

VAKIFBANK TURKISH ECONOMY WEEKLY

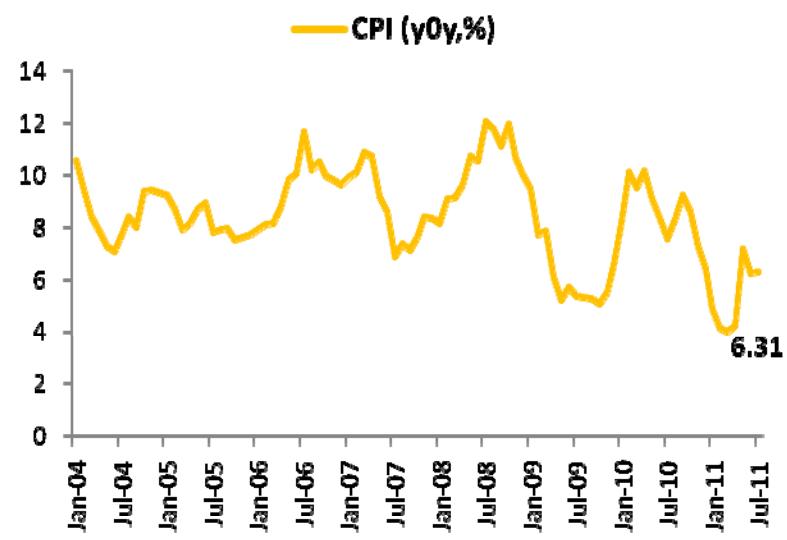
After positive inflation data CBRT unexpectedly cut policy rate by 50 basis points..



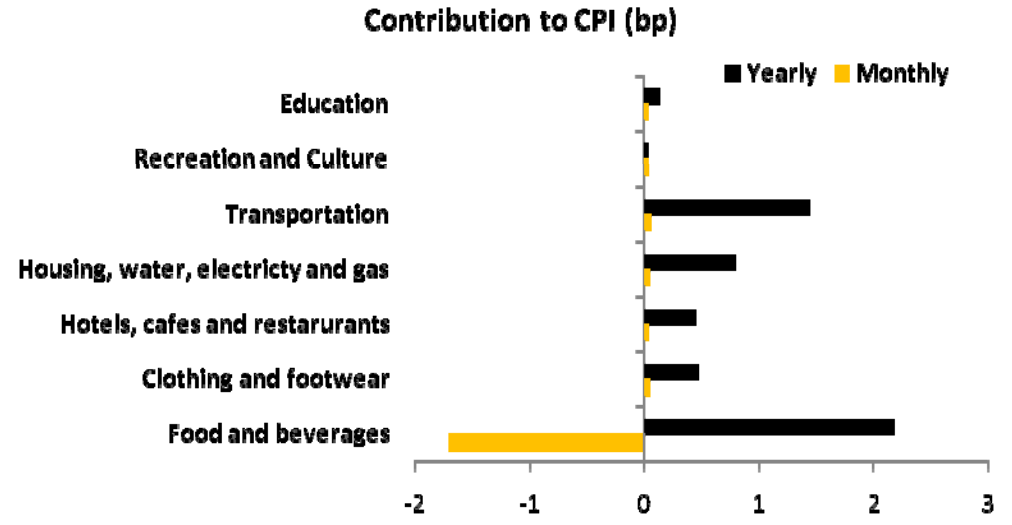
T. Vakıflar Bankası T.A.O



Headline CPI decreased by 0.41% in July, lower than market consensus (-0.07%) and our forecast (0.12%)...



