

VAKIFBANK TURKISH ECONOMY WEEKLY

Headline CPI rose by 0.87% mom
in April...



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Headline CPI rose by 0.87% mom in April lower than market consensus (0.96%) and our forecast (1.20%)...



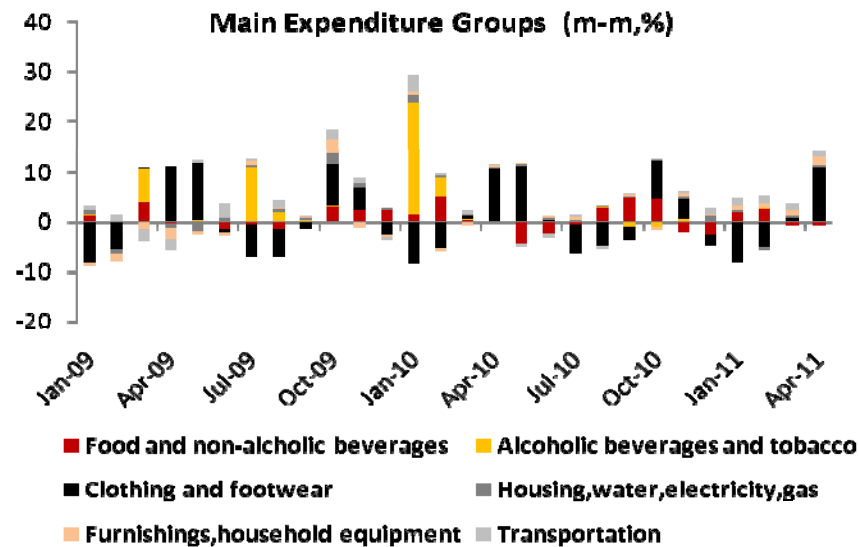
- Because of upside trend in clothing prices (10.98% mom), annual CPI inflation increased to 4.26% in April from 3.99% in the previous month.
- In the first quarter of the 2011, thanks to the positive base effect, the annual CPI fell well below the medium and long-term target of CBRT.
- However, after the first quarter of the 2011, with the receding positive base effect, annual CPI started to rise again in April due to high clothing and footwear prices.

	CPI	PPI
(2003=100)	Apr.11	Apr.11
Compared to the previous month	0.87	0.61
Compared to December of the previous year	2.45	6.04
Compared to the same month of the previous year	4.26	8.21
Compared to the twelve months moving averages basis	6.79	9.17

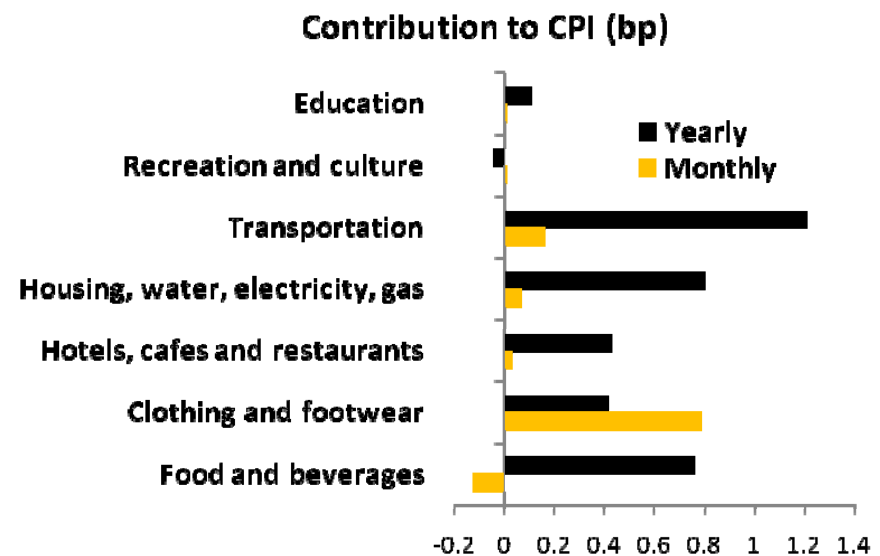
Source: TurkStat

Clothing and footwear prices increased by 10.91%, food prices decreased by 0.48%...

