

VAKIFBANK WEEKLY ECONOMICS REPORT

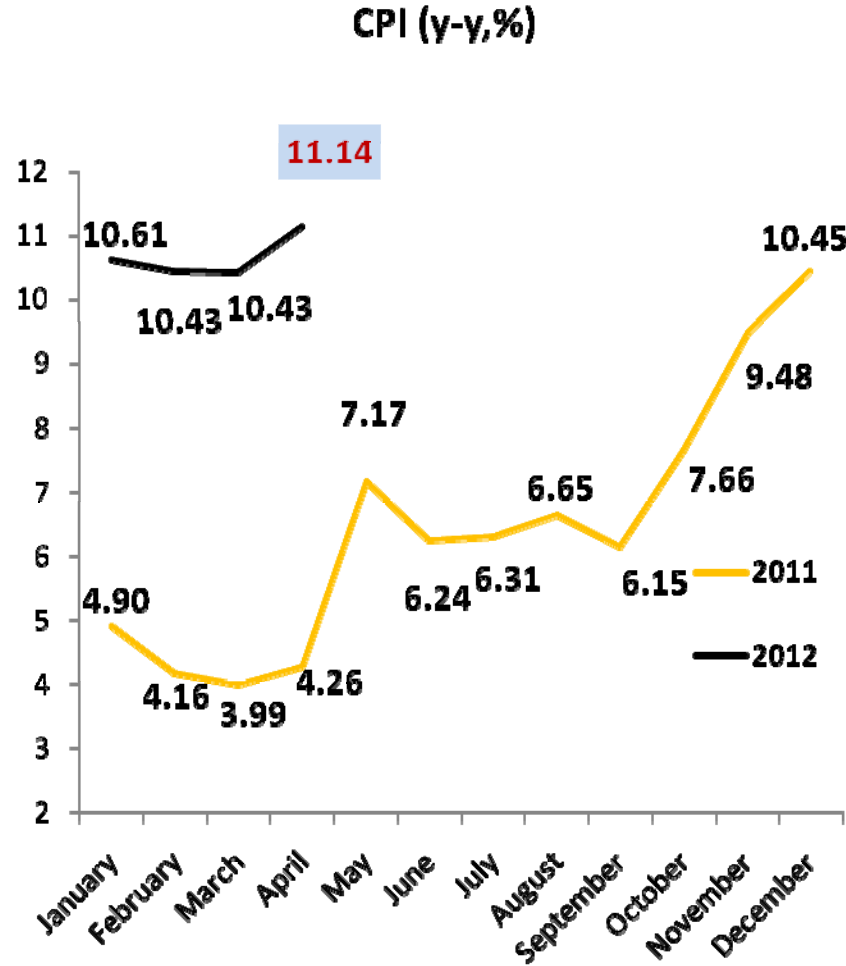
Annual CPI hit the highest level
since October 2008



T. Vakıflar Bankası T.A.O



Headline CPI rose by 1.52% mom in April exceeding market consensus...



