

Monthly CPI jumped by 0.39% MoM in September...

The annual inflation eased to 5.27% in September...

The core inflation dynamics also indicate the downward trend in the headline one...

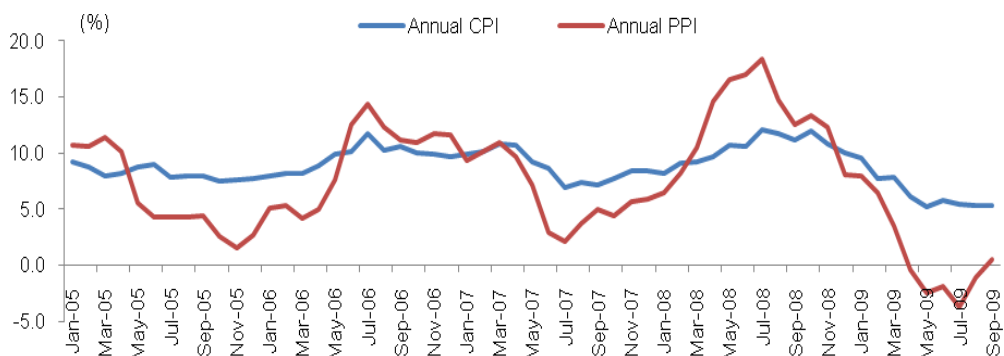
Monthly CPI rose by 0.39% MoM in September, much lower than market consensus of 0.76% MoM rise. The food prices with a benign 0.21% MoM rise surprised us and became the main driver of the market friendly readings for the month.

Following its exceptional contraction (1.57% MoM decline) in August, we had expected the Ramadan-related food price hikes to cluster in September. However, the collapse in the domestic demand seems to change its regular trend in fall season. While the entertainment and education sectors posted the highest monthly price increases with more than 2% MoM hikes for the month, the developments on the other sector prices are more or less in line. Thus, annual CPI eased to 5.27% YoY in September from 5.33% YoY in August.

The core indices, which exclude the one-off price effects, look good as the annual core index (I) – that excludes food, energy, tobacco and gold prices – declined to 3.36% in September following its record of 3.76% in August.

CPI	0,39	5,27
Food and non-alcoholic beverages	0,21	6,79
Alcoholic beverages and tobacco	0,00	20,80
Clothing and footwear	-1,01	0,39
Housing, water, electricity, gas and fuels	0,63	4,35
Furnishings, household equipment	0,19	-1,74
Health	0,07	2,59
Transport	0,20	0,03
Communications	0,12	1,80
Recreation and culture	2,35	12,84
Education	2,50	5,11
Hotels, cafes and restaurants	0,86	7,34
Miscellaneous goods and services	1,59	16,21
CPI (Excluding seasonal products)	0,60	5,07
Excluding food, energy, alcohol, gold and tobacco	0,36	3,37
Excluding energy	0,35	5,88
PPI	0,62	0,47
Agriculture	1,61	3,29
Industry	0,65	-0,32
Manufacturing industry	0,65	-0,94

Source:TurkStat



While monthly PPI rise by 0.62% MoM in September, its annual reading posted a 0.47% YoY decline for the month and ended its declining trend since April 2009.

Annual PPI rose by 0.62% YoY in September...

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 September readings.

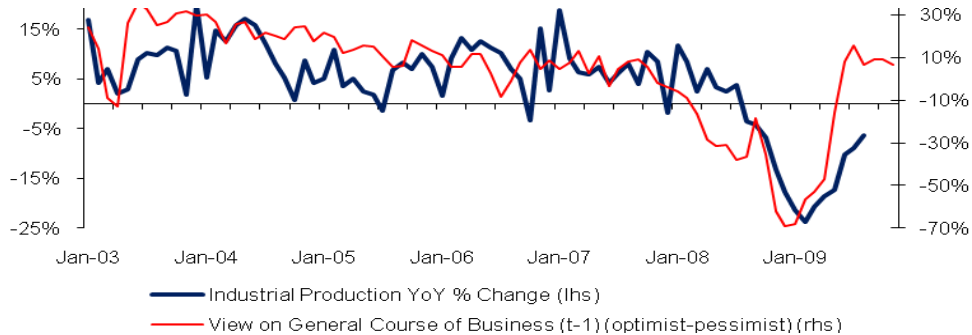
Recent commodity price adjustments have sharply reduced the overall PPI. But we expect annual PPI to climb to 4%-5% territory once the low based-year effects faded out.

Monthly industrial production contracted by 6.3% YoY in August ...

Monthly industrial production decreased at decelerating rate in August...

