

VAKIFBANK TURKISH ECONOMY WEEKLY

**CPI fell below 4% for the first time in
41 years in March.**



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Headline CPI rose by 0.42% mom in March lower than 0.66% mom market consensus and our 0.75% mom forecast...



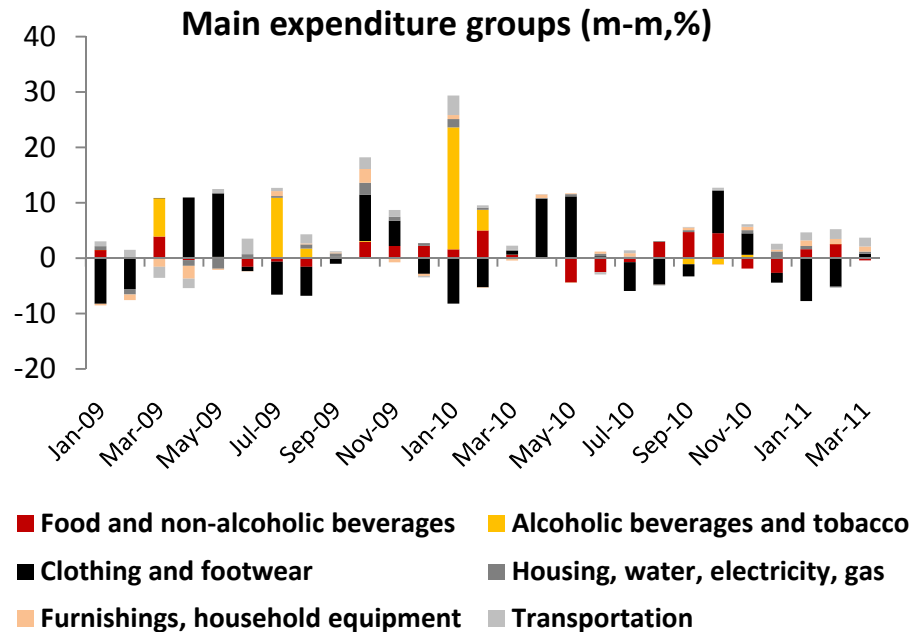
- Because of downside surprise in food prices (-0.41%mom), annual CPI inflation decreased to 3.99% from 4.16%. Therefore, annual CPI fell below 4% for the first time in 41 years in March.
- In the first quarter of the 2011, thanks to the positive base effect, the annual CPI fell well below the medium and long-term target of CBRT.
- However, after the first quarter of the 2011, with the decrease in positive base effect, annual CPI is expected to rise again due to high commodity and global food prices.

	CPI	PPI
(2003=100)	Mar.11	Mar.11
According to the previous month	0.42	1.22
According to December of the previous year	1.57	5.4
According to the same month of the previous year	3.99	10.08
According to the twelve months moving averages basis	7.29	9.36

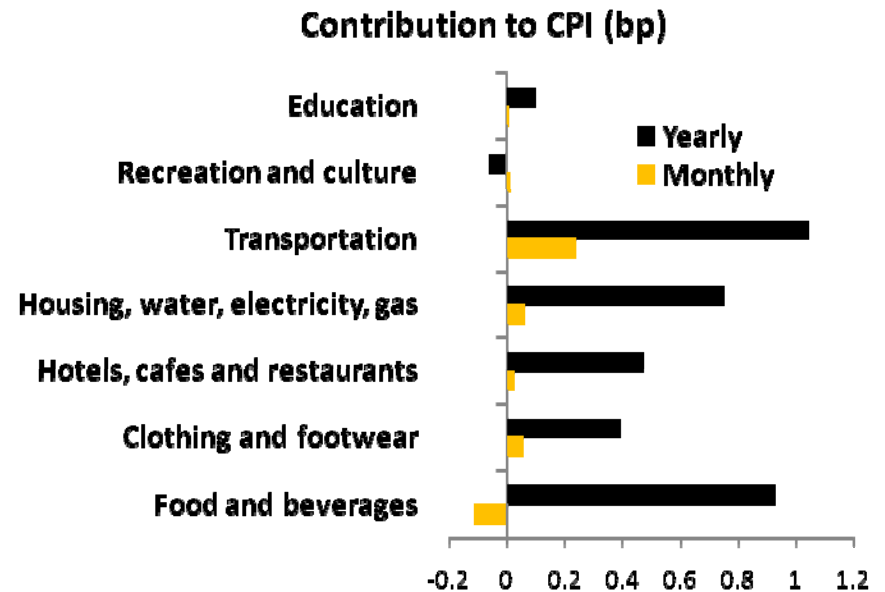
Source: TurkStat

While transportation prices increased by 1.57%, food prices decreased by 0.41%...

