

INFLATION PULSE

Turkey: Inflation breached 11% in March

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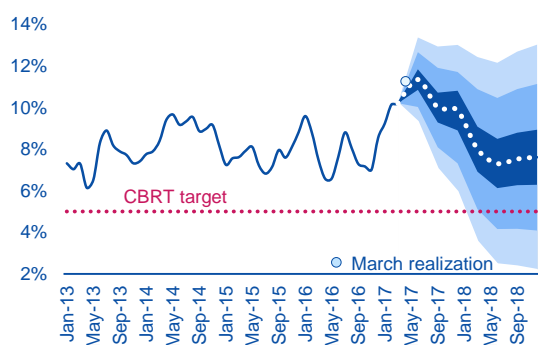
Annual consumer prices inflation continued its significant increasing trend and reached 11.3% in March as the monthly inflation (1.0%) exceeded the market consensus of 0.6% and our above market call of 0.85%. Exchange rate pass-through on core prices and the unfavorable base impact on food were the main drivers. Elsewhere, despite the slight decline in energy prices in March, annual domestic producer prices inflation accelerated to 16.1% from 15.4%, signaling continuing cost push pressures in the short term. Looking ahead, we expect the headline inflation to keep rising towards 12% in April-May on the back of cost push pressures and still unfavorable food base effects. We will need to wait for June-July period for a temporary relief in the headline inflation. Shortly, we will revise our 8.5% year-end inflation forecast on the upside.

Headline soared on both food and core goods

The main amplifier impact was from the food prices of which annual inflation rose to 12.8% in March from the previous 8.7%. The surge reflected both an unfavorable base effect and a monthly food inflation higher than its seasonal average. The other prominent factor was the core prices as the annual core inflation advanced to 9.5% from 8.6%. Mainly on the second round impacts of exchange rate depreciation, significant increases in automobile, clothing, recreation and culture prices drove the core inflation higher. Energy inflation, on the other hand, helped inflation slightly on the downside, stemming from marginally lower energy prices of last month. In the coming period, we forecast the core inflation to continue to rise towards double digits and to stay there until the last quarter in the absence of a significant currency appreciation.

Figure 1

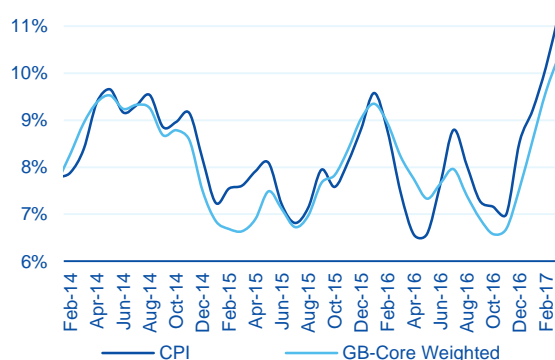
Turkey: Inflation Forecasts (Quarterly Avg, YoY)



Source: Garanti Research & Turkstat

Figure 2

Turkey: CPI & BBVA-Garanti Core Inflation (YoY)

