see 1.1). Thereafter, the study will present a discourse analysis of Turkish President Recep Tayyip Erdogan's public statements between September 2017 and December 2018 (see 2.1.1).

1.1. Political Frictions Between Turkey and the U.S.

The political relations between Turkey and the U.S. can be characterized by good and bad times over the decades. The problems were snow piling over the years but they did not surface until the failed coup attempt in 2016. Zanotti and Thomas (2016) stated that after the botched coup, comments from both sides led to speculation in Turkey about an alleged U.S. involvement in the attempt. In order to better understand the recent frictions, it is essential to shine a spotlight on the political backdrop and its historical development. Therefore, this chapter provides a brief summary of the historical disagreements between Turkey and the U.S. (see 2.1.1.) and then outlines the current spike in tensions after the failed coup attempt (see 2.1.2) and the ongoing political issues until 2018 (see 2.1.3.).

1.1.1. Overview of Historical Disagreements Between Turkey and the U.S.

The strategic partnership between Turkey and the U.S. began in 1947 after the two countries signed an economic and technical cooperation agreement. This

agreement was a reflection of the Truman Doctrine, which paved the way for the U.S. support to democratic nations. It eventually led to Turkey joining the NATO in 1952 and thereby solidifying its alliance with the Western world. Ever since, the ties between Turkey and the U.S. were strained by three major crises taking place in 1960s, 1970s and early 2000s.

The first major crisis took place between 1962 and 1963. It is known as the Jupiter Missile Crisis, in line with the name of the missiles that were installed in Turkey by the U.S. military in order to protect Turkey from the “Soviet threat”. As the U.S. wanted to strengthen NATO by installing ballistic missiles in the continent, Turkey accepted the missiles to emphasise Turkey’s key role in NATO and to have warm relations with a “great power”. (Bernstein 1980)

The Jupiter Missile Crisis cannot be seen as a singular event, but is considered as an extension of the ongoing Cuban Missile Crisis between the U.S. and the Soviet Union during the Cold War. The Cuban Missile Crisis was a result of a Soviet plan to install nuclear-armed missiles in Cuba in an attempt to protect communist regime from the U.S. aggression. The plan instigated the American government to take action. As a reaction, the U.S. imposed a blockade on Cuba to prevent the Soviet Union to complete the installation of missiles. According to Norris and Kristensen (2012), the crisis was when the two sides came closest to a nuclear conflict. The offer to end the Cuban Missile Crisis finally came from the Soviets, asking the U.S. to remove their nuclear-tipped Jupiter missiles from Turkey. (“The Cuban Missile Crisis, October 1962”, n.d.) That is when the Jupiter Missile Crisis started.

Turkey fiercely objected to the Soviet idea as the nuclear warheads were considered a symbol of the U.S. commitment to Turkey’s protection. On January 22, 1963, Turkey eventually agreed on the American proposal to substitute the Jupiter missiles with Polaris missiles, which could be fired from submarines. (Seydi, 2010, p. 450) The Jupiter Missile Crisis and the Cuban

missile crises finally ended after the Soviet Union agreed to remove its missiles from Cuba and the U.S. agreed to pull back its missiles from Turkey.

One year later another crisis erupted when Turkish Prime Minister İsmet İnönü informed the U.S. President Lyndon Johnson that Turkey was starting an operation in Cyprus Island. Cypriot population consisted of people from Greek and Turkish origin. At that time some Greek Cypriots had begun to voice their desire to reunite Cyprus Island with Greece. Yet, Turkey was strongly against this idea and planned to conduct a military operation in order to guarantee the Turkish presence in Cyprus. The plan led to Johnson sending an ultimatum letter to İnönü. Particularly, Johnson wrote to İnönü that, in case of a Turkish intervention, NATO would not protect Turkey from a possible Soviet intervention. (“54. Telegram From the Department of State to the Embassy in Turkey”, n.d.) Turkey’s reply was full of resentment. According to the U.S. Central Intelligence Agency’s (CIA) archive, İnönü wrote a letter in response, stating that the U.S. did not understand Turkish intentions or position regarding Cyprus at all. (CIA, 1964) However, Johnsons’ letter had stopped Turkey to intervene in Cyprus for almost ten years.

Goktepe (2006) claims that Americans feared that a break-out of war between Turkey and Greece would herald Soviet involvement in Eastern Mediterranean through Cyprus. According to Goktepe, Turkey was loyal to the United States and other members of NATO but by no means subservient ally.

It was not before 1974 that Turkey eventually started a military operation in Cyprus. The Turkish invasion was a direct response to the Anti-Makarios Coup of July 15, 1974. (Bolukbasi, 1993) This coup was orchestrated by the Greek Junta against President Makarios III and the ultimate aim was the annexation of the island by Greece. Turkey’s operation started on July 20, 1974 after this development and ended almost a month later on August 16, 1974. In response to the military invention, the U.S. imposed an arms embargo on Turkey. As a

counter act, Turkey closed most American defense and intelligence posts in the country. On April 1978, the Carter Administration announced a major policy shift by seeking a total lifting of the arms embargo without requiring Turkey to find a solution to Cyprus issue. (Karagöz 2004) The U.S. embargo was ultimately lifted in October 1978. Karagöz emphasised that the period cast a dark shadow on the already fragile alliance between the two countries and created a deep lack of Turkey's confidence in the U.S. (p. 107).

However, in the 1980s the ties between Turkey and the U.S. began to ameliorate. But another crisis erupted in 2003 after Turkey's disagreement about the U.S. invasion of Iraq. The third crisis, also known as the "Hood Event", started right after Turkey's newly founded Justice and Development Party (AKP) lawmakers rejected a bill that would have allowed the U.S. army to use Turkey's border and its military facilities to invade Iraq. This decision sent shockwaves to Washington. After the incident, the U.S. military captured a group of Turkish military personnel operating in northern Iraq on July 4, 2003, led them away with hoods over their heads and interrogated them. Only after Turkey strongly protested the United States, the soldiers were released. The event was considered as a major humiliation of the Turkish army. Hilmi Özkök, Chief of Staff of the Turkish army, noted that the Hood Event had caused a "crisis of confidence" between the U.S. and Turkey. (Howard & Goldenberg, 2003) According to Sayari (2013), the Iraq war had a shattering impact on the bilateral relations, turning the alliance between Turkey and the U.S. into a troubled relationship. This crisis created such a deep mistrust between the two countries that they were not able to rely on each other in terms of military actions any more. As the U.S. blamed Turkey for inaction, it also restrained Turkish army's access to Northern Iraq. (Ozcan 2010) Following the years of mistrust, the conflict in Iraq eventually came to an end with the withdrawal of American troops from the Middle Eastern country in 2009, when Turkey confirmed that it was ready to serve as an exit route for U.S. troops pulling out of Iraq.

Subsequently, the U.S. administration under the newly elected U.S. President Barack Obama tried to mend the broken relationship with Turkey in 2009. Obama selected Turkey for his first overseas trip as president, six years after the “Hood Event”. During his campaign, Obama had pledged to travel to a Muslim country within the first 100 days of his presidency. (Shipman, 2009) As Obama underlined in his speech at the Turkish Parliament in 2009, the new U.S. administration recognized that Turkey’s role would be essential for stability in Iraq and to keep Iran under pressure. (The White House, Office of the Press Secretary, 2009) Obama administration also recognized Turkey’s role in combating terrorism. (Werz & Hoffman, 2015) But the good start of Turkey-U.S. bilateral relations under Obama did not last long. Only a couple of years later, Turkey and the U.S. found themselves in an even deeper crisis, which, due to its importance, will be addressed separately in the next section of this study.

1.1.2. Failed Coup Attempt in Turkey at July 15, 2016

The mistrust between Turkey and the U.S. rapidly intensified after the failed coup attempt in Turkey. During this coup attempt Turkish Army soldiers blocked the intercontinental bridges of Istanbul on the evening of July 15, 2016. The coup attempt, which took at a time when Turkish people were still traumatized by a recent series of terror attacks, was first officially made public by Turkish Prime Minister Binali Yıldırım by a phone call via news channel NTV. In his statement Binali Yıldırım said: “There is an uprising. We will do whatever it takes to stop it, even if we have to die.” (“Başbakan Binali Yıldırım'dan açıklama”, 2016)

While Yıldırım was on TV, Turkish government officials reached out to the U.S. ambassador and asked him to make a statement against the attempt. Instead of doing so, 40 minutes later, the U.S. Secretary of State, John Kerry, made a neutral statement: saying that he hopes there will be “stability, peace, continuity” in Turkey. (McCaskill, 2016) Only 20 minutes after that, there was a Twitter post from the official account of the White House stating that “President Obama is

informed regularly about Turkey.” An hour after this tweet, Turkish President Recep Tayyip Erdogan urged people to go out to the streets to defy coup plotters via a video call broadcasted on CNN Türk TV. (“Cumhurbaşkanı Erdoğan açıklama yaptı”, 2016) His call changed the course of the evening and thousands of people took to the streets after his plea. Half an hour after Erdogan’s call to Turkish people, the U.S. officially condemned the coup attempt and the White House urged all sides to support the elected government in Turkey.

Also, Incirlik, a NATO base in Turkey, was very busy during the night of July 15, 2016. War jets took off from the base and hit the Turkish Parliament and many other locations across Turkey. (“F-16s were aerielly refuelled 20 times during the failed coup”, 2016)

Even though Erdogan’s government survived the failed coup attempt, this night was a major turning point for the strategic partnership. According to an U.S. Congressional Research Service report, the “activity in Incirlik base during the failed coup may have eroded some trust between the two countries.” (Zanotti & Thomas, 2019, p. 4)

After the failed coup attempt, the Turkish government could not get the sympathy it expected from the Western world, especially not from the U.S. Instead of solidarity messages, John Kerry warned Turkey that “undemocratic actions could have NATO membership consequences.” (“Kerry Warns Turkey That Actions Could Have NATO Consequences”, 2016)

As a consequence, Minister of Labour, Süleyman Soylu, was the first government official who publicly accused the U.S. for involvement in the coup. However the U.S. responded immediately and denied the claim. (Fenton, 2016) Subsequently, Prime Minister Yıldırım urged the U.S. to clear its name over its alleged role in the failed coup attempt by deporting Fetullah Gulen. (Toprak, 2016) Gulen, a Turkish cleric who lives in Pennsylvania in a self-imposed exile since 1999, is the

head of the Gulen Movement and the alleged mastermind of the failed coup attempt, according to Turkish courts. Despite the accusations of some Turkish senior officials, Turkish Foreign Affairs Minister, Mevlüt Çavuşoğlu, later said that Turkey never blamed the U.S. for the failed coup attempt. (Turkey never blamed US for coup bid: Turkish FM, 2016) Nevertheless, many Turkish people accused the U.S. of masterminding the coup and anti-Western, specifically anti-American, sentiment began rising across the country. (Yavuz & Koç 2016, p. 144)

1.1.3. Ongoing Political Issues Until 2018

As the mistrust deepened, other problems between the two partners have started to become more apparent. In this section, the study briefly summarizes the ongoing political issues between Ankara and Washington before the sanction showdown. To narrow down the scope of the research and keep the focus on the issues concerning two NATO partners, the problems heavily involving third countries, such as Israel and Venezuela, are disregarded.

Years before the coup attempt Erdogan had wanted to change Turkey's role from a simple "junior partner" of the West into a regional power. (Kibaroglu & Sazak, 2015) Erdogan was trying to craft his own agenda in the region but the divergence between the policies of the two NATO allies became more visible after the failed coup attempt as the mistrust between Turkey and the U.S. deepened further.

The U.S. government attempted to disregard Turkey's new approach. Several conflicts resulted out of these different positions in late 2017. For the Turkish side, the most important issues were the U.S.'s support for the YPG in Syria, Gulen's secure position in the U.S. and the unwillingness of the U.S. Congress to sell arms to Turkey. For the U.S. side, the most important issues were Turkey's plan of purchasing an air defense system from Russia and the Turkish government's role in helping Iran avoid sanctions. While the Turkish government was infuriated by the U.S. sheltering Fetullah Gulen, American officials were trying to get Turkey

to release its arrested citizens in Turkey. This section will thoroughly examine this conundrum.

Gulen strains and Turkey's hostage diplomacy

Recep Tayyip Erdogan and Fetullah Gulen forged a mutually beneficial relationship in the 2000s, Erdogan's powerful grip on political institutions reinforced Gulen's social and bureaucratic power and vice versa. (Taş, 2018, p. 395) Yet, the cooperation turned into an open fight in 2012. In this year, Hakan Fidan, head of Turkey's National Intelligence Organization (known by the acronym MIT) rejected to testify in an investigation regarding a suspected Kurdish terrorist organization. (Dombey, 2012) One day later, Turkish police tried to arrest Fidan, his deputy and two other intelligence agents. The Gulen movement had deep roots in Turkish police forces back then, so the attempted arrests were most likely initiated by the movement. Within hours of the announcement that the arrest warrants had been issued, Erdogan's ruling Justice and Development Party (AKP) proposed legislation to curtail investigations into MIT. The events indicated that Erdogan has lost his trust in Gulen and their alliance was finally over.

Erdogan's retaliation move was to cut the Gulen movement's sources of income. He subsequently announced in 2013 that he plans to shut down after-school institutions, through which the movement recruited young people. (Cornell, 2013) The preparatory school system was a main funding source of money and human capital for the Gulen movement. As a response, Turkish police – still influenced by the Gulen movement – arrested the sons of three of Erdogan's cabinet ministers and at least 34 other people in coordinated raids in December 2013. (Letsch, 2013) The police and prosecutors accused them of corruption and the probe was extending to Erdogan himself. According to Özay (2013), the corruption scandal was the epitome of the power struggle between Erdogan and Gulen. At the end, the three ministers resigned or removed from duty. Erdogan

was defiant and he accused an illegal organization formed within the state for the arrests, referring to the Gulen movement. (Nakhoul & Tattersall, 2014)

After the 2013 corruption scandal, Erdogan's crackdown on Gulen-affiliated institutions accelerated. Erdogan had vowed to fight back and so he did. (Reynolds, 2016) He pushed forward to completely wipe out Gulenist organization from state institutions. Yet, after the failed coup attempt in 2016, the crackdown expanded to a new level, since Turkey held the Gulen Movement responsible for it. According to Mert (2016), the failed coup attempt was the continuation of Gulen's aim to take over the country. So, Turkey kept demanding deportation of Gulen from the U.S. ever since the botched putsch. Erdogan made numerous attempts in order to convince the U.S. to extradite Gulen (see table 2.1) but the U.S. denied this request and demanded Turkey to deliver proof of Gulen's involvement. Turkish government officials declared that they have sent the U.S. dozens of boxes of evidence. (ABD: Gulen'in iadesi için resmi talep aldık, 2016) However, the U.S. did not find the provided evidences sufficient enough for extradition. (ABD'ye ek kanıtlar sunduk ama yetersiz bulundu, 2019)

In the meantime, Erdogan's government was pursuing a so-called hostage diplomacy by detaining several American and European citizens. According to Erdemir and Edelman (2018), this "hostage diplomacy" helped Ankara to gain leverage in its dealings with Washington and European governments (p. 13, 18). Thus 2018 can be marked as a year of fierce foreign diplomacy in Turkey as numerous foreigners from the U.S. and European countries were imprisoned.

The first American detainee was Serkan Gölge, a dual citizen of Turkey and the U.S., who was employed by NASA in Houston, Texas. He was detained in August 2016 during a summer vacation in Turkey with his family. He was accused of being a member of the Gulenist organization. (Bohn & Tekerek, 2017) The government also targeted Turkish workers of U.S. consular missions. Hamza Uluçay, a Turkish employee of the U.S. Consulate in Adana who had worked for

the consulate as a translator for 36 years, was detained in 2017. (Kazancı, 2019) Also, Metin Topuz, another Turkish citizen and employee of the U.S. diplomatic staff in Turkey, was detained in 2017. (Bilginsoy, 2019) And finally, Turkey has indicted a third U.S. Consulate employee, Nazmi Mete Canturk and his wife and daughter on charges of membership of a terrorist group. (Pamuk & Kucukgocmen, 2019)

Turkey did not adhere to the U.S. government's demands to free the detained consulate workers. Many of the detainees were in prison without an indictment. Against this backdrop, the U.S. Consulate decided to stop non-immigrant visa services in Turkey in late 2017. Turkey retaliated by saying it would suspend visa services for American citizens. ("US stops non-immigrant visa services in Turkey, citing security", 2017) The issue was resolved in three months, a few days before the New Year's Eve. According to the U.S. side, the solution came after Turkey provided "high level assurance" on detainment of local staff. However, Turkey later refuted the U.S. claim. ("ABD ile vize krizi çözüldü, Türkiye 'yanlış bilgilendirmeye' tepki gösterdi", 2017)

But the most prominent detainee was Andrew Craig Brunson, an American pastor. Brunson was arrested in 2016, a few months after the failed coup attempt, on charges of espionage and having links to terrorist organizations. The U.S.'s one-year-long backdoor diplomacy for his release failed. Finally, Erdogan used Brunson's freedom as a leverage to force the U.S. to extradite Gulen. Mike Pence, the Vice President of the U.S., began to show interest in the Brunson case ahead of the midterm elections in the U.S. Since then, the Brunson case became a show of strength for the U.S. government and a bargaining chip for Erdogan. The U.S. eventually sanctioned two Turkish ministers, imposed tariffs on Turkish steel and aluminium and decided to review Turkey's trade privileges, in clear attempts to pressure its NATO ally to release its citizens. The Brunson case became the proxy of the problems between Turkey and the U.S. in this time period. Despite Erdogan's suggestion of a "pastor swap" (see table 2.1), Turkish Foreign Minister,

Çavuşoğlu, refuted the hostage diplomacy claims in an interview with Deutsche Welle. (MacKenzie, 2018) Finally, Brunson was sentenced on terror charges but freed due to the time he served.

YPG and Syria conflict

Turkey and the U.S. also began to quarrel over Syria, even though they pushed forward together to take down Syrian ruler Bashar Al-Assad. The two countries had different visions to resolve the Syrian crisis and this divergence of opinions eventually led to the U.S. cooperation with the Syrian Kurdish Democratic Union Party (PYD) and its militant wing, the People's Defence Units (YPG). The PYD was founded in Syria in 2003 by the Turkish government's archenemy, the Kurdistan Workers' Party (PKK), and emerged in 2012 as a game changer in the Syrian civil war. During the war, the U.S. and the YPG gradually became allies.

However, the YPG came into conflict not only with the Free Syrian Army and ISIS, but also with other Kurdish groups, especially those aligned with Turkey and the Kurdish National Council, which was backed by Iraqi Kurdistan National Government. International Crisis Group assumed that the YPG was seeking for international legitimacy. It also suggested that the PYD leaders were hoping that the U.S. and Russia will eventually pave the way to establish an autonomous Kurdish state in decentralized Syria after the war. (International Crisis Group, 2016, p. 4) So, it is no wonder that, as soon as the cooperation between the U.S. and the YPG became public, Turkey strongly objected to the U.S. for supporting them. As Öniş and Yılmaz foresaw (2013), the problem of an autonomous Kurdish state was going to have wider repercussions for Turkish foreign policy soon.

The turning point in the U.S.-Turkey relations finally came with the siege of the Syrian city Kobani in October 2014. (Kibaroglu & Selim C. Sazak, 2015, p. 105) According to Okyay (2017) due to "disappointing progress of Turkey-backed

“Free Syrian Army”, Turkey started to support moderate Islamist or nationalist groups, and hard-line Salafi Islamist factions. By doing so, Turkey aimed to confront the Assad regime and prevent further territorial gains by the PYD which was enhancing its relative standing locally, regionally and internationally.

A report by the Congressional Research Service shows that U.S. officials have praised Kurdish fighters as some of the most effective ground force partners the coalition had in Iraq and Syria. (“Kurds in Iraq and Syria: U.S. Partners Against the Islamic State”, 2016) In 2015, when the Syrian Democratic Forces (SDF) were created under American auspices to fight against the Islamic State, YPG members formed the backbone of the force. The U.S. began to supply material to the SDF and backing its operations with air power, although they had initially said that American weapons were only being sent to the coalition’s non-YPG elements. The support went forward when the U.S. declared that Kurdish forces were needed to retake Islamic State’s Syrian headquarter in Raqqa in 2017. In order to stop the advance of the YPG, Turkey conducted two military operations in Syria since the beginning of the U.S. support for the Kurdish group. These operations were called “Euphrates Shield” (launched on August 24, 2016, concluded on March 31, 2017) and “Olive Branch” (launched on January 20, 2018, Turkish forces captured Afrin town on March 18, 2018). They had been Turkey’s last resort to block the PYD’s autonomy ambitions so far.

