

October	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	1.55	1.44	-0.20	0.84
Year-to-Date	7.86	6.23	7.59	4.66
Annual	7.58	7.16	5.74	2.84
Annual Average	7.69	7.89	5.58	3.83

In October CPI came in below expectations.

In October, CPI increased by 1.44% compared to the previous month, below market expectations. During this period, domestic PPI (D-PPI) rose by 0.84%. Monthly CPI inflation was expected to be 1.62% according to the Reuters' survey.

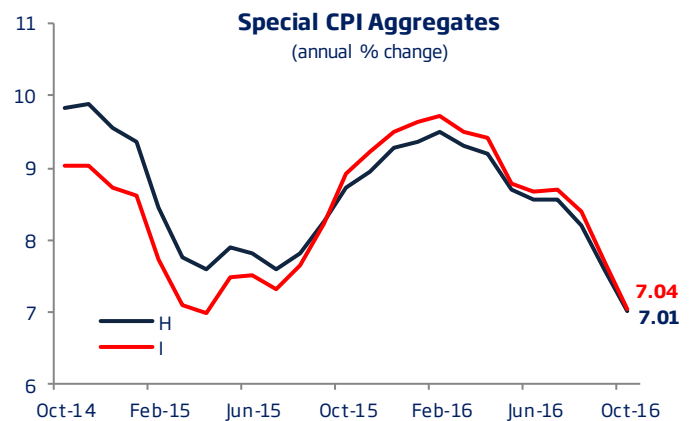
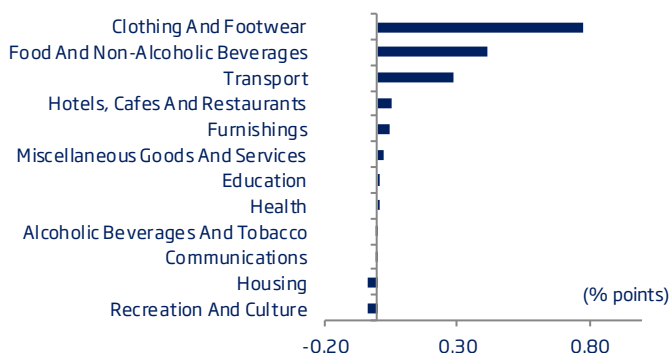
Annual inflation fell to 7.16%.

In October, monthly increase in CPI is generally higher than other months due to seasonality. Nevertheless, monthly inflation in October 2016 remained lower compared to the previous years and posted the lowest rate since 2006. Annual CPI inflation followed a downward trend for the third consecutive month and was realized as 7.16%. Annual D-PPI inflation became 2.84% in this period, remaining at low levels.

Rapid increase in clothing and footwear prices...

Surge in clothing and footwear prices due to the seasonal factors played a significant role in the CPI inflation in October. Indeed, clothing and footwear prices picked up by 10.43% mom and pushed up inflation by 73 basis points. Prices of food and non-alcoholic beverages, which have the highest share in inflation basket, increased by 1.76% compared to the previous month, contributing to the monthly CPI by 39 basis points. Prices in transportation group, which have a high sensitivity to the exchange rate developments, surged by 2% mom due to the depreciation in TRY as well as the hike in fuel prices during October, making the third biggest contribution to inflation. On the

Contributions to the Monthly CPI by Subgroups



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.

other hand, housing group pulled down the CPI mainly because of the discount in the natural gas prices.

Downward trend in core inflation indicators continued.

Core inflation indicators continued to improve in October. Annual increases in CBRT's favorite core indices denominated by H and I, were realized as 7.01% and 7.04%, respectively, nearing the lowest level of the last three years.

Petroleum products made the highest contribution to monthly D-PPI inflation.

Coke and petroleum products, increasing by 9.83% mom, made the largest contribution to the monthly D-PPI inflation. Basic metals followed this group. Unlike the case in CPI, food products had a downward impact on D-PPI while the discount in natural gas prices led to a fall in the prices of electricity and gas group.

