

INFLATION PULSE

Turkey: Food Prices Lowered the Headline

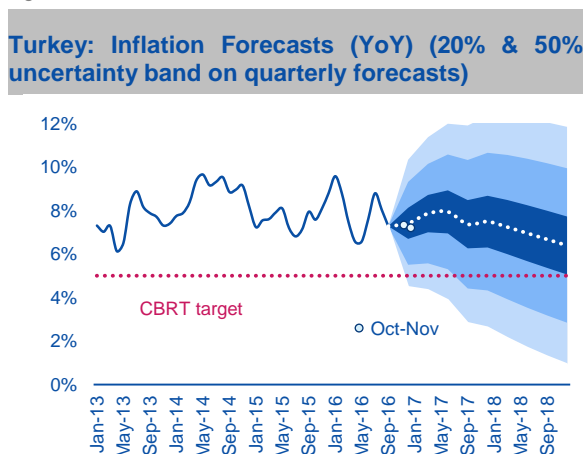
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Consumer prices rose less than expected (0.52% vs 0.80%) in November driving the headline inflation to moderate from 7.2% to 7.0%. Monthly contraction in food prices was the main driver behind the lower than expected headline figure. Core inflation remained flat at 7% due to weak to modest demand conditions. However, inflation is set to increase starting from December as the recent sharp depreciation in TL, higher energy prices and the recent tax hikes on auto and tobacco&alcohol will outweigh the impact of weak domestic demand. In this respect, risks on our 7.7% year-end inflation are balanced.

Food and core prices helped one more time in November

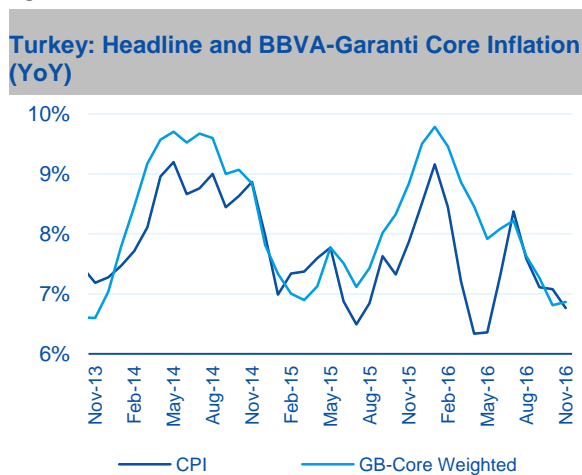
Monthly food inflation was -0.67%, leading to the lowest November annual inflation by 3.25%. Both the unprocessed and processed food prices contributed to the decline; however the unprocessed prices took the lead. Core inflation stayed flat at 7% as the lower increase than its seasonal average and the high base effect of last year in clothing prices and the fall in furniture prices compensated the rise in tourism related sub-items (first annual increase in both recreation & culture and restaurant & hotel prices since the start of 2016). Going forward, we expect the exchange rate pass-through and the recent prices hikes to outweigh weak domestic demand as the main driver in core prices. We calculate a minimum total impact of recent hikes around 0.6pp on the headline figure as of December.