S-400 air and missile defense system

In the early years of the Syria war, the Turkish government decided to buy a long-range air and missile defense system. Yeni Safak columnist Mehmet Acet (2017) cited AKP spokesman Mahir Ünal and wrote that Turkey first realized that it lacks a comprehensive air defence system in 2012, after Syria downed a Turkish jet. Soon after this realization, Turkey collected bids from China, Italy and France, the U.S. and Russia for a missile defense system. Turkey announced that China made the best offer but NATO strongly objected to Turkey’s decision to procure

defense system from a Chinese supplier, which created immediate strain on Turkey's relations with its NATO allies. (Egeli, 2019) The deal with China was stalled and ultimately cancelled in 2015. Instead, NATO Patriots were deployed in Turkey.

Subsequently, Turkey, France and Italy signed a letter of intent in July 2017 to cooperate in air and missile defence projects. (Karadeniz, 2017) However, the NATO partners were reluctant to agree on technology transfer and co-production, and Turkey was firm on these issues. Turkish Foreign Ministry Spokesman Aksoy (2018) said the U.S. has been "stalling Turkey for 10 years" on this issue. On top of that came the Western systems' high price. Finally, Turkey chose to make a deal with Russia. This step was striking as Turkish authorities were already questioning if Turkey can still rely on the West. So, several months after the failed coup attempt, Turkey signed a deal with Russia for purchasing S-400 air defense system. Only a few months after that, an upfront payment was made. (Gall & Higgins, 2017) Kasapoğlu (2017) claims that the biggest milestone in Turkey's S-400 deal was President Erdogan's visit to Moscow in March 2017.

NATO considered Turkey's decision as a complete deviation from its traditional alliance system and began to warn Turkey about it. (Mehta, 2017) The U.S. defense officials were concerned that the Russian-made systems would harm American joint operations with Turkey as the use of Russian systems by a NATO ally could create confusion between Ankara and alliance members on the battlefield. (Munoz, 2017) Nevertheless, Turkey proceeded with the purchase and Russia delivered the system's first parts to Turkey few weeks after Donald Trump gave a green light for the purchases at the G-20 summit in late June. (Pitel, Williams & Foy, 2019)

As of September 2019, Washington has not gone forward with the sanctions that it threatened Turkey with for two years. But Turkey was removed from the F-35 fighter jet program, in which it invested more than a billion dollars. The U.S. may

still impose sanctions against Turkey and the future of Turkey's involvement in the F-35 program remains uncertain.

Iran wedge: Halkbank, gold, nuclear power and energy

Out of many reasons, Turkey's stance on Iran was also crucial for the deterioration of the ties with the U.S. In 2010, Turkey and Brazil initiated a swap deal with Iran to soothe Western worries on Iran's nuclear power ambitions. However, this initiative was received cynically by Washington and considered as a time-buying move to help Iran. (Altunışık 2013)

On June 9, 2010, the Security Council of the United Nations adopted a resolution, demanding Iran to halt all nuclear enrichment activities and other activities related to the development of nuclear weapons, with 12 countries voting in favour, Brazil and Turkey voting against, and Lebanon abstaining the resolution. (UN votes for new sanctions on Iran over nuclear issue 2010)

Turkey's independent drive and voting against the resolution once more irritated its strategic partners. Yet, Turkey's acceptance of NATO's missile shield, avoided the crisis to grow. The shield was supposed to protect Western allies from threats coming from outside of Europe, an area that includes Iran. (Kuntay 2013)

According to Tsardanidis (2018) the strengthening of Iran and Turkey's ties was suspended for a while in 2011 due to divergence over Syrian policy, Arab Spring and Iran's refusal to make economic concessions. Although the Syria related friction remained, Turkey and Iran were about to further improve their trade ties in the future. Aside from the fact that Turkey and Iran have not often sided with each other politically, the two countries have been prioritizing their economic relations over their political relations. (Wald, 2018)

After the United Nations' sanctions on Iran, Turkish state-run lender Halkbank had started to play a significant role in the Iran gold trade. Wald states that in 2012 "Iran and Turkey engaged in an elaborate scheme." According to this "scheme", Turkey and Iran traded gold and smuggled it through different countries in exchange for various currencies. After that scheme was discovered, the U.S. placed sanctions on Iran's precious metals trade, which effectively halted it. But according to the U.S., Halkbank later breached the limits of Iran trade, which were officially secured through talks with the Obama administration.

The crisis reached its climax in March 2017, when Halkbank Deputy CEO, Mehmet Hakan Atilla, was arrested in the U.S. The U.S. Justice Department accused him of participating in a year-long scheme to violate American sanction law by helping Reza Zarrab, a major Iranian gold trader, and using U.S. financial institutions to engage in prohibited financial transactions that illegally funnelled millions of U.S. Dollars to Iran. (U.S. Department of Justice, March 2017) The "Atilla Case" became an issue of Turkish government's internal and foreign policy. In early 2018, Atilla was convicted by an U.S. court to 32 months of jail time over the sanction allegations (U.S. Department of Justice, May 2018); a decision which stirred up Turkish government. He was freed and deported to Turkey after almost 28 months in jail in July, 2019.

1.2. Conclusion of Section 1

The political relationship between Turkey and the U.S. has been shattered by three major crises taking place in 1960s (Jupiter Missile Crisis), 1970s (Cyprus Island Crisis) and early 2000s (Hood Event). Despite an attempt to mend the sore relations between the two NATO allies in 2009, the trust issues rapidly intensified after the failed coup attempt in Turkey on July 15, 2016. Until today, the mistrust between Turkey and the U.S. government got even deeper over different opinions on the extradition of Fetullah Gulen, the Syria war, the Kurdish endeavour for an autonomous state, Turkey's arms procurement deal with Russia, Iranian gold trade

the Halkbank interference. As Turan (2018) states in his analysis, the continuous issue in the current U.S.-Turkey relations is the “mistrust” between the two countries, which is stemmed from the past events and results in the fact that the two strategic partners do not trust each other on any incident any more due to the bitterness of the past. While the diplomatic spats in the past have consequences involving Turkish army and its actions, the latest spat in 2018 had economic consequences for Turkey. Therefore, to have a better understanding of the diplomatic crisis, economic repercussions should be examined along with political developments.

SECTION TWO

DISCOURSE ANALYSIS AND ITS DETERMINANTS

Against this political background the following chapter presents an analysis of Turkish President Recep Tayyip Erdogan’s discourse towards the U.S. By doing so, the research aims to determine the changes in Erdogan’s discourse and the possible reasons for these changes. The theoretical framework of this analysis and its determinants are constructed through a research technique called discourse analysis (see 2.1). This study adopts Milliken’s (1999) approach for conducting discourse analysis. Based on this theoretical background, the study examines President Erdogan’s public speeches concerning the U.S. before, during and after 2018 lira crisis (see 2.1.2). The reason for choosing this time period is to be able to reveal any possible relation between discourse changes and the lira depreciation as the currency rout and deterioration of the U.S.-Turkey relations overlap in the given period. The acceleration of deterioration of the bilateral relations after 2016 failed coup attempt (see already above 1.1.2) led to first concrete measures taken by two countries against each other in this period, e.g. suspension of visa process, imposing sanctions and tariffs, reviewing trade deals.

2.1. Theoretical Determinants of Discourse Analysis

Discourse analysis is a research technique which involves the analysis of the structure of texts, speeches and conversations by taking into account not only their linguistic content but also their sociolinguistic context. Discourse analysis is based on the assumption that language is the main tool of politicians and therefore is highly correlated to their policies. Fairclough (2005) suggests that language is a material form of ideology, and language is invested by ideology. That is why the context of the speeches is considered to determine the approach of the discourse rather than wording only. According to Fairclough (2004), meaning-making depends not only upon what is explicit in a text or speech, but it also depends on what is implicit (p. 11). Therefore, discourse analysis is not primarily about counting things (Gee, 2011, p. 154), but to make meaning of them. Yet, discourse analysis is not a single theory, method or practise. On the contrary it is a heterogenous, qualitative way of research which uses multi-disciplinary methods and combines different research traditions. (Tonkiss, 2006) As Tonkiss (2012) states, regardless of the approach, there is no strict rule that needs to be followed (pp. 405, 423). Also Burr (2007) suggests that discourse analysis is not a hard science and there are no definitive guidelines for researchers to pursue.

An important researcher in the field of discourse analysis is Milliken, who was an assistant professor at Graduate Institute of International Studies in 2002. After 8 years of academic studies, she pursued a new career in the private sector and established her own consultant company. Today, she works as Managing Director of the Swiss branch of Kite Global Advisors. Out of the three main commitments that Milliken (1999) suggests discourse scholars to acknowledge in their research, one commitment is especially important for this study, namely “discourses as systems of signification”. In Milliken’s understanding, discourses construct social realities, because they do not have a meaning by themselves but people construct the meaning (“constructivist understanding of meaning”). In order to find this meaning, Milliken suggests three methods of analyses: predicate, metaphorical

and narrative analysis, each focusing on a special field of discourse. Milliken assumes that predicate analysis is suitable for diplomatic documents and transcript of interviews. Milliken also claims that predicate analysis helps researchers to better justify and refine an interpretation. As the study aims to conduct discourse analysis through transcript of public speeches on diplomatic issues, this research adopts “predicate analysis” method to scrutinize Erdogan’s political discourse. Milliken explains the predicate analysis as follows:

“Predicate analysis focuses on the language practices of predication – the verbs, adverbs and adjectives that attach to nouns. Predications of a noun construct the thing(s) named as a particular sort of thing, with particular features and capacities. Among the objects so constitutes may be subjects, defined through being assigned capacities for and modes of acting and interacting.”

As referred before, discourse studies has a different way of handling the problem therefore it can be carried out in numerous ways. As Milliken described; a text can be examined by “focusing on the language practices of predication – the verbs, adverbs and adjectives that attach to nouns”. Within this concept this study aims to find out the tones of discourses by distinguishing certain characteristics and qualities verbally attributed to topics. Schneiderová (2011) claims that, to conduct a healthy research, it is crucial to gather a sufficiently large and variable set of texts which are pronounced over a longer period of time. Therefore, this study covers 65 selected Erdogan speeches in the time frame of the research. However, rather than counting repeating verbs, nouns and adjectives, this study focuses on the meaning and tone of them.

To fortify the study more, discourse analysis principles as presented by van Dijk (1997) are adapted as well for. Van Dijk is an internationally renowned professor of discourse studies who is currently lecturing at Universitat Pompeu Fabra in Barcelona. According to van Dijk’s approach, discourse analysis consists of

12 principles. (van Dijk, 1997, pp. 29-31) The most important ones for this study are: “context”, “sequentiality” and “meaning and function”.

First, according to van Dijk, “context” is important because discourse “should preferably be studied as a constitutive part of its local and global, social and cultural contexts”. In particular, van Dijk mentions “settings, participants and their communicative and social roles, goals, relevant social knowledge, norms and values, institutional or organizational structures” should be taken into account (p. 29). Second, van Dijk argues that speeches are largely “linear” and “sequential”, i.e. language users operate in an “ongoing” fashion. Since latter elements may have special functions with respect to previous ones, all elements of a speech should be interpreted relative to the preceding ones. Van Dijk further claims that the language user wants to have “the opportunity to reinterpret or repair previous activities and understandings” (p. 30). Lastly, van Dijk states that both language users and analysts ask the same questions in order to get the “meaning and function” of a discourse. These questions are: “What does this (...) mean here?”, “How does this make sense in the present context?” and “Why is this being said (...)?” (p.31).

Against this theoretical background, the context of Erdogan’s statements are evaluated to determine his very approach. This research also takes into account Erdogan’s social status, his role as a leader and his political background in order to create a more comprehensive background to the analysis. Growing up in an Islamist environment, having deep anti-western roots and events like “Davos walk away” shape Erdogan’s leadership style and his rhetoric. (Kesgin 2019)

Furthermore, the study also looks at sequential aspects: While specific words were considered as negative in some speeches, the same words were ignored due to positive words that appeared in the same speech, thereby neutralizing the negative ones. Finally, Erdogan’s remarks are studied by asking why and when questions in order to find out the underlying meaning.

2.1.1. Scope of Erdogan Discourse Analysis

Erdogan has been using media effectively all along his career to turn political debates into public cause, in the same way he uses rhetoric to gain support from his voters. His control over Turkish media outlets helps him carry out this strategy effectively. Therefore, the best way to investigate Erdogan's speeches and statements is to check state-run media outlets.

As stated before, the failed coup attempt in 2016 is considered a turning point in the U.S.-Turkey relations and eventually one of the main reasons for the diplomatic crisis in 2018. However, this study investigates Erdogan's speeches only in the time period between September 2017 and December 2018 because the given date range serves best to observe the political frictions between the U.S. and Turkey and its impact on the lira, as disagreements between the two allies became apparent and led to concrete steps from both sides in this time period. Nevertheless, the research also analyzes Erdogan's speeches after the coup attempt until the beginning of September 2017 in order to examine his discourse in a more comprehensive manner. However, to narrow down the scope of the research, the time period right after the coup attempt is excluded from the text.

Turkey's state-run news agency Anadolu Agency (AA) has been used as the sole source for Erdogan's U.S.-related statements as it follows him wherever he goes and reports whatever he says almost word by word. The agency covers his speeches without considering whether they are repetitive or newsworthy. Therefore, it is the most reliable news source when it comes to covering Erdogan.

However, given Erdogan's passion to be on the headlines all the time, digging through his media coverage is a very difficult task. There are many instances in which he has addressed three to four different crowds on the same day. Sometimes he speaks six or even eight times in different locations on the same day. While doing so he makes sure to convey his favourite messages of the day,

regardless the purpose of his visit. He is a professional orator and usually sounds well-prepared during his speeches. But from time to time he chooses to go off topic and make unexpected declarations. For him, where he speaks or whom he addresses are not much of a concern. Sometimes he gives his most important international policy messages in unexpected contexts. For example, you may hear him addressing the U.S. president in a rural town's tea house. Sometimes he unexpectedly comments on an international arms deal, right after a Friday prayer in front of a mosque, and sometimes he uses the international stage – like the United Nations Security Council – to send his messages. He usually has a direct way of speaking and succinctly says what he thinks or believes. All in all, he is definitely not a reticent orator.

To find out Erdogan's U.S.-related discourse, the main keyword was obviously the United States. Due to Erdogan's tendency to not use the name of the American country some other keywords were also selected. As stated earlier (see 2.1.2 and 2.1.3), to identify the most important pressure points in the bilateral relations, the following keywords and their derivatives were picked to determine Erdogan's U.S.-related speeches: Donald Trump, strategic partner, pastor, Brunson, Halkbank, Hakan Atilla, visa, S-400. Even though Fetullah Gulen's name comes up in almost all of Erdogan's remarks, it was not a searched keyword due to its excessive use without any connection to the U.S. The same applies to the keywords "YPG" and "PYD." Yet, the research results show that this limited keyword selection did not limit the research as these topics are still the most prominent subjects of the selected Erdogan speeches.

In total, the keywords produced more than 100 individual speeches given by Erdogan between September 2017 and December 2018. Out of these speeches Erdogan's indirect or vague messages towards the United States were excluded. Also, his brief and evasive statements, such as replying to a journalist's question are disregarded. Furthermore, the speeches on Palestine-Israel conflict and

Iran-U.S. tension are disregarded due to their indirect relation to this study's purpose. After eliminating these, 65 speeches remained to be examined.

These 65 Erdogan statements are categorized under three classifications: positive, neutral and negative. These classifications are determined in consideration of Erdogan's tone in his remarks (see Table 2.1.1.). Erdogan's direct accusations and criticisms against the U.S. are labelled as 'negative'. Also, the remarks in which he uses harsh or aggressive nouns, verbs or adjectives against the U.S., its institutions or its president such as "shame on you" ("yazıklar olsun"), "disappointment" ("hayal kırıklığı") or "it is a wrongdoing" ("yanlış yapıyorsunuz") are considered as negative. Finally, the speeches in which he questions the partnership with the U.S. or threatens to cut the ties between the two countries are labelled as negative.

If Erdogan does not use any harsh nouns, verbs or adjectives, does not introduce a new dimension in terms of criticism or is not blaming the U.S., the remarks are labelled as 'neutral'. Also, the speeches in which he complains about the U.S. rather than accusing it are labelled as neutral, even though they might repeat former criticism. As stated before, Erdogan uses anti-Western rhetoric to solidify his voter base. Therefore, this study considers his repetitious rhetoric against the U.S. as neutral as long as they do not bring fresh criticism. For example, if Erdogan repeats his former claims on a certain issue (i.e. YPG, Gulen.. etc), his approach is considered as neutral, if he introduces a new claim on the topic, his rhetoric is evaluated according to context of the change.

The remarks which contains direct references to the U.S. president as a "friend" ("dost") or "partner" ("ortak") -without any negative input- are considered as 'positive'. If Erdogan signals hope in terms of better relations or expresses better prospects, the remarks are labelled as positive as well. Also, the speeches which involve strong emphasis on cooperation or mutual understanding are considered as positive statements.

Table 2.1.1. Classification of Erdogan’s Discourse

Negative	Neutral	Positive
Direct accusations towards the United States	Complaints on U.S. policies, rather than accusing	Friendly references to the U.S. or to the U.S. president
Harsh-aggressive nouns, verbs and adjectives	Absence of labelling, repeating former complaints	Expressing hope for better bilateral relations
Questioning the partnership between the two countries	Lack of new dimension of criticism	Emphasis on cooperation and mutual understanding

2.1.2. Detailed Erdogan Discourse Analysis

After the coup attempt in 2016, Erdogan’s first remark towards the U.S. was indicating anger and frustration. In a speech a month after the failed coup attempt he said that Turkey had been requesting from Barack Obama to extradite Gulen for almost a year. He blamed the U.S. for holding out the process and called for immediate extradition. In his following statements Erdogan was complaining about the United States’ unwillingness to meet Turkey’s arms procurement demands. He was labelling the U.S. as a “bad neighbour” (“kötü komşu”). His frustration was even more obvious when it came to the cooperation between the United States and the YPG. Erdogan asked: “Is YPG your partner in NATO? Shame on you!” (“yazıklar olsun”, speech on 10/12/2017) His remarks at the end of the Obama era were clearly hostile against the U.S. but after Donald Trump became the president in 2017, Erdogan’s tone changed to neutral and he became friendlier.

In the first days of Donald Trump’s presidency, Erdogan was sure-footed about his comments. In the first 3 months of Trump’s era, Erdogan opted to urge Trump to cooperate with Turkey in Syria and reiterated his calls to extradite Gulen. After his first direct contact with Trump, Erdogan even became optimistic. In April 2017, three months after Trump’s inauguration, Erdogan was hopeful in terms of U.S. relations. In an interview with the CNN International, he said that he

is very happy about Trump's general management approach. He also said that he believes they can achieve many things as strategic partners and NATO allies. He was hopeful that the U.S. was going to end its partnership with the YPG. The very next day Erdogan underlined that he expects Trump to take a different way and deliver Gulen to Turkey. Again, he reiterated his call to the U.S. to stop supporting the YPG.

When state-owned Halkbank's deputy CEO, Hakan Atilla, was arrested in the U.S. in March 2017, Erdogan returned to his hard stance, but he still implied that he can have a good start with Trump. Approximately a month after Atilla's arrest, Erdogan said that this might be a game of the Gulenists and he will take the issue up to Trump during his visit to the U.S. He was hopeful about the beginning of a new era between the two countries, as he stated in a speech at the end of April. In May 2017, Erdogan and Trump met at the White House in Washington. Yet, Erdogan's first visit to Donald Trump created an unexpected and minor diplomatic crisis. Erdogan's security team was involved in a fight with people protesting against the Turkish president in Washington D.C. After that, American prosecutors started an investigation and a U.S. court accepted the indictment which accused Erdogan's team of wrongdoing. Answering a question on that matter, Erdogan defined the issue as a "scandal". ("Bu, başlı başına skandaldır", speech on 09/01/2017) However, he said that "the prosecutor is from Obama era". By doing so, he drew a line between the Obama and the Trump era, which implied that he expected a better understanding with Trump as the new president of the United States.

