

INFLATION PULSE

Turkey: Inflation Breached Double Digits

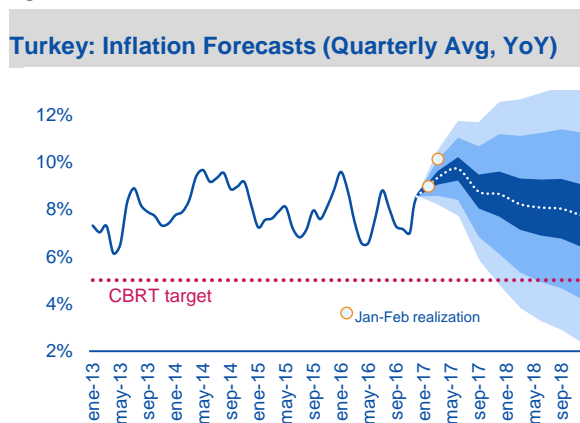
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Annual consumer prices inflation breached double digits for the first time since March 2012 and rose to 10.1% in February, as monthly inflation came in at 0.8% higher than market consensus of 0.5% and our expectation of 0.4%. Pass-through from exchange rate depreciation and higher energy prices, as well as increasing food inflation were the main drivers behind the continuum of upward trend. Elsewhere, annual producer prices rose to 15.4 from 13.7% due to currency depreciation and increased commodity prices, signalling even higher cost push pressure in the next months. We forecast inflation to keep rising as exchange rate pass-through will become more visible on the core prices and unfavourable base effects will cause further increase in annual food inflation.

Major push came from the core items

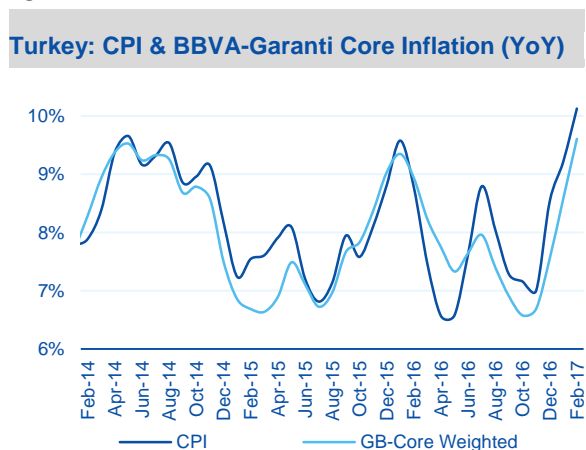
All of the main subcomponents had an increasing impact on the headline; but the highest contribution came from the core items, of which annual inflation jumped to 8.6% from 7.7% the month before. Intensifying FX pass-through was the main factor behind the surge in core prices despite the Government’s recent tax cuts. Clothing & footwear took the lead among the core items, with its reducing impact remarkably lower than its seasonal average, while services prices maintained upward pressures across-the-board. Food inflation jumped to 8.7% from 7.7% due to unfavourable base effects, where we believe the recovery in fresh food exports to Russia and Iraq was also effective. The other driver was the accelerating energy inflation to 13.9% from 11.6%, as a result of currency depreciation and higher energy prices.

