Economic Watch

Turkey: April CPI implied weak currency pass-thru

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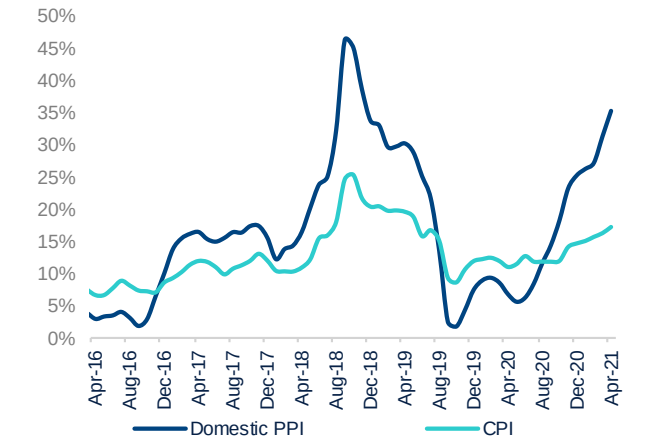
Consumer prices increased by 1.68% in April slightly lower than expectations (BBVA Research 2%, Consensus 1.8%), resulting in an annual inflation of 17.1% (up from 16.2% the month before). The main deviation in our forecast was the lower-than expected exchange rate pass-thru, which might be happening more gradually due to weakening demand in certain sub-items and already implemented lock-down measures. Yet, core C prices annual inflation continued to increase and reached 17.8%, the highest level since April 2019. Domestic producer price inflation once again surprised on the upside with 4.3% mom increase implying an annual inflation of 35.2%, which confirmed increasing cost-push factors and uncertainties on the inflation outlook especially in a period of delayed demand due to the recent lock-down measures. Even in a gradual currency depreciation pattern, we expect consumer inflation to hover around 17% till November with a potential to experience the peak in the coming period depending on the price adjustments once the economy is reopened in late May.

Deepening cost push factors increased the uncertainty on inflation outlook…

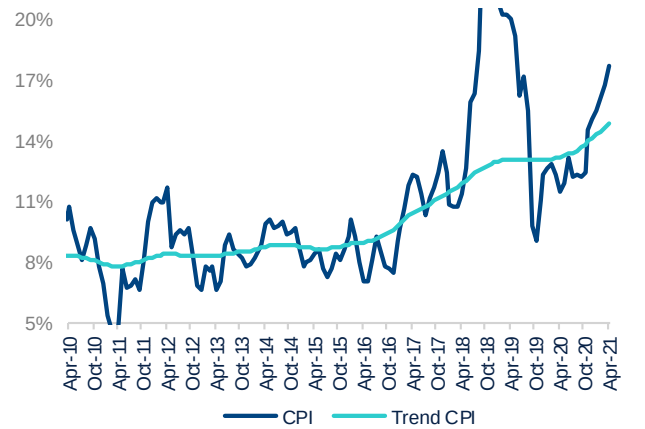
Food inflation materialized as 2.2% mom in April, led by the seasonally higher unprocessed food prices (3.4% mom) and still limited increase in processed food prices (1% mom) but annual food inflation retreated slightly to 17.4% on base effects. Although energy inflation was limited by 0.1% mom thanks to the ceiling price applications and the compensation from taxes on fuel prices, energy prices annual inflation upsurged to 18.4% from 12.4% in March on unfavorable base effects. The recent depreciation in currency (Figure 3) and accelerating cost push factors (Figure 4) seem to have weaker impact so far on core inflation than expected on the back of decelerating demand, capped fuel prices and potentially delayed price adjustments on lock-down measures. Core prices rose by 1.87% mom on basic goods (2.8%) and services prices (0.7%), whereas some both demand and exchange rate pass-thru sensitive items displayed declines in prices such as furniture (-3.6% mom). Hence, annual core inflation reached 17.8%, the highest realization since April 2019. Inertia deepened further as annual services inflation increased to 13.1% from 12.6% in March. Besides, domestic producer prices rose by 4.3% mom (vs our exp. 3.5% mom), resulting in an annual figure of 35% and a wider gap between producer and consumer prices. Last but not least, if excluded by seasonal and cyclical factors, we calculate a trend inflation level of near 14% (Figure 2). Therefore, if the potential impact of the reopening in the economy is also considered, we believe the uncertainty on inflation outlook has increased further, given the delayed demand and cumulated supply-side factors.

