

INFLATION PULSE

Turkey: Core Prices Lowered Headline Inflation

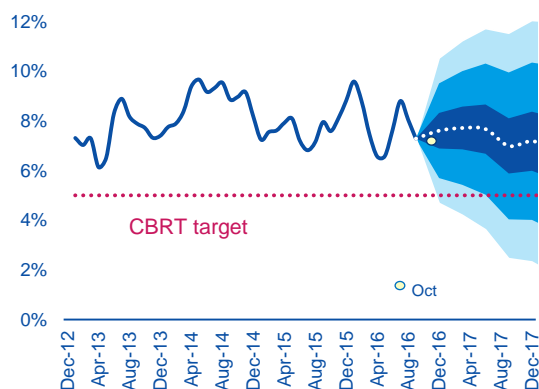
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Consumer prices rose below consensus (1.44% vs 1.62%) in October, bringing down the annual headline inflation to 7.2% from 7.3%. Sizable fall in core inflation more than compensated the small upward correction in food prices and resulted in a slight fall in the headline figure. On a second month in a row, weaker domestic demand was the main reason behind the softening in core inflation, while tourism related sub-items started to show signals of stabilization. Looking ahead, we expect a stabilization in core prices as policy stimulus to boost consumer loans and recent exchange rate depreciation would limit the negative impact of domestic demand. The risks on our 7.7% year-end inflation are balanced.

Lower core inflation compensated the upside correction in food prices

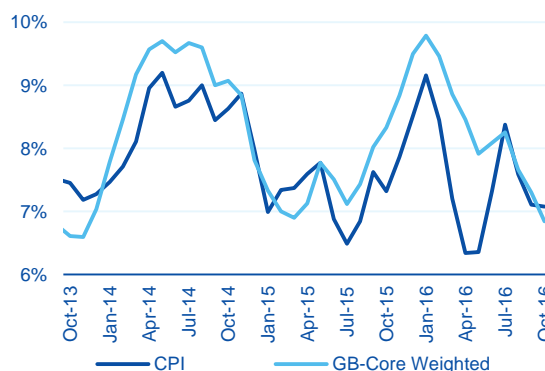
Although there was a small upward correction in food prices the monthly food inflation of 1.9% was lower than its seasonal average. This could be thanks to the Food Committee actions and the ongoing weakness in the tourism sector, in our view. Annual food inflation climbed up from 3.9% to 5.0% on the back of unprocessed food prices. The slight decline in the headline inflation was mainly thanks to the decline of the core inflation to 7.0% from 7.7%. The higher than seasonal average increase in clothing prices could not compensate the high base effect of last year, while the weaker rise in furniture prices and the fall in recreation and culture prices in contrast to its seasonal movement were the other reasons contributing to the fall in core inflation. Softened aggregate demand had a pass-through impact on services prices as well, which also contributed to the decline in core inflation.

Figure 1
Turkey: Inflation Forecasts (YoY) (20% & 50% uncertainty band on quarterly forecasts)



Source: Garanti Research Inflation Model & Turkstat

Figure 2
Turkey: Headline and BBVA-Garanti Core Inflation (YoY)

