

Turkish inflation retreats from its peak

Turkish CPI inflation came in better than expected in November dropping 1.4%, pushing the yearly figure down to 21.6%. The data shows the inflation has come off its peak and will likely close this year below 22%



Shoppers in Istanbul

-1.44%

CPI Inflation

(MoM Change in November)

Lower than expected

A surprise drop in inflation

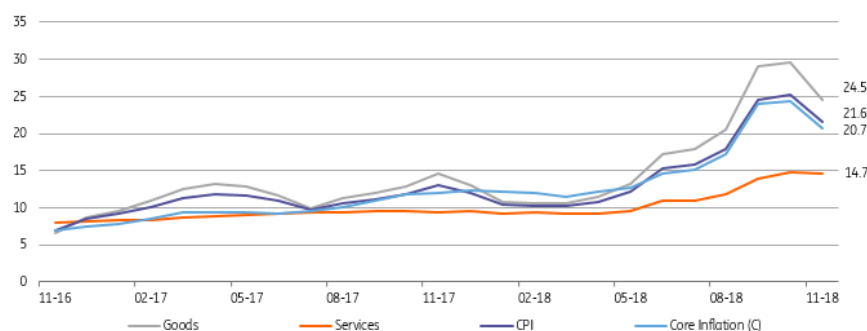
Turkey's November inflation data showed a more than expected decline in prices with -1.4% vs our call at -0.8 and a market consensus at -0.75%, indicating that the annual figure retreated from its peak at 25.2% in October to 21.6%. The favourable monthly reading is largely down to tax cuts in consumer durables, furniture and automobile introduced by the government in early November, a likely impact of temporary price discounts in targeted items in the consumer basket, with the government's decision of price freezes and voluntary private sector involvement, as well as sharp

decline in oil prices. Accordingly, we saw a recovery in goods' inflation from 29.6% a month ago to 24.5% with significant contributions from energy, unprocessed food and core goods. Also evident is a broadly unchanged sticky services inflation despite price drops in transportation services. In a positive note, annual rent inflation returned to a single-digit level at 9.8%.

Annual core inflation also recovered from its peak, standing at 20.7% in November vs 24.3% in October, as we saw price declines in more than a quarter of items in the CPI basket. This shows not only the impact of recent government actions but it's also indicative of FX pass through almost running its course with sharp TRY recovery.

The Domestic Producer Price Index (D-PPI), on the other hand, plunged by -2.5% last month, the first negative reading since early 2016. Accordingly, annual inflation dropped to 38.5% from 45.0% a month ago. The PPI that has returned from its September peak at 46.2%, which shows some erosion in persisting producer-price-driven cost pressures on the back of commodity-related product groups and FX sensitive items with recent TRY strengthening.

Evolution of Annual Inflation (%)



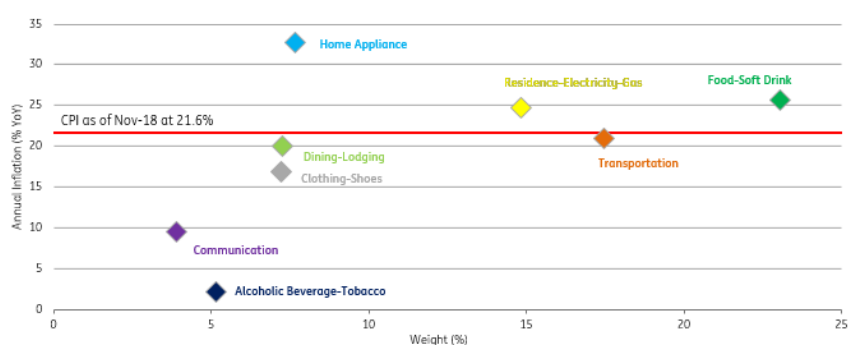
Source: CBT, ING Bank

The breakdown

Among 12 major expenditure groups, half recorded price declines in November. In the CPI breakdown:

- Transportation stood out with the largest negative contribution at 1.17 ppt thanks to double-digit price declines in automobile and a drop in energy prices. Accordingly, annual inflation in this group was 21% vs 32% a month ago, showing the impact of a favourable trend in oil, TRY strength and tax cuts.
- Another large drop was in home appliances, pulling the headline down by 24bp, thanks to temporary tax adjustments in furniture and white goods. Still, annual inflation in this group is the highest at 32.7%, showing the cumulative impact of exchange rate developments this year.
- Volatile food group provided -17bp contribution, mainly driven by fresh fruits and vegetables.
- Among the positive contributors, clothing was at the top with 16bp, though monthly inflation was the lowest November reading in the current inflation series.

Contributions to annual inflation (ppt)



Source: TurkStat, ING Bank

Looking to 2019

Overall, November data shows inflation declined from its peak in October and will likely close this year below 22%. However, we expect to see some further inflationary pressures in early 2019 before falling more rapidly in the second half given the impact of a reversal in temporary tax cuts and unfavourable base effects. As inflation remains elevated, the CBT should maintain a tight stance to fight inflation and re-anchor inflation expectations as policy credibility will remain key in the period ahead.

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.