



In May, inflation exceeded expectations.

Inflation surprised to the upside in May as also was the case in the last couple of months. Monthly CPI increase was 1.62% as opposed to a market expectation of 1.45%. D-PPI recorded a rapid increase of 3.79% mom in this period.

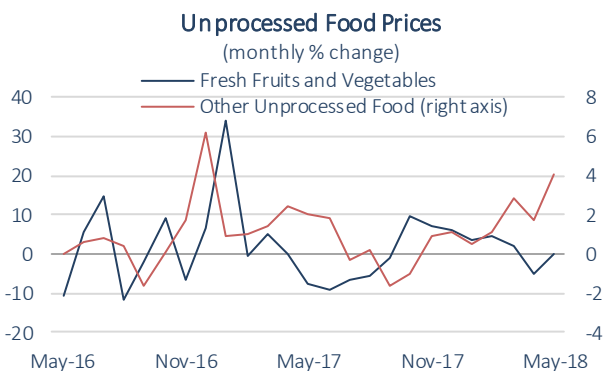
Annual inflation in D-PPI surpassed 20%.

Annual inflation in CPI in May stood at 12.15%, the highest level in six months. The annual rise in D-PPI gained further momentum and came in at the record high level of the current 2003 based index series with 20.16%.

May (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	0.45	1.62	0.52	3.79
Year-to-Date	6.18	6.39	7.74	12.12
Annual	11.72	12.15	15.26	20.16
Annual Average	9.09	11.10	9.02	15.80

Prices in transport group surged by 20% yoy.

Prices in all main expenditure groups rose in May on a monthly basis. The strongest contribution to the monthly CPI inflation came from transport group with 41 bps. Clothing and footwear followed transport group adding a 36 bps to the monthly inflation. Even though prices in fresh fruits and vegetables remained broadly flat in this period thanks to the favorable weather conditions, food and non-alcoholic beverages added 34 bps to the monthly inflation as prices in other unprocessed food (red meat, rice, eggs etc.) put upward pressure on inflation. Ramadan and exchange rate developments are the two most probable factors for this upward pressure.



The largest contributions to the annual CPI inflation came from transport, food and non-alcoholic beverages and housing in May. Due to the rise in oil prices, transport prices surged by 20% annually, the highest increase of the

current 2003 based index series. Prices in housing group, having the third biggest weight in the overall index, increased by 11.2% yoy. The rise of 16.9% in the household equipment group including furniture and white goods was a reflection of low base effect as well as increased costs in the sector.

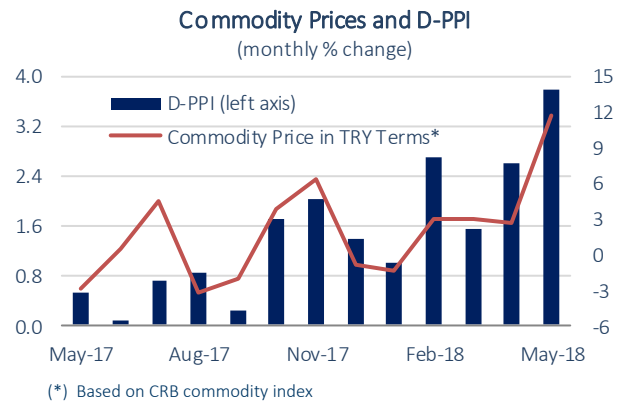
Core inflation indicators are at the highest level of the current index series.

Headline CPI inflation declines slightly to 1.43% when seasonal products are excluded. B and C core inflation indicators, which are monitored closely by the CBRT, recorded rapid increases. In May, the annual rises in B and C indices were 12.77% and 12.64%, respectively. These figures are the highest levels in the current index series.

Increase in commodity prices drove D-PPI inflation.

In May, electricity and gas production and distribution sector made the highest contribution to the monthly D-PPI inflation with 63 bps. Monthly D-PPI inflation was also driven by food and textile products.

Prices in basic metals and food products made the highest contributions to the annual D-PPI inflation in May. The surge in coke and refined petroleum products neared 70% during this period. The rise in commodity prices, particularly oil prices, and exchange rate developments play a significant part in the strong surge in D-PPI.



Medium and long term inflation expectations as well as monetary policy implementations will be on focus.

The expected normalization in domestic demand, to be felt in particular during the second half of the year, is positive for inflation expectations. Yet, we believe that the current outlook in exchange rates will continue to exert upward pressure on inflation in the period ahead. Nevertheless, the substantial interest rate hikes of the CBRT and the persistently tight monetary policy have the potential to support an improvement in inflation indicators. Against this backdrop, we estimate that inflation rate will finish 2018 at somewhere around 12%.

Source: Turkstat, Datastream

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to	Annual	Annual	Monthly	Year to	Annual	Annual	
		Date				Average			Date
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	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June ^(E)	0.50	6.92	13.01	11.28	2.00	14.37	22.48	16.47

(E) Estimate

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