

INFLATION PULSE

Turkey: Limited Improvement in Core Inflation

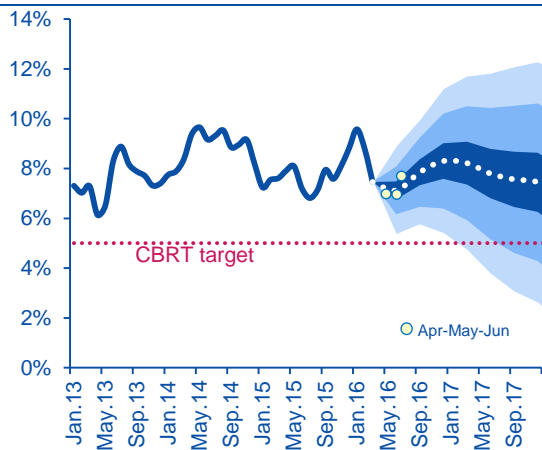
Ugur N. Kucuk / Seda Guler / Asuman Kemiksiz

Consumer prices rose by 0.5% in June on monthly basis, remarkably higher than the market expectations of 0%. Annual inflation climbed to 7.64% from 6.58%. Although the food inflation resulted in a correction as we had already expected, the worrying outlook in the core prices drew a more negative picture. Annual food inflation accelerated to 6.3% from 1.8%, while Central Bank's core-I indicator fell only to 8.7% in June from 8.8% in May. The agreement with Russia to lift bans is likely to have an increasing impact on food prices and the reversal of base year effects on both food and energy will lead the headline to rise further in the following months.

Stickiness in core indicators

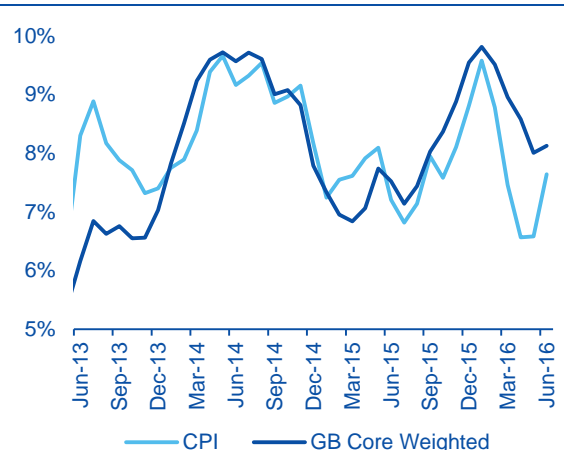
The correction in food inflation reflected both the low base effect of last year and the supply problems stemming from the rapidly got hot weather. Monthly food inflation was 1.2% (mom), contrary to its seasonal movement of a negative inflation in Junes. Limited recovery in core items was not promising as the rigidity in services prices continue and the ongoing exchange rate pass-through has been felt spreading over the sub-items in general. In the details of core inflation, furniture group, education, communication and health services were the pushing factors, while hotels, restaurants and recreation prices had a lowering impact. We think that the recovery in core inflation in the rest of the year will be limited on the back of the stickiness in services prices and a probable correction in the hotels& restaurants group on the lifted Russian sanctions.

Turkey: Inflation Forecasts
(YoY) (20% & 50% uncertainty band on quarterly forecasts)



Source: Garanti Research Inflation Model & Turkstat

Turkey: Headline and BBVA-Garanti Core Inflation
(YoY)