- ✔ Due to seasonality, clothing and footwear which is among the major expenditure groups experienced the most severe increase with 10.92% in April. Contribution of this group to CPI was 0.78 bps.
- ✔ Transportation had been the major increase group in March due to the rise in petroleum prices. However this impact of oil prices in transportation had a limited effect on transportation prices in April and this group increased by 1.04%. Contribution of this group to CPI was 0.16 bps.
- ✔ Housing prices increased by 0.39% on monthly basis and its 0.06 bps contribution to monthly CPI was limited compared to transportation.
- ✔ The movement of food and non-alcoholic beverages had been the main determinant of headline inflation in 2010. Food prices was the only group that declined in April as in March. This group declined by 0.48% and its contribution to monthly CPI was -0.12 bps.
- ✔ Thus, food prices which had increased to 17.8% in October 2010 declined to 2.83% in April 2011.

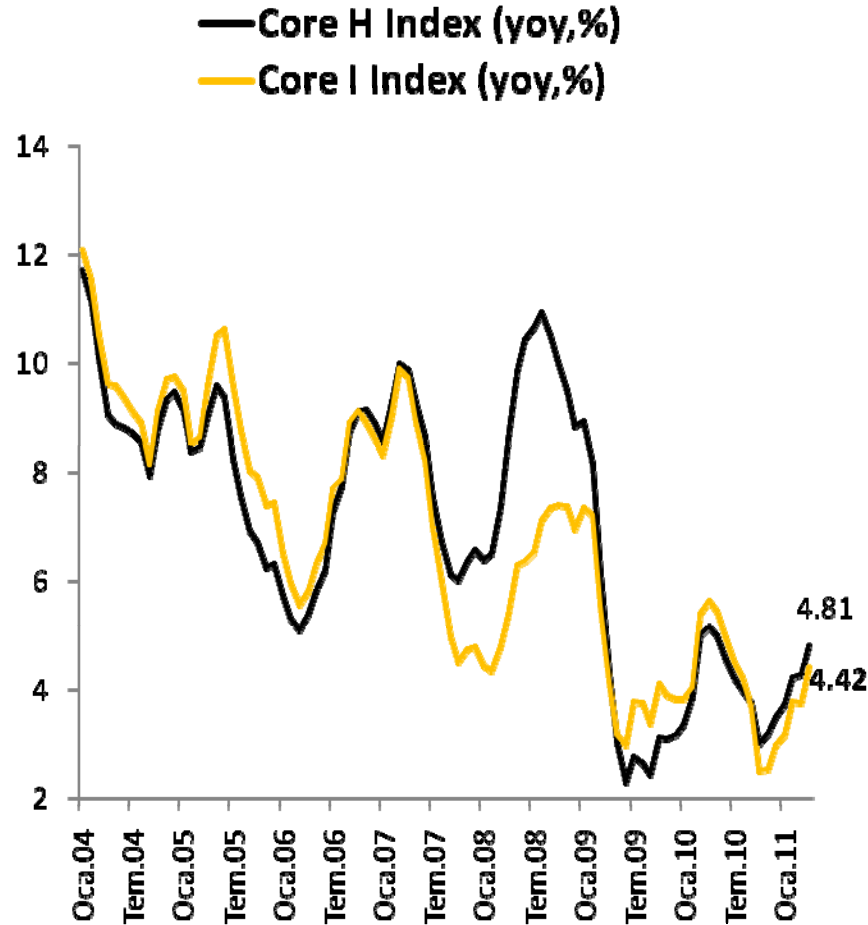


Source: TurkStat



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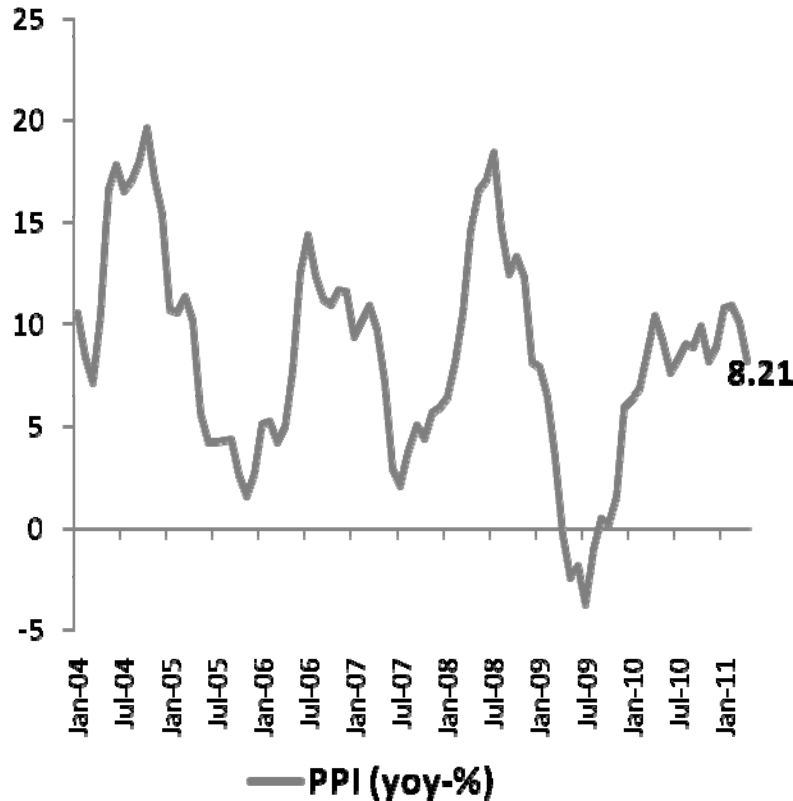
Core CPI leads to the headline CPI...



Source: Turkstat

- ✓ Core CPI excluding food and energy increased 1.77% mom and 4.42% yoy in April.
- ✓ Core CPI monthly increase had been 0.59% in March.
- ✓ With the April figures, core CPI has surpassed the headline inflation for the first time since July 2007. This can signal that annual inflation, which has hit its lowest level with 3.99% in March for the last 41 years, would start an upward movement.
- ✓ CBRT mentioned the possibility of upside movements in inflation for the coming period in its last inflation report. CBRT statement supports our remarks in our prior reports.

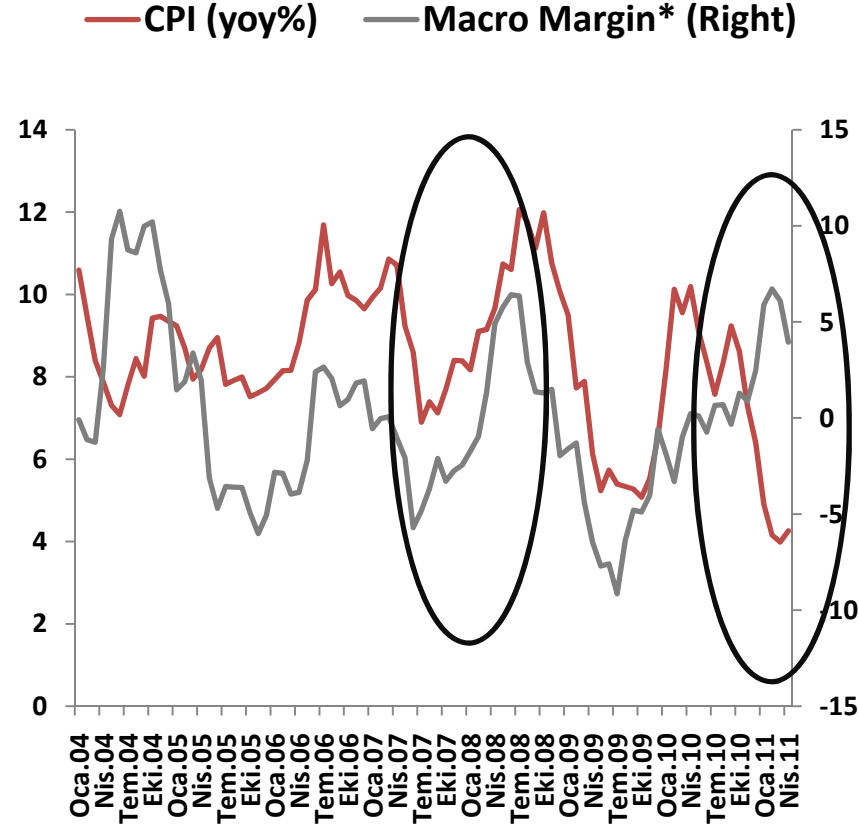
On a monthly basis, PPI climbed to 0.61% in April...