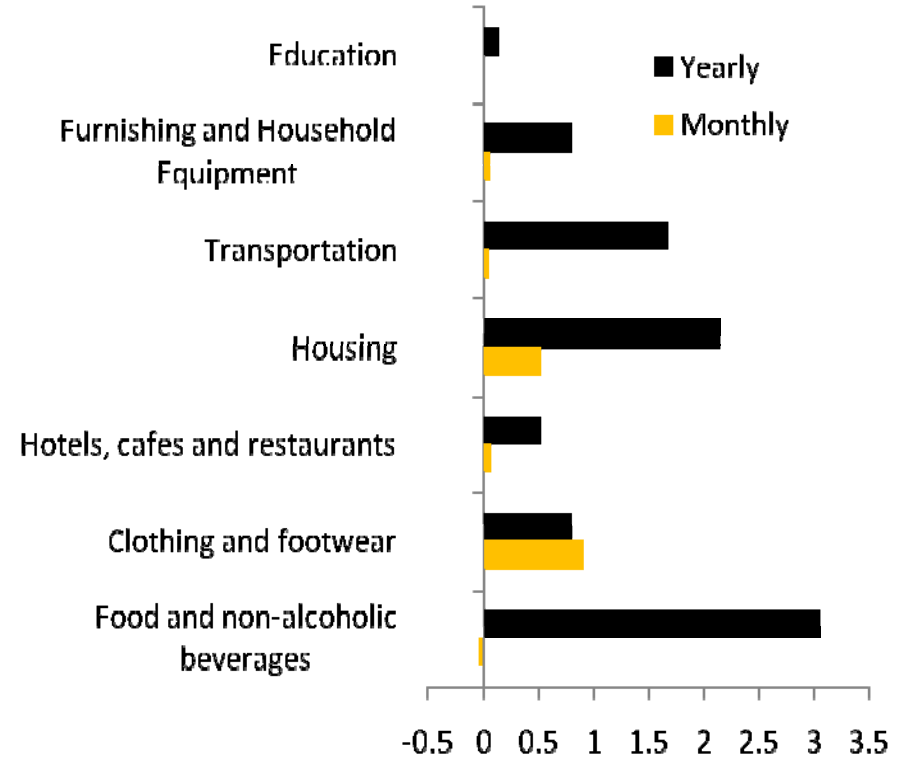
Source:TurkStat

- Because of administered price hikes and upside surprise in clothing prices, annual CPI inflation increased from 10.43% in March to 11.14% in April indicating strong inflationary pressures.
- April inflation has been the highest inflation since October 2008.
- Due to positive base effect mainly driven by food prices, annual CPI is expected to fall in May. However in the third quarter, we expect CPI to increase and then stay high until last quarter. In the last quarter, annual CPI will sharply decrease.
- April data show that annual CPI has peaked.
- In the coming months, movements of energy prices and exchange rate will be important on headline CPI.
- On the other hand, in the third quarter, fluctuations in food prices will likely be the main driver of headline CPI.

Contribution of clothing to CPI was the highest in April...

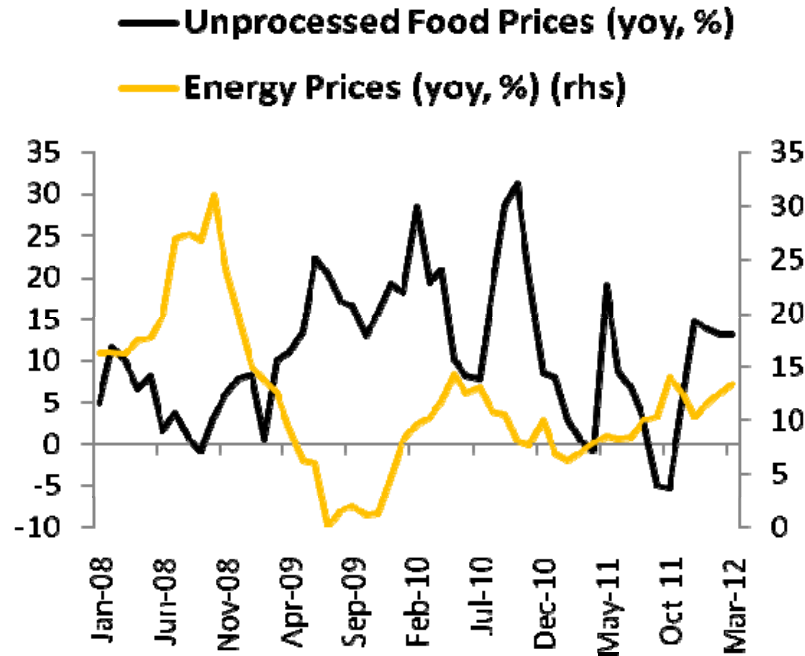
- ✔ In April, clothing and footwear increased by 13.2% mom which is higher than the general trend of this group. Contribution of this group to CPI was 0.91 point.
- ✔ New price adjustments in electricity and natural gas prices upwardly affected the housing prices as expected. Housing prices increased by 3.15% mom and 13.1% yoy.
- ✔ While the transportation prices limitedly increased in monthly basis, it increased by 9.99% yoy.
- ✔ Correction in food prices continued in April, parallel to our expectations.
- ✔ Especially the downward movement in the prices of unprocessed fruits and vegetables supported the food inflation.
- ✔ Despite the monthly decrease of food prices, this group increased by 11.65% yoy and contributed to CPI 3.05 point.

