

**Montly CPI jumped by 2.41% MoM in October...**

**The annual inflation eased to 5.08% in October...**

Monthly CPI rose by 2.41% MoM in October, much higher than market consensus of 1.88% MoM rise. Worse-than-expected inflation figures were mainly driven by higher-than anticipated food price surges while one-off price adjustments were in line with expectations.

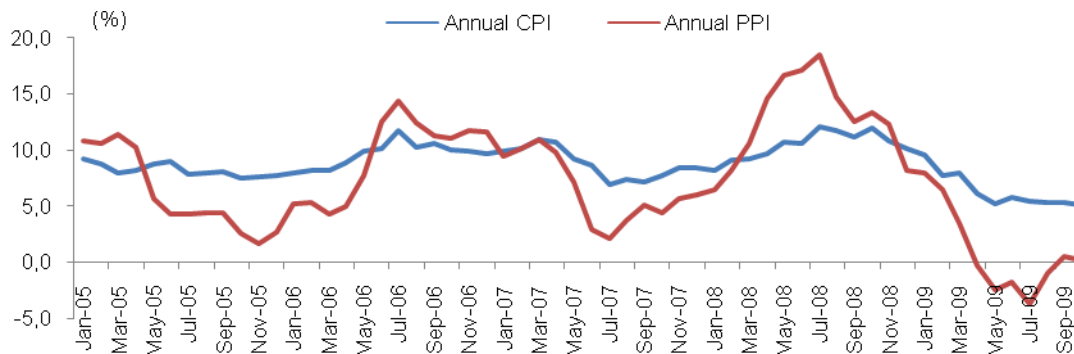
**On the other hand, the core inflation dynamics sent mixed messages...**

The upward seasonally price adjustments in food and clothing sector prices were anticipated. But the food prices with a 2.96% MoM rise surprised us and became the main reason for our forecast deviation. One-off price adjustments- the abolishment of tax rate cuts on consumption goods (such as autos, white goods and furniture) and electricity price hikes- left its remarks all over October CPI. Thus, housing, furniture and transportation sectors posted high monthly price rises with more than 2% MoM increases for the month. Annual CPI eased to 5.08% in October from 5.27% in September.

The core indices, which exclude the one-off price effects, sent mixed messages as most of them adopted upward trend in October. The annual core index (I) – that excludes food, energy, tobacco and gold prices – climbed to 4.11% in October following its record of 3.37% in September.

October	Montly(%)	Annual(%)
<b>CPI</b>	<b>2,41</b>	<b>5,08</b>
Food and non-alcoholic beverages	2,96	5,82
Alcoholic beverages and tobacco	0,14	20,95
Clothing and footwear	8,39	0,32
Housing, water, electricity, gas and fuels	2,12	2,67
Furnishings, household equipment	2,51	0,33
Health	0,06	2,61
Transport	2,11	2,74
Communications	1,21	3,06
Recreation and culture	0,85	12,32
Education	0,17	5,52
Hotels, cafes and restaurants	1,24	7,48
Miscellaneous goods and services	0,93	12,86
<b>CPI (Excluding seasonal products)</b>	<b>0,60</b>	<b>5,07</b>
<b>Exclidig food, energy, alcohol, gold and tobacco</b>	<b>0,36</b>	<b>3,37</b>
<b>Excluding energy</b>	<b>0,35</b>	<b>5,88</b>
<b>PPI</b>	<b>0,28</b>	<b>0,19</b>
Agriculture	1,34	4,95
Industry	0,10	-0,97
Manufacturing industry	0,16	-0,73

Source:TurkStat



Source:TurkStat

**Annual PPI rose by 0.19% YoY in October...**

While monthly PPI rise by 0.28% MoM in October, its annual reading posted a 0.19% YoY rise for the month. The drastic adjustments in the commodity prices on the back of the global economic slump continue to shape the PPI. Modest price adjustment on the commodity side has been supportive of October readings.

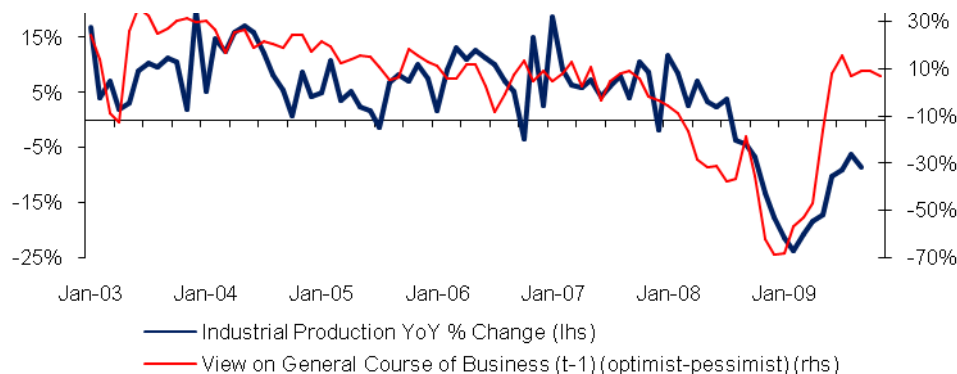
Recent commodity price adjustments have sharply reduced the overall PPI. But we expect annual PPI to climb to 4%-5% territory once the low based-year effects faded out.

