

# INFLATION December 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
December	1.31	1.00	-0.30	0.58
January-December	8.87	13.33	6.40	10.45
Annual	8.87	13.33	6.40	10.45
Annual Average	8.52	11.09	8.57	6.47

Economic  
Research  
Division

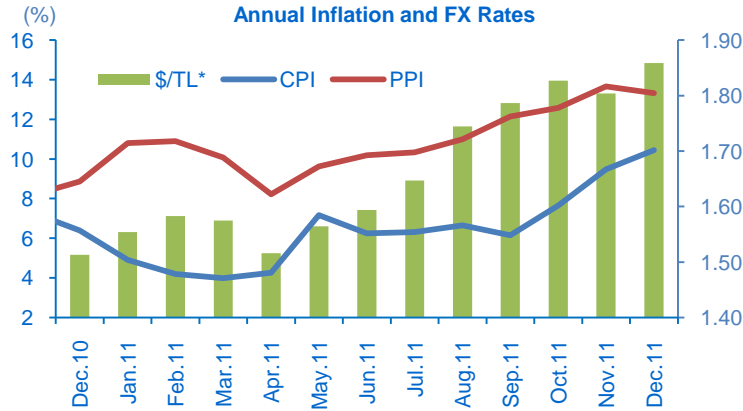
Bora Çevik  
[bora.cevik@isbank.com.tr](mailto:bora.cevik@isbank.com.tr)

*CPI increased above the expectations.*

In December, compared to the previous month, **CPI and PPI increased by 0.58% and 1.00%, respectively.** According to the Reuters' Survey, markets monthly inflation expectations were 0.30% in CPI and 0.70% in PPI. According to the CBRT's survey of expectations on the other hand, CPI was expected to rise by 0.50%.

*Annual CPI increase was realized as 10.45%.*

The lagged effects of depreciation in TL became more significant in the last quarter of 2011. The annual rise in CPI was realized as 10.45% in December, reaching a double-digit level for the first time since April 2010. In the same period, the annual rise in PPI was realized as 13.33%.

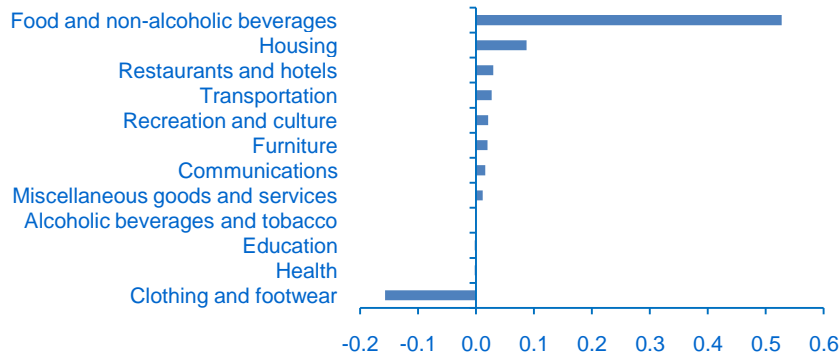


\*right axis, monthly average figures

*Developments in unprocessed food prices were influential on the rise in CPI.*

In December, the price developments in unprocessed food products were influential on higher than expected CPI figures. In this period, the 1.97% increase in food and non-alcoholic beverages subgroup contributed to the monthly inflation by 53 points. In the same period, the price developments in housing subgroup also supported the rise in inflation. On the other hand, clothing and footwear prices decreased by 2.17% compared to the previous month and limited the rise in inflation.

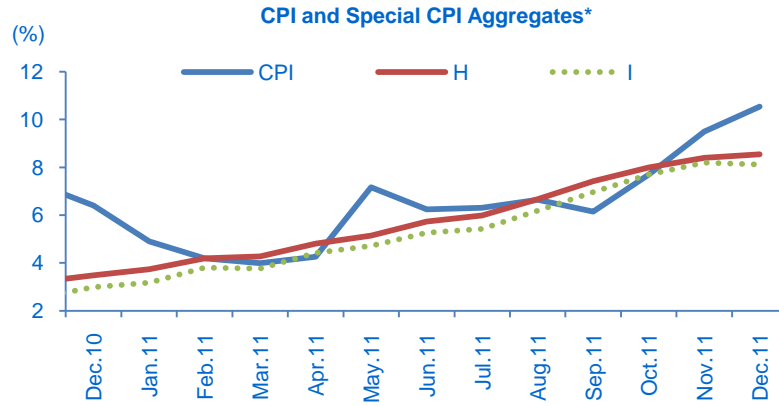
Contributions to the monthly CPI by sub-groups (% points)



# INFLATION December 2011

## Slowdown in core inflation aggregates...

Core inflation indicators revealed that all products except alcoholic beverages and tobacco, and products having administered prices put an upward pressure on inflation in December. On the other hand, core inflation aggregates denominated by H and I, which registered rapid increases in the previous months, followed a flat course in December. The monthly changes in the mentioned inflation aggregates were realized as 0.12% and -0.06%, respectively.