Contribution of Expenditure Groups to CPI
(point)



Source: TurkStat

Energy prices had a significant role on inflation...

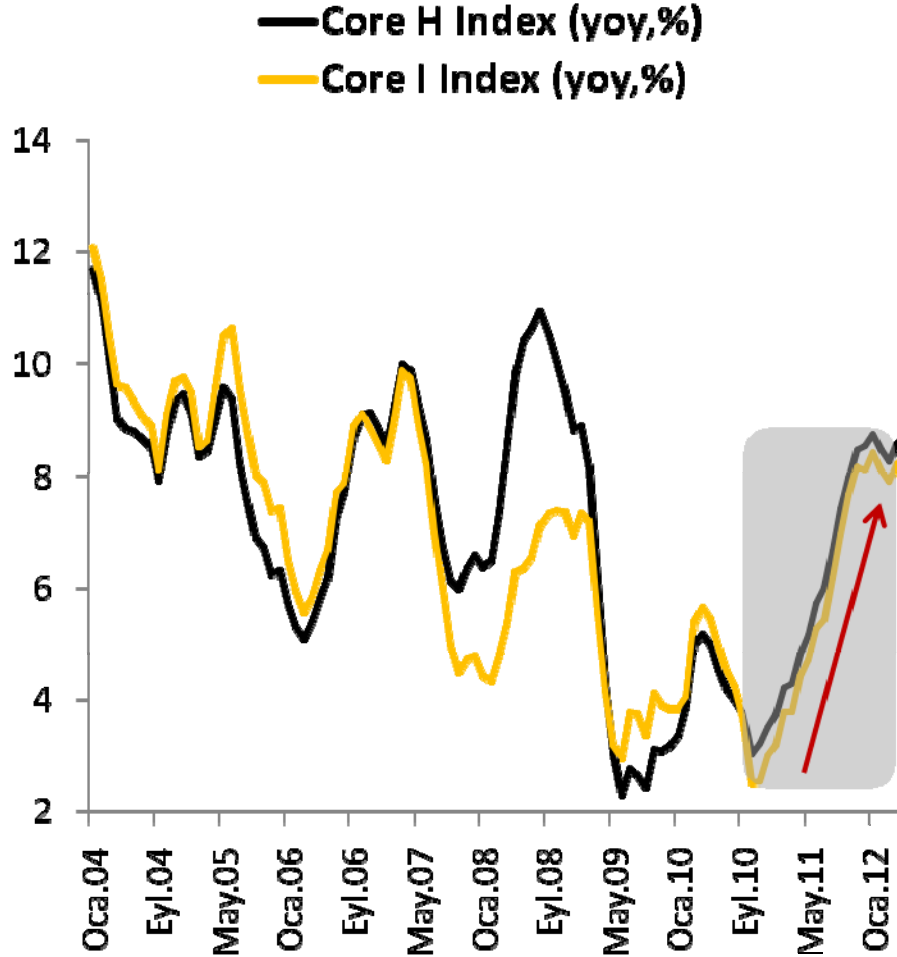


Source: CBRT

- ✓ Movement of unprocessed food prices became effective on the movement of food prices in the first quarter of 2012.
- ✓ Monthly rate of increase in unprocessed food prices were under the general trend of this group in January and February. In addition, the decrease in yearly increase of this group was limited.
- ✓ Food prices had a parallel movement with the movement of unprocessed food prices.
- ✓ Therefore, in the coming period, movement of unprocessed food prices will be significant for the movement of food prices.

- ✓ Increasing energy prices causes an upside risk for the inflation.
- ✓ Both the lagged effects of the increases in oil prices and the hikes in electricity and natural gas prices lead to the increase in CPI.
- ✓ Rise in energy prices also affected the costs. Hence, increasing energy prices also constitute a risk for the other expenditure groups.

