

INFLATION October 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
October	1.21	1.60	1.83	3.27
January-October	7.80	11.48	6.69	7.95
Annual	9.92	12.58	8.62	7.66
Annual Average	7.71	10.26	8.45	5.93

Economic
Research
Division

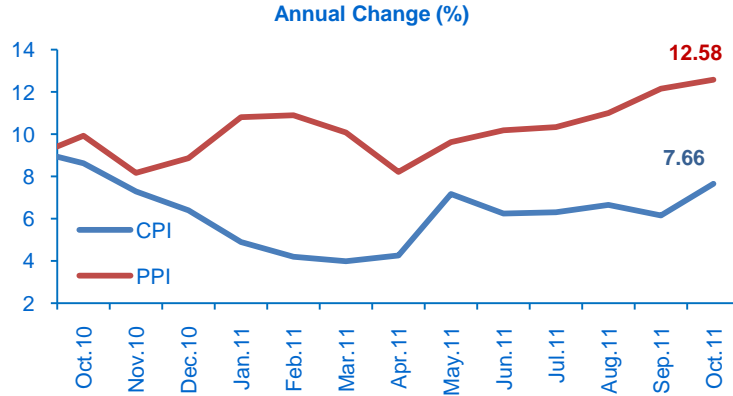
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CPI was realized above the expectations.

In October, compared to the previous month, **CPI and PPI increased by 3.27% and 1.60%, respectively.** According to the Reuters' Survey, markets monthly inflation expectations were 2.83% in CPI and 1.08% in PPI. According to the CBRT's survey of expectations on the other hand, CPI was expected to rise by 1.69%.

Annual CPI increase was realized as 7.66%.

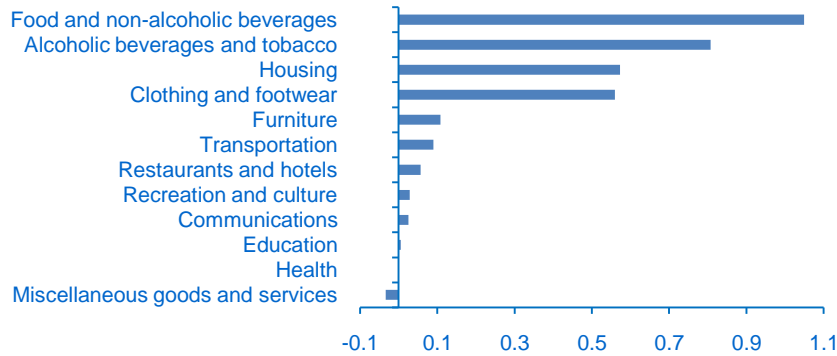
In October, CPI recorded its highest monthly increase in last 9 years. Thus, annual increase in CPI, after following a flat course in recent months, gained momentum significantly reaching 7.66%. The annual PPI, which followed a steady rising trend during 2011, was realized as 12.58% in October.



Many factors were effective in the rapid CPI increase.

In October, the rapid rise in CPI was mainly due to the developments in FX rates and adjustments in administered prices. Besides, seasonal factors had also an increasing effect on inflation. In this period, price developments in food and non-alcoholic beverages subgroup made the highest contribution to CPI with 105 basis points, while the monthly rise of 14.1% in alcoholic beverages and tobacco subgroup added to monthly inflation by 81 basis points. Moreover, the prices in clothing and footwear subgroup also edged up due to the seasonal factors.

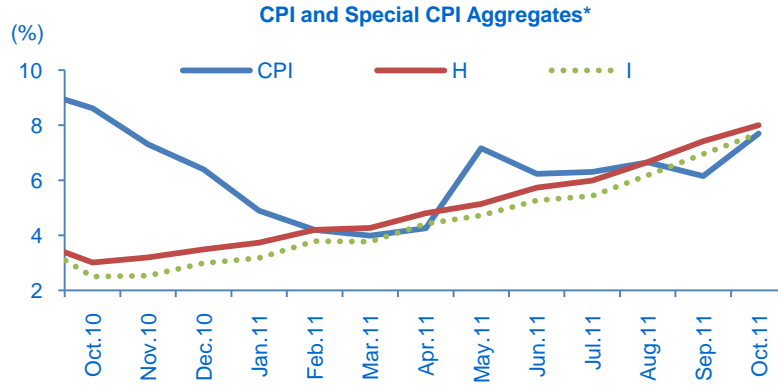
Contributions to the monthly CPI by sub-groups (% points)



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Increase in core inflation aggregates continued.

