

Turkey: Positive surprise on July inflation

Consumer prices in Turkey came in lower than the consensus in July at 0.55%. But that still pushed yearly inflation further north, to 15.85%, amid continuing price pressures and an unsupportive base effect



Source: Shutterstock

0.55%

CPI inflation

Consensus (0.9%)

Lower than expected

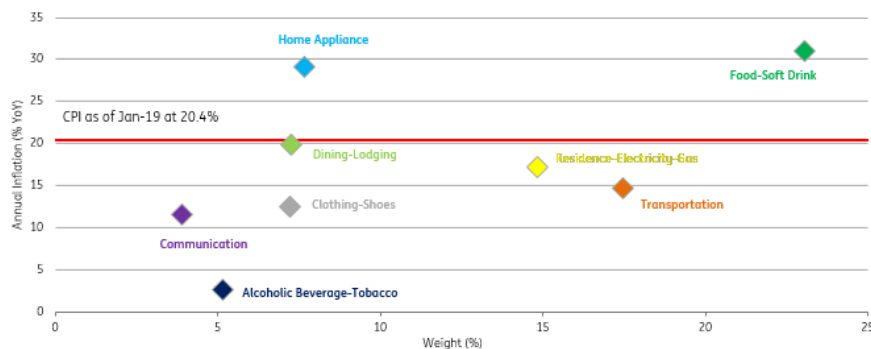
Core goods maintain uptrend

Consumer prices- already at the highest level since 2003- were up by 0.55% in July, better than the median market consensus and our call at 0.9%. However, annual inflation went up further to 15.85% from 15.39% a month ago, due to:

1. A continuing deterioration in goods inflation, especially core goods given the ongoing impact of exchange rate pass-through

2. Sticky services inflation, which continued its uptrend though at a slower pace amid a price drop in telecommunication services. Services inflation surged in June to double-digit levels for the first time since the global financial crisis
3. Unsupportive base effects

Evolution of Annual Inflation (%)

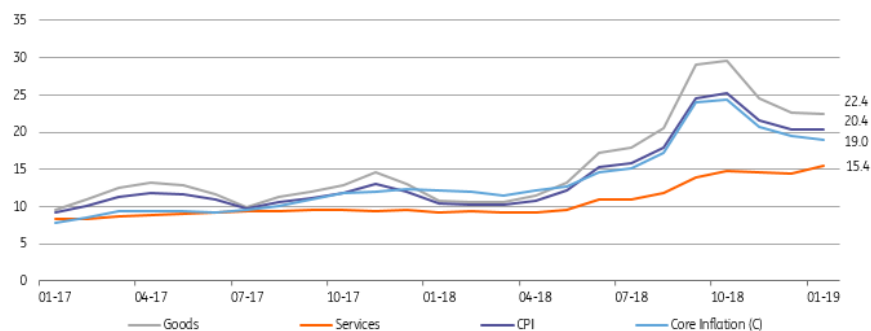


Source: TurkStat, ING Bank

D_PPI portends continued pressure on CPI inflation

The Domestic Producer Price Index (D-PPI), on the other hand, was up by 1.77% last month due to contributions from food products, commodities and textiles, while annual inflation rose to 25%, another new peak in the current 2003=100 series, from 23.7% a month ago. The PPI, which has been on an uptrend since February, shows that persistent producer price-driven cost pressures proved strong again in July with widespread pricing pressures in PPI groups.

Contributions to annual inflation



Source: TurkStat, ING Bank

Clothing is behind the surprise

In the CPI breakdown:

- Transportation contributed 19 basis points mainly due to exchange rate developments. There was no impact from oil prices given the government’s decision to absorb some of the price shock via its automatic tax adjustment on gasoline prices. Annual inflation in the group exceeded 24%, the highest among the CPI groups.
- Other strong drivers are utilities, dining and lodging and home appliances, showing the combined impact of Turkish lira weakness, seasonality, inflation indexation, spike in food

prices and strength in the tourism sector etc.

- Clothing stood out as the major group that pulled the headline down (by -21 basis points) because of seasonality and is responsible for the diversion from expectations as monthly inflation is the lowest of July readings since the inception of the inflation series with -3.1%.
- Food and non-alcoholic beverages inflation dropped 0.3%, pulling the monthly reading down by 7 basis points because of seasonal factors as well as a price reversal in some food products after a jump in June on the back of supply problems. However, annual inflation in this group was 19.4% vs the 13% estimate of the CBT for end-2018.

FX pass-through feeds into prices

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 0.93% change in July, pulling annual inflation up to 15.1% (another peak in 2003=100 series) from 14.6%, as FX pass-through continues to feed into prices. Core inflation will likely peak in 3Q and moderate thereafter though gradually.

Inflation to maintain uptrend until September

Overall, July data showed a further worsening in prices despite a positive surprise from clothing, while elevated levels of inflation and ongoing deterioration in inflationary expectations continue to pose further risks to pricing behaviour. Looking ahead, we expect inflation to increase until September with the continuing impact of the FX pass-through as well as unsupportive base effects. We expect it to change direction thereafter until the end of this year, though TRY performance and food prices will remain key risk factors, despite an ongoing slowdown in demand pressures.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.