Monthly industrial production (IP) contracted by 6.3% YoY in August, slightly higher than market expectations of 5.7% YoY decline. Turkstat also revised July IP YoY decline of 9.2% to 9.0%, thus August reading became its 10-month low record and it ensures the continuation of the deceleration in its decline pace.

August IP realization and other early growth-related indicators in 3Q09 reveal that the recovery in the economic activity will be slow. On the foreign demand side, exports remain weak in the third quarter. We anticipate the economic activity contraction pace to decelerate in second half of the year. It 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, rising exports, the rebound in the inventory cycle and relative improvements in the global financial and economic outlook. Thus our annual GDP contraction estimate for 2009 stood at around 6.0% while GDP will grow at around 3% in 2010.



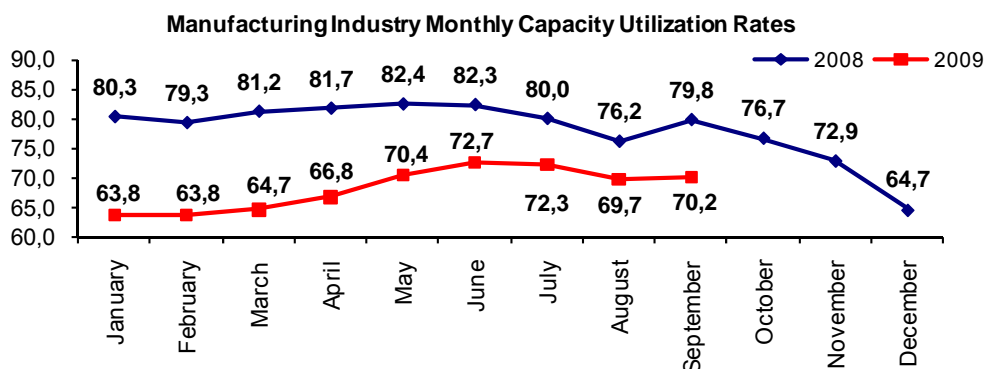
Source: Turkstat

CUR realized at 70.2% in September...

The CUR contraction rate compared with last year has accelerated temporarily in September...

Monthly Capacity Utilization Ratio (CUR) stood at 70.2% in September, lower than market consensus of 72.8% for the month. This corresponds 9.7 percentage point YoY contraction in September and its decline pace is up again after hitting the bottom in September with 6.5 percentage point YoY contraction.

In the first nine months of the year, monthly CUR averaged at 68.3%, corresponding 12.1 percentage points YoY for the period. Public sector CUR in 9M09 compared with 9M08 shrank more than private CUR. While public CUR for the corresponding phrase declined by 13.5 percentage points to 77.7%, private CUR eased by 10.8 percentage points YoY to 68.1%.



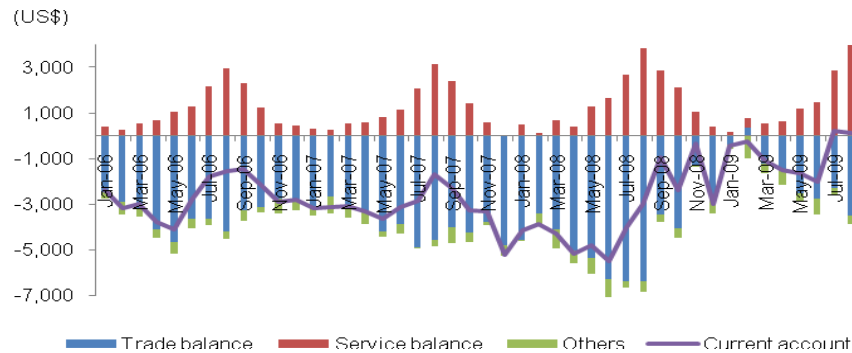
Source: TurkStat

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

The rolling 12-month current account deficit has declined to US\$13.3bn in August...

The current account (CA) balance posted a surplus of US\$0.13bn in August despite market expectations of US\$0.30bn deficit. Following July's CA surplus, August CA balance was also supported by the robust tourism revenues. Note that August surplus reading does not point any significant changes in the external dynamics.

Half of the annual tourism revenues occur in the third quarter of a year. So, the impressive cash flows generated from the sector will decline in 4Q09, thus CA balance will start to post deficits at manageable levels going forward. Year-to-date (YTD) CA deficit declined by 81% YoY to US\$6.57bn in August while the rolling 12 month CA deficit shrank to US\$13.26bn for the month from US\$16.24bn in July. We do not expect the better-than expected monthly CA realizations to boost the markets. As the economic activity starts to recover in 2010, the CA will adopt the upward tren



Source: The CBRT