**Monthly industrial production contracted by 8.6% YoY in September..**

**Monthly industrial production decreased at decelerating rate in September...**

Monthly industrial production (IP) contracted by 8.6% YoY in September, higher than market expectations of 7.6% YoY decline. Calendar and seasonal adjusted IP reading will spell out much, usually out at the end of that month, since the lack of working days due to the Ramadan holiday affected the economic activity this September compared with last year's.

We do not consider that September IP realization indicates a change in its trend, ending the deceleration trend in its decline pace. Industrial production is likely to start posting growth after December on the back of the low base year affects and the rebound in the inventory cycle. Early growth-related indicators in 3Q09 reveal that the recovery in the economic activity will be slow. On the foreign demand side, exports remained weak in the third quarter while they started to grow in October. GDP will decline to around 4% YoY in 3Q09 and it is likely to start to balance in 4Q09 on the back of loosening monetary and fiscal policies.



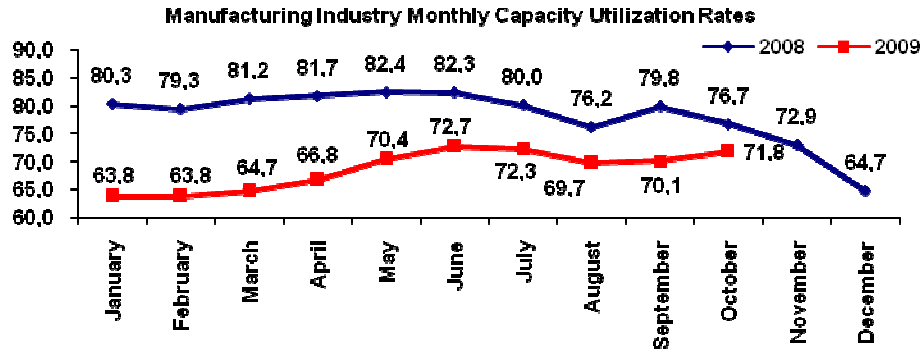
Source: Turkstat

**CUR realized at 71.8% in October...**

**The CUR contraction rate compared with last year has decelerated in October...**

Monthly Capacity Utilization Ratio (CUR) declined by 4.9 percentage points to 71.8% in October, better than market expectations of 70.9%. While public sector CUR eased sharply by 15.9 percentage points YoY to 67.6%, private sector CUR supported overall CUR with 3.9 percentage points YoY decline in October.

On the sectoral breakdown, the deceleration in the leading sectors' decline paces became apparent for the month whereas the chemicals and basic metals were the only sectors that posted growths on YoY basis. The chemical CUR rose by 1.5 percentage points YoY to 76.7% in October, ending its 13-month contracting period. The CUR in the basic metals climbed by 1.1 percentage points YoY to 75.1% in October.



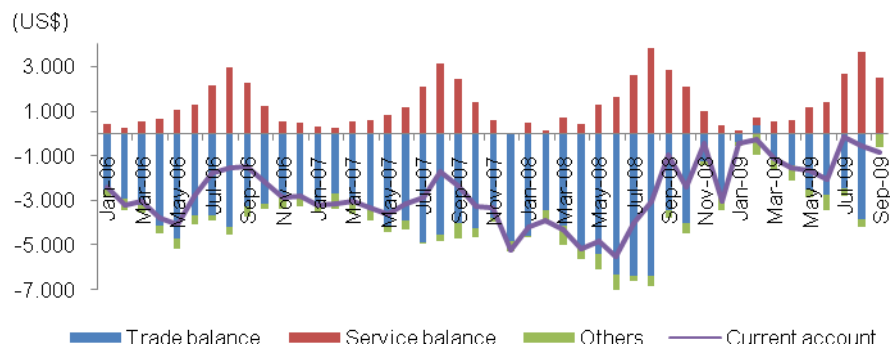
Source: TurkStat

**The rolling 12-month current account deficit has declined to US\$14.7bn in September...**

**The CA balance posted a surplus of US\$0.13bn in September despite general deficit expectations...**

The current account (CA) balance posted a deficit of US\$0.87bn in September, much higher than market consensus of US\$0.24bn deficit (Şeker Securities: -US\$0.50). The CBRT also revised the previous CA figures downward as the tourism revenues appeared to be overestimated. Year-to-date (YTD) tourism revenues were adjusted by US\$0.53bn down to US\$16.23bn in September and became the main reason for the forecast errors for the month.

The deceleration in its decline pace lost significant momentum in September since monthly CA shrank just by 9% YoY in September, rather weak compared with its YTD 80% YoY decline. The rolling 12 month CA deficit declined to US\$14.57bn in September from US\$14.65bn in August. Contracting economic activity, a weaker local currency and significant easing in oil prices have sharply narrowed the current account deficit in 2009. We estimated the ratio of CA deficit over the forecast GDP at 2.0% in 2009 after reaching 5.8% in 2008.



Source: The CBRT