

Lower-than-expected monthly CPI increase...

Monthly CPI inflation came in at 0.65% in September, below market expectations. According to the Reuters' survey CPI was expected to rise by 0.76% in September. Increase in Domestic Producer Price Index (D-PPI), on the other hand, was relatively low with 0.24% in the same period.

September (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	0.18	0.65	0.29	0.24
Year-to-Date	4.72	7.29	3.79	9.78
Annual	7.28	11.20	1.78	16.28
Annual Average	7.92	9.98	4.07	13.26

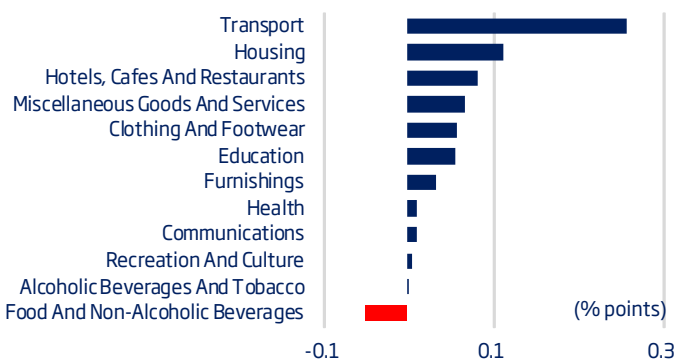
Double-digit annual CPI inflation...

Annual CPI inflation reached to 11.2% in September. The upward trend in core inflation indicators in this period raised the concerns that CPI inflation will remain in double-digit levels for a while. The annual D-PPI inflation also remained high at 16.3% in September

Rapid increase in transportation prices...

Among the main expenditure groups, only food prices, which have the highest weight in CPI basket, declined on a monthly basis in September. Thus, the limited monthly fall in the food prices dragged the inflation down by 5 basis points. Transportation prices, on the other hand, surged by 1.58% making a contribution of 26 basis points to monthly inflation. Analysis of the details of transportation prices revealed that the increases in shuttle fees, LPG fees and motorcycle prices came to the forefront in September. Surge in housing prices together with the restaurant and hotel prices contributed 20 basis points to the monthly inflation in total.

Contributions to the Monthly CPI Inflation



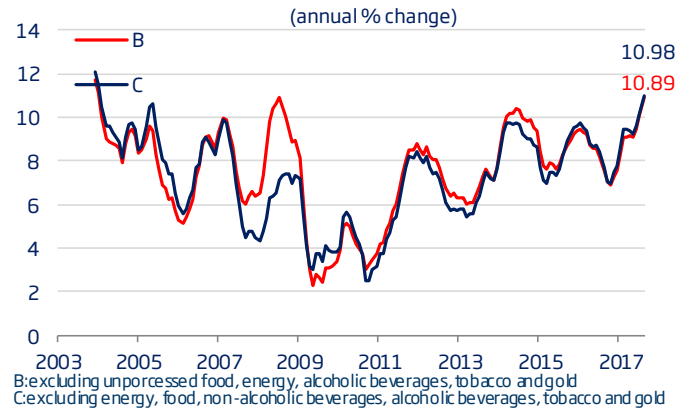
Surge in core inflation continued.

The deterioration in core inflation indicators continued in September. In this period, C index, which is the CBRT's favorite among the main core inflation indicators, recorded

an annual rise of 10.98%, the highest reading of almost in 14 years. In addition, annual inflation in B index reached its highest level since August 2008 with 10.89%.

Seasonal factors exerted a downward pressure on CPI figures in September. Indeed, excluding seasonal products, monthly consumer price inflation becomes 0.70%.

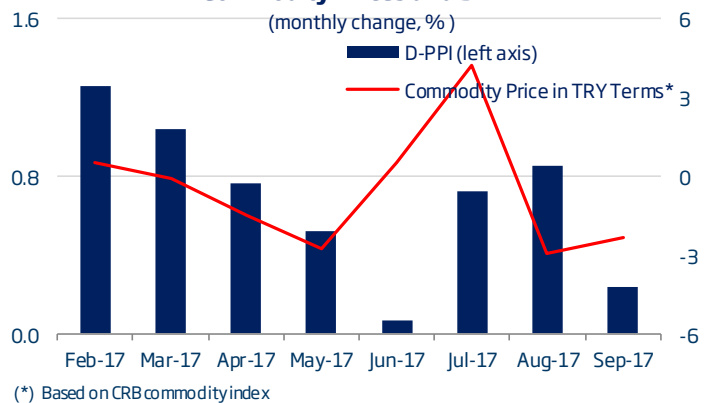
Special CPI Aggregates



The decline in food prices limited D-PPI.

Rise in the prices of coke and refined petroleum products and basic metals made a contribution of 42 basis points to the monthly increase in D-PPI. Besides, food prices, which decreased by 1.8% mom in September, reduced the monthly inflation by 39 basis points. In addition, the decline in electricity and gas prices reduced D-PPI by 13 basis points.

Commodity Prices and D-PPI



Inflation will remain at double-digit levels until December.

Although monthly inflation was below the expectations in September, we anticipate that the P-PPI annual inflation will maintain high levels due to seasonal factors in October and will remain at double-digit levels until December. However, we expect that the annual inflation would decline to single-digit levels in December mainly due to the favorable base effect.

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	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October ^(E)	1.35	8.74	11.10	10.30	0.57	10.41	15.97	14.36

Source: Turkstat, Datastream, ERD

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Eren Demir - Economist
eren.demir@isbank.com.tr

Gamze Can - Economist
gamze.can@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

İlker Şahin - Economist
ilker.sahin@isbank.com.tr

Dr. Mustafa Kemal Gündoğdu - Economist
kemal.gundogdu@isbank.com.tr

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