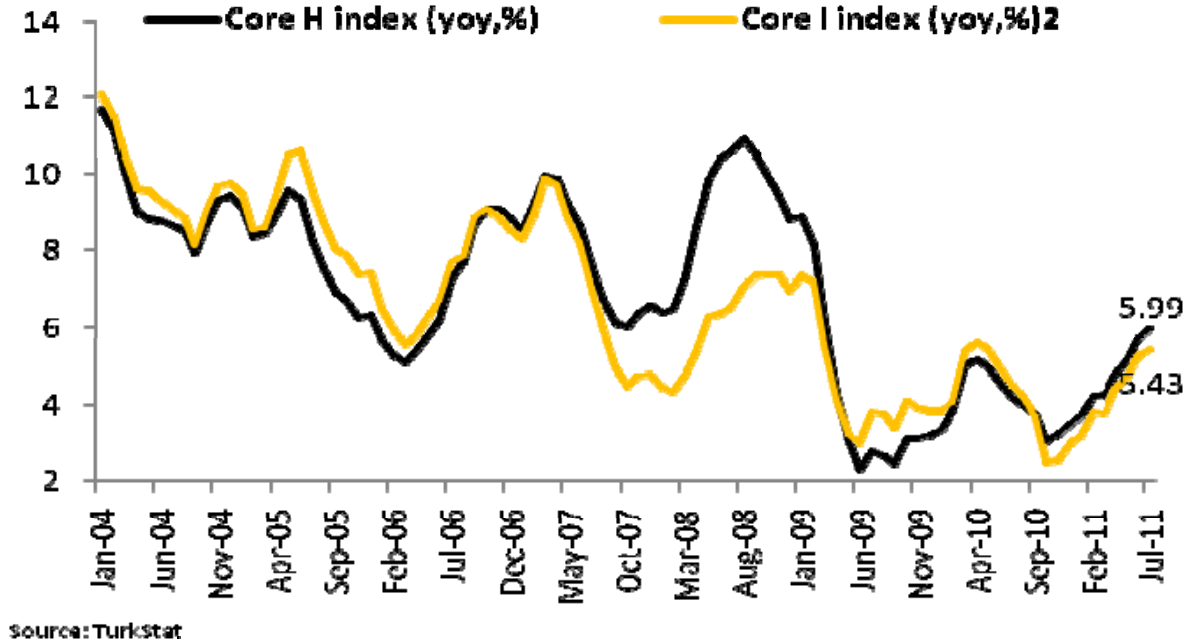
Source: TurkStat



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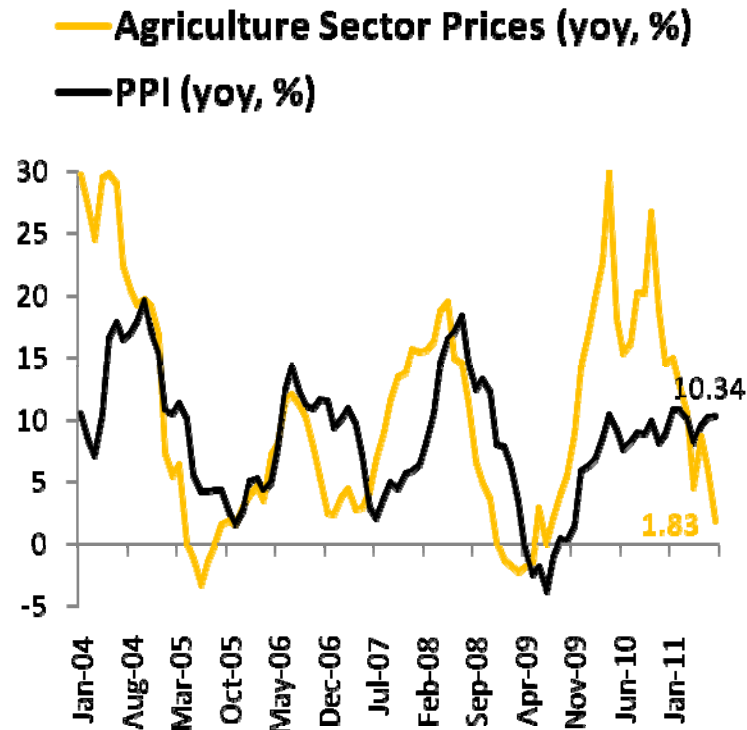
- 📌 Because of the downside trend in food and beverage prices, headline CPI decreased by 0.41% mom and yearly CPI rose from 6.23% to 6.31% in July.
- 📌 In month to month terms 1.18% fall in food and beverages group has the major negative contribution to CPI with 0.31 points.
- 📌 Transportation prices increased by 0.78% on monthly basis and it's contribution to CPI was 0.12 bps.
- 📌 Clothing prices decreased by 4.84% mom due to the seasonal factors and it's contribution to the CPI was -0.35 bps.

