

CPI inflation came in well above expectations in January.

CPI increased by 2.46% mom in the first month of the year, significantly above the market expectations. According to the Reuters survey, monthly CPI inflation had been anticipated to be 1.78%. Domestic PPI (D-PPI) also surged by 3.98%, the highest monthly increase in nearly 9 years.

January	CPI		D-PPI	
(change %)	2016	2017	2016	2017
Monthly	1.82	2.46	0.55	3.98
Annual	8.53	9.22	5.94	13.69
Annual Average	7.87	7.76	5.50	4.96

Annual CPI inflation was 9.2%.

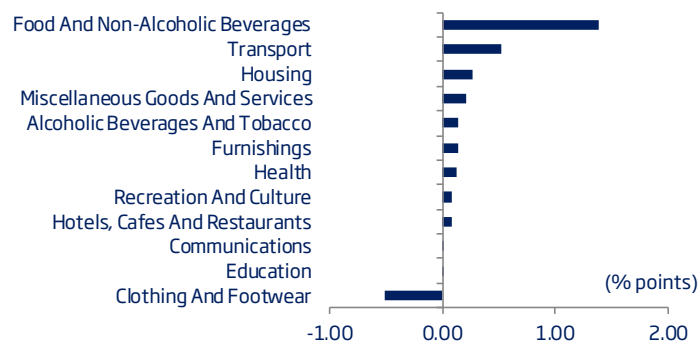
As CPI registered the highest monthly increase rate in the last 63 months, annual CPI inflation reached 9.22% in January. Besides, annual D-PPI inflation climbed to 13.69%, the highest level since August 2008.

Monthly rise in food prices became 6.4%.

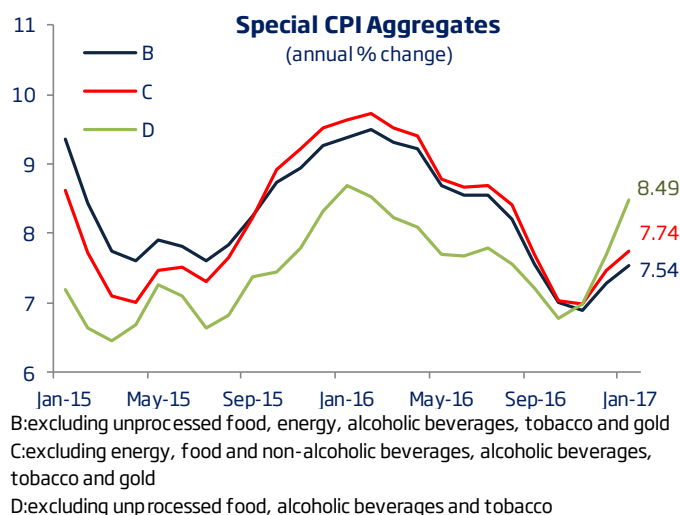
Clothing and footwear was the only group among the sub-items of CPI that recorded monthly price decline in January thanks to the seasonal discounts. Have been falling by 7% mom, this group dragged the rise in inflation down by 0.5 pp. As the weight of the food and non-alcoholic beverages in CPI basket has been decreased from 23.68% to 21.77% by Turkstat, prices in this sub-group surged by 6.4% mom and thus made a contribution of 1.4 pp to the monthly CPI inflation. Prices in transportation group, whose weight in the CPI basket was increased, pushed the inflation up by 0.5 pp, surging by 3.2% mom.

In January, monthly inflation eased to 1.97% when the seasonal products are excluded. This development stemmed mainly from the 34% monthly increase in the prices of fresh fruits and vegetables. Goods inflation was realized as 2.9% while services inflation came in at 1.5% on a monthly basis.

Contributions to the Monthly CPI Inflation



Besides the CBRT's favorite core indices, Turkstat has started to release new core CPI indicator. The new index D, excluding unprocessed food, alcoholic beverages and tobacco, posted a monthly rise of 1.3% while increasing by 8.5% on an annual basis. Although there has been no change in the coverage of the core CPI indicators of H and I, they started to be defined as B and C, respectively.



Commodity prices and exchange rate developments have affected D-PPI.

Owing to the rise in oil prices and the depreciation in TRY, the acceleration in D-PPI in the last months of 2016 persisted in January as well. Increase in energy prices, which are subject to a faster exchange rate pass-through, played an important role in this development. Particularly, it was noteworthy that the crude oil and natural gas prices went up by 84.2% yoy and 29.3% mom. Thus, energy index picked up by 6.6% from a month earlier. Furthermore, basic metal prices posted a monthly rise of 7.6% in January, contributing 0.6 pp to the D-PPI. The prices of food products, which have the highest share of 18.3% in the D-PPI, pushed the inflation up by 0.4 pp, rising by 2.2%.

Expectations

Food prices jumped in January mainly due to the weakness in Turkish lira and adverse weather conditions. Additionally, sharp increase in oil prices and recent tax adjustments, particularly in tobacco products, had a significant upward impact on inflation. We anticipate that these impacts will persist in the forthcoming months. Against this backdrop, we estimate that annual inflation will rise to double-digit level in the first quarter of this year also depending on low-base effect from the previous year. On the other hand, we believe that the upside risks to the inflation outlook may ease to some extent providing that CBRT maintains its tight liquidity stance.

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^(E)	1.09	3.58	10.43	7.91	1.50	5.54	15.63	5.89

(E) Estimate

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**Dr. Mustafa Kemal Gündoğdu** - Economist
kemal.gundogdu@isbank.com.tr**Gamze Can** - Asst. Economist
gamze.can@isbank.com.trOur 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.