The analysis on core inflation indicators revealed that the price developments in unprocessed food products had an increasing effect on inflation in October. Core inflation aggregates, which followed an upward trend during 2011, also increased significantly in October. In this period, CBRT's favorite inflation aggregates denoted by H and I, rose by 1.70% and 1.81% respectively, compared to the previous month and recorded their highest increase since May 2008. Thus, the annual price increases in core aggregates surpassed headline inflation also in October.



(* Annual change

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

Monthly PPI was realized above the expectations.

In October, PPI increased by 1.60%, above the expectations. In this period, the price increases in agriculture subgroup made 66 basis points contribution to PPI. Furthermore, the manufacture of electricity and gas subgroup, which contains the products having administered prices, had an increasing effect of 27 basis points on inflation.

We expect CPI and PPI to rise by 1.20% and 0.80% in November, respectively.

We anticipate that, the price adjustments in tobacco products would put pressure on inflation basket in November. Besides, we think that the developments in FX rates might have an effect on the course of inflation. In this context, we expect CPI to rise by 1.20% and PPI by 0.80% in November.

Signs of monetary tightening...

In addition to the developments in exchange rates, the tax adjustments and administered price hikes put significant upward pressure on inflation which resulted in a change in CBRT's policy mix. In its October inflation report, while short-term inflation forecasts were revised on the upside, CBRT stated that these factors reflect a temporary upward movement in relative prices rather than a permanent increase in inflation. Assuming that annual rate of consumer credit growth decelerates gradually, and monetary conditions are tightened significantly in the final quarter in line with the policy measures taken in October, CBRT expects inflation to be, with 70% probability, between 7.8% and 8.8% with a mid-point of 8.3% at the end of 2011, and between 3.7% and 6.7% with a mid-point of 5.2% at the end of 2012. In addition, CBRT anticipates that inflation is to stabilize around 5% in the medium term.

CBRT, after announcing to tighten monetary policy in the rest of the year, reduced the amount of liquidity provided to the market through weekly repo auctions starting from the last week of October. Consequently, it was seen that primary dealers switched to the overnight borrowing channel by bearing a higher cost. On the other hand, CBRT readjusted the required reserves for TL liabilities in order to make a smooth transition to monetary tightening. In this respect, required reserve ratios for TL liabilities were reduced, for demand deposits and deposit accounts up to 1 month maturity from 16% to 11%, for deposit accounts up to 3 and 6 month maturity from 12.5% and 9% to 11% and 8%, respectively.



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CBRT stated that with the latest adjustments liquidity amounting to approximately TL11 billion will be permanently supplied to the market, and the weighted average required reserve ratio, which is 12.6% will come down to 10.5%.



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INFLATION (%)									
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2010	January	0.58	0.58	6.30	1.14	1.85	1.85	8.19	6.16
	February	1.66	2.25	6.82	1.20	1.45	3.32	10.13	6.38
	March	1.94	4.24	8.58	1.63	0.58	3.93	9.56	6.53
	April	2.35	6.69	10.42	2.52	0.60	4.55	10.19	6.87
	May	-1.15	5.47	9.21	3.50	-0.36	4.17	9.10	7.20
	June	-0.50	4.93	7.64	4.30	-0.56	3.59	8.37	7.41
	July	-0.16	4.77	8.24	5.33	-0.48	3.09	7.58	7.59
	August	1.15	5.98	9.03	6.18	0.40	3.50	8.33	7.83
	September	0.51	6.52	8.91	6.89	1.23	4.77	9.24	8.16
	October	1.21	7.80	9.92	7.71	1.83	6.69	8.62	8.45
	November	-0.31	7.47	8.17	8.27	0.03	6.72	7.29	8.59
	December	1.31	8.87	8.87	8.52	-0.30	6.40	6.40	8.57
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February	1.72	4.13	10.87	9.23	0.73	1.14	4.16	7.76
	March	1.22	5.40	10.08	9.36	0.42	1.57	3.99	7.29
	April	0.61	6.04	8.21	9.17	0.87	2.45	4.26	6.79
	May	0.15	6.20	9.63	9.21	2.42	4.93	7.17	6.64
	June	0.01	6.21	10.19	9.42	-1.43	3.43	6.24	6.47
	July	-0.03	6.18	10.34	9.59	-0.41	3.00	6.31	6.37
	August	1.76	8.05	11.00	9.76	0.73	3.75	6.65	6.24
	September	1.55	9.72	12.15	10.03	0.75	4.53	6.15	6.00
	October	1.60	11.48	12.58	10.26	3.27	7.95	7.66	5.93
	November(E)	0.80	12.37	13.84	10.70	1.20	9.25	8.92	6.08

(E) Estimate

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