

Turkey: Annual inflation flat, but elevated core clouds the outlook

Despite higher food inflation and continuing FX pass-through, the annual figure remained flat in September given some favourable base effects, while annual core inflation recorded a further increase



Shoppers in Istanbul

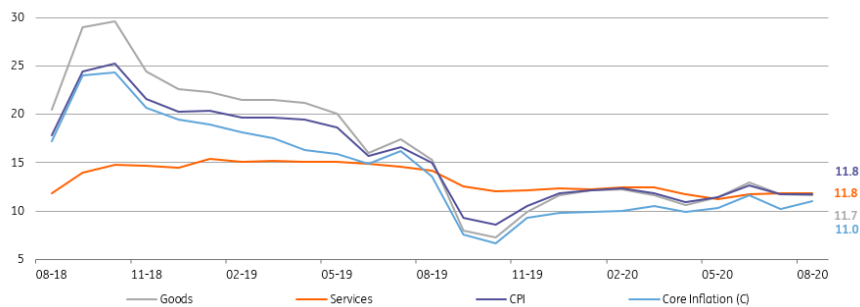
In September, monthly CPI inflation of 1.0% was better than the market consensus and our call (1.35% and 1.1%, respectively), while the annual figure remained broadly unchanged at 11.75%. However, annual core inflation rose to 11.3% likely showing the impact of exchange rate developments.

In the breakdown, we see 1) rising annual goods inflation, to 12.1%, driven by food and durables, despite favourable base effects associated with energy and tobacco prices as well as benign clothing prices 2) services inflation retreating by 1 percentage point to 10.8% mainly due to a supportive base in transportation services.

The Domestic Producer Price Index (D-PPI), which has been on a rapid uptrend, reached 14.3% in September from 5.5% in May, showing the impact of a weak base from last year and a weak currency. The data implies growing producer price-driven cost effects on the inflation outlook.

Evolution of Annual Inflation (%)

Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold

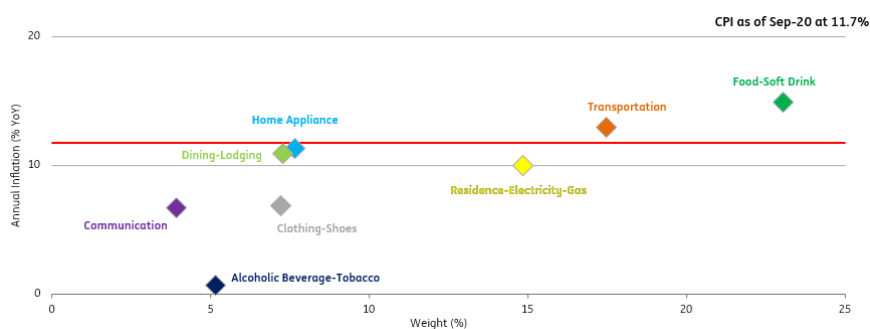


Source: TurkStat, ING

Regarding the main expenditure groups:

- Currency weakness has impacted i) transportation which turned out to be the biggest contributor to headline inflation in September, by 29bp, given higher motor vehicle and fuel prices and ii) home appliances, with 23bp, thanks to price increases in durables and furniture.
- Pick up in unprocessed food and elevated processed food prices further increased food inflation to the highest point in a year, at 14.9%, pulling the monthly reading up by 15bp, while utilities contributed 13bp.
- Among the rest of the groups, contributions to the headline floated in a 1-to-6bp range, while the diffusion index (the ratio of the number of items with increasing prices minus the number of items with decreasing prices to the total number of items in the CPI basket) reached the highest level since the Aug-18 shock, showing the extent of pricing pressures.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, despite increasing food inflation and continuing FX-pass through, the annual reading remained flat in September given some favourable base effects. Exchange rate developments, tax adjustments and elevated services inflation, which are highly sticky at current levels, point to continuing challenges for the inflation outlook. Following the outright hike at the September MPC, the Central Bank of Turkey maintained its tightening policy via changes in the liquidity composition. The level at which the CBT will settle the effective cost

of funding will determine the extent of tightening, which has continued since early August.

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