Figure 1



Source: Garanti Research & Turkstat

Figure 2

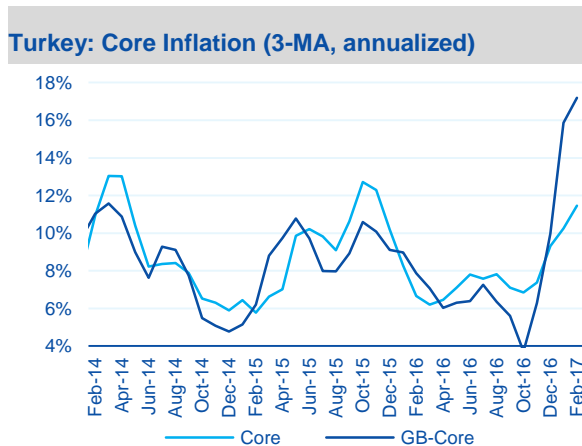


Source: Garanti Research Inflation Model & Turkstat

Risks are still on the upside due to cost push factors

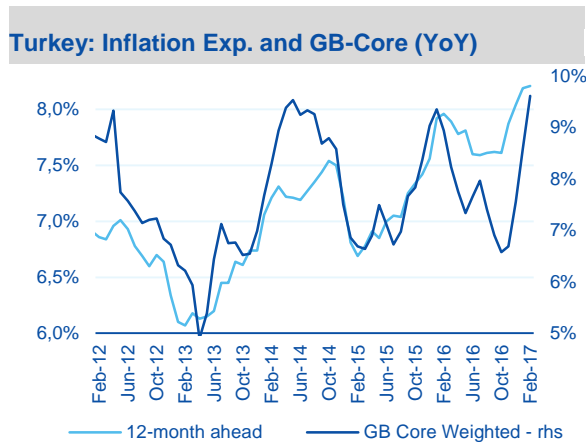
Inflation breached double digits one month earlier than we forecasted, as cost push impacts intensified. In this respect, intensified government stimulus to boost domestic demand may also be lowering the disinflationary impact of the subdued domestic demand. Considering the size of currency depreciation, we expect the core inflation to hit 9.5% by March and stay close to 10% until the last quarter. The surge of the producer inflation, accelerating second round effects of exchange rate depreciation and deteriorating inflation expectations are likely to challenge further the Central Bank’s monetary policy.

Figure 3



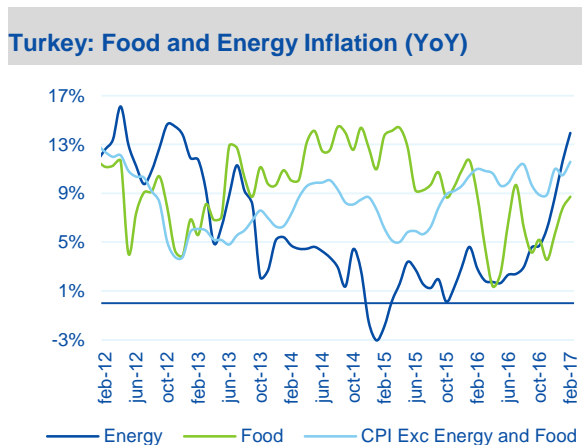
Source: Garanti Research Inflation Model & Turkstat

Figure 4



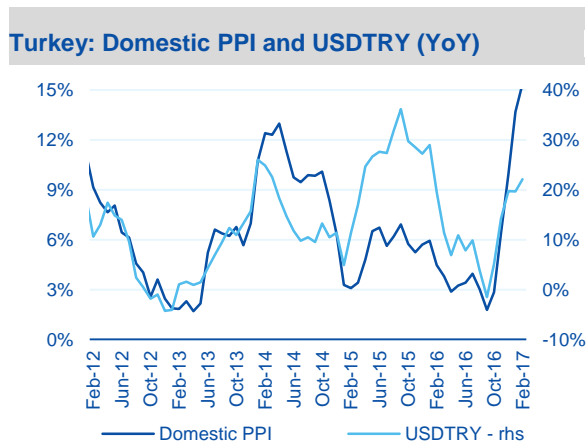
Source: Garanti Research Inflation Model & Turkstat

Figure 5



Source: Garanti Research & Turkstat

Figure 6



Source: Garanti Research, CBT & Turkstat

Table 1

Turkey: CPI in Subcomponents		
CPI	MoM	YoY
Total	0,8%	10,1%
Food	0,8%	8,7%
Beverage & Tobacco	0,0%	21,7%
Clothing & Textile	-3,3%	6,8%
Housing	1,2%	7,4%
Household Equipment	-0,7%	4,9%
Health	2,2%	12,5%
Transportation	2,8%	18,0%
Communication	0,7%	4,4%
Recr. & Culture	0,9%	7,3%
Education	0,0%	9,3%
Rest. & Hotels	0,9%	8,7%
Misc. Goods & Services	1,4%	12,8%

Source: Garanti Research & Turkstat

Table 2

Turkey: Domestic PPI in Subcomponents		
Domestic PPI	MoM	YoY
Total	1,3%	15,4%
Mining & Quarrying	2,4%	19,2%
Manufacturing	1,4%	17,2%
Food Products	1,0%	9,1%
Textiles	1,3%	17,9%
Wearing Apparel	0,7%	8,1%
Coke & Petroleum Products	0,2%	98,4%
Chemicals	3,1%	21,2%
Other Non-Metallic Mineral	1,5%	5,3%
Basic Metals	0,9%	43,9%
Metal Products	1,2%	16,2%
Electrical Equipment	0,4%	14,9%
Electricity, Gas, Steam	-0,7%	-5,7%

Source: Garanti Research & Turkstat

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