Answering a question about the Halkbank case, Erdogan said that the steps taken had political motives (speech on 09/08/2017). Although he thereby connected the lawsuit against Halkbank to the U.S. politics, he said that "hopefully we will have a chance to discuss the issue with Trump once I visit the U.S." Therefore, despite his "political motive" accusation he displayed a hopeful picture in terms of bilateral relations with the new U.S. leadership.

Later, Erdogan reiterated his accusations against the U.S. prosecutors on the security team case. He also voiced positive expectations from Trump on the Halkbank case (speech on 09/15/2017). Two days later he said that he attributes special importance to his meeting with Trump and “believes” that the meeting will be productive and beneficial for both sides (“...faydalı ve verimli neticeleri olacağına inanıyorum”) (speech on 09/17/2017). Although he criticized the U.S. for the ongoing issues three days later, Erdogan once more reiterated that he wanted to handle the problems with Trump “sincerely” (“Sayın Trump’la perşembe günü bu konuları samimi bir şekilde konuşacağız”) and underlined his expectations from Trump administration before his visit to the White House (speech on 09/20/2017). Thereby, Erdogan further solidified his belief that he might have a better relationship with Trump compared to Obama. A day after Erdogan-Trump meeting, he answered a question by saying that he offered to the U.S. to cooperate with Turkey instead of the YPG in Syria. He said that whoever suggested the U.S. to partner with the YPG was aiming to deceive the U.S. So, Erdogan continued to distinguish the current U.S. leadership and bureaucracy from the former one (speech on 09/22/2017).

After meeting with Donald Trump, Erdogan’s first speech on the U.S. was related to Pastor Andrew Brunson. It was going to be clear later that Trump had asked Erdogan for Brunson’s release. Almost a week after the meeting, Erdogan introduced the issue for the first time in a public speech without mentioning the pastor’s name. Erdogan said, referring to Brunson and Gulen: “They [the U.S.] are asking me to give that pastor. I told them, you have a pastor as well, you deliver yours and we will give you ours” (“kalkıyorlar diyorlar ki 'Filanca papazı bize verin.' Bir papaz da sizde var, siz onu bize verin”) (speech on 09/28/2017). A few days after that, the U.S. made its first serious move against Turkey by freezing the visa process for Turkish citizens. The decision was taken by the U.S. Ambassador John Bass on the basis that the U.S. mission employees were under arrest due to charges of having ties to the Gulenist organization. Erdogan’s first comment was cautious. He defined the situation as “saddening” (“üzücü”) and announced that

they will reciprocate with the same measures (speech on 10/09/2017). The next day he said that he finds it “strange” how an ambassador can make such a decision on behalf of his country. Erdogan stated: “If that is the case, we have nothing to talk about.” Later, he added that he does not see the ambassador as a representative of the U.S. Especially this statement showed that Erdogan did not want to accept this step as a part of the U.S. policy towards Turkey but rather as an individual decision. However, in the same speech he accused the arrested U.S. consulate workers as “spies” and questioned how these “terror-related people” could have ever been employed (speech on 10/10/2017).

One day after that, Erdogan defined Turkey as an independent country which “does not accept the given role.” After the U.S. visa decision, the lira depreciated rapidly and Erdogan made a reference to this depreciation in his speech by mentioning “economic warfare” as a tool of “those” who do not want Turkey to rise to power. Then he added that the visa spat with the U.S. is a manifestation of this “game”. However, this rhetoric was not new, Erdogan has been using it almost all along his political career. In the same speech, Erdogan clearly stated that he wants to position Turkey as a key player in international politics. He accepted the economic consequences of the spat with the U.S. by saying “you don’t count the punches in a fight” (speech on 12/10/2017). By saying this, he acknowledged that he saw the spat with the U.S. as a fight and that this fight has inflicted an economic damage on Turkey. The next day, he escalated his rhetoric further by claiming that “the U.S. lies to the world” (speech on 13/10/2017).

Answering a journalist’s question a couple of days later, the security team issue resurfaced once again. Erdogan made an angrier statement and said: “What kind of business is this? I revolt against this!” Then he added that Turkey needs to stand tall (first speech on 19/10/2017). By standing tall, Erdogan clearly referred to his intention to not bow before the U.S. On the same day in another speech, he described Fetullah Gulen as a “puppet” indicating that the U.S. is his “puppet master.” He added that the perpetrator of the failed coup attempt was a tool of the

U.S., implying that the American state was behind the event. Right after that, he brought up Brunson issue again without naming him and suggested a hostage swap once more (second speech on 19/10/2017).

However, Erdogan's tone softened in the next month after speaking with Trump on the phone. Erdogan expressed his hopes for a better relationship with the U.S. by saying in a speech: "In this conversation, we were on the same page with the U.S. after a long time". He also explained that they talked about the Halkbank case, the YPG partnership, the Gulenists and a cooperation in the defense industry (speech on 11/28/2017). The "long time" reference in Erdogan's speech made it clear that the bilateral problems were going on for a while and that Turkey and the U.S. had seen things differently.

But Erdogan's expression of hope changed to harsh criticism after the U.S. announced that it will recognize Jerusalem as the capital of Israel. In December 2017, Erdogan excoriated the U.S.'s decision at least nine times on different dates. However, Erdogan's speech against the U.S. on Jerusalem topic is ignored in this study due to its indirect impact on the bilateral relations. But the negative tone of Jerusalem rhetoric was present in other topics as well. For example, Erdogan said that the U.S. had "plans" for Turkey, indicating the U.S. policy is a threat against Turkey. Then he questioned the U.S. partnership with the YPG in Syria again (speech on 12/05/2017). Nevertheless, Erdogan did not give up on Trump yet, because in the same speech he said that he talked about this issue with Trump, adding that "no offense" ("Kusura bakmasinlar") but Turkey has to do whatever needs to be done in Syria despite the U.S. actions. Two weeks later he said that the U.S. was using the economy as a tool of "threat, blackmail and exploitation." He added: "Turkey did not use any of these means and Turkey won't say 'all right' to those who use them" (speech on 12/20/2017).

In the first days of 2018, Erdogan continued his criticism on the Syria issue. He said that he offered partnership but "unfortunately" could not get a result (speech

on 01/04/2018). A day later, citing the Halkbank case in the U.S., he said “This is not justice. Do not even try to lecture the world on justice anymore.” In the same speech, he brought up the Gulen issue again by saying: “If you take no account of our requests, bilateral judiciary agreements are void. Sadly, this is how it is going to be” (speech on 01/05/2018). Four days later, he said some “strategic partners support terrorists near Turkey’s border, so “there is nothing to talk about”. These statements clearly indicate that Erdogan’s high hopes about the Trump administration were fading away. Erdogan kept his unfriendly tone. He said that the U.S. was trying to give advice but his answer was certain: “Keep your advice to yourself, we are looking for honesty” (speech on 01/09/2018). On the very next day he cited the Halkbank case and the Gulen issue again in order to claim that the U.S. was challenging Turkey by court decisions. He said he does not “respect” these decisions (speech on 01/10/2018). Once again, Erdogan insinuated that Gulen is protected by the U.S. for many years by now. He also threatened that if the U.S. does not extradite him, Turkey will not return any ‘terrorist’ requested by the U.S. as long as he is in charge (speech on 01/11/2018).

Erdogan’s criticism got deeper by the end of January, when he claimed that one day, the missiles that hit Turkey’s Reyhanli might hit the U.S. and Europe as well (speech on 01/22/2018). Two days later he talked with Trump on the phone. But this time the phone call caused a diplomatic dispute. Turkey rejected the White House’s statement concerning the phone call. Turkish “presidency sources” told state-run Anadolu Agency that Trump did not emphasize any “concern” related to the ongoing Afrin operation, as it was stated in the White House release. However, Erdogan did not comment on this dispute himself. He said that his biggest “sorrow” is seeing the YPG flag next to the American flag. Referring to the phone call, he quoted Trump saying “do not criticize us so much” and then he added, “all right, but you should not do that [note: partnership with YPG] as well” (speech on 01/26/2018). As seen exemplary in these statements, despite his criticism, Erdogan’s comments on the U.S. partnership with the YPG most of the time involved words like sorrow, sadness or disappointment. This implies that Erdogan

has not given up on the U.S. relationship. In fact, he desired to re-establish the strategic partnership, but – as he stated many times – he wanted it to be an equal one.

In February, Erdogan’s remarks started to sound impatient. He voiced his concern that Trump would take the same path Obama took towards Turkey. He said that the U.S. stayed in Syria despite the claim that the ISIS was eradicated. He reasoned that the U.S. stayed in Syria because it has “goals” about Turkey, Iran or even Russia (speech on 02/08/2018). One week after that, the U.S. Secretary of State Rex Tillerson paid a visit to Turkey while Turkey’s Afrin operation in Syria was ongoing. The purpose of the operation was to limit the YPG’s influence in Syria and prevent it from expanding the area it controlled. Ten days after Tillerson’s visit, Erdogan said that the U.S. needs to understand that Turkey is its “most trustworthy” ally in the region. He also repeated the Gulen issue, but this time he said that the dialogue between the two countries on this topic is ongoing (speech on 02/26/2018).

However, almost a month later, Erdogan said that Trump did not keep his promise on YPG. He emphasized that the U.S. cannot “fool” him with renaming the YPG forces to the SDF (speech on 03/21/2018). However, he later added that Trump needs to warn some U.S. government bodies who speak on behalf of him. He abided by his opinion that the U.S. policies were determined not by Trump but by “others.” So, Erdogan was actually trying to spare Trump from his criticism by directing it on other people. He underlined this opinion once more five days later (speech on 03/26/2018). The two leaders had another phone call on the last day of March. Three weeks after this conversation, Erdogan spoke about the Brunson issue again but this time he mentioned the pastor’s name for the first time. After replicating his complaints about the Gulen situation, he said that: “If you want us to take a step, you have to do your own part” (speech on 04/21/2018).

Two weeks after the Brunson issue resurfaced in a CNN interview, Erdogan said that this contention is not “just a hostage issue”. In the same interview, Erdogan once more compared Brunson to Gulen. By doing so, he implicitly accepted the claims on it being a hostage swap issue. Answering a question about Trump’s administration’s performance, Erdogan refrained from praising Trump like he used to do and instead said that it is not appropriate for him to evaluate Trump’s performance (speech on 05/09/2018).

In the next week, a Bloomberg interview took place. In this interview, Erdogan said that he has no issues with the Trump management so far but they have different opinions on some matters. He also said that he “hopes” that the result of the Halkbank case does not ruin the bilateral relations. Answering a question about the S-400 deal, he said that the U.S. should support Turkey instead of sanctioning it. Then he added: “We want sincerity, there is no problem as long as there is sincerity.” So, despite the controversies with the U.S. management, Erdogan was leaving an open door for diplomatic solutions. Erdogan maintained an open attitude and a week later he emphasised that he “still” believes in embarking on a new path with Trump administration (speech on 05/29/2018).

However, in the first days of June, Erdogan once again implied that the U.S. played a role in the failed coup attempt of 2016 by saying: “If you are not deporting Gulen, then I am asking: Which dark hands are behind the attempted coup?” He also questioned the U.S. Senate’s decisions on halting F-35 sales to Turkey and said: “I do not care what Senate does, I talked to the president. If we are strategic and model partners, the U.S. should not make a judicial mistake” (speech on 06/02/2018).

Erdogan’s next speech came 6 days later, after reaching an agreement with the U.S. to remove the YPG militants from Manbij town in Syria on June 4, 2018. However, despite the U.S.’s assurance to remove the militants, Erdogan was cautious: “I am not sure if they [note: the U.S.] are sincere” (speech on

06/12/2018). In the same speech, he threatened the U.S. to go to international courts on F-35 issue. Erdogan referred to the Manbij deal once more by saying that he considers this as an important development: “If the U.S. collects the guns from the YPG in Syria, the problem is going to be solved” (speech on 06/14/2018). Erdogan’s emphasis on the U.S.’s “sincerity” and his use of if-clauses indicated his wishful thinking and showed at the same time that the trust issues between Turkey and the U.S. were ongoing despite given promises. Nevertheless, he softened his tone despite his anger after a Senate bill that foresaw blocking the sale of F-35 jets to Turkey. Erdogan responded to the draft brought to the U.S. which offered to stop the delivery of F-35 jets to Turkey. Erdogan said he expected Trump to refuse to proposal (speeches on 06/22/2018 and 06/23/2018).

After the June 24 elections, which installed a presidential system in Turkey, Trump called Erdogan to congratulate him over his victory. The two leaders kept in touch until they met at a NATO summit in Brussels on July 11 and talked on the phone on July 16. After these conversations, Erdogan stated that Trump promised him to deliver F-35 jets and that he trusts him.

After these conversations, Brunson was released from jail, but was still put under house arrest. The following day, Trump and Vice President Mike Pence threatened to sanction Turkey. Erdogan was silent for several days. But after the U.S. sanctions were imposed on August 1, he reminded the U.S. of their NATO partnership by saying that Turkey displayed “the most beautiful solidarity” with the U.S. (“ABD ile NATO'da en güzel dayanışmayı ortaya koyduk”) and that the U.S. will not get anything by threatening Turkey. He also mentioned their alliance in the Korean War, more than half a century ago (speech on 08/01/2018).

Three days later, Erdogan changed his tone. He said that the U.S. disrespected Turkey by imposing sanctions. He implied also that the U.S. wants to use the Halkbank case as a trump card (speech on 08/04/2018). The Turkish lira was already melting down day by day and markets were speculating that the U.S.

Treasury Department was preparing a hefty fine against Halkbank over the allegation of having violated Washington's Iran sanctions. A multi-billion dollar fine on a Turkish state bank could be devastating for Turkey's already fragile economy and Erdogan was well aware of this fact. Nevertheless, Erdogan decided to threaten back: "We were patient until today but we will retaliate. You take a step, we will take a step as well." He added that he had urged Trump to cooperate just recently but "Trump was tricked." He underlined that this is happening because of the "evangelist, Zionist approach." Only after a long harangue, he said: "We can solve our problem with the U.S. by putting forward the alliance approach." These remarks are a reflection of Erdogan's general attitude and discourse towards the U.S., at least since Trump took the office. His speeches often follows the same pattern: Erdogan first accuses the U.S. for not honoring the necessities of the strategic partnership and complains about Turkey being a victim, then he vows for retaliation, then he blames unspecific circles in the U.S. without addressing anyone in particular, then he segregates Trump from his criticism and eventually he reminds the U.S. of their the strategic partnership and calls for a truce.

Nevertheless, Erdogan's tactic did not work and Trump kept cornering Turkey. The climax of the spat came on August 10. On that day Trump announced new tariffs on Turkish steel and aluminium. But before that, a Financial Times story suggested that the European Central Bank is worried about the region's banks' exposure to Turkish banks. Minister Albayrak's speech to reassure the markets did not deliver the anticipated result. Against this backdrop, the central bank was crippled by Erdogan, therefore, they did not defend the lira by raising interest rates. The lira was crumbling apart, and on top of that, Trump introduced a new measure on Turkey. Speculative attacks against the lira rapidly caused the currency to sink to historical lows (for further details see Table 2.1.2.). Erdogan did not speak on that day.

In return, Erdogan wrote an article in The New York Times. (Erdogan, 2018) He stated that unilateral actions against Turkey by the United States will undermine American interests and force Turkey to look for other friends and allies. On that moment it became obvious that Turkey was playing its last trump card by threatening the U.S. to break the alliance. The next day, Erdogan said that Washington's steps "saddened" him (text on 08/11/2018). Despite Erdogan's struggle to turn Turkey from a junior partner into a regional power, these sentimental references concerning the U.S. were an epiphany of Erdogan seeing the U.S. still as some kind of a "big brother." Therefore, these comments can be seen as an extension of the junior partner approach.

One day after that, Erdogan followed the same pattern. He ended his remarks with the following words: "We never sought to be on bad terms with the U.S." (speech on 08/12/2018). He kept blaming the U.S. again for waging an economic warfare against Turkey but also kept reminding about the partnership which he threatened to break (speeches on 08/13/2018, 08/14/2018 and 08/18/2018). By the end of August, Erdogan was trying to keep his ground. He said that such U.S. actions towards a NATO partner are unacceptable. However, despite his threat to end the partnership and the no easing on the American stance, Erdogan never gave up his partnership rhetoric (speech on 08/29/2018). On top of that, "economic warfare" rhetoric was in Erdogan's speeches before but it became the main theme of his remarks in August.

After the August crisis, September 2018 was another difficult month for the Turkish lira. Monthly average dollar/lira rate was even higher than in August. Yet, Erdogan started this month's speeches by underlining Turkey's need of the S-400 missile defense system once more and kept repeating how the U.S. refused the joint production and technology transfer requests of Turkey. He stated: "Those who left the door close to our joint production requests have no right to talk once we have a deal with Russia for S-400s. We will not get permission from anyone" (speech on 9/02/2018).

The next speeches' emphasis was on the so-called economic warfare again. This time, Erdogan directly linked the lira depreciation to the U.S. statements about Turkey. He said: "Consecutive statements of the U.S. about Turkey are used as an excuse to target Turkish economy. Exchange rate increased by midnight operations without any economical reason". He added, that the rise of dollar/lira over 7 was just because Turkey did not bow to the U.S.' demands, which were "disrespecting our sovereign rights" and "prove that it is all political" (speech on 09/14/2018).

Ten days later Erdogan reiterated his claims on YPG, and Gulen. Regarding the YPG issue he said that "unfortunately our strategic partners" take different steps (speech on 09/24/2018). In the evening of the same day, U.S. Secretary of State Mike Pompeo told the media surprisingly, that they expect Brunson to be released soon. The next day Trump and Erdogan encountered at a UN summit, shook hands and had a brief conversation. Following Pompeo's statement and approximately two weeks before the Brunson trial started, Erdogan's rhetoric regarding the Brunson case softened. He assured that Brunson's fate is in the hand of Turkish courts, not in the hand of politicians. He was shouting out months ago that "As long as Erdogan is in charge, the U.S. will not get any terrorist back unless they extradite Gulen" (speech on 09/26/2018).

Interestingly, the next day Erdogan's manner towards the U.S. even turned positive. He said: "In the recent years Turkey's and the U.S.' divergence tested the relations. Some circles in the U.S.' administration think blackmailing or threatening Turkey would solve the divergence... Our partnership will come over this problematic era. I sincerely believe our close friendship with the U.S. will turn this situation into an opportunity" (speech on 09/27/2018). These remarks were a turning point in Erdogan's harsh, strong and accusing language. He was voicing hope, peace and friendship while he was addressing American-Turkish Business Council. Within the scope of this study, the speech on September 27, 2018 was the most positive one towards the U.S.

Nevertheless, Erdogan returned back to his former rhetoric a week later. But rather than bringing new accusations, he reiterated his former claims about the YPG (speech on 10/04/2018).

On October 12, 2018, Turkish court found Brunson guilty on terror charges and ruled to imprison him, but he was freed due to the time he has already spent in jail. Compared to other terror defendants, Brunson was very lucky. Four days after this trial, Erdogan answered a question about Trump's positive remarks towards Turkey after Brunson's release. Erdogan said: "These are belated statements. I always told them [note: the U.S.] to trust Turkish judiciary. The Turkish court did not fail us and ruled as it was supposed to" (speech on 10/16/2018). Erdogan did not elaborate this topic further, probably in order not to get in contradiction with his former remarks.

The next time Erdogan spoke, he asked the U.S. to drop the support to YPG again, but this time he used softer rhetoric. He said: "I am urging our ally, friend and partner: get rid of the YPG burden" (speech on 10/26/2018). This indicates that a new dialogue between Erdogan and Trump was established after Brunson's release. Afterwards, the two leaders started to talk on the phone frequently. After one of these phone calls, Erdogan expressed his hope on the YPG and Halkbank issue (speech on 11/03/2018). Two days later, he voiced these expectations again. However, he also said that he does not find the sanction against Iran fair (speech on 11/06/2018). In less than a month, Erdogan and Trump spoke three times on the phone. Markets reacted to this correspondence and the lira appreciated. Yet, Erdogan still kept the Gulen topic alive. In the first days of the last month of 2018, Erdogan said: "I do not want to give up hope on Gulen's deportation, I am hopeful" (speech on 12/02/2018). This time Erdogan expressed hope on the issue rather than demanding it. Therefore, his speech did not include any harsh comments.