- ✔ Due to increase in petroleum prices in March, transportation was the major expenditure group that experienced most severe increase with 1.57%. Contribution of this group to CPI was 0.24 bp. With the continuity of the increase in petroleum prices, transportation prices are expected to continue to increase.
- ✔ Housing prices increased by 0.38% on monthly basis and its contribution to monthly CPI was 0.063 bp that was limited compare to the transportation.
- ✔ In March, clothing prices increased by 0.77% on a monthly basis due to the starting of the new season in textile sector. Clothing prices are expected to increase sharply on a monthly basis in April.
- ✔ The movement of the food and non-alcoholic beverages was the main determinant of the headline inflation in 2010. Food prices was the only group that declined in March. This group declined by 0.41% and its contribution to monthly CPI was -0.11 bp.



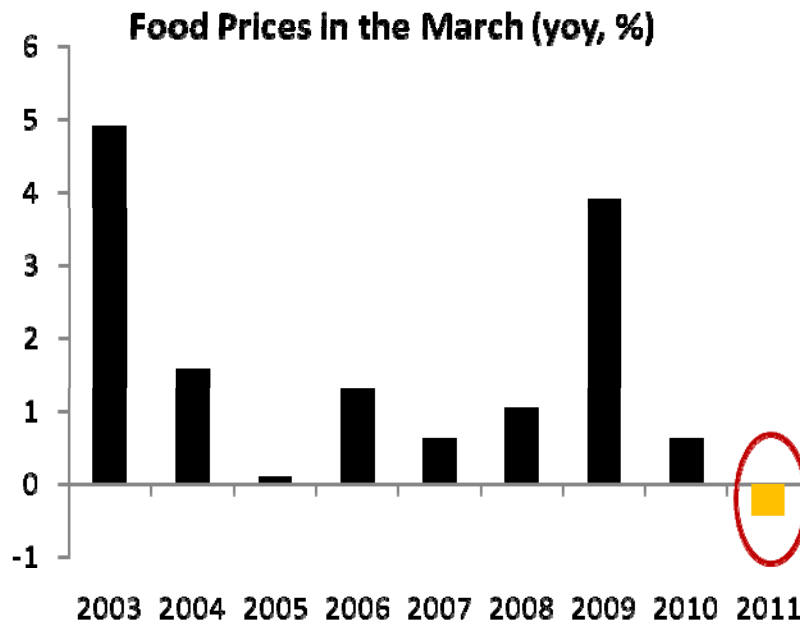
Source: TurkStat



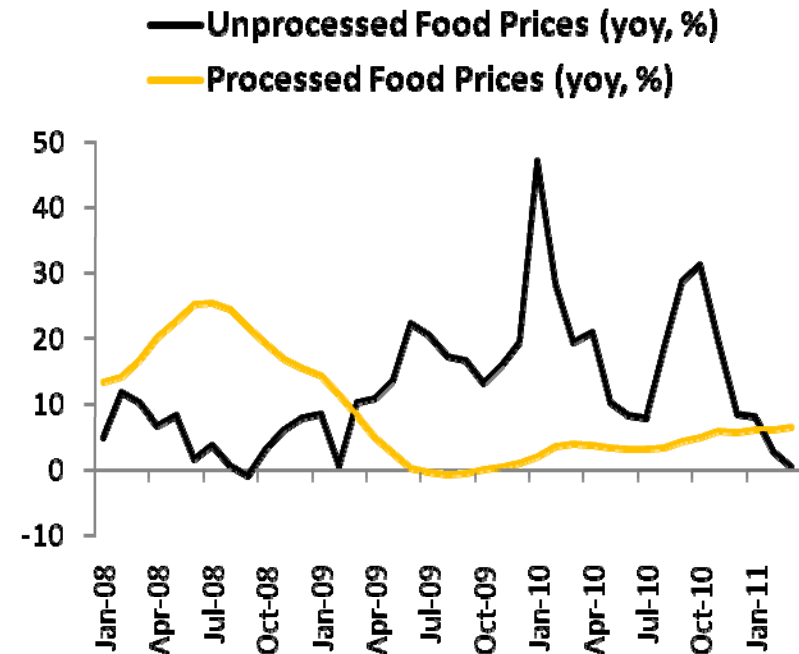
Source: TurkStat

Food prices were negative for the first time in March...

