

CPI takes a breather in February...

Feb16 CPI: -0.02% MoM (Market expectations: 0.3%, Seker Invest forecast: 0.5%)
 YoY CPI: 8.8% DOWN from 9.6%
 Feb16 DPI: 0.20% MoM decline
 YoY DPI: 4.47% DOWN from 5.94%

YoY CPI declined to 8.8% in February...

In February, food prices, on a 0.04% MoM fall emerged as the main factor behind the lower than expected realization. With February's reading, annual food inflation declined to 8.8% from 11.7%. As maybe recalled, the CBT had upward-revised its 2016 food inflation forecast to 9% from 8% in the last inflation report released at the end of January.

Apart from food, clothing&footwear traditionally supported the headline with a 6.2% MoM decline, in line with our expectation. Meanwhile, despite the slight strengthening of the TL and more or less flat oil prices, transport posted a 0.8% MoM increase. After January's high posts, rent&housing and houseware&furniture softened to 0.36% and 0.50% MoM increases, respectively.

As for the core indices closely monitored by the CBT, core H and core I posted MoM increases of 0.13% (prev:0.42%) and 0.06% (prev:0.33%), respectively. Annual core H and annual core I rose to 9.49% (prev: 9.37%) and 9.72% (prev: 9.63%), respectively.

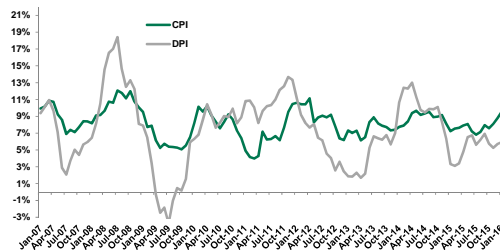
Comment:

After the high start to the year at 9.6%, CPI on a 0.02% MoM fall remained below expectations, pulling down annual inflation to 8.8% from 9.6%. However, the core indices maintained their increasing trend converging to double digits.

For 2016, our CPI forecast is at 10%...

For 2016, our CPI forecast is at 10%, high above the market consensus of 8.3% and the CBT's revised forecast of 6.5%. The main reason behind this forecast is the ambiguous impact of a 30% rise in the minimum wage.

In terms of monetary policy, despite all risks on inflation front, we believe that as long as the lira stays at current "non-disturbing" levels, i.e. not displaying a volatile path, the Committee will prefer to continue with the wide interest rate corridor and liquidity management tools even until April, when Basçi's term in office expires.



Good start to the year...

Turkstat has released its Jan16 IP print, wherein the IP index posted 3.6% YoY growth. Meanwhile, calendar-effect-adjusted (CEA) IP posted 5.6% YoY growth for the month, while seasonality and calendar-effect-adjusted (SCE) IP grew 1% MoM. When compared to Nov15-Dec15, we see a slight improvement in IP, both in unadjusted and adjusted figures.

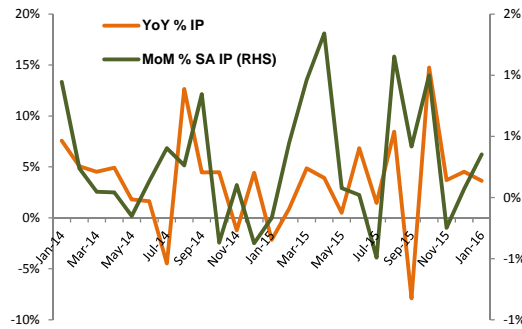
In the details of headline IP, "manufacture of basic pharmaceutical products," on 40% YoY growth (130 bps contribution), ranked as the prime contributor to the headline print, followed by textiles and wearing apparel on 7% and 9% YoY growth, respectively. In January, "automotive production" posted 7% YoY contraction, marking the highest contraction for January since 2014. Disputes between workers and factories regarding the increase in minimum wage emerges as the main reason behind the YoY contraction in the automotive sector, hampering production.

Comment:

In January, although partially supported by the base year effect (Jan15: 2.2% YoY contraction), headline IP made a good start to the year on 3.6% YoY growth, exceeding the 2015 average YoY growth of 3.2%. When compared to the 2015 average and last month's print, we observe a slight improvement in IP, both in unadjusted and adjusted figures.

