

INFLATION PULSE

Turkey: Inflation Surged on Food & Energy

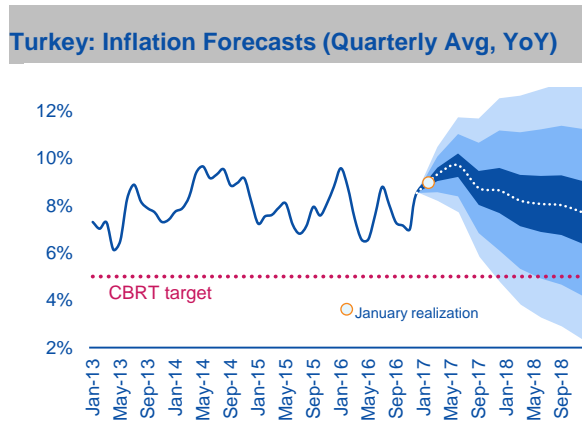
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Consumer prices rose by 2.5% in January (market consensus 1.8% and BBVA-GB Research 1.9%). Annual headline inflation surprised on the upside to 9.2% from 8.5% in December. The main drivers behind the surge were food inflation (harsh weather conditions) and higher energy prices, while FX pass-through has showed only minor signs of impact on the core so far. Elsewhere, annual producer prices rose to 13.7% from 9.9% due to higher energy prices and currency depreciation, signalling a mounting cost push pressure in the coming months. Despite the government's recent tax cuts on durable goods & furniture, we forecast inflation to keep rising due to FX pass-through and unfavourable base effects, potentially breaching double digits by March.

Major surprise was from food

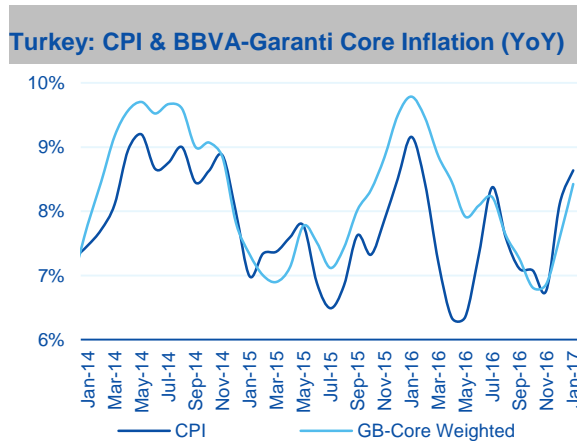
The big surprise was the remarkable rise in food inflation as fruit & vegetable prices skyrocketed (34% mom) due to extreme weather conditions. Monthly food inflation realized at 6.8%, driving the annual food inflation to 7.7% from 5.4%. The other driver has been the accelerating energy inflation to 11.6% from 8.7%. We expect the contribution from energy to be higher in the following months on base effects. Core prices also increased but to a limited extent, leading the annual core inflation to 7.7% from 7.5%. Looking ahead, the FX rate pass-through will become more apparent by the end of 1Q16. According to our calculations, recent tax cuts on white goods & furniture will have a reducing impact on the headline by 0.5pp, providing a relief on the core by almost 1.0pp. Nevertheless, we forecast core inflation to reach 9.5% by March, as sizable FX pass-through will dominate.