- Food prices which rose to 17.08% yoy in October 2010 decreased to 3.47% yoy in March.
- The downside movement in the headline inflation was driven by a surprise decline in food prices in March.
- Decrease in unprocessed food prices had an impact on the fall of food prices.
- Fresh food and vegetables prices decreased by 3.94% mom and unprocessed food prices decreased by 0.56% yoy.



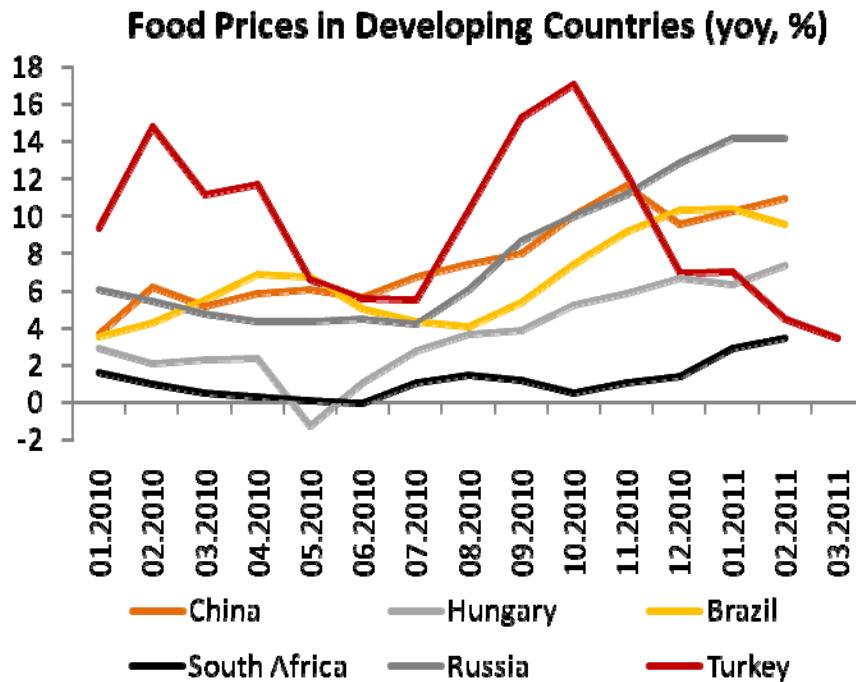
Source: CBRT



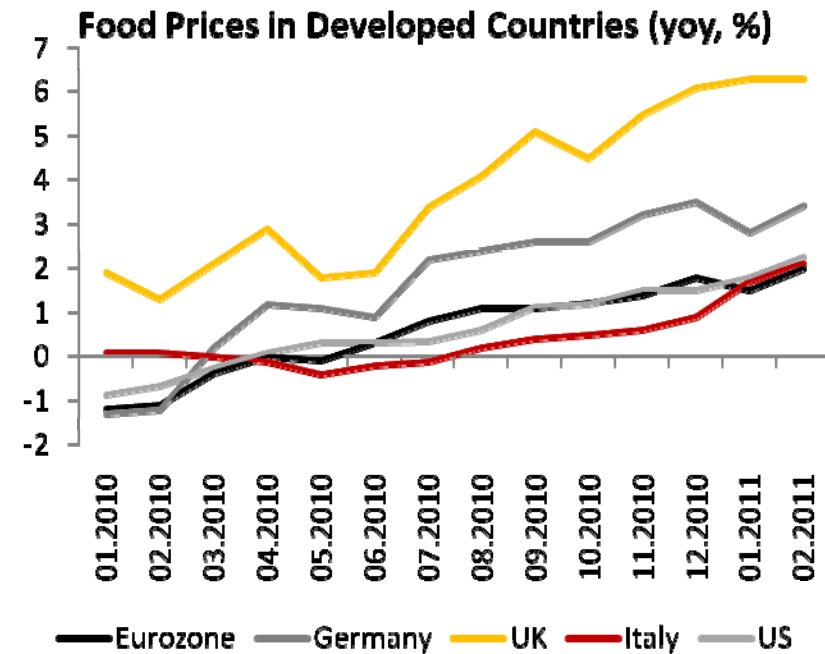
Source: CBRT

While food prices are decreasing in Turkey, they are rising in rest of the world...