(\*) Annual change

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.

## Monthly PPI increase was realized above the expectations.

In December, PPI increased by 1.00%, above the expectations. In this period, the price developments in agriculture subgroup had an upward effect of 40 basis points on PPI. In addition to that, the price increases in manufacture of electricity and basic metals, which have higher sensitivity to the developments in FX rates, also fueled the rise in PPI.

## We expect CPI and PPI to rise by 0.60% in January.

We anticipate that the developments in food and clothing prices would be influential on the course of inflation in January. Besides, we think that January inflation figures would be important in terms of assessing the second round effects of recent price increases. In this context, we expect CPI and PPI to rise by 0.60% in January.

## CBRT announced the Monetary and Foreign Exchange Policy for 2012.

CBRT announced the Monetary and Foreign Exchange Policy for 2012 on December 27<sup>th</sup> and gave significant messages regarding the policies to be implemented in the coming period. It was stated that the flexibility in monetary policy would be kept due to the high level of uncertainties about the course of global economy and excess volatility in risk appetite. Besides, CBRT's steps to enhance its communication strategy in order to increase the predictability were welcomed by the markets.

As regards the inflation, on the other hand, it was stated that inflation target would be 5% for the next 3 years. CBRT explained that the developments in FX and commodity prices added 500 basis points to the 2011 year-end inflation while the price adjustments in products having administered prices put an additional 160 basis points. It was stressed that the inflation would converge to 5% year-end target through the end of 2012 once these effects fade away.

The most remarkable point in CBRT's statements regarding its monetary and foreign exchange policy for 2012 has been the decision to define "normal days" and "exceptional days" and implement different FX policy and liquidity policy according to the type of the day. In this context, it was announced that



## INFLATION December 2011

CBRT would provide TL liquidity to the market via quantity auction method with the policy rate of 5.75% while meeting up to \$50 million of the bids in the FX selling auctions. During the exceptional days, on the other hand, CBRT would not supply liquidity at policy rates. Instead, the markets would be funded via traditional auction method with higher costs. In addition to that, CBRT declared it would supply more than \$50 million into FX markets in exceptional days and might intervene in markets directly by selling FX when deemed necessary.

	Funding Strategy	FX Strategy
<b>Normal Days</b>	Funding at Policy Rate (5.75%) via Quantity Auctions Method	FX selling up to \$50 million
<b>Exceptional Days</b>	Traditional Auction Method via OMO bringing the funding cost higher than 5.75%.	FX selling more than \$50 million and possibility of direct interventions in the FX markets

In the last days of December, while CBRT's tightening policies became more evident, banks' funding costs increased accordingly. In addition to that, CBRT's interventions in FX markets also intensified. In the last two days of the month, CBRT sold nearly \$3 billion while this intervention had a limited effect on \$/TL parity.

*We expect CBRT to continue its tight monetary stance for a while.*

After having further tightened the monetary policy in order to contain second round effects of the rise in inflation, we expect that CBRT would keep its "hawkish" stance for a while. We anticipate that headline inflation would stay close to double-digit levels until May 2012 and later decline to single-digit levels in the remaining part of the year. We think that the reflections of the developments in global markets on both FX rates and inflation outlook would be influential on the course of CBRT's policies.



# INFLATION December 2011

INFLATION (%)									
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February	1.72	4.13	10.87	9.23	0.73	1.14	4.16	7.76
	March	1.22	5.40	10.08	9.36	0.42	1.57	3.99	7.29
	April	0.61	6.04	8.21	9.17	0.87	2.45	4.26	6.79
	May	0.15	6.20	9.63	9.21	2.42	4.93	7.17	6.64
	June	0.01	6.21	10.19	9.42	-1.43	3.43	6.24	6.47
	July	-0.03	6.18	10.34	9.59	-0.41	3.00	6.31	6.37
	August	1.76	8.05	11.00	9.76	0.73	3.75	6.65	6.24
	September	1.55	9.72	12.15	10.03	0.75	4.53	6.15	6.00
	October	1.60	11.48	12.58	10.26	3.27	7.95	7.66	5.93
	November	0.65	12.20	13.67	10.72	1.73	9.82	9.48	6.13
	December	1.00	13.33	13.33	11.09	0.58	10.45	10.45	6.47
2012	January (E)	0.60	0.60	11.37	11.10	0.60	0.60	10.66	6.96

(E) Estimate

This report has been prepared by Türkiye İş Bankası A.Ş. by using the information from publicly available sources believed to be reliable, solely for information purposes. It is not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice. Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of its publication or its contents.

Copyright and database rights protection exists in this publication and it may not be reproduced, distributed or published wholly or partially by any person for any reason without the prior express consent of Türkiye İş Bankası A.Ş. All rights reserved.