Annual core inflation continues to increase in July...







- ✎ The 'I' index of core inflation increased by 0.35% mom and 5.43% yoy in July.
- ✎ With the July figures, movement of the core inflation indicates a slight increase in inflationary pressures.
- ✎ Although annual rate of change in core indices has been increasing, CBRT pointed out in the last Inflation Report that recently seasonally adjusted core inflation indicators indicate a declining trend in inflationary pressures.

On a monthly basis, PPI decreased by 0.03% in July...

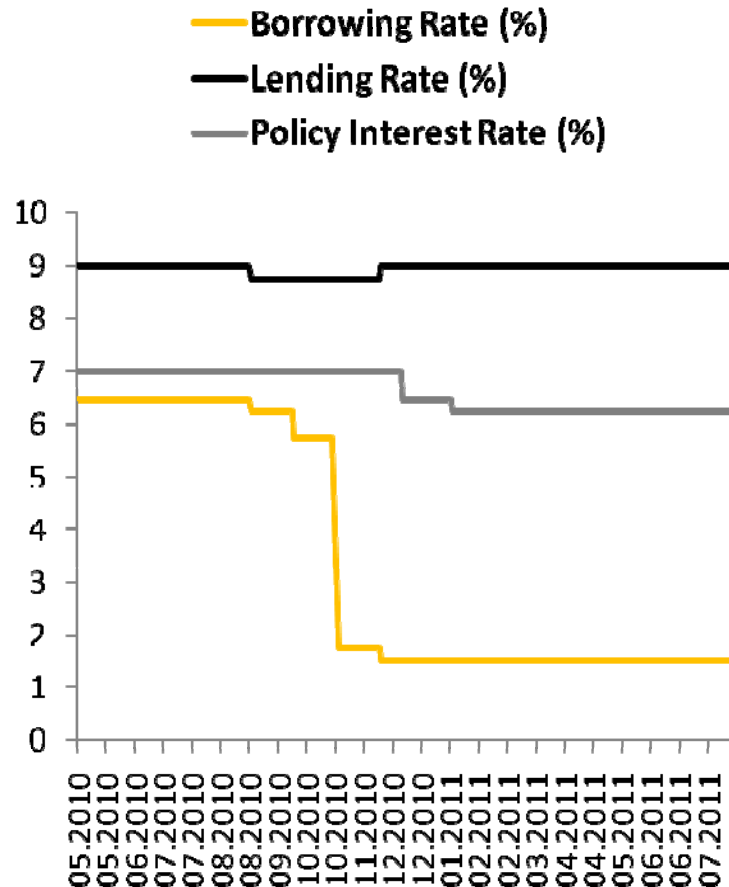


Source: TurkStat

-  PPI increased by 10.34% yoy in July with the basis effect.
-  Agriculture sector prices of PPI decreased 6.06% on a monthly basis with parallel to the seasonal movement in food prices of CPI.
-  The fall in agriculture sector prices may lead to a decline in food prices further in the coming months. Thus CPI may continue to decrease.
-  The industry sector prices rose 1.22% mom in July.

CBRT held an extraordinary meeting on 4 August...