Expectations

We expect the upward pressure of the clothing and footwear prices on CPI inflation to persist in November. Besides, we anticipate that the cumulative impact of the recent weakening of TRY as well as the volatility in oil prices due to the potential agreement on a production freeze assessed by the OPEC members may create inflationary pressures in the rest of the year. Against this backdrop, even though this better-than-expected inflation figure provides CBRT with room for action to take the last step in completing the simplification process, we believe that the downward pressure on TRY, if persist, could limit the CBRT's capability to move.

Inflation (%)

	Consumer Price Index (2003=100)				Domestic Producer Price Index (2003=100)				
	Monthly	Year to		Annual Average	Monthly	Year to		Annual Average	
		Date	Annual			Date	Annual		
2014	January	1.98	1.98	7.75	7.53	3.32	3.32	10.72	5.22
	February	0.43	2.41	7.89	7.60	1.38	4.75	12.40	6.11
	March	1.13	3.57	8.39	7.70	0.74	5.52	12.31	6.95
	April	1.34	4.96	9.38	7.97	0.09	5.61	12.98	7.89
	May	0.40	5.38	9.66	8.23	-0.52	5.06	11.28	8.66
	June	0.31	5.70	9.16	8.31	0.06	5.12	9.75	9.03
	July	0.45	6.18	9.32	8.35	0.73	5.89	9.46	9.26
	August	0.09	6.28	9.54	8.46	0.42	6.33	9.88	9.55
	September	0.14	6.43	8.86	8.54	0.85	7.24	9.84	9.84
	October	1.90	8.45	8.96	8.65	0.92	8.22	10.10	10.11
	November	0.18	8.65	9.15	8.80	-0.97	7.18	8.36	10.32
	December	-0.44	8.17	8.17	8.85	-0.76	6.36	6.36	10.25
2015	January	1.10	1.10	7.24	8.80	0.33	0.33	3.28	9.59
	February	0.71	1.82	7.55	8.77	1.20	1.53	3.10	8.79
	March	1.19	3.03	7.61	8.70	1.05	2.60	3.41	8.03
	April	1.63	4.71	7.91	8.57	1.43	4.06	4.80	7.36
	May	0.56	5.30	8.09	8.45	1.11	5.22	6.52	6.98
	June	-0.51	4.76	7.20	8.28	0.25	5.49	6.73	6.74
	July	0.09	4.85	6.81	8.07	-0.32	5.15	5.62	6.43
	August	0.40	5.27	7.14	7.88	0.98	6.19	6.21	6.14
	September	0.89	6.21	7.95	7.80	1.53	7.81	6.92	5.92
	October	1.55	7.86	7.58	7.69	-0.20	7.59	5.74	5.58
	November	0.67	8.58	8.10	7.61	-1.42	6.06	5.25	5.33
	December	0.21	8.81	8.81	7.67	-0.33	5.71	5.71	5.28
2016	January	1.82	1.82	9.58	7.87	0.55	0.55	5.94	5.50
	February	-0.02	1.80	8.78	7.97	-0.20	0.34	4.47	5.61
	March	-0.04	1.75	7.46	7.96	0.40	0.75	3.80	5.64
	April	0.78	2.55	6.57	7.84	0.52	1.27	2.87	5.47
	May	0.58	3.15	6.58	7.71	1.48	2.77	3.25	5.19
	June	0.47	3.63	7.64	7.74	0.41	3.19	3.41	4.91
	July	1.16	4.84	8.79	7.91	0.21	3.41	3.96	4.77
	August	-0.29	4.53	8.05	7.98	0.08	3.49	3.03	4.51
	September	0.18	4.72	7.28	7.92	0.29	3.79	1.78	4.07
	October	1.44	6.23	7.16	7.89	0.84	4.66	2.84	3.83
	November^(E)	0.81	7.09	7.31	7.82	0.06	4.73	4.38	3.76

(E) Estimate

Source: Turkstat, Datastream, ERD

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