Although it is too early to comment on the full year, a slight recovery in IP does give a glimpse of sunshine. Additionally, in February, according to Turkish Exporters Assembly preliminary figures, we see the YoY contraction in exports decelerating. For 2016, our GDP growth forecast is 4%, mainly supported by domestic demand, as implied by the Jan16 IP figures, where durable&non-durable goods production posted eye catching YoY growth of 7.2% and 5.9%, respectively.

IP increased 3.6% YoY in February...



Improvement in CAD loses pace parallel to our forecast...

Jan16 current account deficit: USD2.2bn (Jan15 current account deficit: USD2.4bn)
 MARKET FORECAST: USD2.5bn of deficit SEKER FORECAST: USD2.1bn of deficit
 2015 YE CAD: USD32.2bn
 2014 YE CAD: USD43.6bn

Contraction pace of 12 mth rolling CAD decelerates...

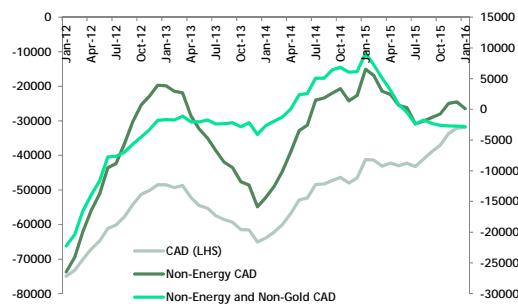
In January, the balance of payments was in the red at USD2.2bn, versus the Jan15 deficit of USD2.4bn. January's print was in line with expectations, pulling down the 12mth rolling deficit to USD31.9bn from USD32.1bn. The 12 mth rolling non-energy balance was flat at 0.1bn of surplus (Dec15: USD1.2bn), while 12 mth rolling non-energy & non-gold balance was in the red at USD2.8bn (Dec15: USD2.7bn).

In the details of the portfolio account, we observe an outflow of around USD1.2bn. In terms of the breakdown, we observe a USD0.3bn outflow from the equity market. Regarding debt instruments, foreigners sold around USD0.5bn, USD0.1bn of which was government debt instruments.

Comment:

As may be recalled, in 2015, for the first time, without either a fall in GDP growth rate or a contraction, the current account deficit posted a decline in both absolute terms, and as a ratio to GDP. Accordingly, CAD realized at USD32.2bn (4.6 % of GDP) from 2014 levels of USD43.6bn (5.5% of GDP) with a GDP growth rate of ~3.5%, versus the 2014 GDP growth of 2.9%. The main factor in this outcome is the significant fall in oil prices. In 2015, oil prices halved to USD52/bbl on average, pulling down the net oil bill from USD49bn to USD33bn.

As for the current account deficit, with the more or less identical level of services and primary income, our CAD forecast is USD35bn (5% of GDP), yet with upside risks, especially due to a possible decline in tourism revenues.



First rate cut since Feb15...

MPC cut the upper band to 10.50% from 10.75%...

O/N borrowing rate: 7.25% ON HOLD

O/N lending rate: 10.50% DOWN FROM 10.75%

1 week repo rate: 7.5% ON HOLD

Seven out of 26 market participants had expected a cut in the upper band in a range of between 25bps to 50 bps, and the Şeker Invest forecast was for a 50 bps cut in the upper band. In the details, statements regarding the macro outlook were word for word the same as in February. The second paragraph of the summary identified the main factor behind the cut in the upper band as the easing of global volatility; that together with the efficient use of simplification tools outlined in the roadmap released in August.

Comment:

Although 25 bps was seen as a “symbolic” move by the market and did not lead to a material impact, it is actually a significant move in terms of its signaling effect, we believe. It is clear that the decline in global uncertainty, especially with the Fed’s March meeting and the expansionary moves from the ECB strengthen the MPC’s hand to opt for a cut in the upper band, which was seen as the insurance for bad days.

Accordingly, the March meeting was the last best option to make a simplification move before the term of the Governor expires on April 19th. However, we are cautious whether that decline will result in a significant effect on credit conditions when we consider the geopolitical problems that hamper investment/consumption appetite.

Now, we believe, the new Governor will exert more influence on the financial markets than the interest rate cut. Accordingly, for the April meeting, although we do not overlook the importance of signals from major central banks on the decision of MPC, we expect the Bank to stay on hold and watch for the reactions to the new Governor before taking a new action.