

Turkey: inflation increases further in July, though at a slower pace

July inflation reflects significant price adjustments in heavy-weight products like medicine, cigarettes and bread. Currency weakness, meanwhile, impacted prices of imported products although gasoline prices fell



While inflation continued to trend higher in July, the pace of price increases decelerated due to the lowest monthly reading so far this year. Annual inflation was 79.6% last month, compared with 78.6% in June while inflation came in at 2.37% month-on-month, below the market consensus of 2.9% (and our call of 2.3%).

Key factors behind the ongoing rise in inflation remain the pass-through from currency weakness amid a more accommodative monetary stance as well as worsening inflation expectations and external factors, which have weighed on import prices. The outlook once again confirms the need for a correction in the path of monetary policy, in our view.

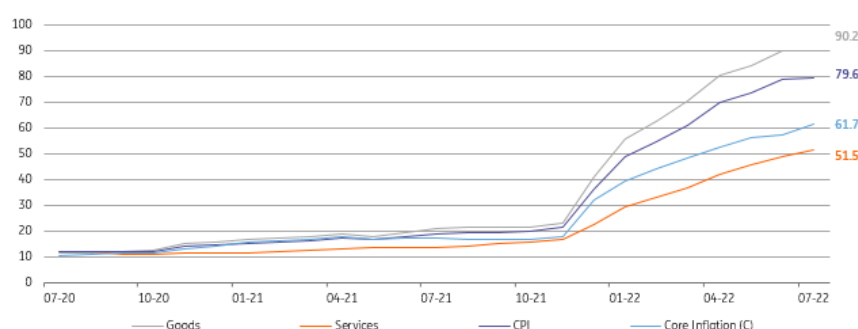
Regarding the core indicators, both B and C indices continued to rise, increasing by 68.5% and 61.7% year-on-year, respectively, their highest levels as we continue to witness a broad-based deterioration in price dynamics. However, on a positive note, the underlying trend for core C (as

measured by 3-month moving average, annualised percentage change, based on the seasonally-adjusted series) has been gradually improving in recent months, though it is still very high. The underlying headline CPI trend showed a stronger decline in July, though whether this performance will be sustained has yet to be seen.

On the PPI front, the trend remains strong with a 5.2% MoM increase, pulling annual inflation up to 144.6%. Utilities and food products were responsible for the large increase in the monthly PPI and the risks are on the upside in the near term given ongoing supply-side challenges and currency-related uncertainties.

Annual Inflation (%)

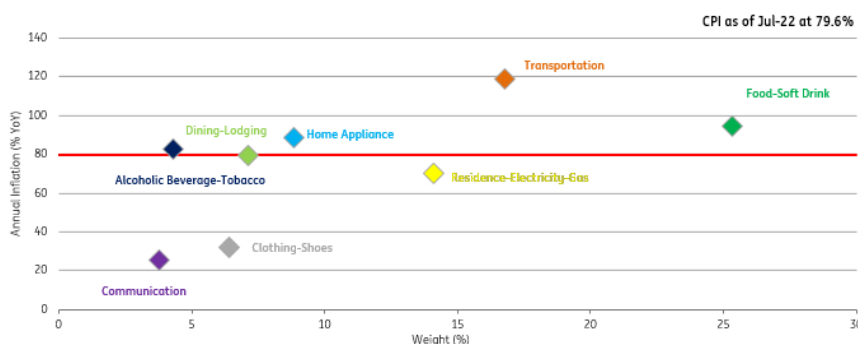
(Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold)



Source: TurkStat, ING

Looking at the breakdown of the main expenditure groups, food turned out to be the biggest contributor, adding 83bp to the headline rate. However, this result was better than expected thanks to the relatively slower pace of price increases in processed foods, excluding bread and cereals (given that bread prices went up by nearly a third last month). Rapid rent increases impacted the housing group and hence the headline rate rose by 29bp. Price hikes in cigarettes added 30bp to monthly inflation, and household equipment raised the headline rate by 34bp as currency developments led to price adjustments in white goods. On the flip side, the transportation group was supportive for the monthly reading, subtracting 16bp, given the decline in oil prices last month. As a result, goods inflation hit 90.2% while annual inflation in services is at the highest in the current 2003=100 series, at 51.5%.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Going forward, we expect inflation to peak in the 85-90% range in October, before a decline to around 70% at year-end. But the risks lie to the upside given the deterioration in pricing behaviour, the impact of exchange rate developments and higher trend inflation. Currency moves will remain key for the inflation outlook.

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>.