However, these positive remarks took a negative turn due to the U.S. cooperation with the YPG in mid-December. Erdogan once again started to blame the U.S. He

was growing impatient about the unkept U.S. promise on Manbij. Similar to what he had stated a year earlier, he said that Turkey might conduct another military operation if the U.S. continue to protect terrorists (speech on 12/12/2018). The very next day the Pentagon voiced its concern on this implication of a military operation. Nevertheless, Erdogan repeated his intention of a military operation and tried to persuade the U.S. for cooperation with Turkey instead (speech on 12/17/2018). Again, the Pentagon objected. However, the next week Donald Trump decided to pull out American soldiers from Syria during a phone call with Erdogan. This decision was a major shock for the Pentagon, since Trump reportedly followed Erdogan’s suggestion. Trump himself later confirmed that he made the decision after Erdogan promised him to “eradicate” ISIS from Syria. (Trump: Erdogan said Turkey to eradicate Daesh in Syria, 2018)

Finally, Turkey and the U.S. were on the same page about their cooperation in Syria. Yet, this cooperation did not last long, Trump would not stick to his word and Erdogan’s harsh rhetoric would return; but this is out of the scope of this study.

Table 2.1.2 Recep Tayyip Erdogan’s Discourse

Date	Erdogan’s Discourse on the U.S.	Approach
09/01/17	The indictment against my security team is a scandal; the prosecutor is from Obama era.	neutral
09/08/17	Halkbank case in the U.S. has political motive but Trump and I’ll discuss this issue.	neutral
09/15/17	The U.S. does not sell us the arms we asked for. They even drag foot for maintenance.	neutral
09/17/17	I attribute special importance to meeting with Trump, I believe meeting to be beneficial for both sides.	positive
09/20/17	I will sincerely talk to Donald Trump on the issues.	neutral
09/22/17	If our NATO partner does not sell the arms we wanted, we have to look outside of NATO for them.	neutral
09/28/17	They ask for a priest, you have a priest as well. Give him, take yours.	negative
10/09/17	The U.S. ambassador's decision to freeze visa processes is saddening.	neutral
10/10/17	If the U.S. ambassador has acted on his own, he should be relieved of duty.	neutral

Date	Erdogan's Discourse on the U.S.	Approach
10/12/17	U.S. action towards Turkey is part of a dirty plan.	negative
10/13/17	U.S. lies to the world, this is their disposition.	negative
10/19/17	How come they placed a detention order for my security team? I revolt against this!	negative
10/19/17	If the U.S. ambassador can take decision on his own, I question our strategic partnership.	negative
11/28/17	In our phone call we realized that we have a common understanding with Mr. Trump.	positive
12/05/17	The U.S. protects terrorists, calls them SDF. This is a set up, we won't walk into a trap.	negative
12/20/17	The U.S. is using economy as a tool of 'threat, blackmail and exploitation.'	negative
12/30/17	We urged Trump not to cooperate with terrorists but he chose to listen his generals.	negative
01/04/18	We told Trump not to support terrorists but we couldn't deliver a result.	negative
01/05/18	Halkbank case is not just, the U.S. shouldn't lecture the world on justice anymore.	negative
01/09/18	We have nothing to talk with those who support terrorists.	negative
01/10/18	I do not 'respect' Halkbank and Gulen decisions in the U.S.	negative
01/11/18	Turkey will not deport any terrorists to the U.S. as long as I am in charge.	negative
01/15/18	Erdogan says the U.S. is creating an 'army of terror.'	negative
01/22/18	The arms hit Reyhanlı might hit the U.S. one day, no one knows.	negative
01/26/18	Terrorists are running wild with the U.S. flags in their hands.	negative
02/06/18	If the U.S. thinks they cleaned up Daesh, why are they still here? Against Turkey or Russia?	negative
02/08/18	I told Trump that he is making a mistake with YPG cooperation, but he continues to do that.	negative
02/26/18	Turkey is the most trustworthy ally of the U.S. in the region.	neutral
03/21/18	Trump needs to warn some American government bodies.	neutral
03/26/18	I believe the U.S. decision to stay in Syria was not taken by Donald Trump.	neutral
04/21/18	They want Brunson but they did not even put Gulen on trial.	neutral
05/09/18	Brunson issue is not just a matter of hostage deal.	neutral
05/15/18	We have had no problem with Trump so far but we have some disagreements.	neutral

Date	Erdogan's Discourse on the U.S.	Approach
05/29/18	I believe we'll start a different process with Trump but their Syria approach is not good.	neutral
06/02/18	The U.S. should not do any judicial wrongdoing to us if we are partners.	negative
06/12/18	We are fed up with the U.S. If they don't deliver F-35s we will go to international courts.	negative
06/14/18	I believe things will go well in Manbij and the U.S. will collect the guns it gave to the YPG.	neutral
06/14/18	They ask for Brunson, we will put him on trial first. Why don't you deport Gulen?	neutral
06/22/18	I believe the U.S. Senate's decision on F-35s will be pushed back by Trump.	neutral
06/23/18	Trump brags that they have high quality arms but when we ask for it they refuse to give.	neutral
06/23/18	Çavuşoğlu's visit to the U.S. produced healthy results on Syria's Manbij issue.	neutral
07/24/18	Trump made a promise, we are not worried about delivery of F-35s.	neutral
08/01/18	We displayed a great partnership with the U.S. since Korea, threats are not appropriate.	neutral
08/04/18	Trump is tricked by Evangelist-Zionists. We were patient but we have to retaliate.	neutral
08/10/18	The U.S. must give up the misguided notion that our relationship can be asymmetrical.	neutral
08/11/18	U.S. action against its strategic partner upsets us, disturbs us.	neutral
08/12/18	Why are you ruining our partnership? We have never tried to make things worse with the U.S.	neutral
08/13/18	There is no convenient reason to impose steel tariff on a strategic partner.	neutral
08/14/18	We will boycott American electronics. We fought in Afghanistan and Kosovo together.	neutral
08/18/18	We did not let them establish a terror corridor among our borders.	neutral
08/29/18	I can't find words to define the U.S. behaviour to its NATO partner. We won't step back.	neutral
09/02/18	We will not get permission from anyone to deal with Russia, no offense.	neutral
09/14/18	The lira depreciation was driven by the fact that we did not bow to the U.S.	neutral
09/24/18	Our strategic allies are unfortunately taking different steps in Syria.	neutral
09/26/18	I have no right to forgive Brunson. This is a decision for courts to take.	neutral

Date	Erdogan's Discourse on the U.S.	Approach
09/27/18	I believe our close friendship with the U.S. will overcome the challenges of bilateral issues.	positive
10/04/18	We will not surrender to the economic war of the U.S.	negative
10/16/18	Trump's positive remarks on Turkey is belated. I always told him to trust Turkish courts.	neutral
11/03/18	The U.S. and Turkey have decided to carry out Manbij road map plan.	neutral
11/06/18	I believe Trump will halt the joint patrol of the YPG with the U.S. forces in Manbij.	neutral
11/27/18	We will only assume that they are with us until they put a distance between them and terrorist.	neutral
12/02/18	I'm hopeful about Gulen's deportation and implementation of Manbij roadmap.	positive
12/12/18	I urge the U.S. to cooperate with us in Syria, we are NATO allies.	neutral
12/17/18	We may start cross-border operation without harming the U.S. soldiers.	neutral
12/28/18	Obama never kept his promises, Trump told us that we can cooperate in Syria.	neutral

Source: Anadolu Agency

2.2. Conclusion of Section 2

After examining almost 1.000 pages of speeches Erdogan gave between September 1, 2017 and December 31, 2018 and identifying the 65 U.S.-related ones, the findings suggest that there are two dominant motives that run through Erdogan's statements about the U.S. over the years. The first one is asking for the deportation of Fetullah Gulen, the other one is urging the U.S. to end its partnership with YPG/PYD. Considering the dominant theme of the given speeches, the usage of specific words and the subtexts of these 65 speeches, the results are as follows: Four of them have of a positive approach, twenty one of them a negative approach and forty of them are neutral rhetoric. Erdogan refers to the YPG issue 35 times, Gulen issue 14 times, arms issue 12 times, the "economic warfare" issue 10 times, the Halkbank issue 9 times, the Brunson issue 8 times and the visa issue 5 times. In these speeches Erdogan – like his predecessors – used "Westerners want to weaken Turkey" rhetoric constantly. (Pope, 2017)

However, after years of disagreement between Turkey and the U.S., Erdogan became optimistic when Donald Trump was elected as president.

The study also shows that the U.S.'s steps or statements mostly drove the change in Erdogan's tone. Erdogan's rhetoric rarely became positive, and the change to positive mostly followed a phone call or a meeting with the U.S. representatives. Negative American actions were causing Erdogan to change his tone to negative. On the other hand, positive developments were producing a change in Erdogan's tone towards neutral.

This cause and effect relation changed during the August crisis. After the lira depreciation, Erdogan took "the soothing role" for bilateral relations and did not change his rhetoric to negative despite the unprecedented U.S. measures towards Turkey within the last 40 years. The other American measures or statements, e.g. visa spat or Syria statements, were effective on the lira but these effects did not influence Erdogan's rhetoric. However, the size of the collapse in August forced Erdogan to step back on his promise to not release Pastor Andrew Brunson as long as he is in charge. Also, Erdogan had to take a softer role despite his "defiant image" in the international area. The lira depreciation, which was magnified by the U.S. steps (as Erdogan pointed out in his September speech), was the only apparent reason for the change in Erdogan's attitude and actions towards the U.S.

SECTION THREE

CURRENCY DEPRECIATION OF 2018

The currency depreciation of 2018 was a major turning point for Turkish economy. As this study investigates the impact of the lira depreciation on Erdogan's U.S. rhetoric, it also aims to find out the effect of U.S.-Turkey relations on the lira, to provide a better analysis. Before analysing the impact, the study briefly tries to explain the influence of United States central role on emerging markets (see 3.1)

and following section identifies the main drivers of dollar/lira moves by analysing the ‘market moving’ news flow (see 3.2).

3.1. Emerging Markets and Central Role of United States

Emerging market economies are structurally dependent on foreign financing to fulfil their financial needs, while developed economies mostly take a financier role in the relation. Globally, investors favour the currency of large economies where interest rates are relatively stable, output and employment rates are better and inflation is low and stable. But high yield in emerging countries also lures investors to make more risky but more profitable investments. This also applies to developed economies’ financial institutions. They profit from lending emerging countries due to the difference of interest rates between the markets. For example, a U.S.-based bank presumptively borrows U.S. dollars from the Federal Reserve at a certain rate or collects deposits at zero rate from individuals. The bank would make profit from lending these low cost deposits and borrowings to an emerging market lender on a higher rate.

As an emerging market economy, Turkey is heavily dependent on foreign financing to fund credit growth and household consumption. Therefore, Turkish Treasury and banks depend on international financiers to cover their needs and that creates a common ground between Turkey and its developed Western allies on financial fronts. This crucial cycle repeats itself every time when Turkish Treasury needs to roll over debt or borrow new debt in foreign currency and when Turkish banks need to roll over their syndicated loans from abroad. If Turkey has difficulties to provide foreign financing, then Treasury would have to borrow more in the lira market and eventually push interest rates higher. Turkish banks would be forced to limit loans and would have deteriorated balance sheets. Finally, Turkey would have difficulties to finance its balance of payment deficit and eventually market confidence would hurt, and as a worst-case scenario, this might even lead to collapse of financial system in the country. Therefore, continuation of

the finance from abroad is the most crucial factor for the markets. If there is no systemic risk, then investors would focus on interest rates, inflation expectations, domestic political stability, government debt levels, terms of international trade and such. These factors help market players to guess whether a currency valuation is fair or not. For example, if interest rates are higher than expected inflation, currency provides a favourable environment for investment due to net real yield. However, erosion in inflation expectations likely to turn the investment sentiment vice versa. Another example, if markets are assured that the government provides a foreseeable, stable investment environment, they will be willing to accept lower real yields for their investment due to lower risk of losing money. Low political risk results in more foreign investment and eventually more valuable assets. According to Frankel & Rose (1996) currency meltdowns occur when foreign direct investments dry up, country foreign exchange reserves are low and domestic credit growth is high, real exchange rate is over-valued and interest rates are high in developed countries.

The United States represents the core of global finance with its privilege to print the dollar. The dollar, alongside with the euro, account for nearly 90 percent of the foreign exchange reserves held by central banks and governments globally. These two currencies make up almost 80 percent of the value of Special Drawing Rights (SDR), the reserve asset used in transactions between the IMF and its members. Also, the United States controls the international transaction system, SWIFT, and it has power to bar any institution or country from the system. Therefore, Turkey's political disagreements with the United States, easily cause disruption in domestic money and capital markets due to Turkey's dependency on international financing. If this disruption extends to fear of economic sanctions on the country or on any individual doing business with it, investor confidence in Turkish assets would erode, demand for Turkish assets would be diminished and this would eventually cause currency depreciation as the value of a free-floating currency is determined in money markets, driven by demand and supply. The

possibility of exclusion from global financial system would offset any benefits of Turkish assets for foreign investors and create a vacuum effect.

Health of a market, often measured with its “depth”, and most of the emerging markets lack of it. That is why, price movements are tend to be more volatile in emerging markets compared to developed markets. Political risks might have deeper consequences than any foreseeable economic risk, therefore emerging market analysts are well advised to devote considerable resources to forecasting political risk changes. (Diamonte, Liew & Stevens 1996)

In early 2017, Turkish markets tended to rule out ongoing international policy divergence between Turkey and the U.S. because the divergence was an “old story”, extending back to “hood event” in 2003. However, once Washington took solid steps towards Turkey, starting with freezing visa applications at the end of 2017, markets started to follow the political development closer and these developments effect on investment decisions took a broader role. However, markets were not alone in this positioning. Also the Turkish government was preparing for “troubled times” in terms of the U.S. relations. The apparent tension reflected on Turkey’s U.S. Treasury bond holdings. According to Bloomberg data, the estimated value of Turkey holdings of the U.S. Treasury securities was about 60 billion U.S. dollars at the end of 2017. This amount includes marketable and non-marketable bills, bonds, and notes reported monthly under the Treasury International Capital of U.S.

In 2015, during its peak, the amount was over 80 billion dollars. Nevertheless, the total holding was fluctuating between 50 billion to 80 billion dollars in the last 5 years. Right after the Halkbank trial in the U.S., Turkey started to rapidly diminish these assets. Between end-2017 and June 2018, Turkey’s holdings fell below 30 billion U.S. dollars.

Figure 3.1. Turkey’s Holdings of U.S. Treasury Securities



Source: Bloomberg

The holdings briefly rose 800 million dollars in July 2018, overlapping with verbal agreement on Syria issue between Turkey and U.S., but following the U.S. sanctions, Turkey sold another 11.1 billion dollars of securities in August 2018. The total amount fell below 10 billion dollars as of end-2018 and the latest data shows that Turkey’s U.S. Treasury holdings fell below 2 billion dollars as of April 2019. Turkey was not the first country which sold U.S. assets after sanctions. Russia, another country sanctioned by the U.S., sold 84 percent of its holdings, bringing it down to 14.9 billion in first 4 months of 2018. (Egan, 2018) However, these sell-offs did not create a big impact on U.S. bond market given its 15 trillion dollars size. (Chappatta, 2018) The disposal of the U.S. assets was a clear sign of Turkey’s preparation for economic consequences of a problematic era in the ties.

3.2. Analysis of Lira Fluctuation in Late 2017 and 2018

The following analysis aims to identify the main drivers of the 2018 currency crisis by analysing the ‘market moving’ news flow. In investigating this topic, this study covers the time period between September 1, 2017 and December 31, 2018, when the lira’s historic depreciation took place.

Therefore, the examination covered all working days of the given period for a complete fluctuation analysis of the lira before, after and during the currency crisis. For the given period, the study uses international news and data company Bloomberg's guidance to determine the market moving news flow. Bloomberg is a dominant global provider of financial news and information. The scope of their service includes real-time and historic price data, financials data and trading news. Within the guidance of Bloomberg's Turkey coverage, the study also relies on international banks' Turkey-related reports and other prominent news agencies such as Financial Times and Reuters, for determining the reasons for the lira fluctuations.

The Turkish lira's price movements against hard currencies had 5 stages for the chosen period. And these stages are roughly in line with the quarters of the given years.

To make it simple and easier to understand, this study evaluated the price movements of the last 4 months of 2017 and quarters of 2018 one by one, in order to find out the relationship between the news flow and the movements. Table 3.2.1. shows that the days in the last 4 months of 2017 the dollar/lira exchange rate appreciated or depreciated 1 percent or more. But these days might lack the highly volatile days when currency pair swings between loses and gains and close the day flat. To prevent this, the study also includes the days when intraday price swings past 3 percent in either direction. In addition, in order to be able to present a better picture of the relation between currency movements and Turkey-U.S. relations, the significant days are also displayed in the tables. That being said, despite high price movements on some days, Bloomberg did not report any possible cause specific to the lira. This movements might be related to global emerging market moves (therefore Bloomberg does not specifically report the lira movement) or a big retail investor, a bank's or even Turkish Treasury's repositioning. However, this study does not further investigate these issues since they are not relevant to the main purpose of it.

3.2.1. Last Four Months of 2017: The U.S. Effect

A day before the coup attempt of July 15, 2016, the dollar/lira closed the day at 2.8782. During the coup day the pair rose 4.8 percent to 3.0157 and hovered around 3 handle for a few months but then rose over 3.50 through the end of the year. In the first months of 2017, the depreciation continued and the dollar/lira surpassed 3.80 level. However, this trend reversed back in the coming months and the pair was trading around 3.40 in the first days of September 2017. These were the last days of lira appreciation.

After Turkey started conducting military drills along its southern border, the lira depreciation returned back. Markets were afraid of a possible collusion between Turkish and U.S. soldiers in case of a Turkish attack against the YPG targets in Syria. Independency referendum plans of Iraqi Kurdish Government were also raising concerns because Turkey's Middle East policy was strictly against any independent Kurdish state near its southern border. At the end of September 2017, several days after Erdogan and Trump met, Erdogan mentioned pastor Brunson without naming him and said: "If you want the pastor (Brunson), give the pastor (Gulen) you have." He was referring to Trump's request on freeing the pastor but markets were not aware of the coming diplomatic turbulence yet, therefore the speech did not affect the lira. After Erdogan's defiant tone about jailed U.S. citizens, the U.S. Ambassador John Bass suspended visa processes in Turkey. Several U.S. consulate workers were also in jail at that time and Bass was taking action against the situation. The dollar/lira rose 1.7 percent to 3.7023 on October 9, 2017. The stress on the lira eased after Bass said that the U.S. and Turkey are in talks to end the visa ban on October 11, 2017. However the problem was not resolved and a newspaper story claimed that the U.S. was preparing heavy penalties for 6 Turkish banks. The pair rose over 3.70 again. Three days later Turkish central bank held interest rates while market expects benchmark policy rate to hike after the lira depreciation. The rate decision added more stress on the lira and the dollar/lira rose over 3.82.

Inflation was following the lira depreciation. Core inflation hit the highest level since 2004. The Halkbank trial in the U.S. had started and a U.S. prosecutor blamed Turkey government for helping Reza Zarrab to evade U.S. sanctions on Iran through Halkbank deals on November 3, 2017. However, three days later, the U.S. restarted visa process on a limited base, after saying they got initial high-level assurances from the Turkish government that there are no additional local employees of their mission under investigation. But Turkey's Washington embassy denied such claims and the lira erased recovery. Because the response by the Turkish embassy in Washington showed that problems were far from being resolved.

The Halkbank case, also known as the Zarrab case, became the Atilla case, because Zarrab made a deal with prosecutors and Halkbank Deputy CEO Hakan Atilla became the main defendant of the case. A Turkish government spokesman said the case in the U.S. is a conspiracy against Turkey and the country faces conspiracy of economic sanctions. The markets were worried that Halkbank may be faced with a penalty big enough to push the lender to bankruptcy. The lira depreciated another 1.4 percent that day and the dollar/lira hit record high the very next day on November 21, 2017.

