

INFLATION PULSE

Turkey: Inflation Surged on Food and Energy

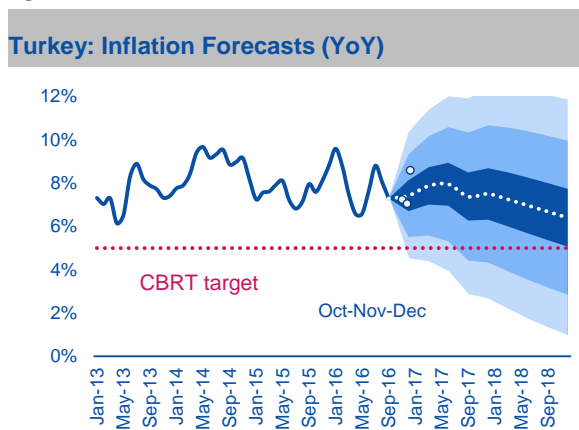
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Consumer prices rose by 1.6% in December, significantly higher than the market consensus of 0.9%. Annual headline inflation surged to 8.5% from 7.0% in November. The surprise factor was the sizable jump in food inflation, while increases in alcohol&tobacco, energy and core prices were expected. Elsewhere, annual producer prices rose to 9.9% from 6.4% due to higher oil prices and the remarkable currency depreciation, signalling an intensifying cost push pressure on consumer prices in the coming period. Looking ahead, the rise in the annual inflation might have a temporary halt in January thanks to favourable base effects on food prices and tax hikes. However, inflation is likely to increase further thereafter on the back of the cost push impacts of import prices due to exchange rate depreciation and rising energy inflation.

Food surprised remarkably on the upside

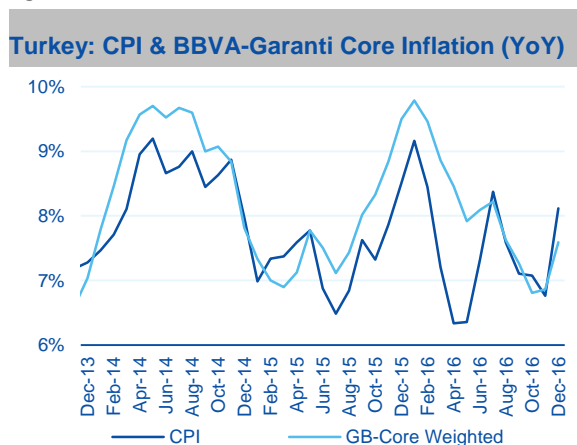
Monthly food inflation was 3.45%, remarkably above its seasonal average, resulting an increase in the annual figure to 5.4% from 3.3%. The increase in alcohol&tobacco prices was remarkable by 7.3% with the annual figure reaching 32% by year-end (1.6pp contribution on the headline). FX pass-through has started to be felt on the core prices as the annual core inflation increased to 7.5% from 7.0%, with the price increases across the board except for clothing (possibly reflecting the still weak demand). Energy inflation rose to 9% in annual terms on top of the rise in oil global oil prices and currency depreciation. 1Q17 will be a period of continuing rise in energy inflation due to the low base of prices averaged at USD 34 per barrel 1Q16.