- Food prices are increasing in both developing and developed countries except for Turkey. Also UN World Food Prices Index has been rising since July 2010.
- Decreasing food prices in Turkey can be a correction of the sharp rise before October 2010 but decrease in prices is higher than previous rise as seen in the graph.
- Hence, food prices may increase in the next period and this situation may pose a risk for the inflationary pressure.

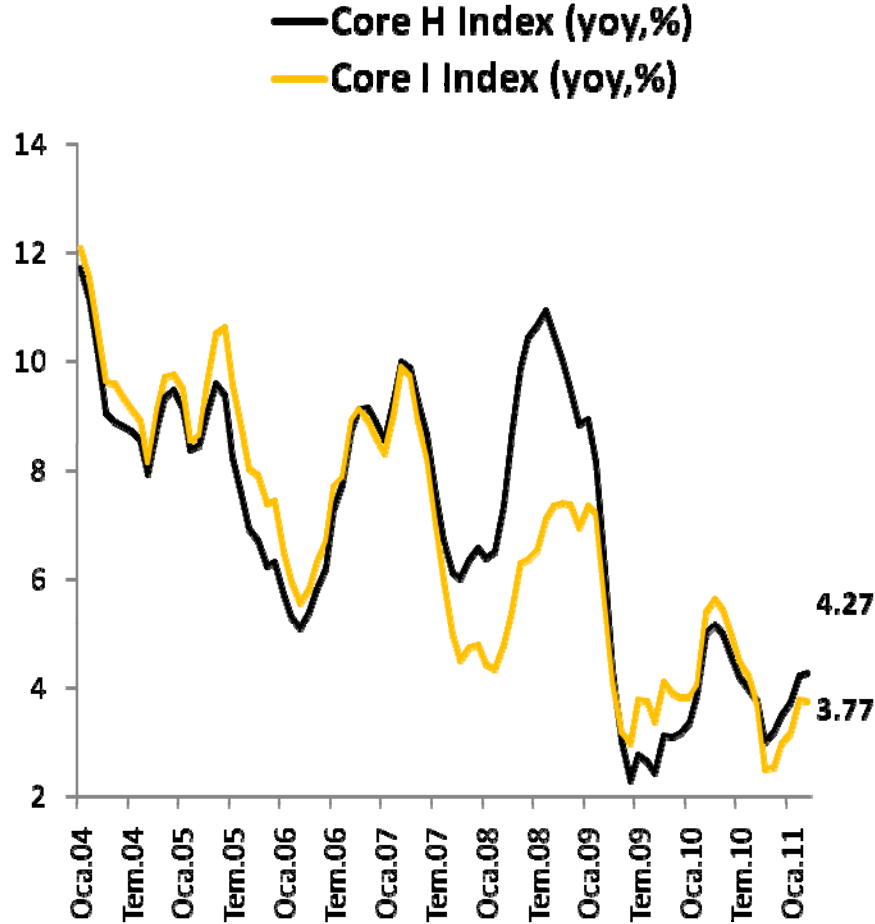


Source: Bloomberg



Source: Bloomberg

Core CPI leads the headline CPI...



Source: Turkstat

Core CPI which excludes food and energy increased 0.59% mom and 3.77% yoy in March.

In February core CPI increased by 0.10%, its rate of rise increased in March with 0.59%. This improvement is an indicator of the inflationary pressures.