A week later, on November 28, 2017, Erdogan had a phone conversation with Trump. Erdogan said "In our phone call we realized that we have a common understanding with Mr. Trump." Amid the visa spat, the Halkbank case and a possible cross-border operation conflict with the U.S., Erdogan suddenly became optimistic after the phone call but the lira was close to record low levels that day. 2 days later, the first testimony of Reza Zarrab in the Halkbank case helped the lira to recover because markets were expecting more from the first appearance, a short relief was being priced. In the first days of December, rise in Turkey's inflation created another market expectancy for a central bank rate hike. Accordingly lira gained 1 percent against dollar to 3.87. On December 14, 2017, CBRT raised the rates but the rate hike fell short of market expectations and the

dollar/lira rose 2 percent on that day. Through the end of the year, Turkey and the U.S. agreed on resuming visa processes as it was before. This day the lira appreciated more than 1 percent against the dollar. However, at the end of the year, the lira was down around 10 percent compared to September 1, 2017.

At the given period, the major contributors to the lira's performance were the U.S.-Turkey visa spat, the Halkbank case in the U.S., Turkey and U.S.'s disagreement over cross-border operations and CBRT's weak respond to the lira movements. The dollar/lira rose 1 percent or more ten days in last four months of 2017. Out of these ten days, five of them were directly related to U.S.-centred issues. Of the six times the dollar/lira fell 1 percent or more and three of them were U.S.-related.

Table 3.2.1 Dollar/lira Fluctuation and News Flows in The Last 4 Months of 2017

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
18/09/17	3.4906	1.54%	1.97%	Turkish Army starts drills at Iraqi Kurdish Region border. The U.S. stops gun sale to Erdogan's guards after the D.C. violence.
25/09/17	3.5496	1.54%	1.60%	Impact of a referendum on statehood in the Kurdish region of northern Iraq weighs on investor sentiment.
28/09/17	3.5594	-0.49%	1.11%	Erdogan to the U.S.: They ask for a priest, you have a priest as well. Give him, take yours.
09/10/17	3.7023	2.42%	6.28%	The U.S. suspends visa services for visitors amid arrest spat.
11/10/17	3.6484	-1.69%	1.87%	The lira rises after the U.S. says it's in talks with Turkey to end the visa ban.
12/10/17	3.6555	0.19%	1.08%	The U.S. should not sacrifice its strategic ally for an ambassador, Erdogan says.
23/10/17	3.7167	1.24%	1.11%	A news story suggests six Turkish lenders would face heavy penalties from the U.S. for alleged sanction breach.
26/10/17	3.8206	1.41%	2.19%	CBRT holds interest rates.

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
03/11/17	3.8875	2.38%	2.47%	Inflation rises to 10 year high. The U.S. prosecutors say Reza Zarrab was supported by Turkey's government.
06/11/17	3.8291	-1.50%	1.81%	CBRT changes reserve rules to increase foreign exchange liquidity. The U.S. resumes Turkey visa processing on a limited basis.
07/11/17	3.8865	1.50%	1.81%	The U.S. and Turkey embassies argue over the "context" of their deal. It shows the problems may be far from being resolved.
20/11/17	3.9289	1.36%	2.79%	Government spokesman says Zarrab case is a conspiracy against Turkey. The country faces conspiracy of economic sanctions.
21/11/17	3.9565	0.70%	1.44%	The lira weakens to record low against dollar. CBRT decides to take liquidity measures.
27/11/17	3.9056	-1.26%	1.72%	The lira appreciates against the dollar on improving risk sentiment and bets the central bank will raise rates to support the nation's assets.
28/11/17	3.9646	1.51%	1.81%	Reza Zarrab agrees to cooperate with American prosecutors.
30/11/17	3.92	-1.05%	1.47%	The lira gains after the first testimony of Reza Zarrab, which was better than market expectations.
04/12/17	3.8747	-1.00%	2.14%	Turkish assets gain as faster inflation reinforces rate-hike bets.
05/12/17	3.8444	-0.78%	1.04%	"The U.S. protects terrorists, calls them SDF. This is a set up, we won't walk into a trap," Erdogan says.
14/12/17	3.887	1.96%	2.26%	The lira declines after CBRT's rate hike falls short of market expectations.
28/12/17	3.775	-1.08%	1.57%	The U.S. decides to resume visa services in Turkey.

Source: Bloomberg, Anadolu Agency, Reuters, Financial Times

3.2.2. First Quarter: Relatively Stable

At the beginning of the year 2018, the tension between Turkey and the U.S. had been building up for a while since Turkey’s preparations for “Operation Olive Branch” to Syria were ongoing and the Halkbank case trials were held in the U.S. At the end of 2017, the dollar/lira stroke a notch below the 4 handle but it went down to around 3.79. So, the lira was rather calm at the start of 2018. Also, in the first two months, the exchange rate was stable in a narrow band, which was unusual for a liquid emerging market currency match. According to a Bloomberg story in February (Courcoulas, 2018), the dollar/lira was trading in the narrowest range since 2013 in the first two months of the year (see figure 3.1).

Figure 3.2.2 Dollar/lira Fluctuation Between 2015 and Beginning of 2018



Source: Bloomberg

First volatile day of the year 2018 was marked by Erdogan’s speech on January 15, in which he accused the U.S. of creating an “army of terror” at Turkey’s southern border. In consequence, the dollar/lira exchange rate rose 1.33 percent. The loss

was reversed three days later, when the CBRT decided to hold interest rates. But the very next day, when Turkey started the “Operation Olive Branch” in Syria, despite the U.S. demands to call it off; the lira depreciated 1 percent again. However, the beginning of the military operation did not affect the Turkish lira negatively in the following days. Fitch affirmed Turkey’s rating at the same night and the lira finished January 22 even higher.

Another round of depreciation took place on January 29, when a U.S. army general said that U.S. troops will not retreat from Manbij town in Syria. A JPMorgan market note from that day suggested that this depreciation was caused by local market participants whose focus was on the Turkish army’s operation in Northern Syria. According to the note the main concern of the local investors was the risk of a strong reaction to the operation by the international community and especially by the U.S. (Cebeci, January 2018, p. 1)

A minor fluctuation took place, when Pastor Brunson’s indictment was made public on March 13. The counts against him were amounting to a penalty of life in prison. The same day, U.S. Secretary of State Rex Tillerson was replaced by Mike Pompeo. Although markets were uneasy, it was not an extraordinary day for the lira. The given day, the lira lost only 0.77 percent of its value against dollar, however it is good to remember that the lira was hovering around historic lows. Markets were more concerned about Turkey’s giant current account deficit than U.S.-Turkey relations at that time. However, Turkish economy’s structural weakness was becoming more and more apparent after the U.S.-Turkey diplomatic divergence in the last months.

The February current account data was published on March 12. According to Central Bank of Turkey the deficit was 7.75 billion USD in February, which was the highest deficit since 2013. A Goldman Sachs report on that day sounded alarming. In its note the bank said: “With the continuing widening of the current account deficit and the increased reliance on portfolio inflows, the external

imbalances have once again become a concern for the economic outlook in Turkey”. (Grafe, Meyersson & Ünür, 2018, p. 2) A Financial Times article dated March 13 suggested that the lira was hit by concerns of over-heating economy that day. The same article reminded that Turkey’s Afrin siege was also unnerving the markets. (Samson, 2018) This fact is interesting since Turkey had a current account deficit problem for more than three decades, yet money markets did not tend to price it in the recent years. But less than two weeks after the February data was published in March, the dollar/lira exchange rate hit its all-time high once again: On March 23, the rate surpassed the 4 handle. The daily fluctuation was more than 2.5 percent and the pair closed the day 1.22 percent higher.

One of the few unstressed days for the lira in the first quarter of 2018 came at the very end of it. The same day 2017 growth data was released, the dollar/lira exchange rate fell 1.69 percent. According to this data, Turkey recorded a 7.4 percent growth in 2017, which meant that the Turkish economy expanded even faster than China and India. Although markets were worried about the overheating in the Turkish economy, a very high growth rate, the clearest sign of overheating, was priced positively that day. A Morgan Stanley report that day stated that Turkey is decoupling from other emerging market peers in terms of growth rate but the bank also warned about higher current account deficit, higher inflation and higher budget deficit. (Ergüzel, 2018, p. 1)

According to MSCI Emerging Markets Currency Index, a market gauge that shows the strength of developing country currencies and aggregate value of emerging-market currencies against the U.S. dollar was approaching to a record high, extending the longest quarterly advance since 2008. However in the last trade day of the first quarter of 2018, the dollar/lira closed at 3.95 level, close to a record high.

Therefore, the first quarter of 2018 was marked by significant lira weakenings that took place six times. Events related to the U.S.-Turkey tensions over Syria were

effective on four out of these six days: These days were marked by Erdogan accusing the U.S. of cooperating with the YPG, the U.S. warning Turkey for its Afrin operation, the U.S. Army's decision to not withdraw troops from Manbij and Turkish jet's bombing in Syria (see Table 3.2.2). After the visa spat and the Halkbank case in the last quarter of 2017, market actors were concerned about a new U.S.-related risk that may erode Turkish assets further.

The exceptional days of lira depreciation occurred on February 2 and March 23. On March 23, the dollar/lira exchange rate hit its all-time high. Money market's speculative tendency towards uncharted territories of exchange rate may explain the March movement. Since the dollar/lira exchange rate never breached these levels before, conducting technical analysis to buy or sell the lira becomes difficult in this uncharted area, therefore exchange rate becomes more prone to swings without any news flow. Compared to these days, the lira movements on the day of Brunson's indictment were relatively small. Therefore, it can be stated that even though the diplomatic rift between the NATO allies intensified further, markets were not really concerned about the Brunson case yet as it was seen as a minor issue. Two times the dollar/lira fell 1 percent or more but none of them were U.S.-related. The positive days of lira development in the first quarter of 2018 were marked by economy driven events. CBRT's rate decision and announcement of outstanding growth rate in 2017 led the lira to appreciate the most against the dollar in the first three months of 2018.

Table 3.2.2 Dollar/lira Fluctuation and News Flows in The First Quarter of 2018

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
15/01/18	3.7988	1.33%	1.53%	Erdogan warns of attack on Syrian Kurds, accuses the U.S. of creating army of terror.
18/01/18	3.7681	-1.32%	1.72%	CBRT holds rates, saying that a continuation of its current policy stance was necessary.
19/01/18	3.8065	1.02%	1.48%	The U.S. calls on Turkey not to take action regarding Afrin.

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
29/01/18	3.7933	1.12%	1.47%	U.S. general says American troops won't withdraw from Syrian city of Manbij.
02/02/18	3.7692	1.01%	1.24%	No market moving news flow.
20/02/18	3.7986	1.06%	1.46%	Reports say Turkish jets are bombing an area close to where a pro-Syrian convoy entered Afrin.
26/02/18	3.7861	-0.08%	0.63%	Turkey is “the most trustworthy” ally of the U.S. in the region, Erdogan says.
13/03/18	3.8736	0.77%	1.01%	Brunson indictment is released. Mike Pompeo replaces U.S. Secretary of State Rex Tillerson.
23/03/18	3.9829	1.22%	2.57%	USD/TRY sees record high, surpasses the 4 handle.
29/03/18	3.9425	-1.69%	2.07%	Turkey’s growth rate was 7.4% for 2017.

Source: Bloomberg, Anadolu Agency, Reuters, Financial Times

3.2.3. Second Quarter: Mistrust Months

On April 5, the dollar/lira exchange rate hit another record high, which was caused by a rumour suggesting that Deputy Prime Minister Mehmet in was planning to resign. (Zaman, 2018) After that event, the dollar/lira exchange rate settled over the psychological level of 4 permanently.

Although markets were concerned over the uncertainty of the upcoming elections through the end of the year, that fact changed when Erdogan called for snap elections on April 18. After that announcement Turkish assets rallied, because now the government had less room for populist spending due to the limited time frame until the elections since they were scheduled to be held in two months. According to a JPMorgan report, the decision for snap elections reduced the risk of fiscal easing and increased the probability of CBRT rate hikes. (Cebeci, Christovova & Siddiqui, 2018, p.1)

By that time, the markets began focusing on CBRT's inaction. The central bank was not defending the lira while it was plunging to record lows every other day since March. The markets were expecting an interest rate increase, which the central bank was not willing to deliver. A Goldman Sachs report of April 13 was underlining the concerns of an overheating economy. The bank said that their analysts remain sceptical that the CBRT will tighten sufficiently to correct the underlying cause of the lira volatility and the persistently high inflation – signs of an overheating economy. (Grafe & Meyersson, 2018, p. 1) Despite the markets' upward expectations regarding interest rates, president Erdogan was calling for a rate cut. Consequently, on May 2, S&P downgraded Turkey's credit note deeper below investment grade level. The dollar/lira exchange rate jumped to 4.18 and the lira depreciated 1.79 percent in a day. A few days later Erdogan said that Turkey is under currency attack. That day, the dollar/lira closed at 4.33, a level which had not been foreseen by any market research ever.

Even though the markets were worried about a current account balance crisis, Erdogan and his advisers were voicing the idea that lira weakness had no fundamental and technical basis. A market note from May 10 published by Rabobank was foreseeing an emergency rate meeting by the CBRT. (Matys, May 2018, p. 2) A day later Erdogan said that he will win the fight against "currency speculators and the interest rate lobby."

The final nail in the lira's coffin was Erdogan's Bloomberg interview on May 15. (Johnson & Hertling, 2018) In this interview, Erdogan voiced everything markets feared of. He said that he wants to expand his control over economy and monetary policies. He declared that the central bank cannot set aside his calls. He also said that if Turkey is a U.S. ally, it needs solidarity, not sanctions. In the corresponding news story to this interview, Bloomberg Economist Ziad Daoud wrote: "Sentiment has been the main reason behind the decline of the TRY this year, and Erdogan's comments won't improve that." The dollar/lira rose 1.82 percent to 4.45 in the day of the interview.

One week later, Fitch Ratings, another credit rating agency, reported that a greater erosion of monetary policy independence would put further pressure on Turkey's credit profile. The dollar/lira exchange rate closed at 4.66 level on May 22. Although the year-to-date increase of dollar/lira was over 20 percent, the central bank did not take any action. Market lost its trust in the central bank and the lira became an open target for speculative attacks. According to a Commerzbank note, the market was "testing" CBRT's resolve and independence and it would keep moving unless it had proof of life. (Ghose, 2018, p. 2) On May 23, the dollar/lira rose up to 4.92 level. According to a Bloomberg article, BlueBay Asset Management Strategist Timothy Ash asked: "Does Turkey even have a central bank anymore?" (Ant, 2018)

At long last, the unprecedented levels of exchange rate depreciation forced Turkey's central bank to hold an extraordinary meeting to raise interest rates. After the rate decision, the dollar/lira exchange rate fell to 4.57. But the very next day, the exchange rate surpassed 4.70 again. Those two days marked the most volatile days of the second quarter (see table 3.3). Managing Director of IMF, Christine Lagarde, said that Turkey should let its central bank to do its job. (Micklethwait, Hoenig & Flanders, 2018) A few days later, Turkish central bank took further steps to stabilize the lira. It allowed exporters to repay dollar loans in liras. At the end of May, the bank simplified its monetary policy to restore investors' confidence. Less than a month before the upcoming June general elections in Turkey, the dollar/lira pair settled over 4.60 level. After the elections, on June 25, the dollar/lira fell as much as 3 percent, but later that day that proved to be a fake rally. The pair finished the day flat.

In sum, the performance of the lira in the second quarter of 2018 was pegged to market concerns over central bank independency, Erdogan's influence on monetary policy and uncertainty over general elections. The dollar/lira exchange rate rose 1 percent or more eleven days in second quarter of 2018 but none of these rises were related to the U.S. issues. Six times the dollar/lira fell 1 percent or

more but again none of them were U.S.-related. The tension between the two allies appeared to have eased in the second quarter of 2018, after months of diplomatic divergence, starting late 2017. Therefore market concerns were mostly driven by structural weaknesses of Turkey's economy.

The markets were focus on the Turkish central bank and the fundamentals of Turkey's economy. In May 2018, the lira collapsed for the first time this year. Hence, under normal circumstances the second quarter of 2018 could have been remembered as the period of the lira crisis but the May crisis was later dwarfed by the upcoming events of August. The distortion of August was so severe that the May collapse is likely to be overlooked in the future.

Table 3.2.3 Dollar/lira Fluctuation and News Flows in The Second Quarter of 2018

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
05/04/18	4.0516	1.31%	1.42%	TRY weakens to record low as Deputy Prime Minister Şimşek report adds to policy fears.
18/04/18	4.0084	-2.18%	2.58%	President Erdogan calls early elections. Trump says Pastor Andrew Brunson is being persecuted in Turkey for no reason.
01/05/18	4.1041	1.03%	1.72%	EM currencies depreciate as holiday shrinks liquidity, the lira joins the flock.
02/05/18	4.1775	1.79%	2.33%	S&P downgrades Turkey's credit note.
08/05/18	4.3327	1.51%	1.76%	Erdogan says Turkey is under attack via exchange rates.
09/05/18	4.288	-1.03%	2.79%	No market moving news flow.
10/05/18	4.2328	-1.29%	2.08%	Unscheduled meeting between economic policy makers create rate increase expectancy.
11/05/18	4.3157	1.96%	2.11%	Erdogan calls for lower interest rates.
14/05/18	4.367	1.19%	1.90%	Erdogan says the U.S.'s Iran decision is wrong. S-400 deal is done, we move over from here. (Lira movement was not attributed to this statement)

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
15/05/18	4.4465	1.82%	2.89%	Erdogan wants to tighten his grip on the economy. Moody's says Turkey couldn't control an over-heating economy.
22/05/18	4.6692	2.04%	2.88%	Fitch says Turkey's monetary independence erosion adds to pressure.
23/05/18	4.5761	-1.99%	8.45%	CBRT holds extraordinary rate meeting, Erdogan says he believes in free market.
24/05/18	4.7082	2.89%	5.69%	Danske Bank and Citi analysts predict a rate hike by the CBRT again.
28/05/18	4.5837	-2.80%	3.55%	CBRT simplifies its monetary policy, a major shift in policy.
01/06/18	4.6485	2.69%	3.13%	Market prices Turkey credit rating downgrade rumours.
04/06/18	4.5911	-1.23%	2.15%	Erdogan speaks on the weekend: "They do not deport Gulen so I ask, whose dark hands are behind the coup attempt?"
14/06/18	4.7266	1.71%	2.76%	Erdogan says he believes things will go well in Manbij and the U.S. will collect the guns it gave to the YPG.
25/06/18	4.6818	0.10%	4.08%	Elections are over, TRY erases 3% rally in the same day.

Source: Bloomberg, Anadolu Agency, Reuters, Financial Times

3.2.4. Third Quarter: Fear and Panic

After the severe lira depreciation in the second quarter of 2018, hopes were not high on its recovery in the next quarter. For the markets, the main source of uncertainty had been Erdogan and his uttered intention to tighten his grip on the economy. Furthermore, no one knew the new ministers in his cabinet. And this uncertainty would continue, since Erdogan just got a mandate for another five years from the public. On top of that, the frictions between Turkey and the U.S. were increasing.

In this strained situation, Erdogan published a decree and thereby stipulated his intended changes in the central bank law. The decree allowed the president to appoint the deputy central bank governors without consulting the governor of the bank. Thus, the decree also paved the way to appoint inexperienced people to the management of the CBRT. (Republic of Turkey, Resmi Gazete, 2018, p. 10, table III)

Also, Erdogan's new cabinet was not welcomed by the markets. Erdogan's last market friendly cabinet member, Mehmet Şimşek, was dismissed. Instead of Şimşek, Erdogan appointed his son in law, Berat Albayrak, who from now on should bare the sole responsibility for economic matters. Albayrak was going to be in charge of a new ministry of treasury and finance, combining in one person what used to be the two most powerful positions in economy. After the president's announcement, TRY extended its losses, falling 3.5 percent to 4.73 per USD. According to a Societe Generale report, three developments caused the market sentiment to sour: "Albayrak's appointment, exclusion of market-friendly Mehmet Şimşek and Naci Ağbal and changes in the appointment process and tenure of the central bank governor and deputies." (Daw, 2018, p. 1) Before the elections Simsek was head of economy and Agbal was finance minister.

Another news hit the market two days after Erdogan's cabinet announcement, when Erdogan said that the interest rates and dollar/lira exchange rate would fall in the upcoming period. That day the dollar/lira rose 3.59 percent to 4.87. Banking index of Borsa Istanbul crashed 9.2 percent as well. The very next day, Berat Albayrak reassured the markets that the independence of the central bank is not in jeopardy. Yet, TRY volatility was high, it ended that day by appreciating almost a half percent.

