

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

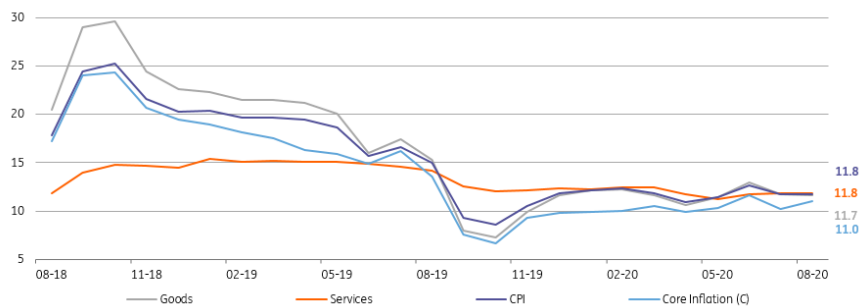
In September, monthly CPI inflation of 1.0% was better than the market consensus and our call (1.35% and 1.1%, respectively), while the annual figure remained broadly unchanged at 11.75%. However, annual core inflation rose to 11.3% likely showing the impact of exchange rate developments.

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

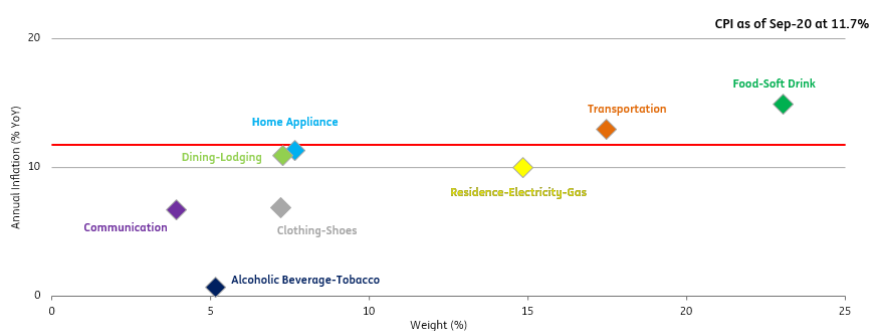


Source: TurkStat, ING

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.

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 <http://www.ing.com>.