Sources: CBRT

- ❏ PPI monthly increase fell to 0.61% in April from 1.22% in March. On the other hand, annual inflation slowed down from 10.08% to 8.21% in April due to the decrease in agriculture sector prices.
- ❏ Agriculture sector prices were up by 4.59% on a yearly basis and, the industry sector prices increased by 9.09%.
- ❏ It draws attention that PPI declined not only on a monthly basis but also on a yearly basis. Thus, the decline in yearly PPI to 8.21% from 10.08% in April and thus the decline in the spread between CPI and PPI seem significant for the movement of CPI in the upcoming period.

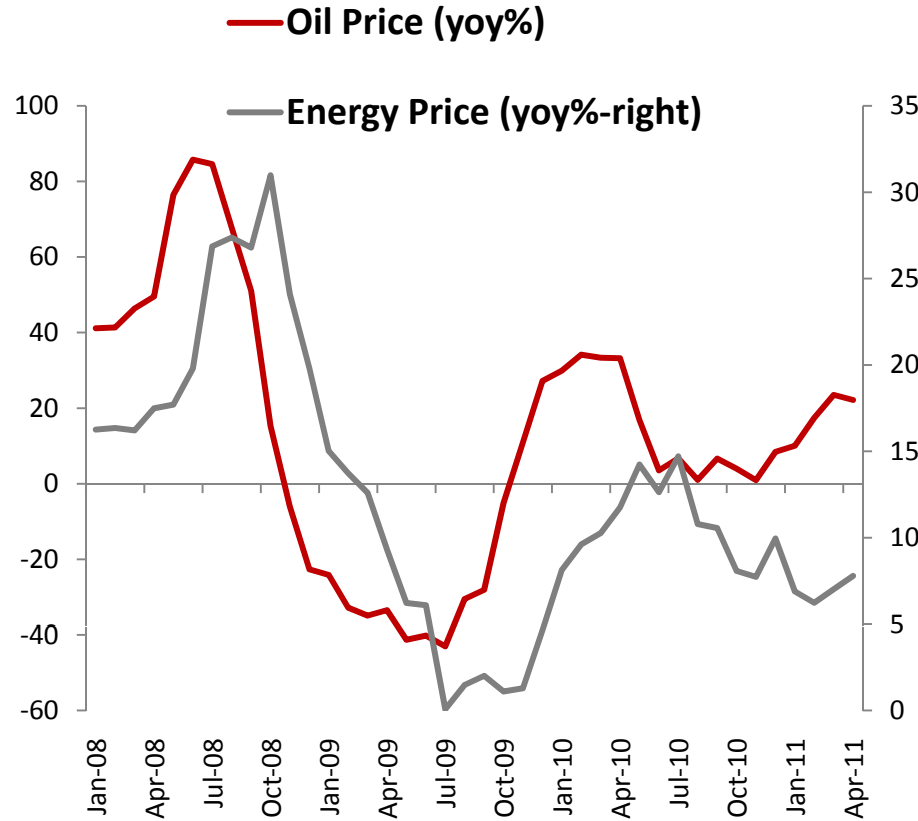
The gap between macro margin and CPI hasn't been as wide as now...