Figure 1



Source: Garanti Research & Turkstat

Figure 2

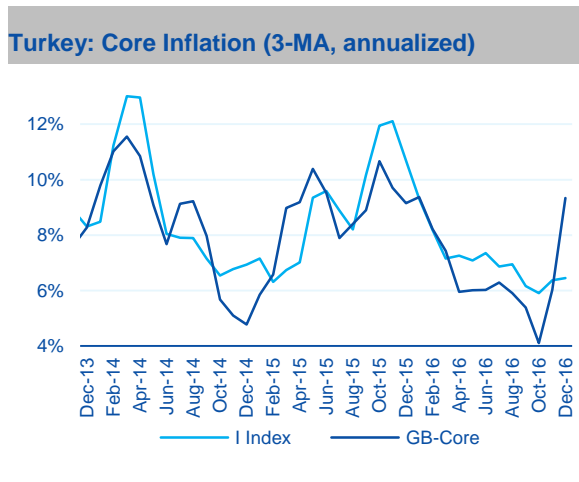


Source: Garanti Research Inflation Model & Turkstat

Inflation to rise further in 1Q17

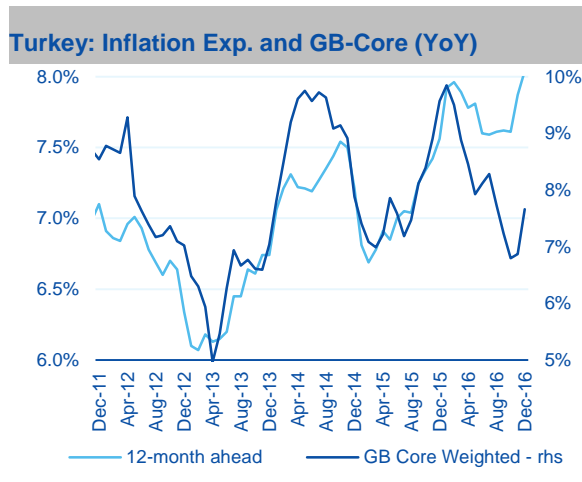
Despite the likely temporary decline in January, the pass-through of the sizeable TL depreciation and the rising cost push pressures from energy prices are likely to push the headline inflation over 9% marks by the end of 1Q17. Unfavorable base effect on food and energy prices and sizable currency depreciation pose upside risks to 2017 inflation outlook, resulting in a more challenging environment for the monetary policy.

Figure 3



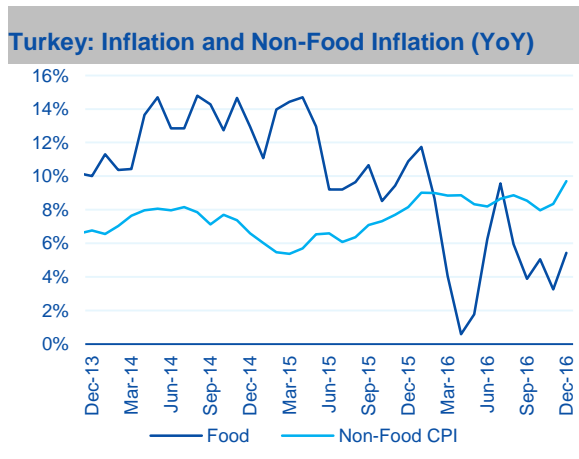
Source: Garanti Research Inflation Model & Turkstat

Figure 4



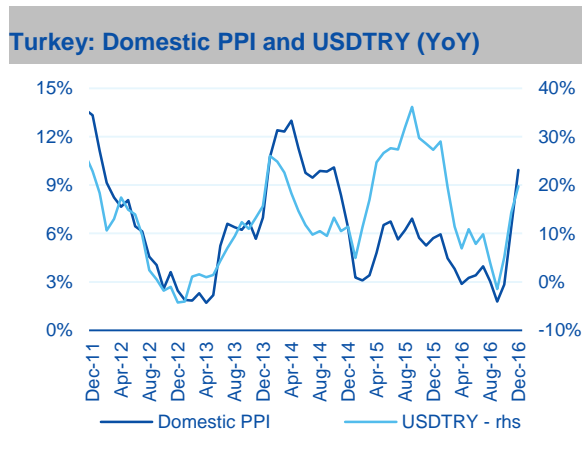
Source: Garanti Research Inflation Model & Turkstat

Figure 5



Source: Garanti Research & Turkstat

Figure 6



Source: Garanti Research, CBT & Turkstat

Table 1

Turkey: CPI in Subcomponents		
CPI	MoM	YoY
Total	1.6%	8.5%
Food	3.3%	5.7%
Beverage & Tobacco	7.3%	31.6%
Clothing & Textile	-2.5%	4.0%
Housing	0.9%	6.4%
Household Equipment	1.3%	6.2%
Health	0.7%	9.7%
Transportation	2.0%	12.4%
Communication	-0.1%	3.2%
Recr. & Culture	1.4%	5.9%
Education	0.0%	9.5%
Rest. & Hotels	0.4%	8.6%
Misc. Goods & Services	0.6%	11.1%

Source: Garanti Research & Turkstat

Table 2

Turkey: Domestic PPI in Subcomponents		
Domestic PPI	MoM	YoY
Total	3.0%	9.9%
Mining & Quarrying	-0.2%	8.0%
Manufacturing	3.3%	12.1%
Food Products	2.0%	7.2%
Textiles	3.8%	11.8%
Wearing Apparel	0.5%	4.6%
Coke & Petroleum Products	17.6%	52.1%
Chemicals	3.2%	10.9%
Other Non-Metallic Mineral	1.2%	4.8%
Basic Metals	8.6%	30.6%
Metal Products	3.1%	11.0%
Electrical Equipment	3.2%	10.5%
Electricity, Gas, Steam	1.3%	-11.8%

Source: Garanti Research & Turkstat

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