Another important event for TRY depreciation came with July 24, when the central bank held the interest rates on their current level of 17.75 percent instead of increasing them in line with the market's expectation. According to a

Rabobank report, more than 3 percent lira weakening was due to Turkey's central bank's decision to leave the main policy rate unchanged. (Matys, July 2018, p. 1) Deteriorating external balance and political noise were feeding expectations of higher interest rates, but policymakers once more failed to build confidence for the market. Policy mistakes were repeating over and over like it happened during the 2001 crisis in Turkey. In 2001, the Turkish central bank's slow response in restoring confidence among the banks led to a banking sector crisis which grew into a currency crisis. (Gökkent, Moslares & Amiel-Saenz, 2003) This time it was central bank's unwillingness to raise interest rates which was leading to another round of currency crisis. Turkish bond market was facing a big sell-off. The market was dumping Turkish assets. Turkish bond sell-off pushed the yield on the 10-year government note up by the most on record. The same day Turkey's Foreign Minister, Mevlüt Çavuşoğlu, said that Turkey does not have to follow the U.S. sanction decision on purchasing Iranian oil. The lira ended the day almost 3 percent down.

The next day, Brunson was put under house arrest. Although he was not freed, markets assumed this move as a favour to the U.S. and the lira rallied to recover some of its losses. Also, Halkbank stocks rallied with the house-arrest decision. U.S. Secretary of State, Mike Pompeo, welcomed the decision in a Twitter post, but said it is not enough. But the recovery of the lira did not last long, as U.S. Vice President, Mike Pence, said that they will impose sanctions on Turkey unless Brunson is released, according to an AP report. Later that day, Trump tweeted that the United States "will impose large sanctions on Turkey for their long time detainment of Pastor Andrew Brunson." Turkey's Foreign Minister Çavuşoğlu and the Presidency spokesperson İbrahim Kalın, responded. The Foreign Minister tweeted that "no-one dictates Turkey." Kalın took a smoother path and said that the U.S. must "reconsider its approach and adopt a constructive position before inflicting further damage to its own interests and its alliance with Turkey."

Çavuşoğlu also called Pompeo, but no detail was shared with the public about the discussion between them. During this tweet storm, Erdogan was in Johannesburg. According to a Hürriyet Daily News story, Erdogan told Putin that “others” envy their cooperation. (“Our ‘solidarity makes someone jealous,’ Erdogan tells Putin,” 2018)

After Erdogan returned back to Turkey he criticized the U.S. by saying: “We won’t accept the evangelic, Zionist approach’s threats”. The U.S. announced sanctions on two Turkish ministers on August 1. The U.S. Treasury’s Office of Foreign Assets Control took action targeting Turkey’s Minister of Justice Abdulhamit Gül and Minister of the Interior Süleyman Soylu. According to the office’s announcement, both officials “played leading roles in the organizations responsible for the arrest and detention of Pastor Andrew Brunson.”

Compared to the average, the lira’s reaction was limited in terms of percentage points. It lost only around 1.5 percent against dollar, but a very strong psychological resistance was broken. The dollar/lira exchange rate rose over 5 handle for the first time and opened a new territory for appreciation. A Commerzbank note was pointing at the sanctions for dollar/lira appreciations: “US sanctions against two Turkish ministers have fuelled market concerns that other measure and countermeasures might follow. Investors do not like the political escalation, which is why the lira already lost around 1.5% yesterday and dropped to 5.0 against the dollar.” (Praefcka, 2018, p. 2)

Two days later, on August 3, the U.S. decided to review Turkey’s adaptation to Generalized System of Preferences. The system was designed to favour some countries in terms of international trade. Over the weekend, Erdogan promised that he will retaliate to the U.S.’s sanction decision. But he also pointed out that he does not want to play a “lose-lose” game. In his way of talking he was leaving the door open for a possible diplomatic solution. But market actors had enough. In the second week of August, the lira lost its ground and started its free-falling. On

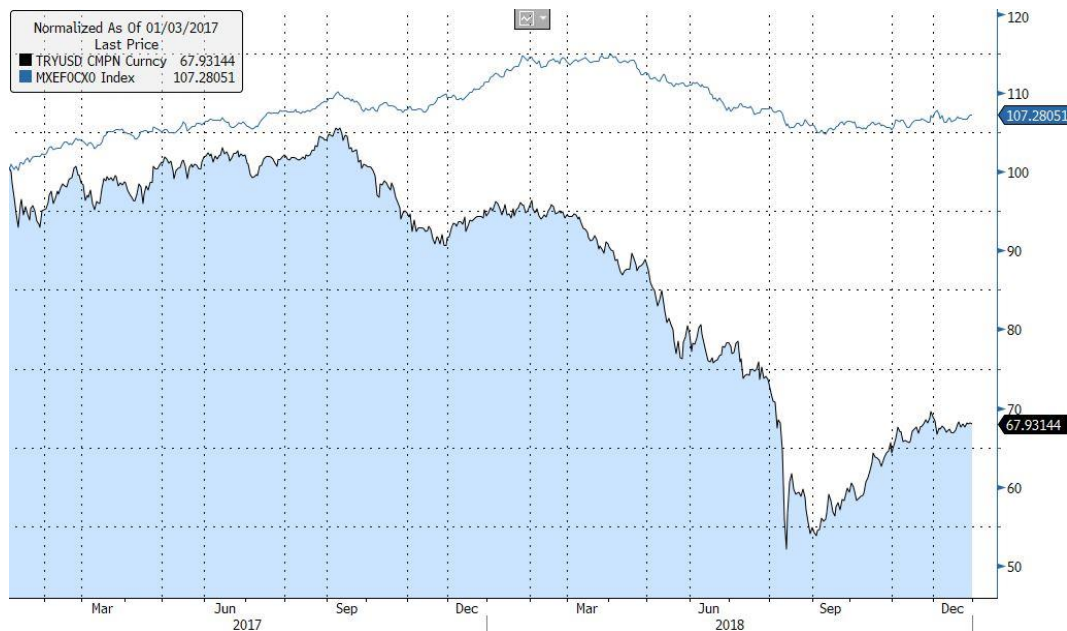
August 6, the dollar/lira exchange rate rose almost 5 percent. The central bank tried to take action by tweaking its reserve option mechanism but the markets saw this move as a pathetic step to avoid raising interest rates.

The lira's decoupling from other emerging market currencies was becoming more and more apparent. The lira lost its correlation with other emerging market currencies. According to calculation using Bloomberg data, the 60-day correlation between the Turkish currency and a gauge of developing-nation exchange rates had turned negative for the first time since January 2000. The lira's plunge did not cause disturbance to the relative calm among other currencies since the beginning of July.

Until September 2017, the lira was in correlation with the MSCI Emerging Market Currency Index. The currency index sets the weights of each currency equal to the relevant country weight in the MSCI EM Index. The MSCI EM Index is a free-float weighted equity index that captures large and mid-cap representation across emerging markets countries. The index covers approximately 85 percent of the free float-adjusted market capitalization in each country. As of December 31 2018, Turkey's weight in the index was only 0.63 percent. China had 25.8 percent, South Korea had 13.8 percent, and Taiwan had 11.4 percent weight in the index in the same period. Historically, Turkish lira was mostly in line with the currency index but the decoupling after September 2017 became significant as seen on figure 3.2.4. While the lira was weakening after September 2017, MSCI EM Currency Index was set to reach record highs. The index was breaching record levels in the spring of 2018, when the lira was depreciating to record lows.

On August 7, the depreciation was eased and the lira recovered almost 2 percent. U.S. State Department spokeswoman, Heather Nauert, said that Pompeo's call with Çavuşoğlu was a "good sign".

Figure 3.2.4.1 Lira and MSCI EM Currency Index Comparison



Source: Bloomberg

However, according to a Commerzbank report on August 7, markets were assuming the lira crisis to continue and turn into a major real economic crisis. (Zhou & Leuchtmann, 2018, p. 2) And as suggested in Commerzbank’s note the worst was yet to come. A Turkish delegation was sent to Washington D.C. to overcome the political differences with the U.S. But according to a Bloomberg story the delegation refused to release pastor Brunson. Consequently, the dollar/lira rate lost another 5 percent in a day. According to a Reuters story, Fitch Ratings urged Turkish central bank to halt lira’s slide “quickly”. (Jones, 2018)

Erdogan remained silent that week. Normally there is almost no day that he does not address the nation. He broke his silence in his hometown Rize on the night of August 9. He said: “If they have their dollars we have the God on our side”. The next day, lira had its worst day since the 2001 crisis. The day started with a Financial Times story, saying the ECB is concerned about European banks’ Turkey exposure, which consequently led to the euro dropping to a one year low on Turkey contagion fears. (Jones, Yackley & Arnold, 2018) By that time, Turkey

was still posting current account deficit. President Recep Tayyip Erdogan said that they “are not going to lose the economic warfare” that was being waged against Turkey. A Nordea Bank report earlier in the day explained the situation with these words: “The lira is in a full-blown currency crisis as the number of negative stories increases.” The report referred to diplomatic tensions between the U.S. and Turkey and suggested that the “markets now fear that sanctions could be imposed on Turkish banks.” (Lund & Koivu, 2018, p. 1)

Markets were extremely jittery, waiting for new minister Albayrak to make a speech and rebuild confidence. But Albayrak was not capable of that. While trying to promote Turkey’s new economy model, he broke out into a sweat. (Shaheen 2018) Similar to Feridun’s (2009) findings, investor sentiment was leading to speculative pressure and a subsequent currency crisis in this case. Markets were disappointed, during Albayrak’s speech a speculative attack against the lira took place. The dollar/lira rose as much as 15 percent. A big spike like this was never seen since 2001, when Turkey allowed the lira to float freely.

During the meltdown Trump tweeted about the lira and announced that he decided to double steel and aluminium tariffs on Turkey. That tweet made things worse. The dollar/lira exchange rate surged 24 percent on daily basis and closed the day 15.9 percent up at 6.43. Unusual price movements were everywhere. BIST-100 index fluctuated between 97.810 and 88.598. The range was more than 10 percent. Turkish bond market also collapsed. Turkey’s eurobonds hit new lows. Some investors were trying to escape from Turkish assets. But some of them tried to hedge themselves at the stock market and bought the dips, because the market was at historic lows in terms of USD pricing and it could recover faster than the lira.

Over the weekend, Erdogan declared that the U.S. ditched its NATO partner over a pastor. Turkey’s Banking Regulation and Supervision Agency limited bank swaps and swap-like transactions abroad to prevent foreign markets to take short positions against the lira. But the move did not help much and the lira experienced

another round of meltdown on August 13. The dollar/lira exchange rate rose as much as 12.2 percent, hitting the 7.2362 mark and closing the day at a gain of 7 percent. Turkey was experiencing its worst currency crisis since 2001 and according to a Standard Chartered report, long-standing external vulnerabilities and deteriorating relations with the U.S. were the key concerns on this. (Slim, 2018, p. 1) A Barclays report also cited the Brunson issue by stating: “While diplomatic channels appear to remain open despite the inflamed rhetoric, progress has been elusive so far. Importantly, though, the Brunson case is only one of the many issues facing Turkey, and is perhaps the easiest one to resolve.” (Gun, Kolbe, Stoykova & Chatterjee, 2018, p. 1) The report was also suggesting that contentious issues such as Turkey-Iran trade relations amid a much hawkish the U.S. foreign policy on Iran, and Turkey’s plans to acquire the Russian S-400 missile system were the bigger problems.

The next day, Erdogan vowed to boycott American-made electronics, such as products of Apple Inc. The central bank tightened liquidity and local retail accounts sold USD to take profit. Stress on the lira eased. Qatar pledged 15 billion dollar of investments to Turkey. Erdogan and German chancellor Angela Merkel, agreed on a meeting of their finance ministers and Turkey and Russia agreed in principle to lift some visas. Turkey was trying to make other friends. The dollar/lira retreated back below the 6 handle.

However, the U.S. kept its sanction threats alive. Pence tweeted that “Turkey would do well not to test Trump’s resolve.” The next day, on August 16, U.S. Treasury Minister, Steven Mnuchin, declared that Turkey will face more sanctions if Brunson is not released. When a Turkish appeal court refused to release the American pastor, Trump was resentful and said that Turkey proved not to be a good friend. According to a Wall Street Journal story, Turkey asked the U.S. to drop investigation into Halkbank in order to free the pastor, but the U.S. rejected. (Bender, 2018) The lira finished the dazzling week above 6 per the dollar.

Shots were fired at the U.S Embassy in Ankara on August 20, but there were no casualties. Turkish Foreign ministry condemned the event as a clear provocation. Assailants were captured soon and the U.S. Embassy in Turkey thanked the Turkish police and government for their efforts in nabbing the suspects. (“Two suspects nabbed” 2018) The attack did not draw negative reaction from Washington.

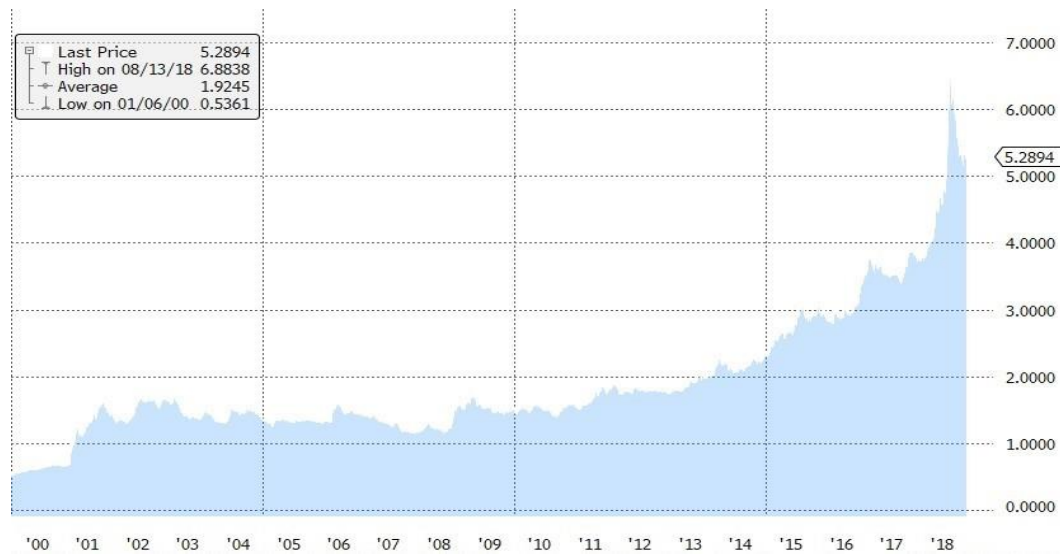
Trump was on the same page as he was before. He said there will not be any concessions for the release of the pastor. The dollar/lira’s daily range was around 3 percent for the rest of the month. According to Lloyds Bank, Turkey may have had no choice but to tighten monetary and fiscal policy and perhaps introduce capital controls in order to restore confidence. (Ho, 2018, p. 1) Capital Economics assumed that a sell-off will take place. Turkey and Argentina were “by far the most vulnerable emerging markets on every measure of financing needs.” (Swanston, 2018, p. 1)

On August 28, Trump said that they are fighting to release Brunson. The same day, Turkey’s Foreign Minister informed the public that Turkey’s relations with Russia are not an alternative to the U.S. and the European Union, and Turkey “can perfectly balance” its foreign policy. (“Dışişleri Bakanı Sayın Mevlüt Çavuşoğlu’nun Litvanya Dışişleri Bakanı Linas Linkevičius ile Ortak Basın Toplantısındaki Açıklamaları, 28 Ağustos 2018, Vilnius”, n.d.)

At the end of August, Trump declared that Erdogan let him down by not releasing the detained pastor. In a Bloomberg interview Trump said: “I got back somebody for him”, referring to Israel’s release of the Turkish citizen Ebru Özkan. Trump added that Erdogan failed to reciprocate the gesture. (“Transcript of President Trump’s Interview with Bloomberg News”, 2018) Turkey had refuted Trump’s claim about Ebru Ozkan before officially. (“QA-52, 27 July 2018, Statement of the Spokesperson of the Ministry of Foreign Affairs, Mr. Hami Aksoy, in

response to a question regarding some claims in media about the release of Ebru Özkan”, n.d.)

Figure 3.2.4.2 Dollar/lira Rate Between 2000 and 2018



Source: Bloomberg

September did not start well either. On September 3, the exchange rate was at 6.63. Markets accepted the fact that U.S.-Turkey relations will not be any better unless Brunson is freed. The next court hearing was scheduled for October 12. Since the tense relationship with the U.S. was already priced in, markets' focus shifted back to the central bank. According to JPMorgan, after the August showdown, the government and CBRT's policy reaction would be the key to re-establishing credibility and market confidence. (Cebeci, Gökkent and others 2018, p. 1) The CBRT's next rate meeting was due September 13. The central bank finally delivered a 625 basis points rate hike. The lira gained 4 percent on that day. The currency somewhat stabilised, but compared to the beginning of the year the loss was still over 60 percent. However, despite this sharp rate hike, a real market appreciation did not start until Pompeo told journalists that they expect Brunson to be released soon. The dollar/lira fell from 6.30 to 6.15 that day. ("Turkish lira rallies after Pompeo says expects talks on US pastor Brunson", 2018) The next day Erdogan and Trump met briefly backstage at the United Nations General

Assembly, shaking hands. From that day until Brunson’s release the exchange rate stabilized around the level seen after Pompeo’s statement.

The dollar/lira rose 1 percent or more on nineteen days in the third quarter of 2018, and fell 1 percent or more on twelve days. The weak performance of the lira in the third quarter of 2018 had many reasons. Markets neither liked the new helm of economy nor the tightened grip of Erdogan on the economy. The central bank held interest rates once more in July despite major loses of the lira year to date and provided a basis for speculative attacks. On top of these political mistakes, the U.S. sanctions created a fear of financial collapse as the U.S. was trying to corner Turkey economically. Finally, the lira collapsed as Turkey was trying to hold on to its hostage diplomacy. Therefore, Turkish economy’s structural and policy problems overlapped with the U.S. diplomatic crisis and paved the way for the historic depreciation.

Twelve days out of nineteen days of dollar/lira appreciation in the third quarter could directly be attributed to the U.S.-related issues. Seven days out of twelve days of dollar/lira depreciation could be attributed to positive steps or statements on the diplomatic tension. However, even though some days were not counted as directly related to the dispute between Washington and Ankara, the distorted sentiment towards Turkish assets had a heavy impact on market pricing in the third quarter of 2018.

Table 3.2.4 Dollar/Lira Fluctuation and News Flows in The Third Quarter of 2018

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
09/07/18	4.7333	3.48%	5.23%	New cabinet announcement. Erdogan gets power to appoint CBRT Dep. Gov. without recommendation.
11/07/18	4.8757	3.59%	3.78%	Current account data is released. Erdogan reiterates his call for low interest rates. Erdogan shakes hand with Trump at NATO summit in Brussel.
12/07/18	4.856	-0.40%	3.97%	Albayrak reassures market about

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
				CBRT independency.
19/07/18	4.8088	0.28%	1.08%	Trump says total disgrace that Turkey will not release a respected U.S. Pastor.
23/07/18	4.7414	-1.08%	1.70%	The U.S. Congress temporarily stopped the delivery of F-35 jets to Turkey.
24/07/18	4.8852	3.03%	4.24%	CBRT holds interest rates, Erdogan says no need to worry about F-35 deliveries.
25/07/18	4.7732	-2.29%	2.45%	Brunson is put under house arrest.
26/07/18	4.8648	1.92%	2.35%	Donald Trump and Mike Pence threat Turkey with sanction unless Brunson is freed.
01/08/18	4.9946	1.64%	2.15%	The U.S. imposed sanctions against two top Turkish government officials. Erdogan lashed back at the U.S. saying “we won’t accept evangelist, Zionist language. We displayed a great partnership with U.S. since Korea, threats are not appropriate.”
06/08/18	5.3304	4.89%	6.78%	Erdogan says over the weekend that Trump is tricked by Evangelist-Zionists: ‘We were patient but we have to retaliate.’ The U.S. consider to remove Turkey from GSP, CBRT tweaks ROM, Trump threatens oil customers of Iran.
07/08/18	5.2287	-1.91%	3.88%	Pompeo and Çavuşoğlu talks, U.S. spokeswoman says to have a conversation is good.
09/08/18	5.5506	5.15%	5.54%	A Turkish delegation to Washington refuses to commit to releasing Brunson.
10/08/18	6.4323	15.88%	24.06%	ECB concerns about European banks over Turkey. TRY collapses during Berat Albayrak’s appearance. Trump tweets about depreciation of TRY and makes it worse. Trump doubles tariffs on Turkish steel and aluminium. Erdogan says Turkey to prevail in ‘economic warfare.’ “U.S. must give up the misguided notion that our relationship can be asymmetrical.”