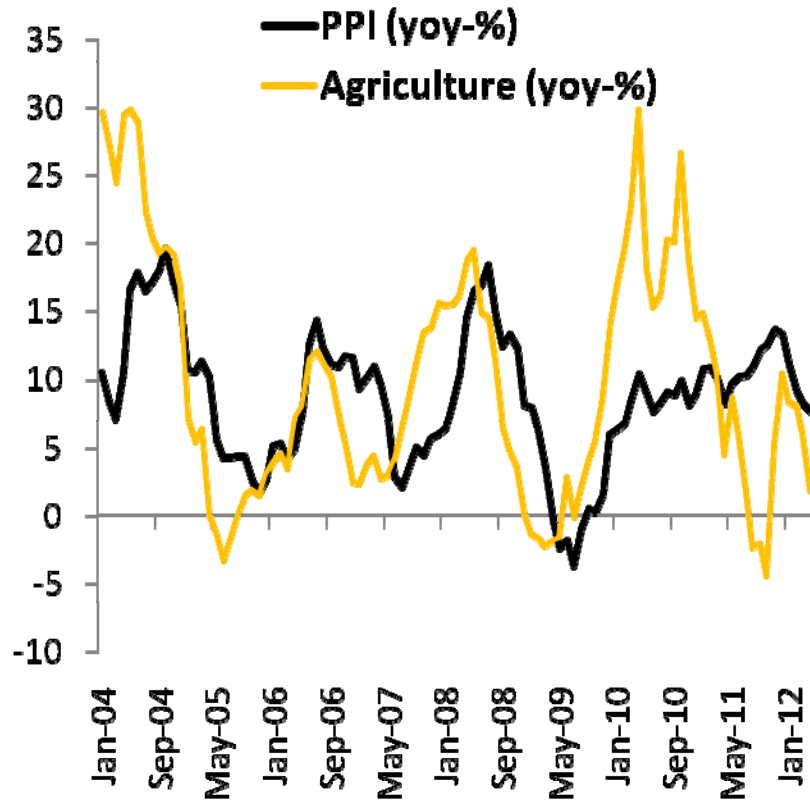
Core CPI increased by 8.24% yoy in April...



Source: Turkstat

- Core CPI (I Index) excluding food and energy prices increased by 2.08% mom and 8.24% yoy in April.
- After the decrease in core CPI in March, it moved upwards in April.
- H index excluding alcoholic beverages, tobacco products and gold increased by 8.62% yoy in April as well as I index.
- Increases in core indicators have been affected especially by clothing group which increased by 11.6% yoy in April.
- Movement of I index is important for the movement of headline inflation in the coming period.

Monthly PPI had a weak increase in April...



Sources: CBRT

- ✔ PPI rose slightly by 0.08% mom in April 2012. Hence yearly rate of increase in PPI fell to 7.65% in April which was 13.67% in November 2011.
- ✔ Appreciation of TRY and the decrease in agricultural prices had critical role on the decline in PPI in the first four months of 2012.
- ✔ Both industrial and agricultural prices decreased on a yearly basis in April.
- ✔ Agricultural prices decreased by 0.70% while the industrial prices increased by 0.24% on a monthly basis.
- ✔ Annual agricultural prices fell to 1.92% in April which was 10.5% in December 2011.
- ✔ The decline in agricultural prices may lead to lower food prices in the coming period.

The second Inflation Report of 2012...

	January 2012	April 2012	Revision
Output Gap	2011 Q4: -0.25 2012 Q1: -0.59	2011 Ç4: -0.35 2012 Ç1: -1.20	↓
Food Prices (end-2012, %)	2012-2014: 7.5	2012-2014: 7.5	→
Import Prices (YoY, %)	2012: -0.3 2013: -0.7	2012: -0.7 2013: -0.7	↓
Oil Prices (\$/bbl)	2012: 110 2013:105	2012: 120 2013:115	↑
CPI (YoY, %)	2012 mid-point: 6.5 2013 mid-point: 5.1	2012 mid-point: 6.5 2013 mid-point: 5.2	→

