

CPI came in above the expectations.

In March, CPI increased by 1.02% mom, beating market expectations. According to the Reuters survey, monthly CPI inflation had been anticipated to be 0.6%. Domestic PPI (D-PPI) also rose by 1.04% mom in March.

March (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	-0.04	1.02	0.40	1.04
Year-to-Date	1.75	4.34	0.75	6.38
Annual	7.46	11.29	3.80	16.09
Annual Average	7.96	8.21	5.64	6.89

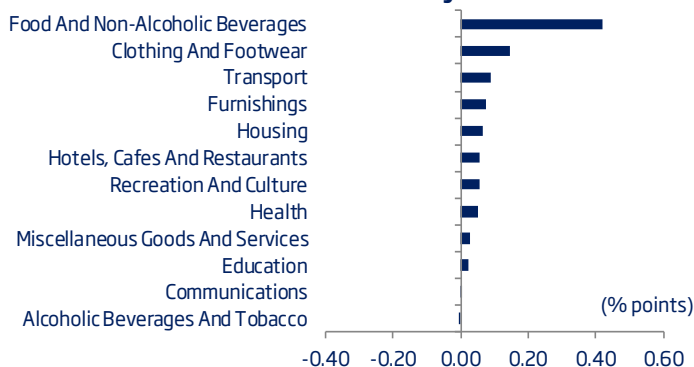
Annual inflation hit an eight and a half year high...

Having exceeded market forecast since December 2016, annual rise in CPI became 11.29% in March. Thus, annual CPI inflation reached its highest level since October 2008, when global crisis erupted. The annual increase in the D-PPI, which hovered around 4% on average during 2016, accelerated since the end of 2016 and was 16.09% in March. Annual D-PPI inflation also picked up to a nine-year high.

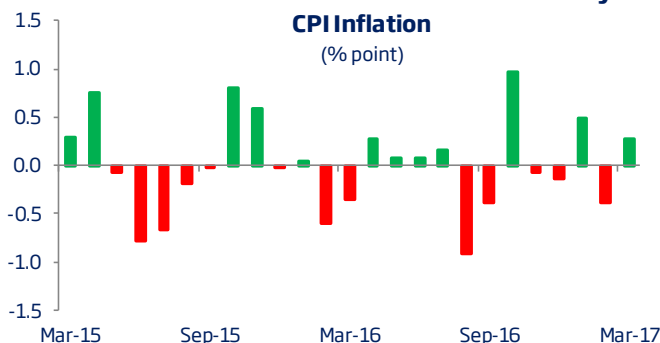
Inflation was mainly driven by clothing and food prices.

Prices in almost all expenditure sub-groups posted monthly rises in March. Food and non-alcoholic beverages prices climbed by 1.93% mom, pushed the inflation up by 42 basis points. Clothing prices increased due to the seasonal factors and contributed 15 basis points to the inflation. Despite the decline in energy prices, transportation prices added 9 basis points to inflation owing to the escalation in transportation services prices. Increase in household equipment prices was worthy of attention despite the reduction in special consumption tax on durable household equipment. Seasonal factors had an upward impact on CPI in March. Excluding seasonal products, monthly and annual inflation fell to 0.74% and 10.79%, respectively.

Contributions to the Monthly CPI Inflation



Contribution of Seasonal Factors to Monthly CPI Inflation

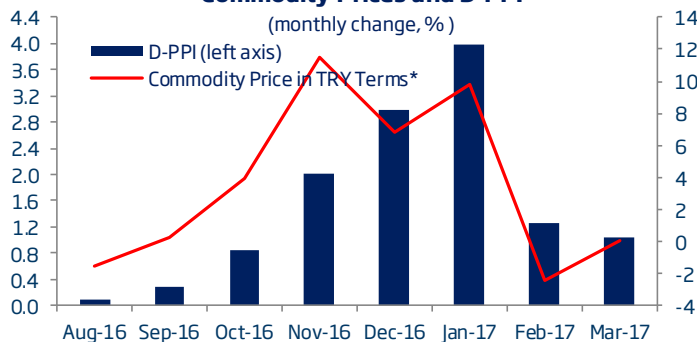


Core inflation indicators continued to deteriorate in March. Indeed, the annual rise in D index, which excludes unprocessed food, alcoholic beverages and tobacco, reached the highest levels of last 5 years with 9.75%.

Energy prices limited the increase in D-PPI.

Commodity prices in TRY terms exhibited a flat course in March after recording 2.4% monthly decline in February. Accordingly, the increase in D-PPI was restrained to some extent in March. Contraction in the prices of coke and refine petroleum products, electricity and gas groups lowered the increase in D-PPI by 30 basis points. On the other hand, almost half of the monthly rise in the D-PPI inflation was driven by the upsurge in the prices of textile and basic metals.

Commodity Prices and D-PPI



(* Based on CRB Commodity Price Index)

Expectations...

Despite temporary tax reductions, inflation remained at double-digit levels due to the lagged effects of the depreciation in the TRY. We anticipate that it will prevail in the first half of the year with the help of the partial recovery in demand conditions. If the recent TRY appreciation is permanent, a slight improvement might be recorded in inflation in the second half of the year also thanks to base effect.

Source: Datastream, Turkstat

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^(E)	1.00	5.38	11.53	8.63	0.90	7.34	16.53	7.34

(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.tr

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