Figure 1



Source: Garanti Research & Turkstat

Figure 2

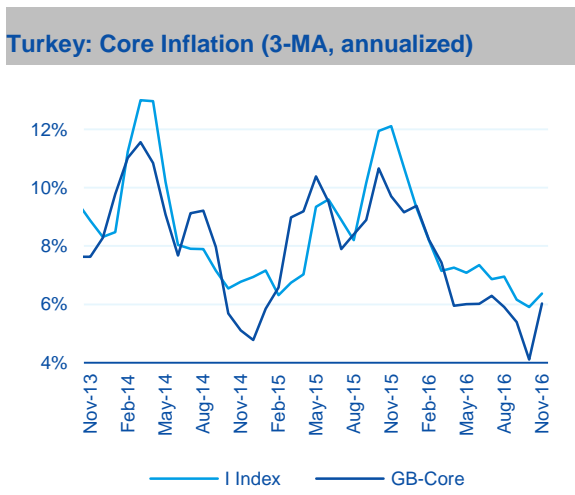


Source: Garanti Research Inflation Model & Turkstat

Risks on our 7.7% year-end inflation are balanced

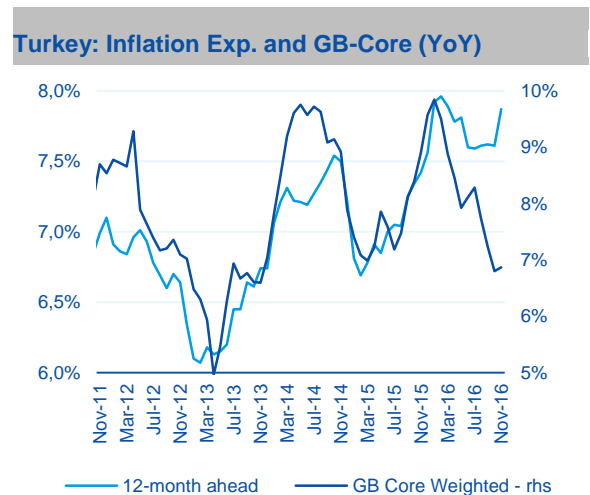
Looking ahead, the pass through of the sizeable exchange rate depreciation, the recent tax and regulated transportation price hikes and rising pressure stemming from energy prices (higher oil prices and low base effect of last year) will likely push the headline inflation in December higher. On the positive side, pressures from food prices and the output gap could be lower. All in all, we think that risks to our 7.7% year-end headline inflation forecast are balanced.

Figure 3



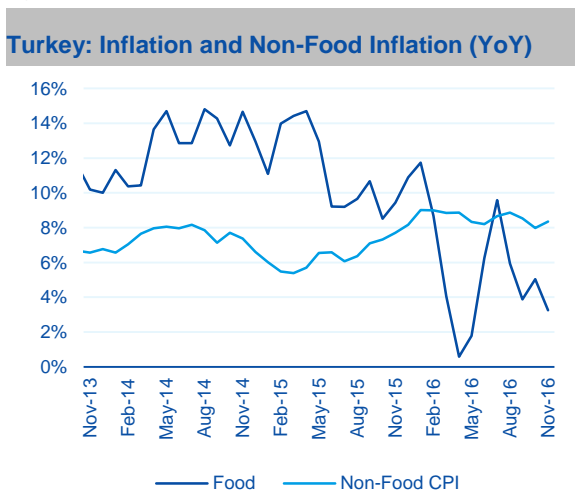
Source: Garanti Research Inflation Model & Turkstat

Figure 4



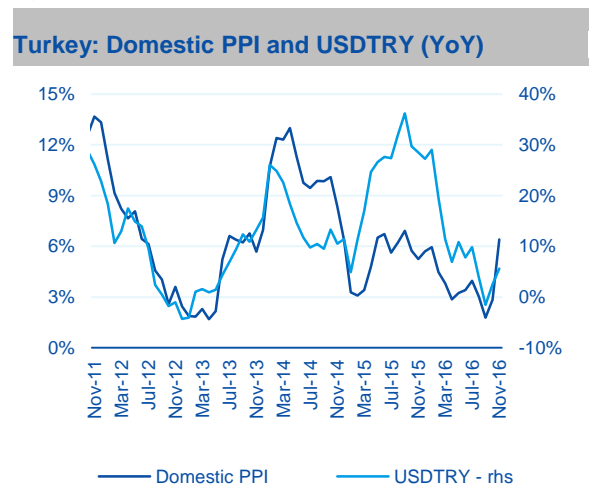
Source: Garanti Research Inflation Model & Turkstat

Figure 5



Source: Garanti Research & Turkstat

Figure 6



Source: Garanti Research, CBT & Turkstat

Table 1

Turkey: CPI in Subcomponents		
CPI	MoM	YoY
Total	0.5%	7.0%
Food	-0.6%	3.6%
Beverage & Tobacco	0.0%	22.6%
Clothing & Textile	3.9%	4.6%
Housing	0.9%	5.9%
Household Equipment	-0.1%	5.5%
Health	0.1%	9.2%
Transportation	0.5%	9.6%
Communication	0.6%	3.1%
Recr. & Culture	1.3%	4.3%
Education	0.1%	9.5%
Rest. & Hotels	0.5%	8.5%
Misc. Goods & Services	1.2%	10.9%

Source: Garanti Research & Turkstat

Table 2

Turkey: Domestic PPI in Subcomponents		
Domestic PPI	MoM	YoY
Total	2.0%	6.4%
Mining & Quarrying	2.5%	6.2%
Manufacturing	2.4%	8.2%
Food Products	0.8%	5.6%
Textiles	2.1%	7.3%
Wearing Apparel	-0.1%	4.6%
Coke & Petroleum Products	0.8%	16.8%
Chemicals	4.1%	7.3%
Other Non-Metallic Mineral	0.8%	2.5%
Basic Metals	10.1%	18.1%
Metal Products	2.8%	7.9%
Electrical Equipment	1.8%	7.2%
Electricity, Gas, Steam	-3.2%	-13.4%

Source: Garanti Research & Turkstat

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