

**The May inflation figure was higher than expectations...**

**CPI increased by 1,49%in May...**

The CPI increased by 1.49% in May which was above the market consensus of 1.1%. Following the May CPI figure, the yOy inflation figure (Compared to the same month of the previous year) reached to 10.74%. In addition, the year to date CPI extended to 6.38%. When we look at the trend of the yOy inflation, we can very obviously figure out the upward inclination of the CPI. The insistently soaring prices of food and energy combined with the lagged effect of the depreciation of TRY are the main reasons behind the rise of the May CPI figure.

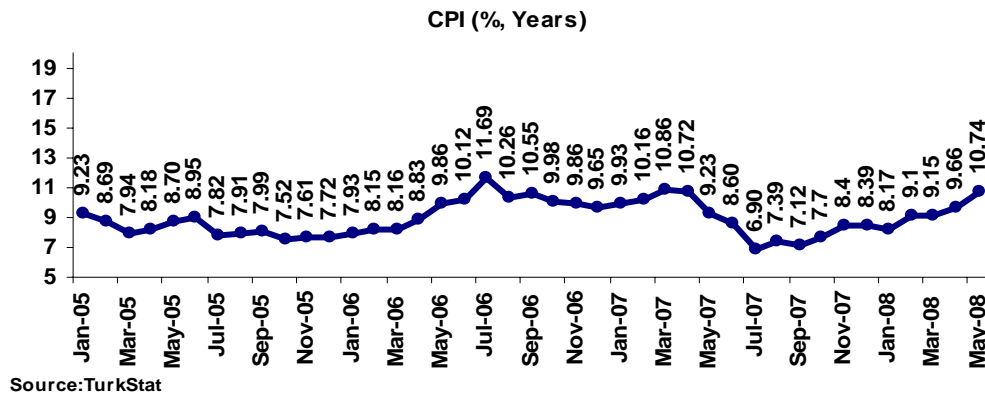
May	Montly(%)	Annual(%)
<b>CPI</b>	<b>1.49</b>	<b>10.74</b>
Food and non-alcoholic beverages	0.25	15.69
Alcoholic beverages and tobacco	0.01	6.86
Clothing and footwear	11.99	4.62
Housing, water, electricity, gas and other fuels	0.41	15.26
Furnishings, household equipment, routine mai	2.10	5.37
Health	0.06	-0.46
Transport	1.57	9.67
Communications	-0.04	-0.54
Recreation and culture	1.58	2.66
Education	0.91	6.69
Hotels, cafes and restaurants	1.66	13.67
Miscellaneous goods and services	-0.82	9.71
<b>CPI (Excluding seasonal products)</b>	<b>1.53</b>	<b>11.81</b>
<b>Excluding unprocessed food products</b>	<b>2.10</b>	<b>11.09</b>
<b>Excluding energy</b>	<b>1.62</b>	<b>9.64</b>
<b>PPI</b>	<b>2.12</b>	<b>16.53</b>
Agriculture	3.49	19.51
Industry	1.79	15.83
Manufacturing industry	1.87	15.26

Source:TurkStat

**The core inflation figure was realized at 2.74% in May...**

According to the main consumption groups, the highest increase compared to the previous months was observed in clothing. However, we believe that the rise in clothing was mainly due to seasonal factors. In short, the surge in clothing and consumer durable prices caused the core (Excluding energy, food, non-alcoholic beverages, tobacco, and gold) inflation figure to be 2.74. On the other hand, there were two important developments based on main consumption items. The first development was the slowing down prices non-processed food to 0.25% recently. The second important development was the positive change in rent prices. Thus, the annual change of rent prices was for the first time below 15% at 14.02%.

On the other hand, the strong increase of the core inflation was more surprising to us than the surge of benchmark inflation figure. In other words, the nine core inflation figures increased between 1.53% and 2.74%. This proves us that the effects of the depreciation of TRY accompanied by the high prices of the food and energy prices have been reflected to the transportation and hotel-restaurant prices.



**A tighter monetary policy seems in the horizon...**

While the PPI increased by 2.12% compared to the previous month, the yOy PPI climbed to 16.53%. In summary, there is serious price pressure accumulated for the coming months. We believe that the probability of executing a tighter monetary policy is higher following the May CPI and PPI figures. The higher than expected May CPI figure combined with price hikes in June (Natural gas prices) and further expected increases in the coming period make blurry the outlook of the inflation for us.

**The CBRT revised its short to mid-term inflation targets...**

Considering the recent negative trend of the inflation with the dismissive prospects of the Turkish politics, the CBRT had to revise its short to mid-term inflation targets. However, we believe that such a decision brought some distrust to its credibility. According to the revision of the CBRT, the new targets are 7.5% for 2009, 6.5% for 2010, and 5.5% for 2011. While the CBRT determined the new targets, it took attention to the fact the latest price hikes of food and energy prices were not originated from seasonality but due to structural changes of world economy. According to the CBRT, the pessimistic future is more likely to go on in the coming future as well. In our opinion, the CBRT made a very strong anchor against expectations for inflation but we still believe that it is not that easy to justify the revisions considering the CBRT's inflation expectations released a month ago.

