



In July, CPI rise remained below the expectations.

In July, monthly CPI rose below the market expectations by 0.55%. According to the Reuters' survey, CPI was expected to increase by 0.9% mom. Monthly increase in Domestic Producer Price Index (D-PPI) kept its rising trend in this period and was realized as 1.77%.

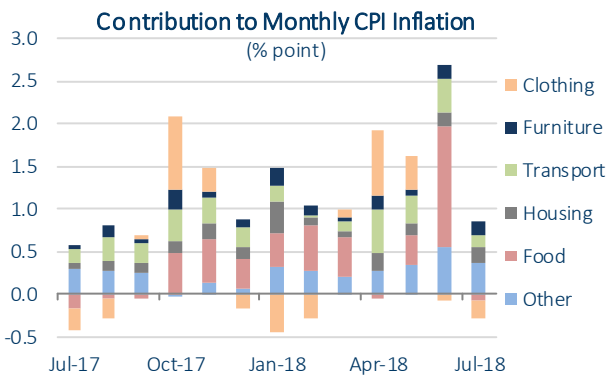
July (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	0.15	0.55	0.72	1.77
Year-to-Date	6.05	9.77	8.60	17.56
Annual	9.79	15.85	15.45	25.00
Annual Average	9.44	12.00	10.94	17.41

Annual inflation kept rising.

The annual CPI inflation continued to rise and reached 15.85% in July. In this period, D-PPI increased by 25% on an annual basis. Thus, annual rises in CPI and D-PPI have reached new highs in the 2003 based series.

Seasonal products limited inflation increase.

In July, prices in all main expenditure groups except clothing and footwear, food and communication increased. Highest monthly price increase (2.26%) was realized in restaurants and hotels due to recovery in tourism sector. The transportation group, which has a high share in CPI basket, made the highest contribution by 19 bps to the monthly inflation. Clothing and footwear prices, which declined by 3.07% on a monthly basis, have limited inflation by 21 bps. Decline in food and non-alcoholic beverages group slightly limited the increase in inflation, thanks to decrease in fresh fruit and vegetable prices.



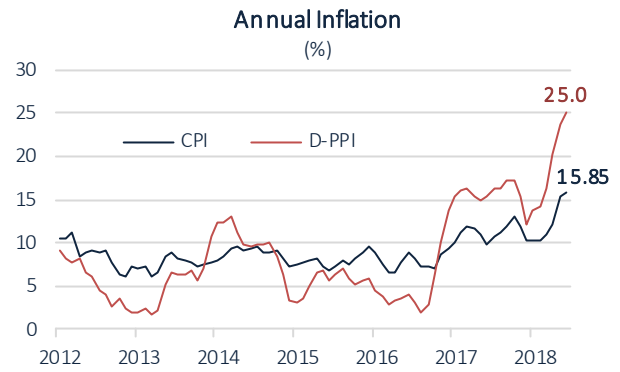
Core inflation indicators...

B and C core inflation indicators, which are monitored closely by CBRT, continued to increase in July. This development worsened the inflation expectations. In July,

annual increase of the said two indices surpassed 15% for the first time.

D-PPI inflation remained high.

In July, it was observed that prices in almost all of the sectors, especially with higher import dependence, increased on a monthly basis. Food and main metal sectors, which have high shares in D-PPI index, made the highest contribution to the D-PPI increase.



CBRT's year-end CPI inflation forecast is 13.4%.

CBRT, which published its third Inflation Report in 2018, revised up its inflation forecasts by reasoning oil prices, exchange rate developments, food prices and deteriorated pricing behavior. Central bank increased its year-end inflation forecasts from 8.4% to 13.4% for 2018 and from 6.5% to 9.3% for 2019. CBRT, which forecasts the inflation rate for 2020 as 6.7%, kept its long-term target as 5%. CBRT President Murat Çetinkaya stated that fiscal policy and macro-prudential measures will have high importance in terms of price stability in the forthcoming period and further tightening can be done if needed.

Expectations...

Annual D-PPI inflation, reaching 25%, indicated that cost pressure on consumer prices will remain in the coming period. Moreover, the depreciation of TRY also supports upside risks on inflation. Taking natural gas and electricity price increases into account, we anticipate that the rising trend in annual inflation will continue in August.

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	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June	2.61	9.17	15.39	11.49	3.03	15.52	23.71	16.57
	July	0.55	9.77	15.85	12.00	1.77	17.56	25.00	17.41
	August ^(E)	1.00	10.87	16.40	12.48	2.00	19.91	26.42	18.28

(E) Estimate

Economic Research Division

izlem Erdem Chief Economist izlem.erdem@isbank.com.tr	ilker Şahin Economist ilker.sahin@isbank.com.tr
Alper Gürler Unit Manager alper.gurler@isbank.com.tr	Gamze Can Economist gamze.can@isbank.com.tr
H. Erhan Gül Asst.Manager erhan.gul@isbank.com.tr	Ayşim Kalkan Asst. Economist aysim.kalkan@isbank.com.tr

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