*Macro Margin: spread between CPI-PPI
Source: CBRT, Vakifbank

- When we consider the previous movements of macro margin, it draws attention that the upward movements of macro margin leads a lagged upward movement on CPI.
- We can see in the graph that the increase in macro margin has recently affected the movements of CPI. Thus, the last downward movement in macro margin indicates that this rising in CPI would slow in the forthcoming months
- According to previous movements in macro margin, it draws attention that the spread between CPI and macro margin was not so wide as now.
- By taking into account the decline in PPI in April, it can be expected that the increase in CPI would be weakened in the next period.

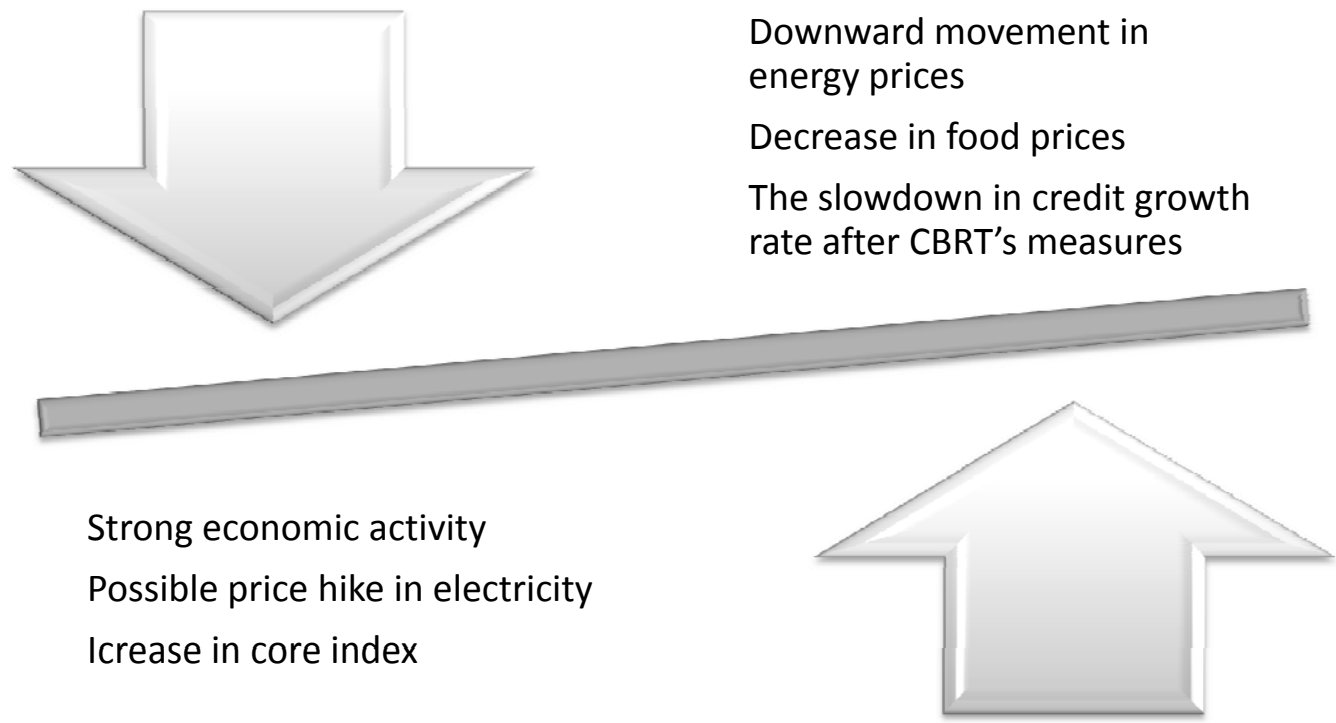
The effect of global increase in oil prices...



- 📌 Rapid rise of global oil prices since November 2010 has caused upward risks especially in transportation prices since last month.
- 📌 However, this effect was limited by the downward movement of oil prices in April.
- 📌 The limited upward movement in energy prices in April as seen in graph would lead to a limited upward risk in energy prices in the next period.

Source: CBRT, Bloomberg, Vakifbank

There are upward and downward risks on inflation...



- ✔ Latest inflation releases show that CBRT doesn't need to start tightening monetary policy through policy rate hikes within the next few months.
- ✔ We think that CBRT would start increasing policy rate after the second half of the 2011.

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