**According to our way of thinking, there are three possibilities behind the CBRT's decision...**

According to our way of thinking, there are three possibilities behind the CBRT's decision: I) The CBTR could have a worse outlook for future global and domestic inflation. II) The CBRT's sensitivity to inflation could have lessened but vulnerability to growth strengthened. III) The CBRT could feel tired and seek to go after targets that are easier to attain. In short, the inflation, which is nowadays a problem for most of the developing and developed nations, is a problem for the Turkish economy as well. In our opinion, the direction of the inflation for the coming future depends how successfully managing the expectations in the Turkish economy. In brief, considering the higher global food and energy prices, current developments in Turkish politics and a high possibility of an early election, we expect the inflationary pressure to go on for the coming period.

**Foreign Trade Figures...**

**Foreign trade deficit up by 40.8% in April to US\$6.494 mn...**

According to TUIK's latest release, the exports in April increased by 37% to US\$11.375 million and imports surged by 38.3% to US\$17.869 million. In the same period, the current account deficit rose by 40.8% to US\$4.614 million. While the exports to imports ratio in April 2007 was 64.3%, the same figure was 63.7% in April 2008. In April 2008, the exports went up by 41.4% to US\$44.524 million with imports went up by 39.35 to US\$67.022 million compared to the same month of the previous year. Accordingly, the current account deficit has extended by 35.2% to US\$22.499 in January-April 2008 from US\$16.645 million in January-April 2007.

**Turkish exports to the EU in the period of January-April 2008 have increased by 26.8% to US\$22.854 mn...**

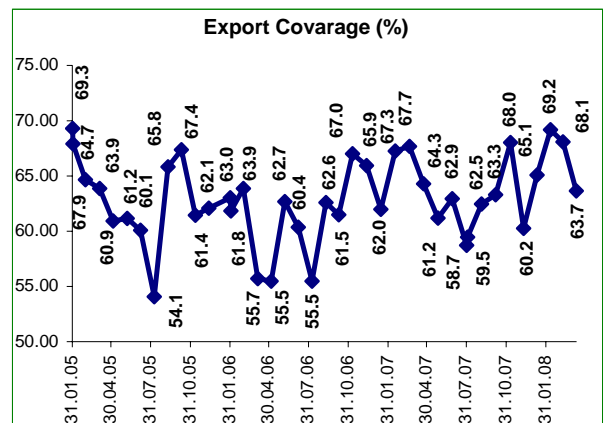
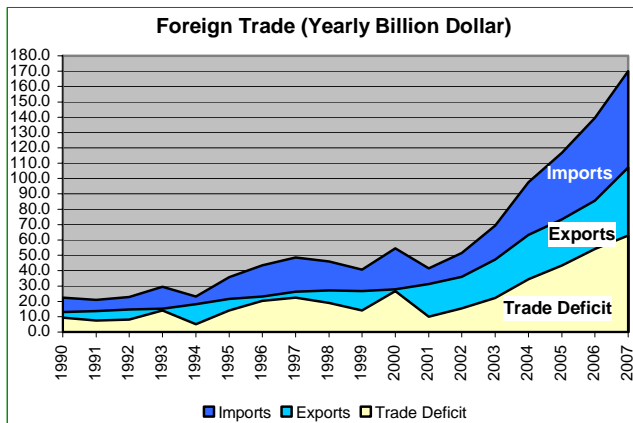
The share of the EU has continued to capture the largest share in Turkish exports. For instance the Turkish exports made to the EU in the period of January-April 2008 have increased by 26.8% to US\$22.854 million. While the EU seizes 51.3% of the total Turkish exports, the Turkish Free Trade zone and other countries have 2.4% and 46.2% shares, respectively.

On the other hand, Turkey made 38.9% of its imports from the EU (US\$26.068 million). Other Turkish imports were made from other European countries (US\$14.446 million), Asian countries (US\$18.312) and Turkish Free Trade Zone (US\$474 million).

While motor vehicles and their spare parts constituted the largest portion of the total exports (US\$7.165 million) in the period of Jan-April 2008, the remaining is composed of iron & steel (US\$3.972 million), machines and equipments (US\$3.524 million), woven clothing (US\$2.786 million) and gold and other precious metal.

**The current trend of the foreign trade seems to be important for financing current account deficit...**

When we analyze the increases in exports and imports, we find out that the percentage increase of exports is higher than that of imports. However, our trade deficit seems to be increasing because of the difference between absolute values. It is worth paying attention that the percentage increase of exports which was lower than that of imports November 2002 through March 2007 turned to be higher since April 2007. In short, the current trend of the foreign trade seems to be important for financing current account deficit.



This document has been prepared by the Equity Research Department of Şeker Securities. The information and data used in this report have been obtained from public sources that are thought to be reliable and complete. However, Şeker Securities does not accept responsibility for any errors and omissions. This document should not be construed as a solicitation to buy or sell securities herein. This document is to be distributed to qualified emerging market investors only.