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
13/08/18	6.8838	7.02%	12.24%	Erdogan says over the weekend U.S. action against its strategic partner saddens them, disturbs them. "Why are you ruining our partnership? We never tried to make things worse with U.S." Erdogan says U.S. exchanges a pastor over its ally. There is no convenient reason to impose steel tariff on a strategic partner. Turkey's banking regulator limits swap transactions. Russia's Lavrov announces his visit to Turkey in August.
14/08/18	6.3502	-7.75%	10.50%	Erdogan says "We will boycott U.S. electronics. We fought in Afghanistan and Kosovo together." Trump's security advisor Bolton visits Turkey,
15/08/18	5.9466	-6.36%	12.12%	Qatar pledges 15 billion USD of investments to Turkey; market regulator bans short selling. Pence tweets "Turkey would do well not to test Trump's resolve." Turkish court rules to release Amnesty International's Taner Kılıç. New York Times reports that Trump considers new sanctions on Turkey including limiting Turkish Airlines operations. Erdogan and Merkel agree on a meeting of finance ministers. Turkey retaliates with steel sanctions. Brunson's request to be put under house arrest is rejected. Turkey and Russia agree in principle to lift some visas.
16/08/18	5.8341	-1.89%	6.01%	U.S. Treasury Minister Steven Mnuchin Says Turkey faces more sanctions if Pastor Brunson is not released. Minister Berat Albayrak tells investors that capital controls are not on Turkey's agenda.
17/08/18	6.0177	3.15%	10.30%	Trump says Turkey proved to be not a good friend. Çavuşoğlu says the U.S. do not know who the true friend is. S&P cuts Turkey's credit rating

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
				deeper into junk, sees recession in 2019.
20/08/18	6.0814	1.06%	3.75%	Erdogan says over the weekend that Turkey will not surrender those who look like a partner. WSJ reports that the U.S. rejects Turkey's bid to tie Pastor Brunson's release to Halkbank case. Erdogan says Turkey did not surrender those who want to make it a strategic target. Fitch: Turkey's steps are not enough to balance economy. Shots were fired at U.S Embassy in Ankara; no casualties. Turkish government calls the shooting as provocation.
21/08/18	6.0758	-0.09%	3.10%	Turkey could end its crisis with the U.S. "instantly" by freeing detained pastor Andrew Brunson, Reuters reports, citing an interview with U.S. National Security Adviser John Bolton.
23/08/18	6.1235	1.19%	3.31%	Turkey says U.S. disregard for legal process is unacceptable.
27/08/18	6.1237	1.96%	5.41%	Parliament Speaker, Former Prime Minister Binali Yıldırım urges the U.S. to normalize ties with Ankara
28/08/18	6.2753	2.48%	2.91%	Trump says he is fighting to release Pastor Brunson. A U.S. Congress committee visits Incirlik Base and İzmir. Çavuşoğlu says the visit of the committee is important. Bloomberg cites a German official saying Germany won't offer Turkey direct financial aid. Turkey says Russia is not an alternative to relations with the U.S.
29/08/18	6.4687	3.08%	3.88%	Erdogan says "I can't find words to define the U.S. behaviour towards its NATO partner. We won't step back." Treasury and Finance Minister Albayrak says Turkey will treat any fine on Halkbank as a political move. Erdogan aide says Turkey has a very strong legal case in the F-35 project.

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
				U.S. Defence Minister Jim Mattis says Turkey and the U.S. are preparing for joint patrol in Syria. Albayrak urges European Union to respond to the 'U.S. turbulence.'
30/08/18	6.6542	2.87%	6.37%	CBRT Monetary Policy Committee Member Erkan Kilimci resigns.
31/08/18	6.5396	-1.72%	6.21%	Trump says Erdogan let him down by not releasing the detained pastor. Erdogan says the lira instability constitutes 'operation against Turkey.' Çavuşoğlu says Turkey wants to normalize relations with 'everybody.'
03/09/18	6.636	1.47%	3.21%	Erdogan says over the weekend that they will not get permission from anyone to deal with Russia." Germany Foreign Ministry says financial aid to Turkey is not on agenda.
07/09/18	6.4089	-2.64%	3.60%	Market starts pricing CBRT interest rate hike expectations.
13/09/18	6.0821	-4.14%	8.98%	Erdogan demands lower rates, CBRT hikes policy rate by 650 basis points.
17/09/18	6.3131	2.34%	3.76%	News stories on easing of banks' balance sheets.
18/09/18	6.3845	1.13%	2.45%	The U.S. statement on Idlib.
19/09/18	6.2501	-2.11%	2.95%	The lira gains after softer dollar helped lift emerging-market currencies.
20/09/18	6.2001	-0.80%	3.92%	No market-moving news flow.
24/09/18	6.153	-2.19%	4.66%	U.S. Secretary of State Mike Pompeo says Brunson is expected to be released soon.
27/09/18	6.0104	-1.63%	2.92%	"I believe our close friendship with the U.S. will overcome the challenges of bilateral issues," Erdogan says.

Source: Bloomberg, Anadolu Agency, Reuters, Financial Times

3.2.5. Fourth Quarter: Apparent Recovery

The last quarter of the year 2018 presented a relief to lira holders. On the one hand, Brunson was released on October 12 and taken directly to the United States.

Trump welcomed him and posted over-exuberant tweets regarding his release. For Trump, Erdogan was once again a reliable partner.

According to a NBC story run before Brunson's release, Turkey and the U.S. had a "secret deal" on freeing pastor Brunson. (Lee and Kube 2018, October 11) According to the source in the news story, the deal included a commitment by the U.S. to ease economic pressure on Turkey for freeing the pastor.

Meanwhile the lira continued to appreciate against the dollar and the pair plunged to 5.58 less than a week after Brunson's release. According to JPMorgan, domestic consumption demand already weakened sharply and the 625 basis point rate hike in September restored some credibility. The bank's report said that foreign exchange pass-through effect on prices remained the main risk for the CBRT, but "the recent lira strength must be a big relief for policymakers." (Cebeci, October 2018, p. 1)

On October 23, MHP's leader's comments on their local election alliance with the AKP jittered the market once more and the dollar/lira jumped back to 5.76. But the U.S. imposed temporary exemptions for Turkey regarding Iranian oil and the inflation peaked at 25 percent. The inflation expectations were falling, the Turkey-U.S. relations were recovering rapidly, and the central bank was offering a generous interest rate of 24 percent and the lira was already the second worst performing currency of the year among major currencies. So the nightmare stories were almost over for the lira. NBC reported that in order to ease the Turkish pressure on Saudi Arabia over Journalist Jamal Khashoggi's killing in Istanbul, the White House even weighed to expel Gulen. (Lee, Ainsley & Kube, 2018)

In November, the dollar/lira exchange rate held the ground at around 5.30 and dropped to as low as 5.13. Yet it was never able to recover to the levels last seen in July. Market priced out the Brunson spat but the mistrust against government's economy policies and the central bank remained intact. Bank of America Merrill

Lynch report was pointing out to the fact that no immediate recovery was ahead for Turkish banks. (Taranto, 2018, p. 1)

In December, market started to expect an interest rate cut again. Therefore, the lira recovery lost its momentum. A Rabobank report warned that the price action in the dollar/lira was starting to look ominously bullish as the pair has broken the trend line resistance. The report further stated that this might be an important shift in the underlying bias to the upside. (Matys, December 2018, p. 1)

Despite Trump's decision and major policy shift to pull the U.S. troops out of Syria after making a deal with Erdogan on December 19, the lira's reaction was rather limited. As underlined in ABN Amro's report, now the market was expecting the Turkish economy to contract in 2019. According to the report, upside potential for growth was seen in the event of clearer evidence of a rapprochement towards the West. (Neuteboom, 2018, p. 1) The lira appreciated around 1 percent and hovered around these levels until the year-end. The last day of the year the exchange rate closed at 5.2894. Treasury and Finance Minister, Albayrak was selling this last quarter's appreciation as a success but overall the dollar/lira exchange rate rose 39.3 percent in the given year and the lira lost 28.2 percent of its value against dollar.

In sum, the main determinants of the last quarter's lira movements were the recovery of the bilateral relations between Turkey and the U.S. and the high yield of the lira. All the positive developments regarding U.S.-Turkey relations were priced in positively. Erdogan's silence over the interest rates also presented a sort of relief to the market until the central bank's December rate decision. (Koc 2018)

The dollar/lira exchange rate rose 1 percent or more three days in last quarter of 2018. Out of these three days, none of them was related to U.S.-centered issues. Out of the seven times the dollar/lira rate fell 1 percent or more all of them were U.S.-related. The lira appreciation in the following days after Brunson's release

can also be attributed to easing tension between the two countries, albeit the lack of fresh news flow.

Table 3.2.5 Dollar/lira Fluctuation and News Flows in The Fourth Quarter of 2018

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
04/10/18	6.1642	1.95%	3.01%	U.S. condemns a terror attack in Turkey's Batman province. Erdogan says U.S. conducts an economic war.
11/10/18	5.9256	-2.47%	3.11%	Current account balance data is released. Erdogan says he can't interfere judiciary for Brunson. NBC reports secret deal to free Brunson.
12/10/18	5.8732	-0.88%	2.67%	Brunson is released.
15/10/18	5.7873	-1.46%	4.02%	Trump says there was no deal made with Turkey for the return of Pastor. "There was great appreciation on behalf of the U.S."
16/10/18	5.6857	-1.76%	2.55%	Erdogan says Trump's positive remarks on Turkey is belated: "I always told him to trust Turkish courts."
17/10/18	5.5856	-1.76%	3.26%	Pompeo says some sanctions on Turkey could be lifted. Pompeo discussed Khashoggi and some detainees in Turkey meetings. Turkey is back to Eurobond market by selling debt.
18/10/18	5.6372	0.92%	3.06%	No market moving news flow.
23/10/18	5.74	1.24%	3.63%	Local election alliance of AKP and MHP is broken. Çavuşoğlu says Turkey and U.S. relations were tense because of YPG and Gulenist, not Brunson.
01/11/18	5.5109	-1.29%	2.52%	Erdogan and Trump talks over the phone.
05/11/18	5.312	-2.15%	3.25%	Erdogan says that U.S. and Turkey have decided to carry out Manbij road map plan. U.S. imposes temporary exemption Turkey for Iran oil. Turkey inflation peaks at 25%, market expectation turns to positive in terms of inflation, worst is behind.

Date	Closing Price	Daily Change	Daily Swing	Market Moving News Flow
15/11/18	5.3514	-2.00%	3.12%	NBC reports that White House weighs removing cleric Fetullah Gulen.
03/12/18	5.2503	0.67%	2.69%	Erdogan says over the weekend that he is hopeful about Gulen's deportation and implementation of Manbij roadmap.
04/12/18	5.3875	2.61%	4.27%	Markets expects the CBRT to cut interest rate cut after recovering inflation reading.

Source: Bloomberg, Anadolu Agency, Reuters, Financial Times

3.3. Conclusion of Section 3

This study examines the dollar/lira fluctuations on a daily basis between September 1, 2017 and December 31, 2018 in five stages. These stages are roughly in line with the quarters of the given years. To narrow down the scope of the study, only the days when dollar/lira moved 1 percent or more have been taken into consideration. The daily exchange rate change reached or surpassed 1 percent in 81 working days for the selected period. The dollar/lira rate rose in 49 days and fell in 32 days. This study's findings show that the depreciation on 21 days was directly related to Turkey-U.S. relations, which were mostly driven by statements from the U.S. Also, the appreciation on 16 days was related to the developments between the two NATO allies for the given period.

As this study shows, the political frictions between the two allies did not affect the lira movements in absence of concrete steps in most of the cases. Especially, the U.S. steps towards Turkey or the clear signs of the U.S. intention to take measures against Turkey affected Turkish lira's performance instantly. Verbal statements from Erdogan or other Turkish representatives did not have any impact on the lira as long as they did not contain new information regarding the issues between the two countries. Therefore, market actors tended to ignore the rhetoric from Turkey's side.

The news flow analysis also shows that the performance of the Turkish lira for the given period was directly related to three major issues: Deterioration of U.S.-Turkey relations, central bank's inaction in the face of lira depreciation due to Erdogan's pressure to keep interest rates low and overheating of the Turkish economy. The deterioration of the U.S.-Turkey relations in the last quarter of 2017 caused the lira to fall to record low levels against the dollar. These record low levels led markets to question the stability of the Turkish economy. Therefore, the current account deficit, which is Turkey's chronic problem, had started to be questioned by the markets.

Another major issue was central bank's hesitancy to change interest rates due to political pressure. This inaction raised more concerns in the market. In the first and second quarter of the year, this complex situation was the main driver of the lira losses. The first lira crash in May came after the central bank did not take any action even though the Turkish lira's yearly losses surpassed 20 percent in less than five months. When the central bank finally took action, the sentiment towards Turkish assets were already soured. Erdogan started to take steps to increase his control over the economy and appointed his son-in-law as the head of economy. The CBRT once again failed to boost confidence in the market and thereby provided a basis for speculative attacks against the currency. When the U.S. threatened to sanction Turkey, the dollar/lira was already fluctuating close to the 5 level, almost 30 percent up compared to the end of 2017. On top of these economic policy mistakes, the U.S. sanctions created a fear of financial collapse as the U.S. was trying to corner Turkey economically. Finally, the lira collapsed as Turkey was trying to hold on to its hostage diplomacy against Washington while the economy management was late to react.

Therefore, a dollar/lira tsunami, which has never been seen since the beginning of the lira's free float in 2001, took place in August 2018. The lira partly recovered its losses in the fourth quarter after U.S.-Turkey relations normalized but it never appreciated below the levels seen before the U.S. sanctions.

SECTION FOUR

ERDOGAN’S U.S. RELATED DISCOURSE AND ITS INTERACTION WITH LIRA FLUCTUATIONS

The second section examined Erdogan’s rhetoric against the U.S. starting a year before the 2018 currency crisis. It displayed that the U.S. steps or statements towards Turkey effected Erdogan’s rhetoric in most cases. The third section investigated the causes of dollar/lira fluctuations from a market perspective starting from September 1, 2017 until the end of 2018. It displayed that lira fluctuations related to U.S.-Turkey relationship were mostly driven by concrete U.S. actions towards Turkey. The fourth and last section will now combine the findings of section two and three in order to reveal the interactions between Erdogan’s U.S. related discourse and the lira fluctuations.

4.1. Change of Erdogan’s Rhetoric Against the U.S. and Lira Movements

In the course of this study, Erdogan’s rhetoric changed 14 times. In the following, the days when the tone of Erdogan’s rhetoric changed, the possible reasons for the changes and the interaction between them are shown in detail.

September 17, 2017: From Neutral to Positive

Erdogan’s “negative” approach towards the U.S. during Barack Obama era turned to “neutral” after Donald Trump’s inauguration. Erdogan also voiced hope for better ties with the U.S. just before his meeting with Trump on September 2017. However neither the new U.S. government nor Erdogan’s change of tone created any market impact.

September 20, 2017: From Positive to Neutral

The U.S. decided to halt gun sales to Turkey due to Erdogan's security team's fight with protestors in Washington D.C. Erdogan returned back to his neutral tone right after this decision and days before his meeting with Trump. Market did not react to this interaction, political frictions between the two NATO partners were not apparent yet.

September 28, 2017: From Neutral to Negative

Almost a week after the Trump-Erdogan meeting, the Turkish President brought up the pastor Brunson issue in public and suggested to swap the pastor for Gulen. Markets were not aware of the fact that Trump had asked Erdogan to free Brunson and other U.S. prisoners in Turkey. This request drew criticism from Erdogan but markets did not price the development because the possible consequences of the issue were not foreseeable yet.

October 9, 2017: From Negative to Neutral

Soon after Erdogan's pastor swap offer, the United States froze visa application process in Turkey. This was an unprecedented action and Turkish markets reacted negatively. The dollar/lira recorded more than 6 percent swing in that day and finished the day 2.4 percent higher. After this unexpected move, Erdogan changed his tone to neutral and tried to ease the tension. A day after that, the U.S. ambassador said that the two countries were in talks to solve the problem. After this statement, the lira recovered some of its losses against dollar.

October 12, 2017: From Neutral to Negative

The talks apparently did not produce a result. Erdogan ran out of patience and changed his tone to negative again. However, the U.S. decided to resume visa process on limited basis on November 6, and the dollar/lira fell 1.5 percent that day. But the next day Washington and Ankara argued about the U.S. statement on the issue. This discussion caused lira to depreciate 1.5 percent and erase all of the gains a day before. In the following days, the Halkbank case started in the U.S. The bank was about to face a hefty fine after a court ruling. Erdogan avoided the topic at first. Instead, Turkish government spokesman said that the case is a conspiracy against Turkey and that the country faces a conspiracy of economic sanctions. Markets reacted to the Turkish statement and the lira depreciated 1.4 percent on November 20, 2017. The very next day the dollar/lira exchange rate jumped to a record high.

November 28, 2017: From Negative to Positive

“I realize that we have a common understanding with Mr. Trump”, Erdogan said after talking to Donald Trump over the phone. Despite the many issues, Erdogan became optimistic and changed his rhetoric from negative to positive. However, despite Erdogan’s optimism, markets were concerned by Reza Zarrab’s decision to cooperate with the prosecutors in the U.S. regarding the Halkbank case. A news story had suggested before that at the end of the trial, Halkbank and some other Turkish lenders would face U.S. Treasury fine, therefore market was following the case. As explained above, Turkey was also considering this case as an “economic conspiracy”. So markets overlooked the change in Erdogan’s rhetoric and dollar/lira rose 1.5 percent that day and hovered around record high. Yet, two days later, Zarrab’s first testimony in the Halkbank case trial was better than market expectations. Therefore, lira appreciated 1 percent against dollar again.

December 5, 2017: From Positive to Negative

Erdogan's positive attitude towards the Trump administration did not last long. A week after his comment about their common understanding, Erdogan's positive tone swiftly turned back to negative. Erdogan blamed the U.S. for setting up a trap for Turkey in Syria and criticized the U.S. harshly for its cooperation with YPG. Yet, Erdogan's negative tone continued until the end of February, i.e. almost for three months. Within this time period, the visa spat ended but the disagreement regarding Syria grew. After the U.S. decided to resume the visa process, lira appreciated 1 percent against dollar.

Yet, Erdogan concentrated on Syria now. He blamed the U.S. for cooperating with "terrorists". However, these remarks did not create a market impact until Erdogan warned that Turkey might attack YPG and accused the U.S. for creating an "army of terror" on January 15. Then, the U.S.-Turkey tensions on YPG cooperation suddenly became market relevant since a possible Turkish operation might have caused a major conflict between the two NATO allies. Lira depreciated 1.3 percent that day. Four days later, on January 19, the U.S. urged Turkey not to take action in Syria. In consequence dollar/lira rose another 1 percent to 3.80. Nevertheless, Turkey had started "Operation Olive Branch" in Syria in order to capture the control of Afrin province from YPG forces. After the inception of this operation Erdogan and Trump talked on the phone on January 24 and 25. Four days after the last phone call, a U.S. general said that U.S. forces will not be pulled out from Manbij town. Market reacted to this statement and lira depreciated 1.1 percent due to concerns over a possible U.S.-Turkey confrontation.

February 26, 2018: From Negative to Neutral

The U.S. Secretary of State, Rex Tillerson, visited Turkey in mid-February. After that, Erdogan gave his first speech regarding the U.S. on February 26. Erdogan took a neutral discourse towards the U.S. Two weeks after that, the Brunson

indictment showed that the prosecutor charged him for life in prison due to “terror-related” actions. Nevertheless, market was indifferent to that issue. A month after that, on April 18, Donald Trump said Brunson is being prosecuted in Turkey for no reason. Yet, market did not react to Trump’s statement either. On the contrary, lira rallied due to an early election call. Market’s focus drifted away from U.S.-Turkey frictions in the second quarter of 2018 and Erdogan’s neutral tone continued until June.

