Monthly CPI declined by 0.36% MoM in May...

The annual inflation declined below 10% in May...

May CPI post a 0.36% MoM decline despite general rise expectation of 0.30%. Exceptional decline in food prices (4.38% MoM decrease) on the back of the recent decision to open the meat market to imports significantly reduced the meat prices. On the other hand, clothing prices saw its seasonal upward adjustments with 11.6% MoM rise. Nevertheless, food sectors had the last word on the overall CPI and reduced its annual reading to 9.10% in May from 10.19% in April.

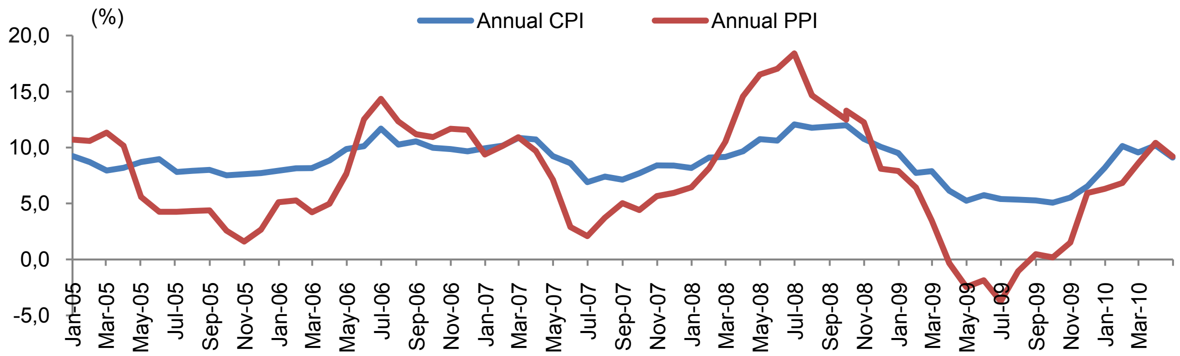
Moreover, the core inflation dynamics also pointed downward trend....

In addition, the core indices, which exclude the one-off price effects, are also in moving downwards. The annual core index (I) – that excludes food, energy, and tobacco and gold prices – declined to 5.46% in May from 5.65% in June.

After surfing around 10% for the past four months, annual headline CPI has eased decisively below double-digits in May on the back of the positive supply side shocks in food prices. Annual CPI will remain at around the 9% territory for the next 4 months before starting a significant decline in October. One-off price adjustments due to electricity price hikes and administrative price hikes last year will fade out in October. Further base year affects will support the inflation and reduce its level to 6% in 1Q11.

May	Montly(%)	Annual(%)
CPI	**-0,36**	**9,10**
Food and non-alcoholic beverages	-4,38	6,66
Alcoholic beverages and tobacco	-0,01	42,96
Clothing and footw ear	11,16	3,81
Housing, w ater, electricity, gas and fuels	0,39	8,63
Furnishings, household equipment	0,15	3,58
Health	-0,02	0,42
Transport	-0,03	0,42
Communications	-1,34	13,79
Recreation and culture	-0,46	5,90
Education	0,60	5,90
Hotels, cafes and restaurants	0,90	10,16
Miscellaneous goods and services	1,97	10,84
CPI (Excluding seasonal products)	**0,68**	**9,87**
Excldig food, energy, alcohol, gold and tobacco	**0,60**	**5,41**
Excluding energy	**0,59**	**9,45**
PPI	**2,35**	**10,42**
Agriculture	9,59	29,67
Industry	0,83	6,47
Manufacturing industry	0,92	7,79

Source:TurkStat



Annual PPI rose by 9.41% YoY in May...

On the PPI front, monthly PPI sharply declined by 1.15% MoM in May despite market estimates of 0.52% MoM rise on average. Thanks to the drastic decline in the meat prices, agricultural prices deteriorated by 6.06% MoM for the month while manufacturing prices also declined by 0.3% MoM. Annual PPI hit its highest rate with 10.42% in April before easing in May at 9.12%. As the low base year affects fade away, the annual PPI started to surf around 8-9%. We expect the PPI to stay at this level for a while.

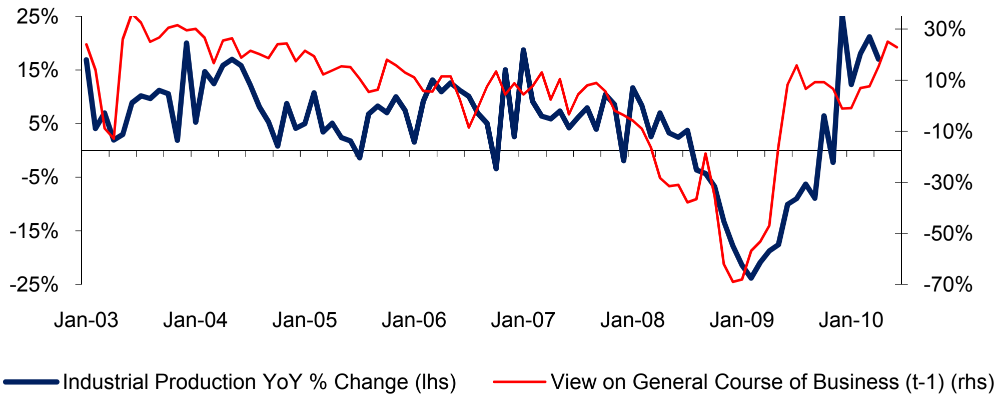
Monthly industrial production rose by 17.0% YoY in April...