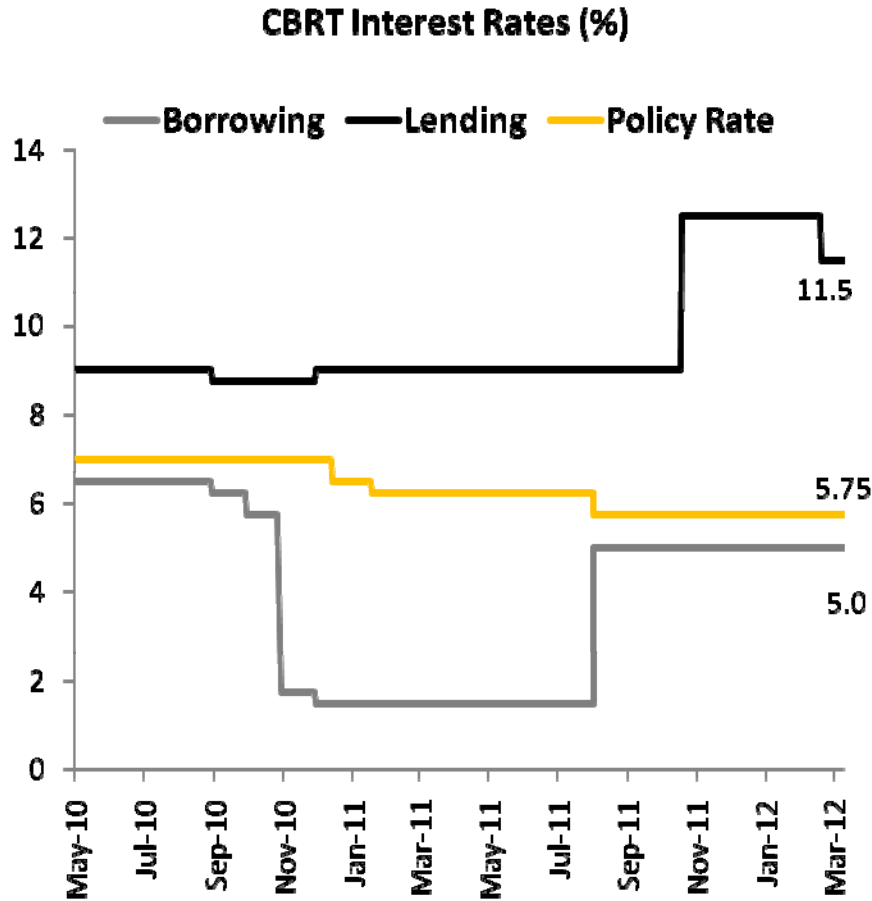
CBRT's inflation forecast remained 6.5% for end-2012...



In the second inflation report of 2012 CBRT indicates that:

- ✓ Rising bond yields in Spain and Italy and weak employment conditions in US makes financial markets more fragile. This global risk perceptions confirms flexible monetary policy.
- ✓ Latest data releases indicate that rebalancing in the domestic economy continues.
- ✓ Since first Inflation Report in 2012 oil prices remained above expectations. Hence, CBRT revises up oil price assumptions from \$110 to \$120 for 2012 and from \$105 to \$115 for 2013.
- ✓ Non-energy import prices was lower than expected in the first quarter of 2012.
- ✓ Inflation is expected to be with 70 percent probability, between 5.3% and 7.7% (with a mid point of 6.5%) at the end of 2012, and between 3.4% and 7.0% (with a mid point of 5.2%) at the end of 2013.
- ✓ The main assumptions for inflation forecast are milder credit growth and wider output gap.

April inflation confirms that CBRT will keep monetary conditions tight in the short term...



Source: CBRT

- Recent inflation data show that CBRT should continue its' hawkish stance against inflationary pressures.
- CBRT also gives clear hawkish messages in the monetary policy announcement in April and in its recent Inflation Report.
- Although annual inflation will likely fall in May, it will continue to stay at high levels until last quarter. This movement of inflation will be challenging for monetary policy.
- We expect that CBRT will keep policy rate unchanged at 5.75% until the end of 2012.

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