Figure 1. **CPI vs Domestic PPI, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 2. **CPI and Trend Inflation, YoY**

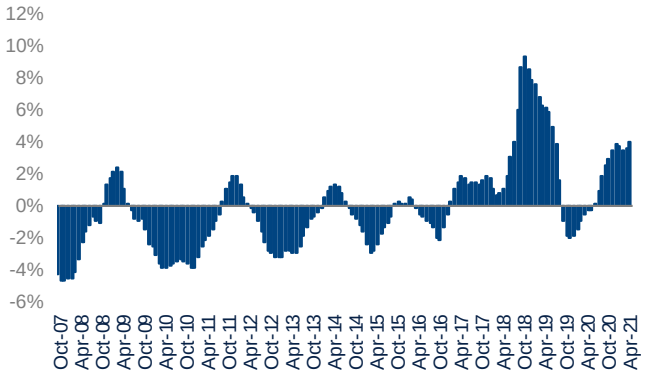


Source: Garanti BBVA Research, Turkstat

… which requires the CBRT to remain cautious

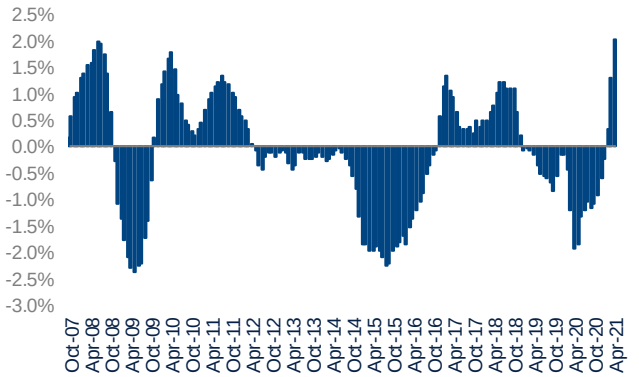
In contrast with the revised CPI projections of the CBRT, deepening cost push factors, potentially delayed exchange rate pass-thru impact and uncertainties in price adjustments once the economy is reopened (especially in sticky services prices) might still result in a worsening inflation outlook in the coming months. We maintain our year-end inflation forecast at 15% and expect the CBRT to start an easing cycle only very gradually in September.

Figure 3. **Currency Basket Impact on Core-D (annual pp)**



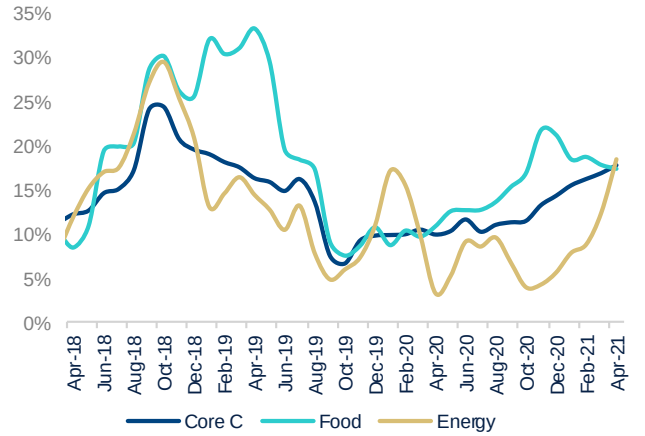
Source: Garanti BBVA Research, Turkstat

Figure 4. **Oil Price Impact on Core-D (annual pp)**



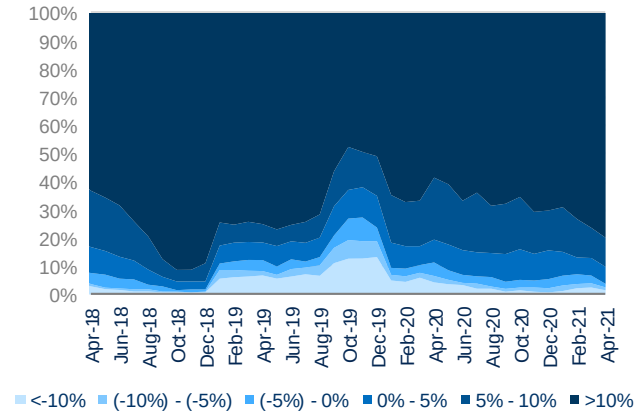
Source: Garanti BBVA Research, Turkstat

Figure 5. **CPI Components, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 6. **Consumer Inflation Diffusion Map, YoY**



Source: Garanti BBVA Research, Turkstat

Figure 7. **CPI in Subcomponents**

	MoM	YoY
Total	**1.68%**	**17.14%**
Food & Non-alcoholic beverages	2.1%	17.0%
Beverage & Tobacco	0.7%	3.6%
Clothing & Textile	7.6%	11.0%
Housing	1.0%	13.6%
Household Equipment	0.0%	22.3%
Health	0.6%	19.2%
Transportation	1.7%	29.3%
Communication	-0.3%	9.1%
Recreation & Culture	1.5%	12.3%
Education	2.1%	10.2%
Restaurants & Hotels	1.4%	16.8%
Misc. Goods & Services	1.9%	18.3%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	**4.34%**	**35.17%**
Mining & Quarrying	5.0%	27.1%
Manufacturing	4.6%	38.1%
Food Products	1.8%	29.8%
Textiles	6.0%	30.5%
Wearing Apparel	1.0%	8.9%
Coke & Petroleum Products	5.4%	159.5%
Chemicals	7.9%	39.0%
Other Non-Metallic Mineral	3.0%	31.3%
Basic Metals	1.1%	71.7%
Metal Products	3.8%	29.0%
Electrical Equipment	3.9%	34.0%
Electricity, Gas, Steam	2.2%	4.5%

Source: Garanti BBVA Research, Turkstat

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