

Turkey: Inflation likely peaked in October

Price pressures remained broad-based in October as all 12 main CPI categories contributed to the increase in inflation. Depending on the continuation of the stability of the Lira, inflation is likely to have peaked and will decline in the near term

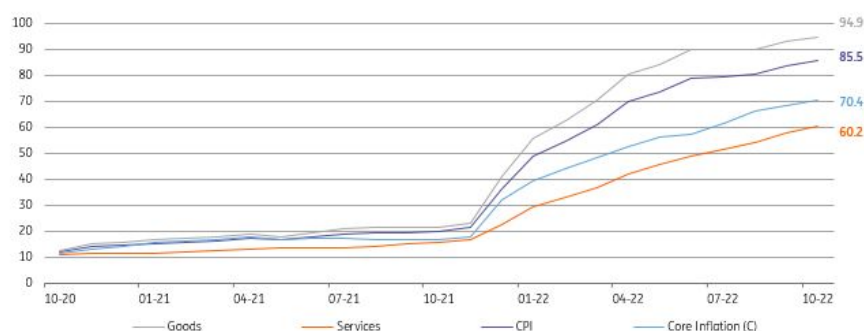


Following the October inflation reading of 3.5%, in line with the consensus, the annual figure reached 85.5% vs 83.5% a month ago. While the exchange rate has remained a key determinant of the outlook, inflation is likely to have peaked in October if the stability of the Lira continues, and will decline in the near term with large supportive base effects.

According to the data release, core inflation maintained its uptrend, rising to 70.4% year-on-year, the highest level in the current 2003=100 inflation series, as we continue to witness a broad-based deterioration in price dynamics. Regarding the underlying trend (as measured by the 3-month moving average, seasonally-adjusted annualised percentage change), the headline inflation remained elevated with a slight increase over the previous month due to the impact from goods and services, though the trend for core inflation improved marginally last month.

Annual inflation (%)

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

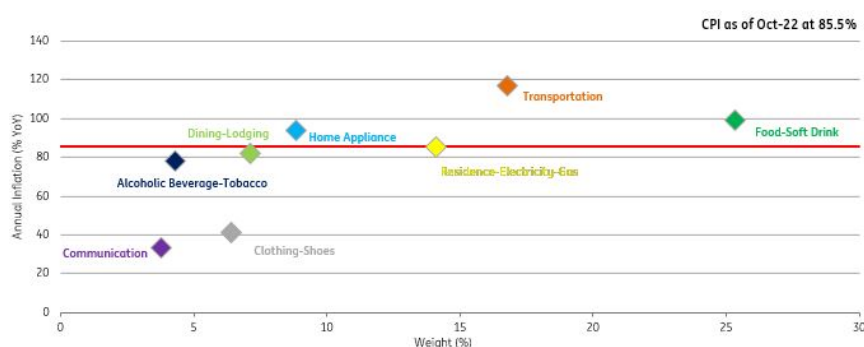


Source: TurkStat, ING

There are no signs of easing in the PPI which posted a sharp 7.8% month-on-month increase in October and jumped to 157.7% YoY with the main impact (5.1ppt) coming from electricity and gas production, and the distribution group showing continuing energy-related pressures. Going forward, the PPI outlook will likely be determined by energy and currency-related uncertainties.

In the breakdown of the main expenditure groups, food turned out to be the biggest contributor with a 133bp addition to the headline figure, driven by both processed and unprocessed foods, while fresh fruits and vegetables recorded 14.3% MoM, markedly higher than the long-term October average. Among others, impacts from clothing (reflecting seasonality), housing (reflecting the accelerating rent increase and water fee hike), household equipment (attributable to currency weakness) and transportation (due to higher energy prices, adjustments in transportation services and exchange rate developments) floated in the 35-45bp range last month. As a result, goods inflation moved up to 94.9%, while annual inflation in services was at 60.2%. Both are at the peak of the current inflation series.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, inflationary pressures remained broad-based in October as all 12 main CPI categories contributed to the increase in inflation, while elevated cost-push pressures, rising expectations, and accommodative monetary policy stance hint at further challenges to the outlook. We think annual inflation is likely to have peaked last month and to decline to

below 70% at year-end, while risks to the outlook next year are on the upside given the deterioration in pricing behaviour, higher trend inflation, and exchange rate developments. Last month, the Central Bank of Turkey signalled its intention to finalise the rate cut cycle with a 9% policy rate. So, the bank will likely cut another 150bp at its next meeting, while we should not rule out further policy rate adjustments depending on the pace of economic activity.

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