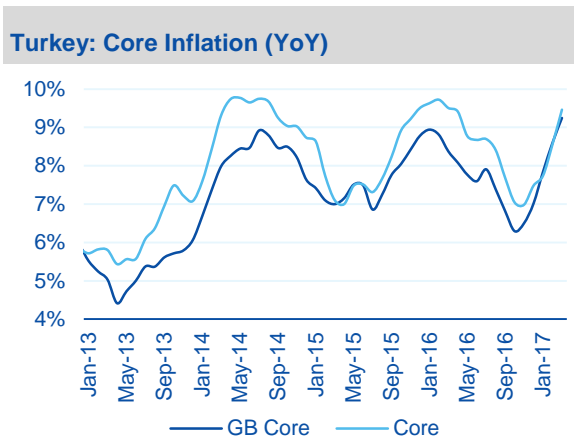


Source: Garanti Research Inflation Model & Turkstat

Inflation outlook still points upwards

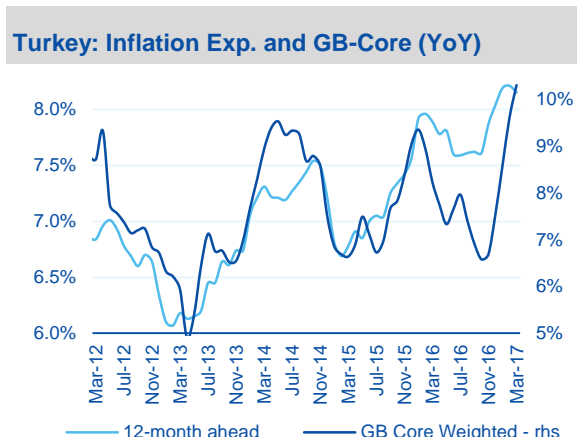
Inflation continued to head north in line with our expectations as cost push impacts were coupled with unfavorable base effects. Despite the Central Bank's significant monetary tightening (+300bps in 2017), financial conditions remain broadly accommodative thanks to the government's substantial fiscal support. In the absence of a disinflationary impact from demand conditions as credit growth recovers rapidly, ongoing second round impacts of exchange rate pass-through is likely to drive the core inflation to 10% and the headline towards 12% in the short term, which will further challenge the CBRT's monetary policy.

Figure 3



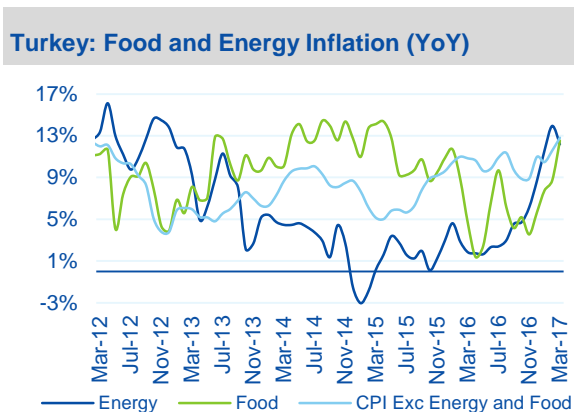
Source: Garanti Research Inflation Model & Turkstat

Figure 4



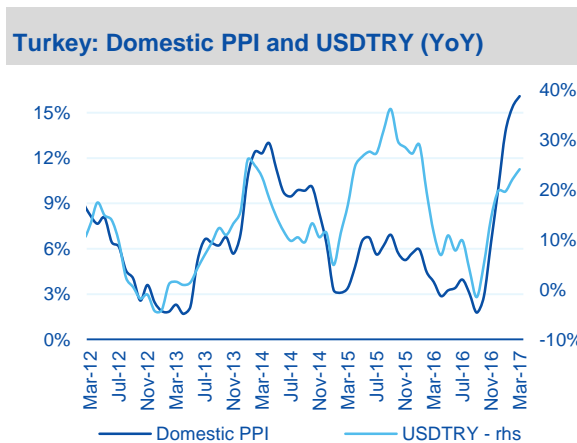
Source: Garanti Research Inflation Model & Turkstat

Figure 5



Source: Garanti Research & Turkstat

Figure 6



Source: Garanti Research, CBT & Turkstat

Table 1

Turkey: CPI in Subcomponents		
CPI	MoM	YoY
Total	1.0%	11.3%
Food	1.9%	12.5%
Beverage & Tobacco	0.0%	21.7%
Clothing & Textile	2.0%	8.5%
Housing	0.4%	7.7%
Household Equipment	1.0%	5.3%
Health	1.9%	13.3%
Transportation	0.6%	17.7%
Communication	0.0%	4.5%
Recr. & Culture	1.6%	9.3%
Education	0.9%	9.8%
Rest. & Hotels	0.7%	8.7%
Misc. Goods & Services	0.6%	12.5%

Source: Garanti Research & Turkstat

Table 2

Turkey: Domestic PPI in Subcomponents		
Domestic PPI	MoM	YoY
Total	1.0%	16.1%
Mining & Quarrying	0.4%	19.9%
Manufacturing	1.3%	18.0%
Food Products	0.4%	9.1%
Textiles	2.6%	20.8%
Wearing Apparel	1.0%	9.1%
Coke & Petroleum Products	-4.4%	73.6%
Chemicals	1.6%	23.1%
Other Non-Metallic Mineral	1.6%	6.3%
Basic Metals	3.2%	45.3%
Metal Products	0.9%	17.6%
Electrical Equipment	0.7%	15.2%
Electricity, Gas, Steam	-2.7%	-6.6%

Source: Garanti Research & Turkstat

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