June 2, 2018: From Neutral to Negative

The second quarter of 2018 was a difficult period for the Turkish lira. However, the main concerns about the lira were related to domestic politics and economy’s fare. After months of truce between the U.S. and Turkey regarding their political disagreements, the U.S. senators decided to introduce a bill that forced the U.S. government to halt F-35 war jets deliveries to Turkey over the Brunson issue. After this development, Erdogan’s rhetoric once again turned to negative on June 2. However, it is hard to tell if the F-35 issue had anything to do with the lira’s performance in June because lira had already crashed once in late May and exchange rate volatility was high. Market’s focus was on CBRT actions, Erdogan’s rate comments and upcoming elections.

June 14, 2018: From Negative to Neutral

Following the U.S. Senate’s F-35 steps, Turkey Foreign Minister and his U.S. counterpart agreed on Manbij issue in principle. Erdogan welcomed the agreement and changed his tone from negative to neutral again. He also eased his tone on the F-35 issue and said that Trump promised him to deliver the F-35 jets. Two days before Brunson’s next hearing, Trump and Erdogan talked on the phone again. On July 18, the Turkish court ruled to keep Brunson jailed. A day after that, Trump tweeted that it is a disgrace that Turkey will not let Brunson free. The U.S. Senators introduced a legislation, which restricted loans from international

financial institutions to Turkey until the Turkish government would end the U.S. citizens' detention. Four days later, the U.S. Congress temporarily halted the delivery of the F-35 jets to Turkey. By now, markets had started to take the Brunson issue more seriously. However, the developments did not have a broad impact on dollar/lira rate yet.

After these developments, Brunson was released to house arrest due to health issues just a week after his trial. The U.S. Secretary of State, Mike Pompeo, welcomed the decision and lira rose more than 2 percent against dollar. However, Trump and his Vice President, Mike Pence, were not happy about the result. On July, 26, they both threatened to impose sanctions on Turkey unless Brunson is released completely. In consequence, lira erased the gain it had made a day earlier. Erdogan did not comment on the issue.

On August, 1, Brunson was still under arrest and the U.S. announced sanctions against Turkey. The dollar/lira rose 1.6 percent that day over a historic 5 handle after the announcement. The 5 handle was an important psychologic level for the market. Now Erdogan broke his silence about the U.S., but despite the serious steps taken by the U.S. he kept his neutral tone and tried to soothe the situation.

For the rest of the August similar events occurred over and over again. The United States introduced new measures against Turkey every other day. However, Turkey's central bank did not defend the lira. Now market's whole attention turned to U.S.-Turkey relations. From that point on every single development started to effect lira's value. For example the U.S. Spokeswoman's "it is good to have a conversation" comment on the Cavusoglu-Pompeo dialogue at August, 7, caused lira to appreciate almost 2 percent. The lack of a result from Turkish delegation's visit to Washington resulted 5 percent rise in dollar/lira in a day. On August 10, lira crashed when market realised that the new Treasury and Finance Minister, Berat Albayrak, underestimated the ongoing problems. The meltdown deepened when Donald Trump announced more measures against Turkey during

Berat Albayrak's speech. The daily rise of dollar/lira reached almost 24 percent. On August 13, the lira's meltdown continued and the dollar/lira hit record high just below 7.24 level. From that day on, the U.S. started to intensify pressure on Turkey. However, the peak level of dollar/lira never breached again. Banking regulator's steps, Qatar and European countries' involvement, relatively eased the pressure on the lira. However, daily volatility was at a record high. During the rest of the month and most of the next month Erdogan's speeches had two stages: After complaining about the U.S.' attitude, even threatening to end the partnership, he reminded the U.S. that Turkey is an ally. Even though he complained, rampaged and riled at the U.S., his discourses were based on continuation of the alliance.

September 27, 2018: From Neutral to Positive

On September 24, Mike Pompeo's remarks on the Brunson issue relieved the pressure on lira. Pompeo said that the U.S. expects Brunson to be released soon, but he did not explain how he knew the result of a trial which was not been held yet. Although Brunson's next hearing was three weeks away, dollar/lira fell 2.2 percent after Pompeo's statement. Three days after Pompeo's statement, Erdogan addressed American businessmen and said that the U.S.-Turkey friendship will overcome the challenges. This was a clear return to positive rhetoric. The dollar/lira exchange rate tested below 6 and ended the day 1.6 percent lower.

October 4, 2018: From Positive to Negative

As the lira swung between losses and gains, Erdogan's attitude towards the U.S. followed the same path. After giving positive messages to American businessmen, he changed his tone to negative on October, 4 and blamed the U.S. for conducting an economic warfare against Turkey. What caused the change in Erdogan's tone was ambiguous and hard to tell.

October 16, 2018: From Negative to Neutral

Brunson was freed on October, 12. A day before Brunson's trial, NBC reported that Turkey and the U.S. had a secret deal. According to this deal Brunson was going to be set free and the U.S. was going to ease economic pressure on Turkey. Dollar/lira ended the day 2.5 percent down to 5.92. When Brunson was released, dollar/lira fell about 0.9 percent. A few days after Brunson had left Turkey, Erdogan's one-time negative tone changed to neutral on October, 16 again. The U.S. was satisfied with Brunson's release, Trump was even thanking Erdogan. However, Erdogan did not share Trump's joy and kept a neutral tone. Erdogan several time referred Brunson as man with "dark ties." He even said that "you cannot take any terrorist back as long as I am in charge. But, there, Brunson walked free, therefore the Brunson crisis was a clear defeat for Erdogan. However, Erdogan did not walk away from Brunson's release empty handed. The U.S. let Turkey among several other countries to buy oil from Iran without risking U.S. sanctions. Brunson sanctions were lifted and the Halkbank case disappeared. According to a NBC story, Donald Trump even looked for ways to deport Fetullah Gulen. During this peace era, lira gradually recovered in two months and erased the losses of the sanction spat, but could not manage to recover beyond it. When Pompeo said sanctions were going to be lifted, dollar/lira fell 1.8 percent. After the U.S. decided to impose temporary exemptions on Turkey for Iranian oil, the dollar/lira rate fell another 2.2 percent to 5.31.

December 3, 2018: From Neutral to Positive

Erdogan and Trump spoke over the phone at least 3 times after Brunson's release in 2 months. On December 3, Erdogan expressed hope for Gulen's deportation after a very long time. After this brief positive remark, Erdogan returned back to his neutral tone towards the U.S. as he displayed a more cautious approach after the historical Brunson spat.

4.2. Conclusion of Section 4

During the given time period the U.S. took different actions against Turkey, e.g. suspending visa applications, the Halkbank case, the Brunson sanctions, Syria-related statements and tariffs and trade measures. These negative U.S. actions against Turkey caused changes in Erdogan's rhetoric and made him respond in a negative way as well. Inversely, the few positive U.S. steps towards Turkey during this time – like restarting the visa process – caused Erdogan to change his tone to neutral or positive.

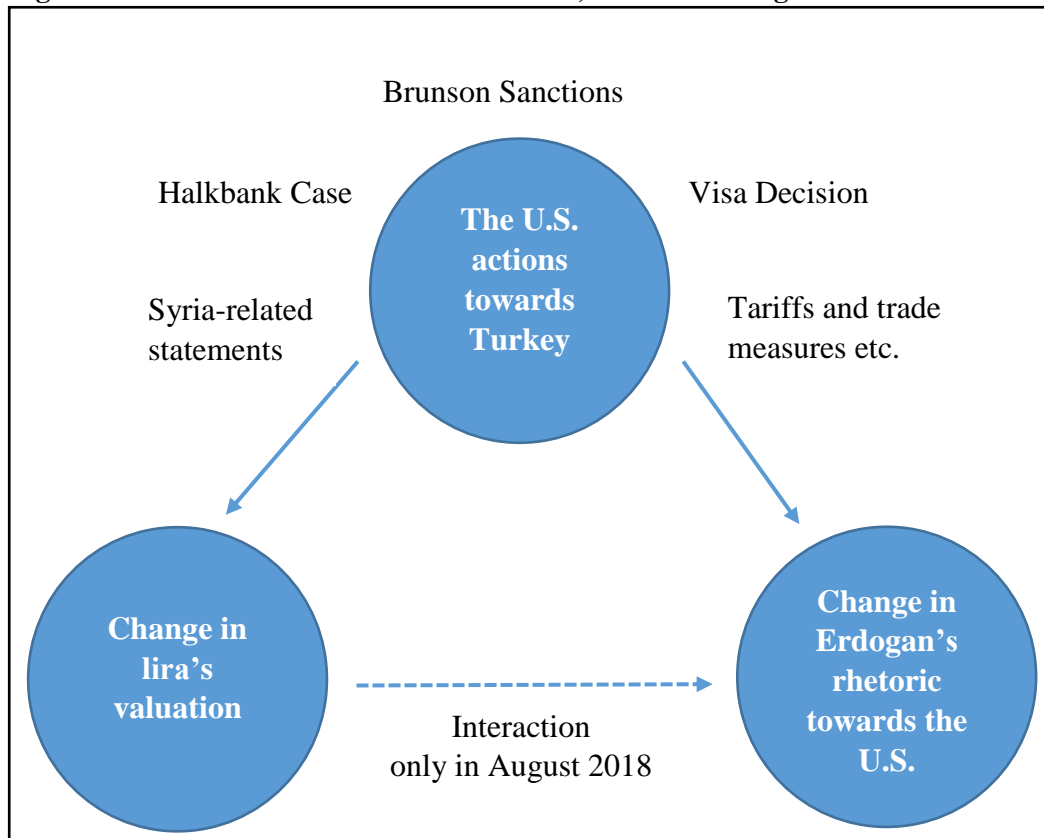
At the same time, the U.S. actions against Turkey had also an effect on lira's value in almost all the cases: While negative U.S. steps caused lira depreciation, positive U.S. steps caused lira appreciation.

This study also finds that Erdogan's rhetoric was not driven by lira price movements caused by U.S. actions. Most of the time, U.S. driven lira movements had no effect on Erdogan's rhetoric at all. However, this stopped during the lira crisis in August 2018. As Erdogan stated himself, he considered that the lira meltdown was caused by U.S. actions. Therefore, instead of responding to the unprecedented U.S. actions negatively, he kept a neutral tone and a soother role in the discussion with the U.S. by emphasizing the alliance between the two countries. Apparently, the reason for this was the lira's historic depreciation after the U.S. sanctions, which Erdogan probably did not want to intensify further. Eventually, the political and financial pressure was so high, that Erdogan had to release Brunson and thus, he did not get the desired result of his hostage diplomacy, that being the extradition of Gulen.

As a result of section 4 it can be stated that the U.S. actions towards Turkey functioned as catalyst in the interaction with lira valuations and Erdogan's rhetoric.

The interactions between the U.S. actions towards Turkey, the change in the lira's valuation and the change in Erdogan's rhetoric towards the U.S. is displayed in the figure 4.2 below.

Figure 4.2. Interactions Between U.S. Actions, Lira and Erdogan's Discourse



CONCLUSION

The year 2018 was an exceptional year for the Turkish lira. The currency collapsed on August 10, 2018, marking its worst meltdown since the 2001 financial crisis. On that day, Donald Trump tweeted that the U.S. doubled steel and aluminium tariffs on Turkey. However, President Recep Tayyip Erdogan responded in an unusually soft way. These events raised the question if or how the U.S.'s Turkey policies and following lira movements had an influence on Erdogan's U.S.-related discourse during the 2018 lira crisis.

For a better understanding of Erdogan's discourse, the first section of this study provides a brief overview of the current political frictions between Turkey and the U.S. The section demonstrates that the political relationship between Turkey and the U.S. had been clouded by three major historic crises taking place in the 1960s (Jupiter Missile Crisis), 1970s (Cyprus Island Crisis) and early 2000s (Hood Event). Despite attempts to mend the sore relations between the two NATO allies during Obama era, the trust issues rapidly intensified after the failed coup attempt in Turkey on July 15, 2016. After that, the policy divergence between Turkey and the U.S. became more apparent and Turkey intensified its push to create an independent foreign policy agenda.

The country's first major move was signing the S-400 missile defense system deal with Russia despite strong objection by the U.S. government. Secondly, Turkey conducted two comprehensive military operations in Syria to prevent the advance of U.S.-backed YPG militant group. And third, Turkey relentlessly kept asking for the extradition of Islamist preacher Fetullah Gulen from the U.S., who is the alleged mastermind of the botched putsch. The political divergences and mistrust did not turn into a diplomatic crisis until October 2017, when Erdogan offered to swap the jailed American pastor Andrew Brunson with Fetullah Gulen. Also, the U.S. freezing of the visa process for Turkish citizens, the Halkbank case in the U.S. with the risk of fines due to the bank's role in helping Iran to avoid U.S.

sanctions, the detainment of other U.S. citizens in Turkey and oil purchases from Iran became a risk for the Turkish assets and especially for the lira.

In the second section, the research analyzes Erdogan's speeches between September 1, 2017 and December 31, 2018. The chosen period marks the time when the United States took a series of punitive measures against Turkey as a result of political disputes between the two countries. In the same period, the lira experienced its worst sell-off since an unprecedented currency crisis in 2001. Although there were many underlying reasons behind the Turkish lira's collapse in August 2018, the Turkish government blamed the U.S. and its actions as the main cause of the meltdown and called it an "economic warfare" against the country. Against this backdrop, the study conducts a discourse analysis in an attempt to explore if or how the U.S.'s Turkey policies influenced Turkish President Erdogan's discourse towards Washington administration, before, during and after the lira crisis.

Discourse analysis is a research technique that scrutinizes the structure of speeches by taking into account not only their content but also their context. Yet, discourse analysis is not a single method, but a heterogenous research technique without definitive guidelines. This study follows Milliken's approach of "predicate analysis," which focuses on the language practices of predication as well as van Dijk's consideration of "context", "sequentiality" and "meaning and function".

The discourse analysis was conducted by examining more than 1,000 pages of Erdogan's speeches. Among these remarks, 65 U.S.-related speeches were identified. In these 65 speeches, Erdogan mentions the YPG issue 35 times, the Gulen issue 14 times, the arms procurement issue (S-400 etc.) 12 times, the "economic warfare" issue 10 times, the Halkbank issue 9 times, the Brunson issue 8 times and the visa issue 5 times.

Only 4 out of 65 speeches employed a positive rhetoric toward the U.S. and these were mostly Erdogan's expectations from the future of the relations between the two countries. In contrast, 40 of the speeches had a neutral tone and 21 of them used negative rhetoric. Hence, it can be said that Erdogan had a neutral rhetoric towards the U.S. most of the time during the given period. The changes in Erdogan's tone arose from the U.S.'s actions against Turkey in many cases. Especially, the freezing of the visa process, the Halkbank case, the U.S. urging Turkey not to take action in Syria against the YPG and suspension of F-35 warplane deliveries to Turkey changed Erdogan's mostly neutral rhetoric to negative. However, after having a dialog with Trump or other U.S. representatives, Erdogan's rhetoric turned to neutral or positive. As a result, the analysis showed that Erdogan's discourse was generally driven by the U.S. policies towards Turkey.

Yet, another factor had to be considered that is if the lira valuations driven by the U.S. actions influenced Erdogan's discourse as well. Therefore, the third section of the study examined market moving news flow by analysing the Turkey-related coverage of financial news provider Bloomberg and other news outlets such as Reuters and Financial Times as well as international banks' Turkey-related reports. Doing so revealed the relevant dates when the U.S. policies affected the lira price movements. It turned out that the dollar/lira exchange rate rose one percent or more in 49 days and fell in 32 days between September 2017 and the end of 2018. This study's findings showed that the depreciation on 21 separate days was directly related to Turkey-U.S. relations, which in turn were mostly driven by statements from the U.S. government. Likewise, the appreciation that took place on 16 separate days was related to the developments in the ties between the two NATO allies for the given period.

The news flow analysis also showed that the Turkish lira was already in turmoil due to an overheating economy, a lack of foresight of Turkey's new economy management and the Turkish central bank's inaction in defending the lira, which

is caused by Erdogan's pressure to keep interest rates low. This environment set ground for a speculative attack against the lira. Additionally, the threat of U.S. sanctions and their possible economic consequences turned the lira into an open target. Eventually, the sanctions created a fear of a financial collapse as the U.S. was trying to corner Turkey economically. As a result, the lira melted down dramatically. Thereafter, Brunson was released despite being slapped with a conviction on terrorism charges. Within two months after his release, the lira recovered some of its losses against the dollar, but it never saw the levels before the U.S. sanction threats again. Despite this recovery, the lira lost almost one third of its value against the greenback in 2018.

As a last step, the fourth section combined the findings of the second and third sections by analysing if the lira-moving U.S. actions had an influence on Erdogan's tone and made him change the tone of his discourse. It was found that the negative U.S. actions (e.g. suspending visa applications, the threat of fines in the Halkbank case) made Erdogan change his rhetoric and reciprocate in a negative way. Inversely, the few positive U.S. steps towards Turkey during this time (e.g. restarting the visa process) also changed Erdogan's tone to neutral or positive. At the same time, the U.S. actions against Turkey affected the lira's value in almost all the cases: While negative U.S. steps caused the lira to depreciate, positive U.S. steps led to a lira appreciation.

This study also found that most of the time, the U.S. driven lira movements had no impact on Erdogan's rhetoric at all. The only exception is the historic lira depreciation during the crisis in August 2018. As Erdogan stated himself, he considered that the lira meltdown was only caused by the U.S. actions regarding the Brunson case ("economic warfare" against Turkey argument). Therefore, instead of responding to the unprecedented U.S. actions negatively, Erdogan kept a neutral tone and took a soother role in the discussion with the U.S. in order to ease the tensions, contrasting his usual defiant role. Eventually, the political and financial pressures were so high that Erdogan had to release Brunson even though

he did not get the desired result from a so-called “hostage diplomacy,” as the U.S. has refused to extradite Fetullah Gulen.

Although this study only investigated the events until the end of 2018, the consequences of the Brunson issue could be felt in economic and political fronts even in the aftermath. First of all, the 2018 Brunson crisis showed that the Turkish government underestimated the U.S.’s power to exert financial pressure in an effective way. Erdogan having to back step on Brunson issue also proved that Turkey did not have the political power to force the United States into a deal due to the fragile state of the Turkish economy in the given period.

The 2018 currency crisis had several economic consequences. Although Brunson was freed, Turkey’s economy took a deep and lasting downturn. The Turkish economy contracted 3 percent in the last quarter of 2018 and an annual contraction extended to the first couple quarters of 2019. In the meantime, the Halkbank case in the U.S. was shelved but not closed, imposing an economic risk due to the possibility of a hefty fine. In addition, the United States terminated Turkey’s preferential trade agreement. Although steel and aluminium tariffs imposed in August 2018 were retracted in late March 2019, Turkey’s steel export to the U.S. dropped significantly as a result of these events. Even though the U.S. allowed Turkey to buy Iranian oil for 6 months at the end of 2018, this privilege was not extended, forcing Turkey to buy more expensive oil from other producers. Also, Turkey’s foreign debt pile grew rapidly due to the sharp lira depreciation, and its credit rating was cut deeper into non-investment grade by 3 prominent rating agencies. Foreign financing became more expensive for Turkish entities due to a rise in interest rates and credit default risk premium. Consequently, the Turkish government had to revise 2023 economic targets (unemployment, income per capita, economic growth) to the levels already seen in 2013. (Onbirinci Kalkinma Planı 2019) As a result, Turkey ended up losing 10 years of economic development due to the missteps that led the Turkish lira into a meltdown in August 2018.

The political consequences of the diplomatic crisis were also sour. The Brunson spat moved the bilateral relations into a new territory, where instead of diplomacy, public threats became a way of negotiation between the two NATO allies. Some events that occurred in 2019 also showed that this new approach is still intact between Washington and Ankara. Donald Trump's threat "to devastate Turkey's economy if it attacks Kurds in Syria" (Gibbons-Neff, 2019) and Erdogan's vow to retribute by cancelling Turkey's aircraft orders from Boeing if the U.S. imposes sanctions against the country (Bilgic, 2019) can be seen as the extension of the diplomacy of public threats in 2018. These events also show that the mistrust between Turkey and the U.S. that had started with the "Hood Event" in 2003, deepened further during the Brunson crisis and is still ongoing. In conclusion, it can be said that there has been an observable influence of the U.S. policies on Turkey and the following dollar/lira exchange rate fluctuations on Turkish President Recep Tayyip Erdogan's U.S.-related discourse.

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