

# Turkey: Sticky Inflation

Adem Ileri / Seda Guler / Serkan Kocabas

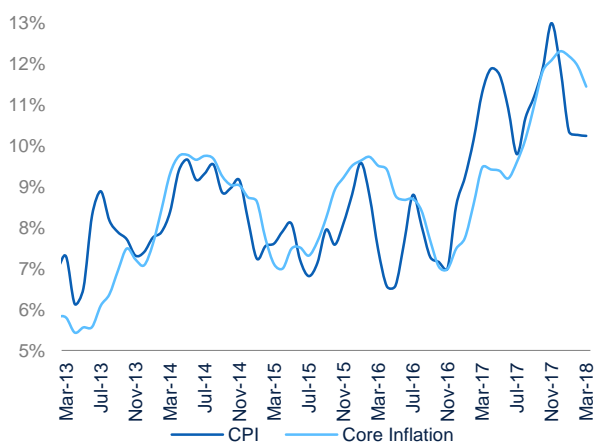
3 April 2018

Consumer inflation recorded 0.99% (mom) in March, in line with the market expectation (1%) but higher than ours (0.75%) on the discrepancy due to surprising food inflation. Annual consumer inflation retreated marginally to 10.23% from 10.26% since the increase in food and energy inflation prevented a meaningful decrease in the headline on expected base effects. Core inflation receded to 11.4% from 11.9% thanks to easing cumulative impact of exchange rate pass-through, yet the recovery is still limited on recent depreciation pressures year-to-date. Looking ahead, the expected one-digit realization in the next two months is now off the table as favorable base effects fade away as of April and currently overshooting currency results in additional pressures on core prices. Recent exchange rate depreciation, upward risks on growth and high inertia (backward and forward looking) obviously create upside risks for our year end 9% forecast.

## Eliminated favorable base effects on high food inflation

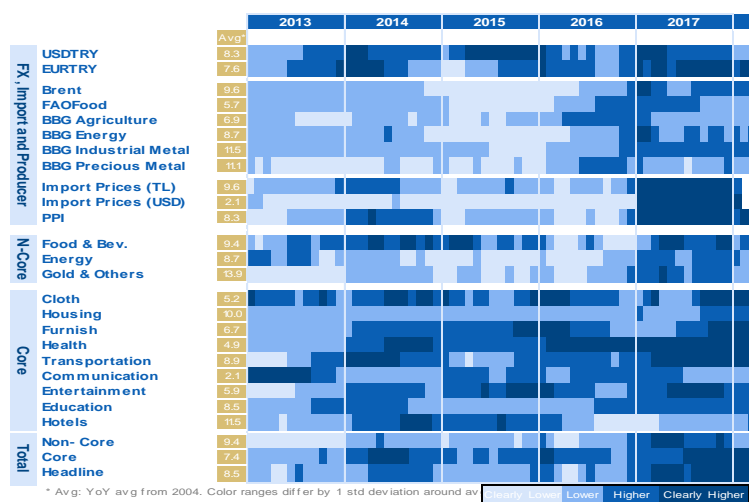
Food prices limited the expected recovery in inflation as it was 2.1% mom, quite higher than its seasonal average (0.9%) for the last seven years. Annual food inflation maintained its high level at 10.4% (10.3% in February). Also, both the higher oil prices and the depreciation in TL pushed the energy inflation up to 8.3% from 6.9%. Energy inflation is set to increase further on the price hike by 3% on households and higher fuel prices in April. On the other hand, core inflation fell to only 11.4% from %11.9 on favorable base effects especially in clothing but the recovery is still limited due to continuing exchange rate pass through supported by the recent depreciation pressures (7% ytd on currency basket). Unfortunately, core inflation may remain close to 11% until 3Q with the recent shock on currency, ongoing heating in the economy and cost-push factors. Besides, domestic producer prices, whose annual inflation increased to 14.3% from 13.7% will keep upward pressures on consumer prices as the costs are still on the rise due to the price hike of BOTAS (national gas company) for electricity producers and increasing commodity prices.