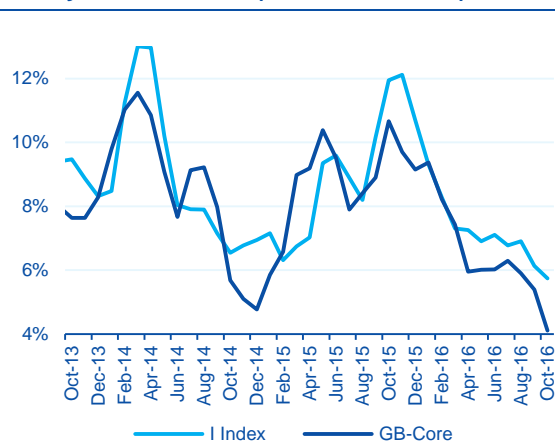


Source: Garanti Research Inflation Model & Turkstat

Risks are balanced on our 7.7% year-end forecast

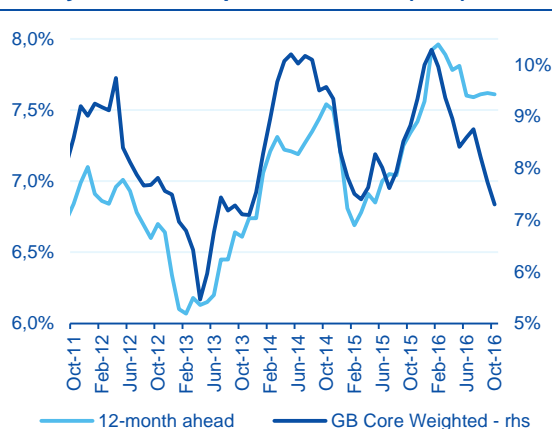
Going forward, there are both upward and downward risks. The unfavorable base effects on energy prices in the rest of the year, the signs of stabilization in the prices of tourism related sub-items, the likely pick-up in consumption supported by the policy stimulus and recent exchange rate depreciation will be factors to push inflation higher. In contrast, the actions of the Food Committee and uncertainties regarding the consumer demand in 4Q are the downside risks. All in all, we think that risks on our 7.7% forecasts are balanced.

Figure 3
Turkey: Core Inflation (3-MA, annualized)



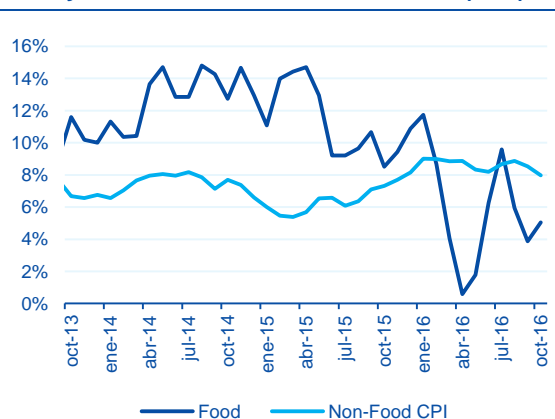
Source: Garanti Research Inflation Model & Turkstat

Figure 4
Turkey: Inflation Exp. and GB-Core (YoY)



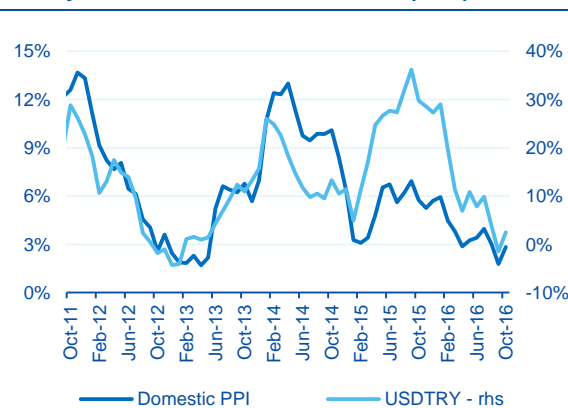
Source: Garanti Research & Turkstat

Figure 5
Turkey: Inflation and Non-Food Inflation (YoY)



Source: Garanti Research & Turkstat

Figure 6
Turkey: Domestic PPI and USDTRY (YoY)



Source: Garanti Research & Turkstat

Table 1
Turkey: CPI in Subcomponents

CPI	MoM	YoY
Total	1.4%	7.2%
Food	1.8%	5.2%
Beverage & Tobacco	0.0%	22.6%
Clothing & Textile	10.4%	6.1%
Housing	-0.2%	5.5%
Household Equipment	0.6%	6.3%
Health	0.2%	9.4%
Transportation	2.0%	8.2%
Communication	-0.1%	2.8%
Recr. & Culture	-1.0%	2.4%
Education	0.3%	9.6%
Rest. & Hotels	0.7%	8.3%
Misc. Goods & Services	0.4%	9.3%

Source: Garanti Research & Turkstat

Table 2
Turkey: Domestic PPI in Subcomponents

Domestic PPI	MoM	YoY
Total	0.8%	2.8%
Mining & Quarrying	0.8%	3.3%
Manufacturing	0.9%	4.4%
Food Products	-0.4%	3.5%
Textiles	0.5%	3.8%
Wearing Apparel	0.7%	5.1%
Coke & Petroleum Products	9.8%	7.5%
Chemicals	1.4%	0.9%
Other Non-Metallic Mineral	-0.1%	2.0%
Basic Metals	2.2%	3.5%
Metal Products	1.3%	3.6%
Electrical Equipment	1.5%	4.6%
Electricity, Gas, Steam	-0.3%	-13.9%

Source: Garanti Research & Turkstat

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