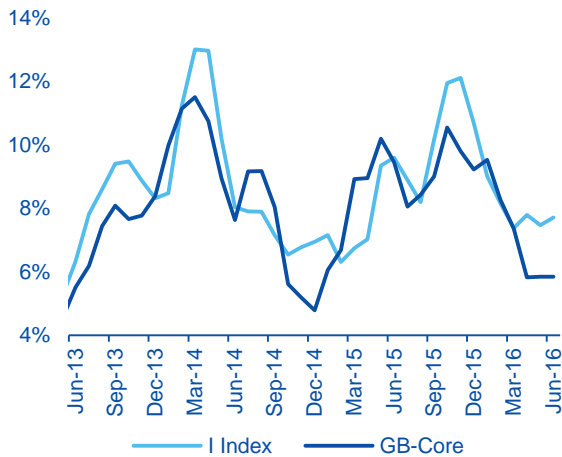


Source: Garanti Research Inflation Model & Turkstat

Slightly downside risks on our 8.5% year-end forecast

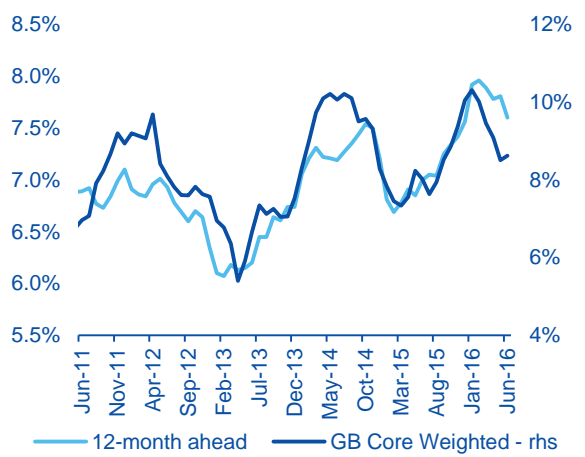
Looking ahead, little margin for currency appreciation, cost push impacts of minimum wage hike and narrowing output gap will be the factors that would prevent any significant correction in core inflation. Similarly, the deal with Russia is likely to lower the negative burden on the tourism sector, particularly eliminating the downside risks on food prices, and indirectly on restaurant and hotel prices. However, the level of the inflation in June still allows the Central Bank to have one more cut in the marginal funding rate. Although we expect the reversal of base effects on food and energy prices will lead a higher inflation in the second half of the year, risks around our year-end 8.5% headline inflation estimate are slightly towards the downside bearing in mind the developments on food prices.

Turkey: Core Inflation (3-MA, annualized)



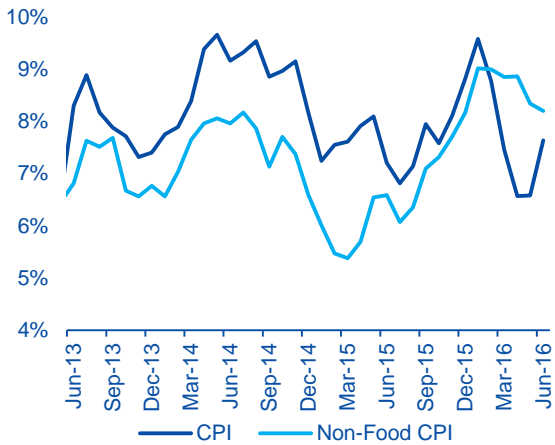
Source: Garanti Research Inflation Model & Turkstat

Turkey: Inflation Exp. and GB-Core (YoY)



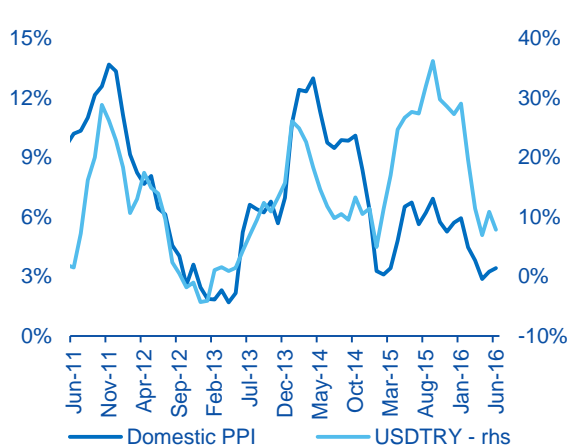
Source: Garanti Research & Turkstat

Turkey: Inflation and Non-Food Inflation (YoY)



Source: Garanti Research & Turkstat

Turkey: Domestic PPI and USDTRY (YoY)



Source: Garanti Research & Turkstat

Turkey: CPI in Subcomponents

CPI	MoM	YoY
Total	0.5%	7.6%
Food	1.2%	6.6%
Beverage & Tobacco	0.0%	12.8%
Clothing & Textile	-1.3%	7.3%
Housing	0.5%	6.7%
Household Equipment	0.4%	9.7%
Health	0.7%	9.8%
Transportation	0.7%	6.4%
Communication	0.2%	3.1%
Recr. & Culture	-0.2%	6.0%
Education	0.9%	7.8%
Rest. & Hotels	0.5%	9.9%
Misc. Goods & Services	0.3%	11.3%

Source: Garanti Research & Turkstat

Turkey: Domestic PPI in Subcomponents

Domestic PPI	MoM	YoY
Total	0.4%	3.4%
Mining & Quarrying	2.6%	0.4%
Manufacturing	0.3%	4.3%
Food Products	0.4%	3.0%
Textiles	0.9%	6.2%
Wearing Apparel	-0.6%	5.8%
Coke & Petroleum Products	5.6%	-17.6%
Chemicals	0.8%	1.6%
Other Non-Metallic Mineral	0.0%	2.3%
Basic Metals	-1.0%	0.4%
Metal Products	-0.5%	6.2%
Electrical Equipment	0.3%	7.9%
Electricity, Gas, Steam	0.8%	-6.1%

Source: Garanti Research & Turkstat

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