

Higher-than-expected monthly CPI growth...

Monthly CPI inflation came in at 0.52% in August, above market expectations. This was the strongest August increase since 2012. On the other hand, Domestic Producer Price Index (D-PPI) remained elevated posting a monthly rise of 0.85%.

August (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	-0.29	0.52	0.08	0.85
Year-to-Date	4.53	6.60	3.49	9.52
Annual	8.05	10.68	3.03	16.34
Annual Average	7.98	9.66	4.51	12.05

Annual CPI inflation back to double-digit levels...

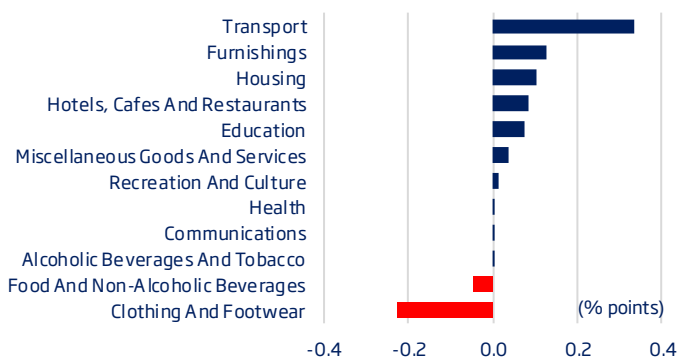
Annual CPI inflation went back to double-digit levels in August standing at 10.7%. The annual D-PPI inflation also surged to 16.3%, marking the highest figure in the last four months.

Clothing and food prices continued to pull inflation down.

As was the case in both June and July, clothing and food prices became the main expenditure groups that pulled the inflation down in August. Clothing and footwear prices contracted by 3.1% compared to the previous month and limited the rise in CPI by 23 basis points. Declining by 0.22% mom, food prices dragged the inflation down by 5 basis points. Increase in demand for food and clothing ahead of Sacrifice Feast holiday may have offset further price declines in these items. As a matter of fact, clothing and footwear prices have exhibited the weakest August decline since 2004.

The main expenditure groups that contributed most to the rise in monthly CPI inflation were transportation, household equipment and housing. Transportation prices, which have the second biggest weight in CPI basket after food prices, surged fast by 2.1% mom on the back of automobile and fuel prices. Registering such a performance, transportation

Contributions to the Monthly CPI Inflation



(*) C: excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold

prices made a contribution of 34 basis points to the monthly CPI inflation. Housing equipment followed transportation group by a contribution of 13 basis points while housing added 11 basis points to the monthly rise in the overall index.

Surge in core inflation indicators...

The increase in CPI was limited by the seasonal products in August. Indeed, excluding seasonal products, monthly consumer price inflation becomes 1.05%. In this period, C index*, which is the CBRT's favorite among the main core inflation indicators, recorded an annual rise of 10.16% continuing to move upward as in July.

Looking at the prices of the goods group in August, it is seen that the energy prices posted the fastest monthly rise since January. Durable goods prices also rose by 1.98%, pointing to inflationary pressures.

D-PPI reflects higher energy prices...

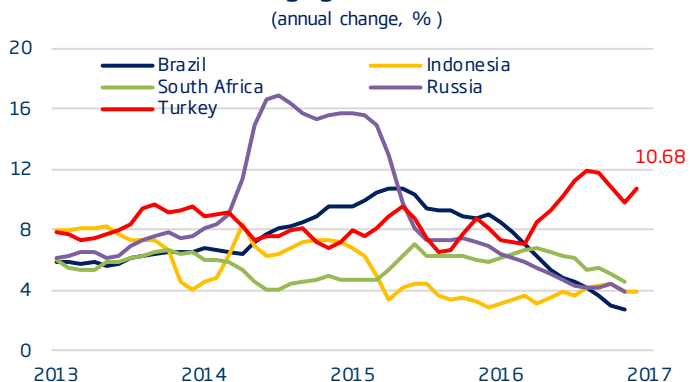
Energy, metals and furniture group prices brought the monthly D-PPI inflation up in August while textile products and food prices exerted downward pressure on it. According to main industrial groups, it was noteworthy that energy prices recorded the fastest rise since January.

Deterioration in inflation might persist until December.

During the upcoming fall months, annual inflation is expected to maintain high levels due to seasonal factors. Movements in FX rates and oil prices will also preserve their importance to the overall course of price levels.

Adding the August data into the picture, Turkey resumed decoupling negatively from its peer countries in inflation indicators. Deterioration in pricing behaviors plays a huge role in this development as well as the country-specific conditions. Against this backdrop, the trajectory of market expectations for long-term inflation rates and Central Bank policies will continue to be monitored closely in the period ahead.

Emerging Market CPI's



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	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^(E)	0.80	7.45	11.36	9.99	0.50	10.07	16.58	13.29

(E) Estimate

Source: Turkstat, Datastream, ERD

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