

CPI came in above expectations.

CPI increased by 0.45% in May compared to the previous month, slightly above market expectations. Economists had expected a rise of 0.35% in this period. The monthly increase in Domestic Producer Price Index (D-PPI) was realized as 0.52%.

May (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	0.58	0.45	1.48	0.52
Year-to-Date	3.15	6.18	2.77	7.74
Annual	6.58	11.72	3.25	15.26
Annual Average	7.71	9.09	5.19	9.02

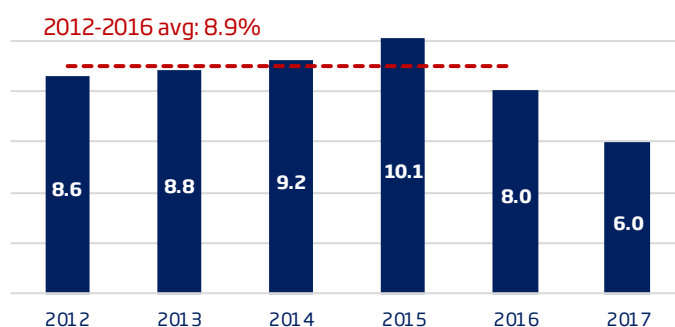
Annual increase in CPI fell to 11.72%.

The annual CPI inflation, which had been on a rising trend since the beginning of 2017 and reached its peak in April, came down to 11.72% in May. Similarly, annual inflation in D-PPI, which posted rapid increase in the recent period, slowed down to 15.26%.

The highest increase was recorded in clothing and footwear.

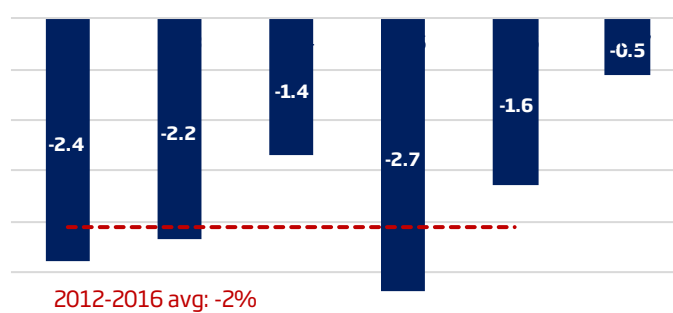
Clothing and footwear prices added 41 basis points to CPI inflation, surging by 6% in May on a monthly basis. Although clothing and footwear registered the highest monthly rise among sub-groups in May, the monthly increase in this group came in well below the historical average. This development was led by the change in the calculation method of consumer price index as it is no longer based on a variable weight but a fixed weight since the beginning of 2017. According to the previous method, the weights of seasonal products in the CPI were used to differ each month.

Monthly Change in Clothing and Footwear Prices (%)



In May, 0.55% monthly decline in food prices remained considerably limited compared to the previous years. Indeed, food prices decreased by 2% on average during May for the past 5 years. It is considered that Ramadan effect also played a part in this development. Especially the surges

Monthly Change in Food Prices (%)



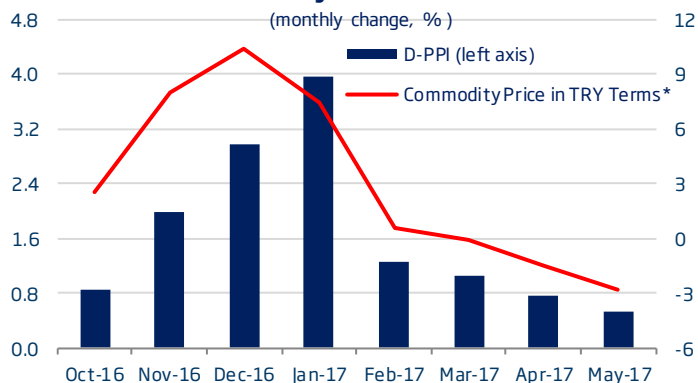
in meat and grain prices have stood out. The transport group was another important item that restrained the monthly increase in CPI.

The core inflation indicators displayed a relatively flat outlook in May. C index, which excludes energy, food, alcoholic and non-alcoholic beverages, tobacco and gold prices, posted an annual rise of 9.38%, falling slightly compared to April.

D-PPI...

The decline in commodity prices in TRY terms, particularly the decline in energy prices, became the main determinant of the D-PPI inflation. The highest monthly increase among the manufacturing sub-groups was recorded in furniture products with 3.24%. Computers, electronic and optical products and tobacco products followed this group in May.

Commodity Prices and D-PPI



Expectations...

Seasonal fall in prices of clothing and footwear products is expected to have a positive impact on inflation outlook in June. Moreover, the relatively flat course of exchange rates and oil prices at around 50 USD per barrel are most likely to affect general price level favorably. On the other hand, given the high volatility that food prices have recently demonstrated, this group is supposed to continue to drive the inflation outlook.

(*)Based on CRB Commodity Price Index

Source: Datastream, Turkstat

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		
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	2.46	2.46	9.22	7.76	3.98	3.98	13.69	4.96
	February	0.81	3.29	10.13	7.88	1.26	5.29	15.36	5.87
	March	1.02	4.34	11.29	8.21	1.04	6.38	16.09	6.89
	April	1.31	5.71	11.87	8.66	0.76	7.19	16.37	8.01
	May	0.45	6.18	11.72	9.09	0.52	7.74	15.26	9.02
	June^(E)	-0.20	5.96	10.98	9.37	0.10	7.85	14.90	9.98

(E) Estimate

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