

CPI came in above expectations.

Monthly CPI increase in October was realized as 2.08%, higher than the market anticipations. According to the Reuters' survey CPI was expected to rise by 1.87% in this period. Thus, CPI recorded the highest October inflation since 2011. Increase in Domestic Producer Price Index (D-PPI), on the other hand, was realized as 1.71% in October.

Annual CPI inflation reached 11.9% in October, the highest level in the last nine years. In this period, the annual D-PPI inflation also increased to 17.3%.

October (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	1.44	2.08	0.84	1.71
Year-to-Date	6.23	9.52	4.66	11.66
Annual	7.16	11.90	2.84	17.28
Annual Average	7.89	10.37	3.83	14.47

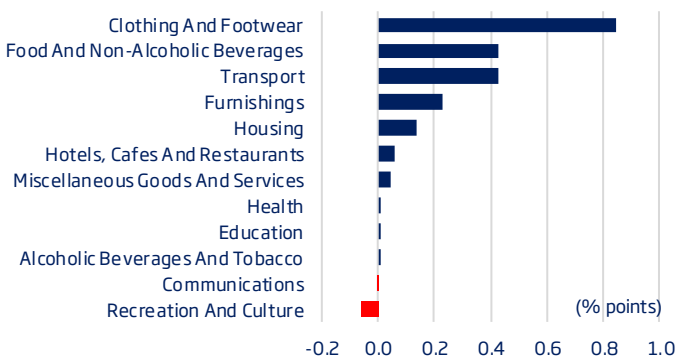
Higher energy prices continue to weigh on CPI.

In October entertainment/culture and communication were the only groups that dragged down CPI. In this period, clothing and footwear group made the highest contribution to CPI increase since seasonal factors play a significant role in this period. Clothing and footwear group, of which the prices increased by 11.5% compared to the previous month, made a contribution of 82 basis points to CPI inflation.

Food prices, which declined on a monthly basis for the last five months, rose nearly 2% in October and made an upward impact of 42 basis points to CPI. Thus, annual inflation in food prices reached 12.7%.

The fact that oil prices have risen above 60 USD/barrel in recent period points to a negative picture in terms of inflation outlook. Indeed, prices in transportation group, which are highly sensitive to energy prices rose by 2.6% on a monthly basis and became the third expenditure group that contributed the most to CPI by 42 basis points. The annual price increase in the said group increased to 16.8%.

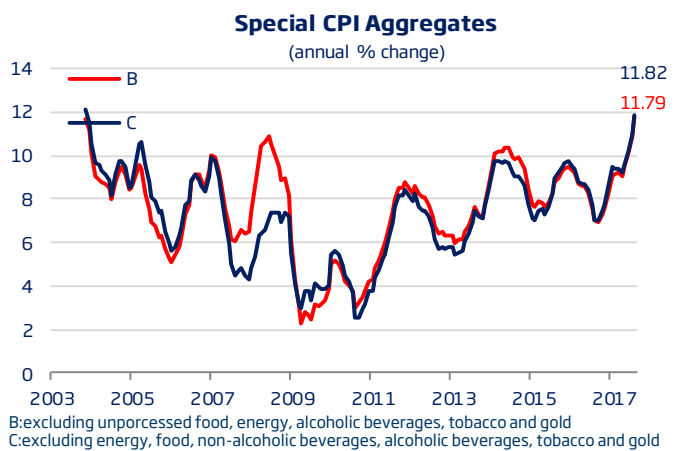
Contributions to the Monthly CPI Inflation



Since the tax cuts in furniture and white goods ended as of September, prices in furnishings group increased by 3% on a monthly basis and pulled up CPI by 22 basis points.

The deterioration in core inflation indicators continued.

The rise in core inflation indicators continued in October. Annual inflation in B index, which is one of the core inflation indicators closely monitored by CBRT, has reached its highest level by 11.7% since the base year of inflation has changed in 2003. Annual inflation in C index also rose to 11.82%, the highest level since January 2004.



Energy and metal prices pushing D-PPI up.

Increases in base metal and energy prices in October contributed 65 basis points to the overall increase in D-PPI. On the other hand, textile and chemical sectors in this period were the other main drivers of the increase in D-PPI.

The likelihood of CPI completing the year in single-digit level has weakened.

The high level of energy prices compared to the last year indicates that the upward pressure on inflation will continue. It is assessed that the lagged effects of the TRY depreciation in the recent period are negative in terms of the inflation outlook in the medium term. In this framework, we think that despite the strong base effect in December the likelihood of CPI declining to single-digit level at the end of the year has weakened. The upward trend in core inflation indicators also pointed that decline in inflation at the end of the year would be limited. In this context, we believe that CPI could exceed 10.3% at the end of 2017, the upper band of the CBRT's forecast in the latest inflation report.

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	-0.27	5.89	10.90	9.36	0.07	7.82	14.87	9.98
	July	0.15	6.05	9.79	9.44	0.72	8.60	15.45	10.94
	August	0.52	6.60	10.68	9.66	0.85	9.52	16.34	12.05
	September	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November^(E)	0.80	10.40	12.21	10.80	1.20	13.00	16.36	15.30

(E) Estimate

Source: Turkstat, Datastream, ERD

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