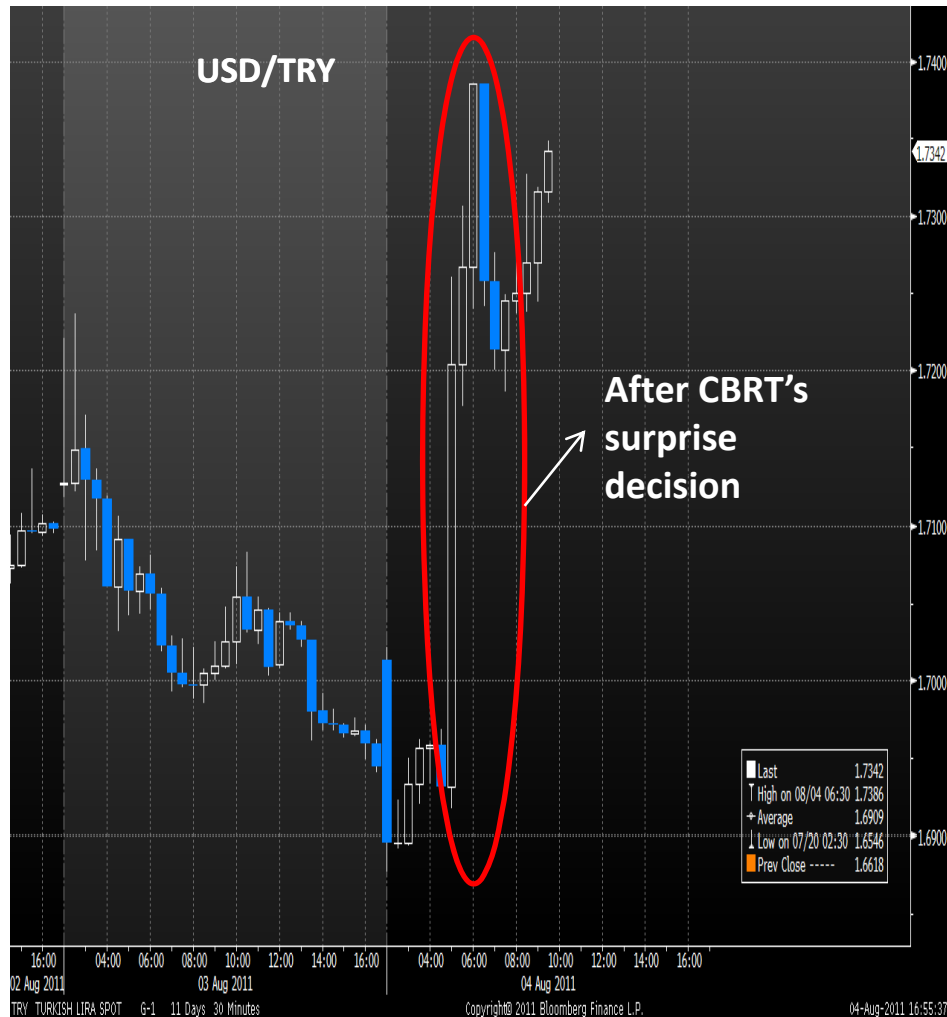
! CBRT has decreased the policy rate from 6.25% to %5.75.



Source: CBRT, Reuters

- ✔ Concerns regarding sovereign debt problems in some European economies and problems in global growth outlook lie behind the last decision of CBRT.
- ✔ CBRT also decided to narrow the interest rate corridor by significantly increasing the overnight borrowing rate from 1.5% to 5%. This decision aims to limit the downside volatility in the short term interest rates.
- ✔ Moreover, CBRT decided to provide foreign exchange liquidity to the market, through foreign exchange selling auctions on the days deemed necessary, starting from 5 August 2011. CBRT aims with this decision to limit the pressure of interest rate cut on exchange rates.
- ✔ In addition, CBRT decided that the each institution's bid for the repo auction is limited by 20% of the announced auction amount starting from 5 August 2011.
- ✔ Finally, CBRT cut FX reserve requirement ratio by 50 bp for all maturities.
- ✔ With all these decisions CBRT aims to increase the efficiency of the liquidity management in TL markets and to provide more balanced distribution of liquidity.

After CBRT's surprise decision yield curve became steeper, TRY weakened...



- After Central Bank's surprise decision, TRY lost a significant value against USD and EUR while there was a limited withdrawal in bond markets.
- The limited movement in bond market reflects that the market is positive about the decisions taken by the Central Bank.
- The movements in FX markets are more aggressive than bond markets due to the risk in foreign markets.

To sum up,

- ✔ The last policy decision is a true step in this environment.
- ✔ CBRT watches the recession signs from global economies and tries to use policy mix effectively depending on the changing global situations.
- ✔ In the coming period, inflation is continuing to decline in parallel with the last inflation report of CBRT and concerns about current account deficit will be reduced with the effect of depreciated Turkish Lira and slowing global economic growth. As a result, CBTR will continue to use its loose monetary policy with unconventional policy instruments in the near future.

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