

Turkish inflation continues to fall

Consumer prices in Turkey came in better than consensus and resumed their downtrend. We expect inflation to drop substantially next month but reverse thereafter because of the large base effects, leaving some room for central bank easing. However, we expect the central bank to make measured moves rather than a large cut as priced in by the market



Source: Shutterstock

15% August inflation
(YoY)

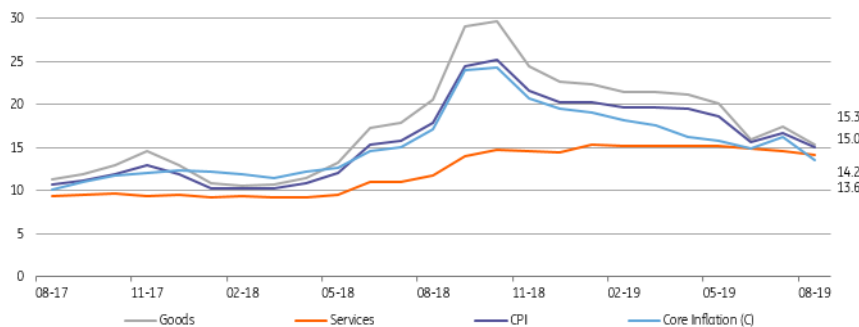
Lower than expected

Turkish inflation surprised on the downside again in August, coming in at 0.86% month on month vs the market consensus of 1.3%. In annual terms, inflation in Turkey dropped to 15.0% from 16.6% a month ago, also showing the impact of favourable base effects.

Resuming the downtrend after a temporary increase in July, the inflation breakdown reveals a plunge in annual goods inflation by more than 2 percentage points to 15.3%, a slight decline in annual services inflation to 14.2%, but flat rent inflation reflects continuing inertia in this category.

Annual Inflation (%)

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



Source: TurkStat, ING

Annual core inflation stood at 13.6% last month - the lowest level since May 2018, showing improving price pressures with weak domestic demand and stability in the currency. As an indicator for underlying price dynamics, the diffusion index (calculated as the ratio of the number of items with increasing prices minus the number of items with decreasing prices to the total number of items within a given month) has remained below trend.

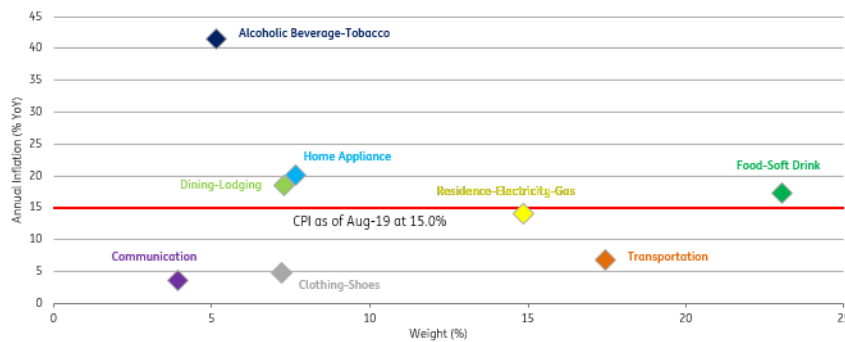
On the other hand, the domestic producer price index (D-PPI) came in at -0.6% with annual inflation falling down to 13.4% - the lowest since the first month of 2018. The data, reflecting large base effect from last year implies more moderation in producer-price-driven cost pressures on the back of falling commodity and food prices and the strength in the lira.

Main expenditure groups

Transportation turned out to be the major negative contributor to the headline with -34bp contribution, thanks to lower energy prices and strong TRY despite some upward price adjustments in transportation services. A sharp downward correction in food inflation continued driven by other unprocessed food this time, as fruit and vegetable prices were the major contributor to the improvement in the outlook in recent months before August. However, the behaviour of processed food inflation was somewhat different given the inflation in this group has been relatively stable above 20%.

On the flip side, alcoholic beverages and tobacco group pulled the headline number up by 90bp given the tax adjustments in cigarettes and utilities also drove inflation higher by 29bp showing the impact of a price hike in natural gas.

Contributions to annual inflation



Source: TurkStat, ING

Overall, inflation surprised on the downside for the fifth consecutive month in August thanks to weak domestic demand, the relative strength of the lira, gradually improving inflation expectations, plunge in unprocessed food prices and downward pressure on energy prices, despite the one-off factors like tax and administrative price adjustments.

We expect inflation to drop very rapidly in September but reverse thereafter because of large base effects, leaving room for central bank easing. However, the central bank will closely watch the currency and will probably come up with measured moves compared to a relatively larger cut, priced in by the markets.

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