Figure 1



Source: Garanti Research & Turkstat

Figure 2

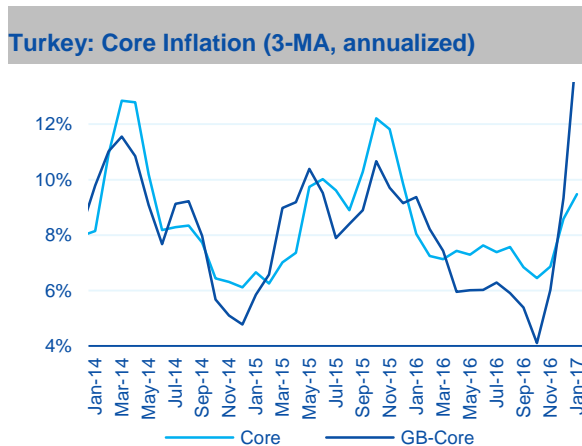


Source: Garanti Research Inflation Model & Turkstat

Inflation to rise further on mounting cost push factors

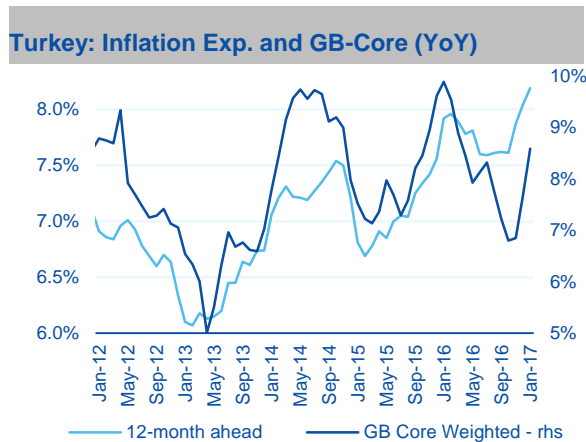
Despite the disinflationary impacts of weak domestic demand and recent tax cuts, we expect inflation to rise further and breach, at least temporarily, double digits by March. The surge of the producer inflation, accelerating second round effects of exchange rate and energy and deteriorating inflation expectations are likely to challenge further the Central Bank's monetary policy.

Figure 3



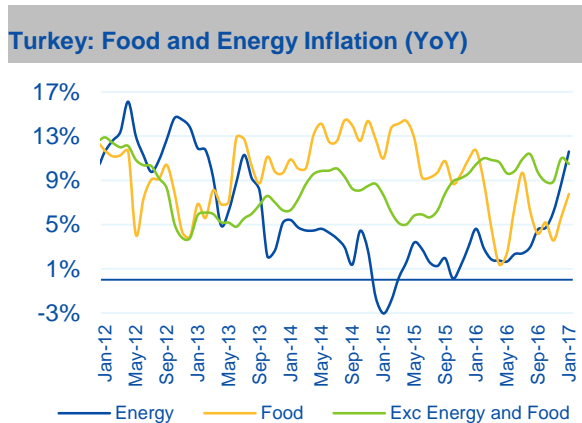
Source: Garanti Research Inflation Model & Turkstat

Figure 4



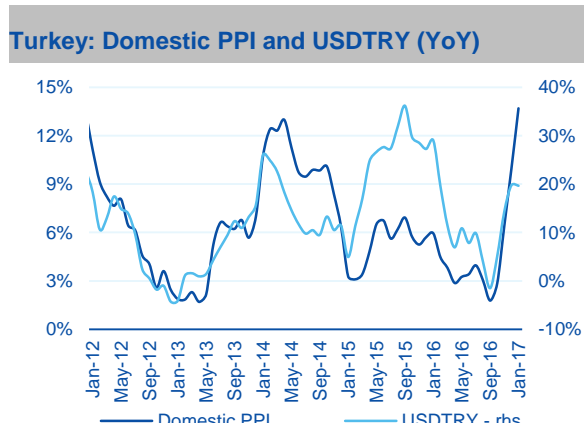
Source: Garanti Research Inflation Model & Turkstat

Figure 5



Source: Garanti Research & Turkstat

Figure 6



Source: Garanti Research, CBT & Turkstat

Table 1

Turkey: CPI in Subcomponents		
CPI	MoM	YoY
Total	2.5%	9.2%
Food	6.4%	7.8%
Beverage & Tobacco	2.4%	22.9%
Clothing & Textile	-7.0%	3.7%
Housing	1.8%	6.5%
Household Equipment	1.8%	6.2%
Health	4.7%	12.1%
Transportation	3.2%	15.6%
Communication	0.1%	3.2%
Recr. & Culture	2.4%	6.2%
Education	0.0%	9.4%
Rest. & Hotels	1.0%	8.6%
Misc. Goods & Services	4.2%	12.7%

Source: Garanti Research & Turkstat

Table 2

Turkey: Domestic PPI in Subcomponents		
Domestic PPI	MoM	YoY
Total	4.0%	13.7%
Mining & Quarrying	6.6%	16.5%
Manufacturing	3.9%	15.8%
Food Products	2.2%	8.5%
Textiles	5.1%	16.1%
Wearing Apparel	2.3%	8.0%
Coke & Petroleum Products	12.0%	92.9%
Chemicals	4.9%	15.7%
Other Non-Metallic Mineral	0.4%	4.1%
Basic Metals	7.6%	41.2%
Metal Products	5.0%	14.4%
Electrical Equipment	4.9%	14.8%
Electricity, Gas, Steam	4.1%	-9.0%

Source: Garanti Research & Turkstat

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