Figure 1 Core Inflation and CPI



Source: BBVA Research Turkey & Turkstat

Figure 2 Core Inflation Heat Map

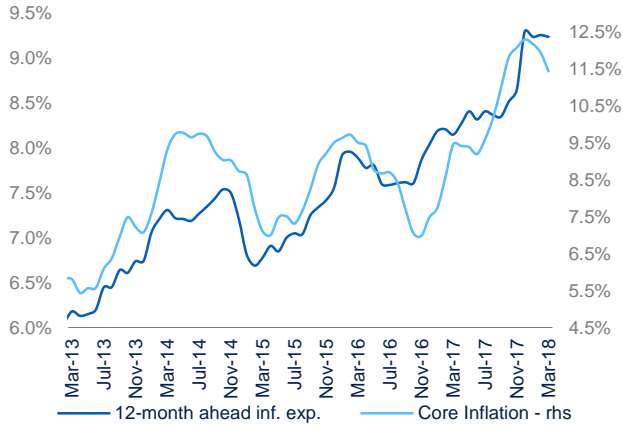


Source: BBVA Research Turkey & Turkstat

## Stickiness on two digits will require the CBRT to stay tight

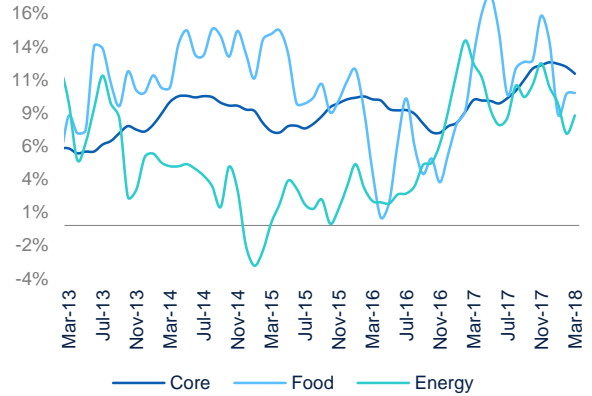
Favorable base effects fade away as of April and recently overshooting currency results in further pressures on core prices which in addition to solid domestic demand will keep the inflation outlook gloomy. Expansionary policy stimulus shadows monetary policy transmission mechanism, hence we think the Central Bank will keep the current stance in April 25 meeting unless a new negative cost push shock appears.

**Figure 3** Inflation Exp. and CBRT Core Inflation (YoY)



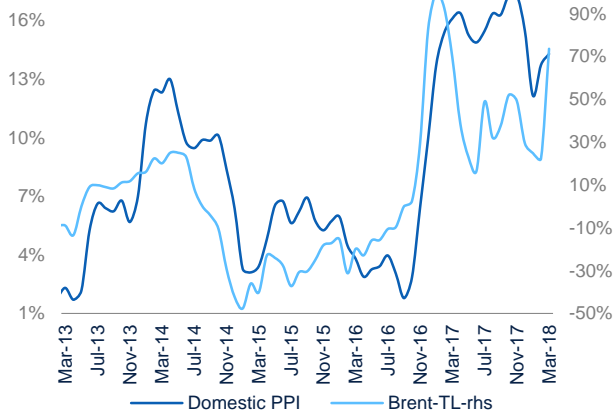
Source: BBVA Research Turkey Inflation Model & Turkstat

**Figure 4** CPI Components (YoY)



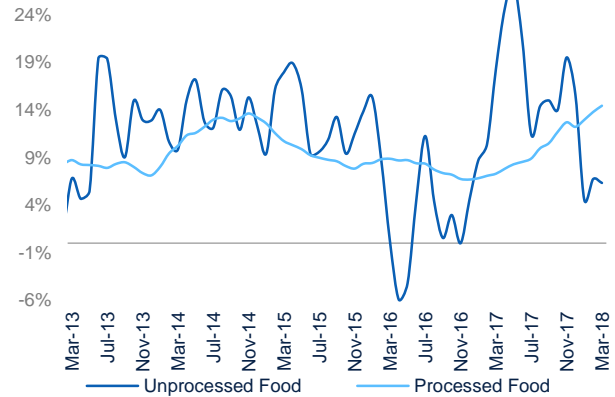
Source: CBRT & Turkstat

**Figure 5** Domestic PPI and Oil Prices in TL (YoY)



Source: BBVA Research Turkey & Turkstat

**Figure 6** Processed & Unprocessed Food (YoY)



Source: BBVA Research Turkey, CBT & Turkstat

**Figure 7** CPI in Subcomponents

CPI	MoM	YoY
<b>Total</b>	<b>1.0%</b>	<b>10.2%</b>
Food	2.0%	10.4%
Beverage & Tobacco	0.0%	0.9%
Clothing & Textile	1.0%	10.7%
Housing	0.4%	9.5%
Household Equipment	0.8%	15.4%
Health	1.9%	10.0%
Transportation	0.8%	13.4%
Communication	0.1%	0.0%
Recr. & Culture	0.5%	7.1%
Education	0.9%	10.9%
Rest. & Hotels	0.8%	11.7%
Misc. Goods & Services	0.7%	10.9%

Source: BBVA Research Turkey & Turkstat

**Figure 8** Domestic PPI in Subcomponents

Domestic PPI	MoM	YoY
<b>Total</b>	<b>1.5%</b>	<b>14.3%</b>
Mining & Quarrying	0.2%	12.9%
Manufacturing	1.8%	14.8%
Food Products	2.2%	6.5%
Textiles	1.1%	12.2%
Wearing Apparel	0.4%	4.3%
Coke & Petroleum Products	2.2%	28.6%
Chemicals	2.0%	15.9%
Other Non-Metallic Mineral	1.3%	14.7%
Basic Metals	3.6%	29.1%
Metal Products	1.7%	17.7%
Electrical Equipment	1.7%	16.2%
Electricity, Gas, Steam	-0.8%	9.2%

Source: BBVA Research Turkey Inflation Model & Turkstat

## **DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.