Monthly industrial production (IP) rose by 17.0% YoY in April against a market consensus of a 19.1% YoY rise (Seker Securities:+17.0%), following its 21.2% increase in April. As the economy recovers from the recession, YoY comparisons become more irrelevant, therefore we focus on MoM comparisons based on a seasonally adjusted series. Accordingly, calendar adjusted IP rose by 17.3% YoY in April while calendar and seasonally adjusted IP expanded by 0.8% MoM.

Monthly industrial production grew less than expectations in April…

The latter figure indicates the continuation of IP growth in April following the April figure of a 0.9% YoY rise. Moreover, the 6 month moving average of calendar and seasonally adjusted IP stood at 1.0% in April, lower than its 1.5% rise the previous month.

We revise our annual GDP growth rate estimate by 1.5 percentage points to 5.5% for 2010 on the back of what appears to be a much swifter recovery in domestic demand due to a stronger recovery in inventories and private consumption. We preserve our 2011 annual growth rate at 4.0%.



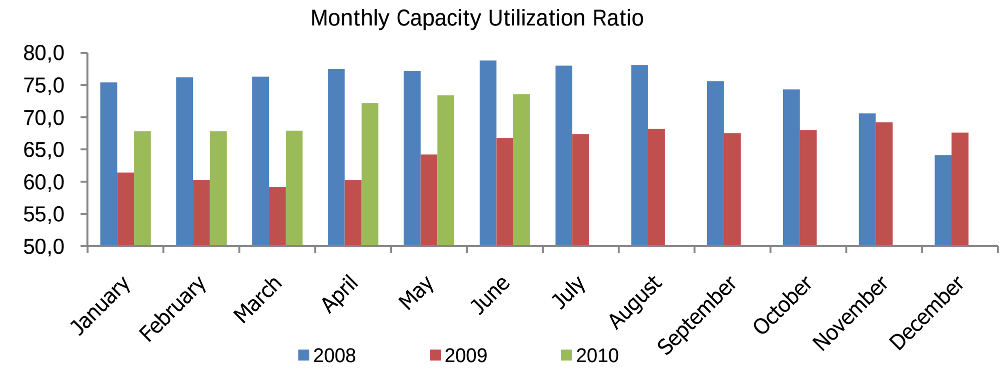
Source: Turkstat

CUR realized at 73.6% in June...

Monthly Capacity Utilization Ratio (CUR) increased by 6.8 percentage points YoY to 73.6% in June, undershooting the market consensus of 74.6% for the month. Monthly CUR had already started increasing in December and its growth pace peaked in April with an 11.9 percentage point YoY rise before decelerating in May.

The monthly CUR posted a growth, lower than anticipated in June…

Economic activity accelerated significantly in 1Q10 compared with 1Q09 due to the low base year affects. Most market participants anticipate around an 11% YoY increase for 1Q10 GDP with an annual growth rate of 5.5% on the average. June CUR which is early growth indicator for 2Q10 has revealed that the momentum in economic activity continues at a slower pace. This will support the CBRT's stance of hiking the policy rates later rather than sooner.



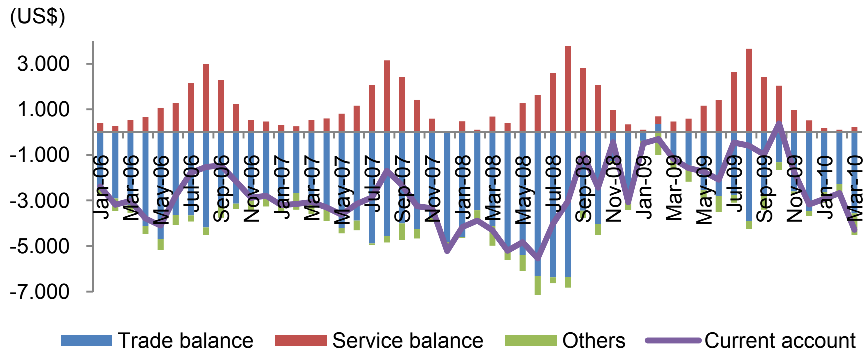
Source: TurkStat

The rolling 12-month current account deficit continues to rise in April…

The CA balance posted a deficit of US$4.4bn in April...

The current account (CA) balance posted a deficit of US$4.36bn in April, more or less in line with the market consensus of US$4.28bn deficit (Şeker Securities: -US$4.0). Moreover, the rolling 12 month CA deficit climbed to US$24.65bn in April from US$21.87bn in May. Annual CA deficit closed the last year at US$13.96bn due to the contracting economic activity and the collapse of the commodity prices after hitting to US$41.95bn in 2008. The 12 month rolling CA saw the bottom in October 2009 at US$12.57bn deficit before hitting the north. We expect this upward trend in the external gap to continue as the economy recovery accelerates.

In our recent scenario for annual 5.5% growth (up from previous 4.0%), should oil prices remain at US$85 per barrel on average in 2010, the CA deficit will approach to US$30bn (4.2% of estimated GDP).Note that the risks on our CA estimates are upside given the weak start on the export front.



Source: The CBRT