

CPI inflation exceeded expectations in December.

CPI increased by 1.64% mom in the last month of the year, far above the market expectations. According to the Reuters survey, monthly CPI inflation had been anticipated to be 0.93%. Having recorded a monthly rise of 2% in November, Domestic PPI (D-PPI) kept its pace in December increasing by 2.98%.

December	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.21	1.64	-0.33	2.98
Annual	8.81	8.53	5.71	9.94
Annual Average	7.67	7.78	5.28	4.30

Annual CPI inflation was 8.5% in 2016.

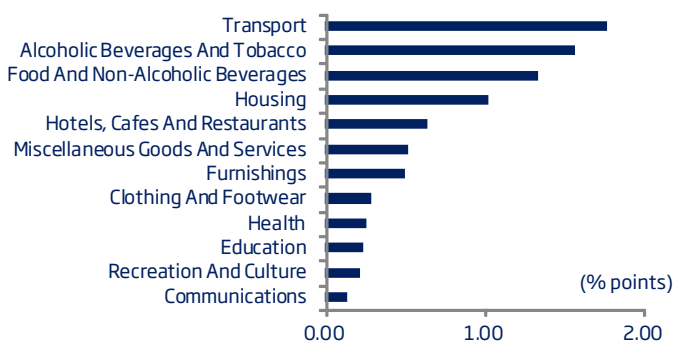
Annual CPI inflation, which fluctuated within a band of 6.6-9.6% in 2016, came in at 8.53% at the end of the year. Thus, annual CPI was realized above the CBRT's year-end forecast range 7-8%. Annual D-PPI inflation moved within a wide range throughout the year owing to the trajectory of commodity prices and FX rates. Annual D-PPI inflation reached 9.94% at the end of the year, the highest level of the last 26 months.

The rise in the CPI was widely spread across almost all sub-items.

Communications and clothing-footwear groups were the only two groups among the sub-items of CPI that recorded monthly decline in December. Owing to the upsurge in food and commodity prices as well as the price adjustments, the price hikes in alcoholic beverages, transport and housing groups played a significant role in CPI rise. Indeed, the price increases in these groups constituted 98% of the monthly increase in CPI.

Regarding the annual figures, prices in alcoholic beverages and tobacco group going up by 31.6% made a contribution of 1.57 percentage points to the annual CPI inflation. Prices in transportation group also rose by 12.4% in this period and pushed the annual CPI inflation up by 1.77 percentage points.

Contributions to the Annual CPI by Subgroups

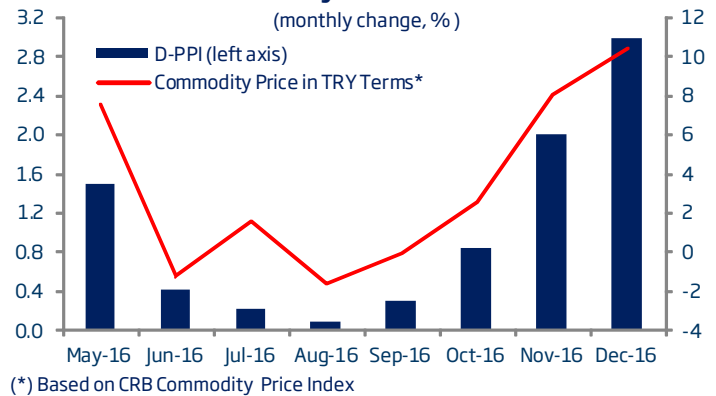


Seasonal products affected the CPI inflation favorably in December. In fact, annual inflation rose to 9.46% when seasonal products are excluded. CBRT's favorite core indices also deteriorated in this period.

Commodity prices in TRY terms were significant for the D-PPI.

The upsurge in oil prices as well as the depreciation of TL in the second half of 2016 pushed the D-PPI up. Moreover, the fall in D-PPI in the last months of 2015 was also responsible for the rise in producer prices in the same period of 2016. As basic metal prices posted an annual rise of 30.6% in December, this group contributed to the D-PPI by 2.77 percentage points. Also, it was worth mentioning that the prices of coke-refined petroleum products and metal ores climbed by 52.1% and 22.4% annually in 2016, respectively. On the other hand, prices in the electricity, gas production and distribution sector plunged by 11.8% from a year earlier and thus limited the D-PPI by 0.96 percentage point.

Commodity Prices and D-PPI



Expectations

We expect that the lagged impact of the depreciation in TL recorded in 2016 and the recent uptrend in commodity prices will continue to exert upward pressure on inflation in the upcoming period. With the start of the new year, the rise in bridge and highway toll prices and adjustments to administered prices will also be influential on the course of the inflation. Against this backdrop, we anticipate that all prices in all sub-items except clothing and footwear (thanks to seasonal discounts), will increase in January and the uptick in inflation will persist.

Inflation (%)

		Consumer Price Index (2003=100)				Domestic Producer Price Index (2003=100)			
		Year to		Annual		Year to		Annual	
		Monthly	Date	Annual	Average	Monthly	Date	Annual	Average
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	0.52	6.78	7.00	7.79	2.00	6.76	6.41	3.93
	December	1.64	8.53	8.53	7.78	2.98	9.94	9.94	4.30
2017	January ^(E)	1.97	1.97	8.70	7.71	1.50	1.50	10.98	4.73

(E) Estimate

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