



Inflation came in above expectations.

In October, CPI rose above market expectations by 2.67% on a monthly basis. According to the CBRT's Survey of Expectations, CPI was expected to increase by 2% mom. In this period, domestic PPI (D-PPI) rose by 0.91%, mom the slowest pace in 2018.

October (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	2.08	2.67	1.71	0.91
Year-to-Date	9.52	22.56	11.66	40.22
Annual	11.90	25.24	17.28	45.01
Annual Average	10.37	14.90	14.47	23.73

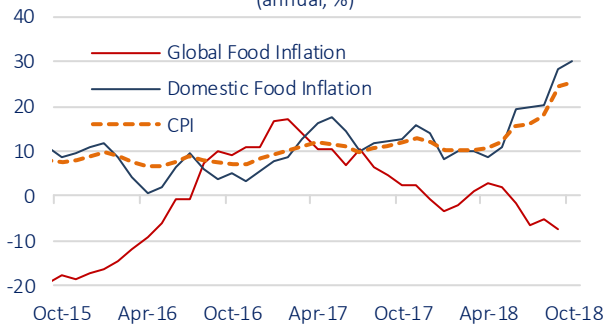
Rise in annual inflation lost momentum.

Annual inflation continued its upward trend in October, albeit losing some momentum. In this period, annual inflation was realized as 25.24%, the new highest level of 2003 based series, while annual D-PPI inflation (45.01%) posted a slight decrease compared to the previous month for the first time in 2018.

Decrease in prices of transportation group.

In October, prices increased in all major expenditure groups except for the transportation. The clothing and footwear group, in which prices increased by 12.74% on a monthly basis due to seasonal factors, made the highest contribution to October inflation by 80 bps. Unlike the global trend, domestic food prices show an upward trend, which pushes inflation up. Indeed, the food and non-alcoholic beverages group made the second highest contribution to the monthly inflation by 75 bps, bringing the annual inflation up by 661 bps.

Food Prices and CPI
(annual, %)



The transportation group, which played a significant role in the rise of inflation due to the increase in global energy prices and the exchange rate developments, became the only expenditure group that pulled down monthly inflation

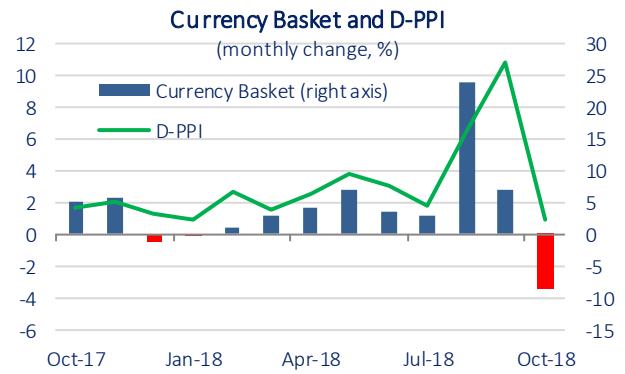
thanks to the decline in transportation fees and automotive prices.

Core inflation indicators...

The deterioration in B and C core inflation indicators, which are closely monitored by the CBRT, continued in October with a momentum loss. Annual increases in B and C indices were 24.37% and 24.34%, respectively.

Rise in D-PPI decelerated.

D-PPI, which had risen by 10.9% on a monthly basis in September, decelerated and posted a slight monthly increase (0.91%) in October. Intermediate goods and durable consumer goods prices decreased on a monthly basis, while price increases in the energy group, which were influenced by global prices, continued in October.



CBRT increased its year-end inflation forecast to 23.5%.

In its Inflation Report published on October 31st, CBRT increased year-end inflation forecast to 23.5%, 10.1 points higher than the July forecast. A significant part of this revision (41 bps) stemmed from the increase in TL denominated import prices. The revision of food inflation made an upward contribution to the year-end inflation forecast by 38 bps.

Expectations...

October inflation was higher than market expectations due to strong increases in clothing and food prices. We expect that in addition to the appreciation in TL, tax cuts might have an impact on inflation in November. The course of core inflation indicators, which have been deteriorating, and the impact of recent measures on inflation expectations are important for inflation prospects.

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	2.30	12.29	17.90	12.61	6.60	25.32	32.13	18.78
	September	6.30	19.37	24.52	13.75	10.88	38.96	46.15	21.36
	October	2.67	22.56	25.24	14.90	0.91	40.22	45.01	23.73
	November ^(E)	0.80	23.54	24.39	15.88	1.00	41.63	43.56	25.97

(E) Estimate

Source: Turkstat, Datastream

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