

| September | CPI | | D-PPI | |
|-------------------|------|------|-------|------|
| | 2015 | 2016 | 2015 | 2016 |
| Change (%) | | | | |
| Monthly | 0.89 | 0.18 | 1.53 | 0.29 |
| Year-to-Date | 6.21 | 4.72 | 7.81 | 3.79 |
| Annual | 7.95 | 7.28 | 6.92 | 1.78 |
| Annual Average | 7.80 | 7.92 | 5.92 | 4.07 |

CPI inflation came in below the expectations.

CPI increased by 0.18% mom in September, below the market expectations. Monthly rise in D-PPI stood at 0.29% in this period. Monthly CPI inflation was expected to be 0.66% according to the Reuters' survey while the latest CBRT's survey of expectations had projected an increase of 0.72%.

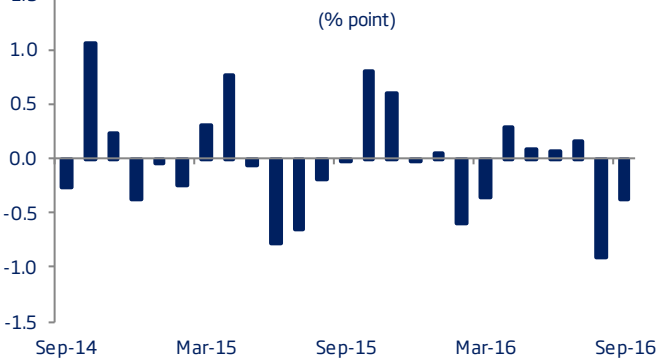
Annual CPI inflation was 7.28%.

Posting better-than-expected figures for the last two months, annual CPI inflation declined as low as 7.28% in September. Annual D-PPI inflation became 1.78% during this period, the lowest level seen since April 2013.

Seasonal factors had a downward impact on inflation.

In September, food and clothing prices played a significant role in the fall of CPI inflation as was the case in August. Clothing prices, which declined by 3.5% mom, pushed monthly inflation down by 31 basis points. Food prices also had a downward impact on monthly inflation by 20 basis points during this period. This stemmed mostly from the sharp declines in prices of fresh fish and poultry.

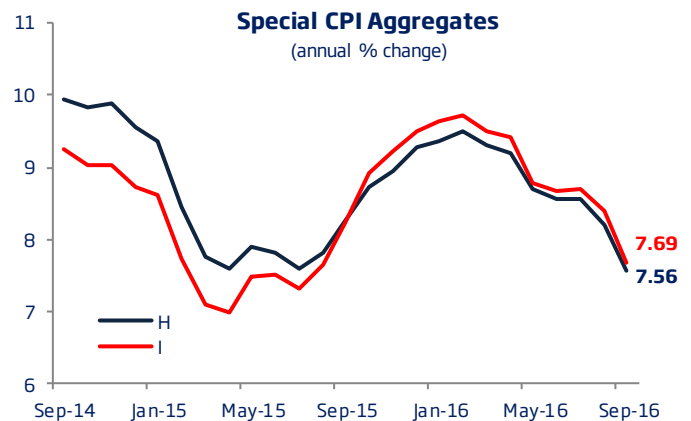
Contribution of Seasonal Factors to Monthly CPI Inflation



As Special Consumption Tax on fuel oils was raised in September, prices in transportation group contributed most to the monthly inflation. Transportation prices, having a high sensitivity to the exchange rate developments, surged by 2.7% mom and added to monthly inflation by 46 basis points.

Core inflation indicators continued to improve.

Core inflation indicators experienced a strong improvement in September. Core inflation indices denominated by H and I,



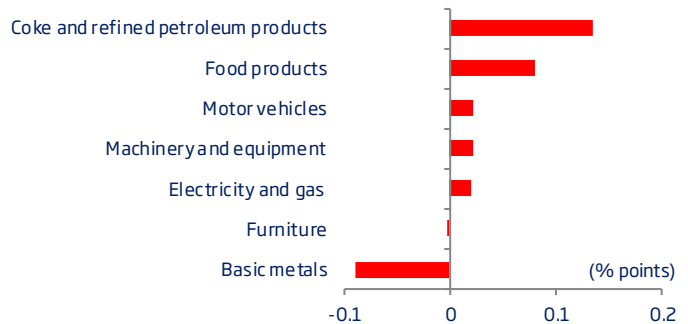
H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

which constitute CBRT's favorite core indicators, increased by 7.56% and 7.69% yoy, respectively.

The highest contribution to monthly D-PPI came from petroleum products.

Coke and petroleum products made the largest contribution to the monthly D-PPI inflation in September. Manufacture of food products followed this sub-sector. Except for basic metals, most of the sub-industry groups registered rises in this period while the strongest increase was recorded in energy prices.

Contributions to the Monthly D-PPI by Sub-sectors



Expectations

We think that the brighter prospects for oil prices following the OPEC deal as well as the seasonal factors might put some upward pressure on inflation in October. Aside from this, the elevated level of currency basket is another factor that increases the upside risks to prices. On the other hand, we expect CBRT to continue with the monetary policy simplification process as we witness a more benign performance in inflation for the last two months.

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 | | |
| 2014 | January | 1.98 | 1.98 | 7.75 | 7.53 | 3.32 | 3.32 | 10.72 | 5.22 |
| | February | 0.43 | 2.41 | 7.89 | 7.60 | 1.38 | 4.75 | 12.40 | 6.11 |
| | March | 1.13 | 3.57 | 8.39 | 7.70 | 0.74 | 5.52 | 12.31 | 6.95 |
| | April | 1.34 | 4.96 | 9.38 | 7.97 | 0.09 | 5.61 | 12.98 | 7.89 |
| | May | 0.40 | 5.38 | 9.66 | 8.23 | -0.52 | 5.06 | 11.28 | 8.66 |
| | June | 0.31 | 5.70 | 9.16 | 8.31 | 0.06 | 5.12 | 9.75 | 9.03 |
| | July | 0.45 | 6.18 | 9.32 | 8.35 | 0.73 | 5.89 | 9.46 | 9.26 |
| | August | 0.09 | 6.28 | 9.54 | 8.46 | 0.42 | 6.33 | 9.88 | 9.55 |
| | September | 0.14 | 6.43 | 8.86 | 8.54 | 0.85 | 7.24 | 9.84 | 9.84 |
| | October | 1.90 | 8.45 | 8.96 | 8.65 | 0.92 | 8.22 | 10.10 | 10.11 |
| | November | 0.18 | 8.65 | 9.15 | 8.80 | -0.97 | 7.18 | 8.36 | 10.32 |
| | December | -0.44 | 8.17 | 8.17 | 8.85 | -0.76 | 6.36 | 6.36 | 10.25 |
| 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^(E) | 1.80 | 6.61 | 7.54 | 7.92 | 0.40 | 4.21 | 2.39 | 3.79 |

(E) Estimate

Source: Turkstat, Datastream, ERD

Türkiye İş Bankası A.Ş. - Economic Research Division**İzlem Erdem - Division Head**

izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager

hatice.erkiletlioglu@isbank.com.tr

İlker Şahin - Economist

ilker.sahin@isbank.com.tr

Eren Demir - Economist

eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst.Economist

kemal.gundogdu@isbank.com.tr

Gamze Can - Asst.Economist

gamze.can@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>**LEGAL NOTICE**

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are 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. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. 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 this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.