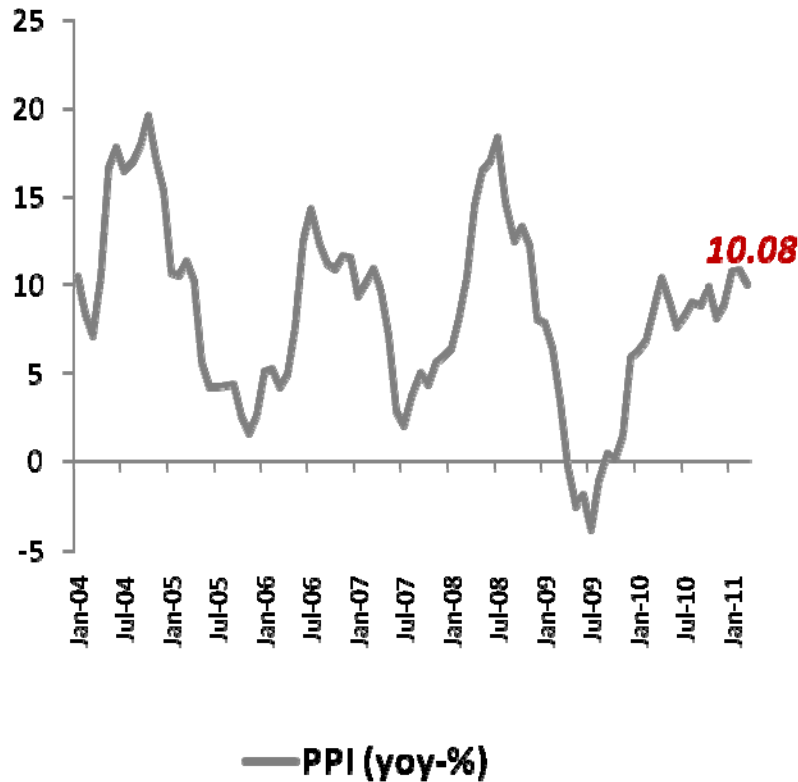
In the previous periods, it was seen that core CPI led headline CPI, it can be expected that rise in Core CPI since October may cause an upward movement in headline CPI in the coming months.

Headline CPI is expected to increase in the second quarter of 2011 after disappearance of base effect.

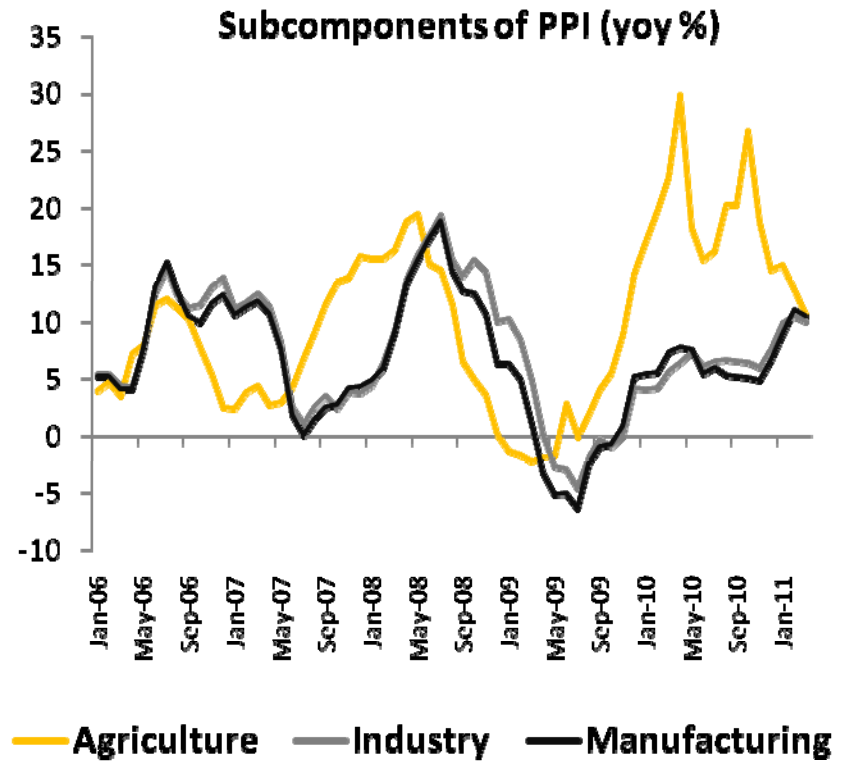
On a monthly basis, PPI climbed 1.22% in March...



While PPI increased on the monthly basis, yoy inflation slowed down from 10.54% to 10.08% in March. In the agricultural sector, prices were up by 0.68%, while annual inflation decreases to 10.54%. The high levels in agricultural sector prices can be a risk for the food prices in CPI in the future.



