



CPI was realized below the expectations.

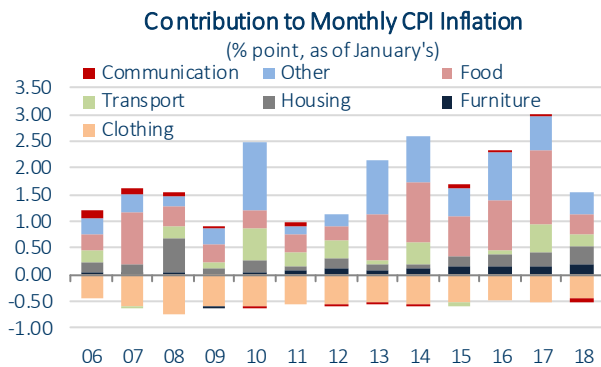
In January, CPI increased below the market expectations by 1.02% on a monthly basis. According to the Reuters' survey, CPI was expected to rise by 1.28% in this period. Monthly increase in D-PPI was realized as 0.99%.

Due to the high-base effect, annual CPI inflation decreased to 10.35%, in parallel with expectations. In the first month of 2018, annual increase in D-PPI, which declined considerably compared to December 2017 to its lowest level for more than a year, was realized as 12.14%.

January (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	2.46	1.02	3.98	0.99
Annual	9.22	10.35	13.69	12.14
Annual Average	7.76	11.23	4.96	15.66

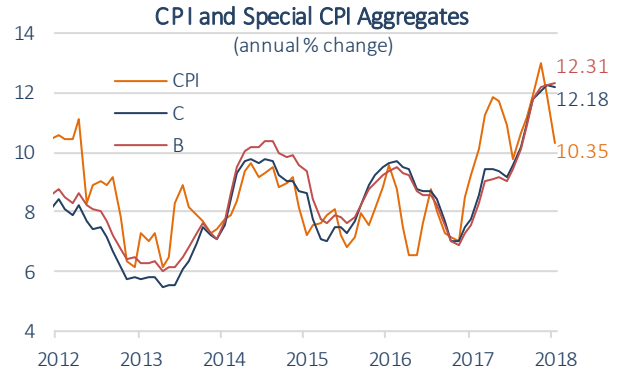
Clothing and footwear prices limited the rise in CPI.

Food and non-alcoholic beverage group, which has the biggest share in CPI basket, made the highest contribution by 38 basis points to the monthly increase in CPI. Housing and transportation, other significant expenditure groups in terms of their weight in the CPI basket, were the main groups contributing to the increase in the first month of the year. Rise in electricity fee as well as bridge and highway tolls played significant role in the price increases in the mentioned groups. In January, only clothing and footwear and communication groups posted price decreases mom. Thanks to the seasonal factors, clothing and footwear group recorded a decrease of 6.02%, limiting the monthly CPI increase by 43 basis points.



Core inflation indicators...

Annual increase in B and C core inflation indicators, which are monitored closely by the CBRT, remained at high levels in January. In this period, annual rise in B index was realized as 12.31%. After having risen for 6 months in a row, annual increase in the C index declined to 12.18% in January. As of January 2018, the difference between headline inflation and core indicators increased further.



B:excluding unprocessed food, energy, alcoholic beverages, tobacco and gold

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

Momentum loss in D-PPI...

Annual D-PPI increase declined considerably in January. High base effect played an important role in this development. Base metals prices, which are increasing sharply in global markets, continued to make the highest contribution to D-PPI on an annual basis.

CBRT revised its inflation forecasts.

Central Bank revised its inflation forecasts upward in the first Inflation Report of 2018 published on January 30th. Accordingly, CBRT increased its inflation forecast for 2018 by 0.9 percentage points compared to the October report to 7.9% due to the upward revisions made on the assumption for TL-denominated import prices, the improvement in economic activity and the rise in main trend of inflation. Inflation forecast for 2019 was increased to 6.5% from 6%.

Expectations...

We anticipate that recent trend in annual consumer inflation, which declined in January, will continue through the rest of the first quarter. The assumption that the rapid increase in import prices due to the depreciation of TL in the last year would not continue in 2018 was also expected to support the decline in annual CPI inflation. On the other hand, as the core inflation indicators did not show a significant decline despite the downward trend in headline inflation, the sustainability of the downward trend in inflation in the medium term remained in question. In addition, the course of TL and commodity prices will continue to create upward risks on inflation.

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to	Annual	Annual	Monthly	Year to	Annual	Annual	
		Date				Average			Date
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	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February ^(E)	0.60	1.63	10.12	11.22	0.90	1.89	11.74	15.32

(E) Estimate

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