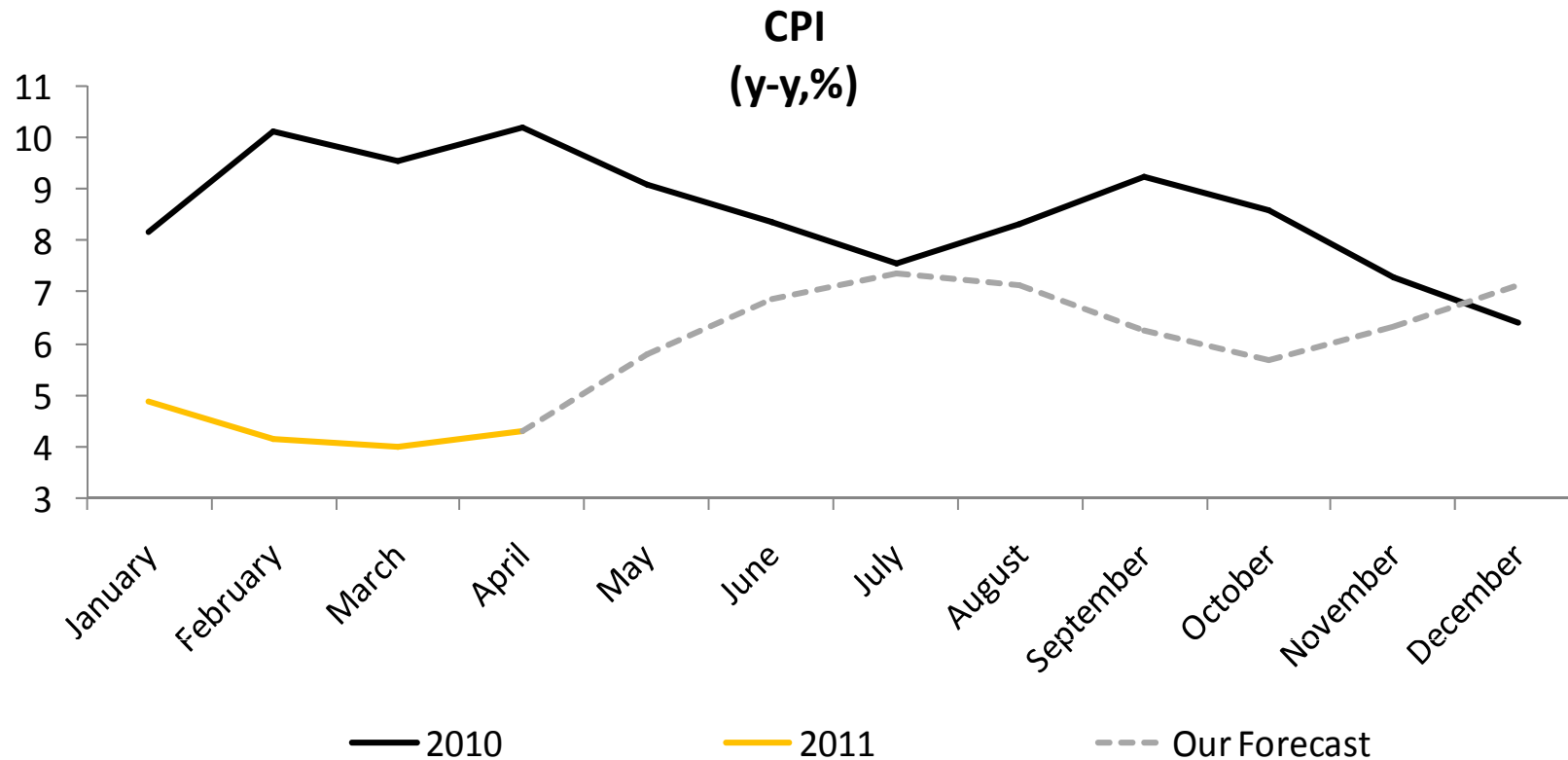
Sources: CBRT



Sources: CBRT

The base effects and high commodity prices are likely to drive inflation higher in the near term...

According to our econometric model, after the sharp decline in the first quarter, inflation will move upward until the first half of 2011. The base effects and high commodity prices' lagged effect are likely to be the driven forces on rise in inflation in the near term...



Source: vakifbank,CBRT

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