

CPI surprised in February, up by 1,29%...

The February inflation figure was higher than expectations...

While the CPI increased in February by 1.29%, the yoy increase reached to 9.10%. While the market consensus was 0.45%, the monthly figure was highly above the expectations.

We believe that the surge in food prices was the main reason behind the increased in February's inflation. In other words, according to the main consumption groups, the growth in food and non-alcoholic beverages extended to 5.05%. The increase observed in the food prices was the highest in the last 6 years and contributed to the CPI by 1.4%. On the other hand, the decline recorded in clothing and footwear by 6.93% partially compensated (%0.55) the increment in food prices. In addition, we also observe the fact that the upward move in food prices was mainly originated from the increase in unprocessed food prices.

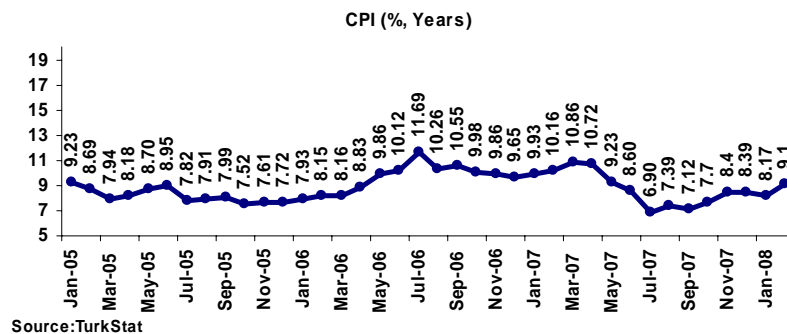
February	Montly(%)	Annual(%)
CPI	1.29	9.10
Food and non-alcoholic beverages	5.05	12.93
Alcoholic beverages and tobacco	0.02	14.34
Clothing and footwear	-6.93	1.55
Housing, water, electricity, gas and other fuel	0.39	14.75
Furnishings, household equipment, routine maintenance and repairs	0.86	4.83
Health	0.07	-0.02
Transport	0.54	6.56
Communications	0.12	-2.25
Recreation and culture	0.00	-1.57
Education	-0.03	5.87
Hotels, cafes and restaurants	0.90	11.02
Miscellaneous goods and services	1.73	7.53
CPI (Excluding seasonal products)	0.98	9.22
Excluding energy	1.46	7.93
PPI	2.56	8.15
Agriculture	2.06	15.58
Industry	2.69	6.45
Manufacturing industry	1.64	5.91

Source:TurkStat

The increase in food prices was the highest in the past 6 years...

However, our main concern was not the increase in unprocessed food prices but the increase in processed food prices. Thus, in our opinion, the surges in unprocessed food prices are due to seasonal factors and it is more likely to see a downward price trend in the coming months with better weather conditions. However, the increases in processed food prices are sticky and may push food-related service prices higher in the coming period.

In addition, the rise in manufacturing industry prices (1.64%) due to weaker TRY and higher energy prices further stretch the issue.



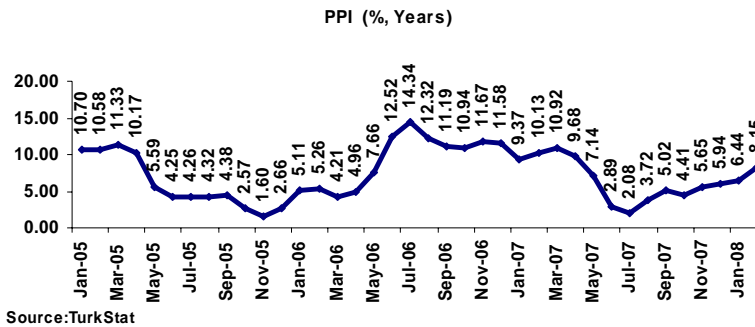
Source:TurkStat

The rise in PPI may further put pressure on CPI...

On the other hand, the increase in PPI in February compared to the previous month was 2.56% and the yoy rise was 8.15%. For as much as, considering the tradable items of the PPI and their exposure to fluctuations, we expect rather pressure on the CPI in the coming days.

We revise our 2008 year-end inflation forecast to 7-7.5% band...

We needed to revise our year-end inflation target due to February inflation figure which was a surprise for us. Accordingly, we increase our 2008 year-end inflation forecast to the band of 7-7.5% due to mainly high global energy prices combined with our concerns regarding the processed food price increases.



Source: TurkStat

The January current account deficit announced USD3.9 billion...

In line with the expectations, the current account deficit increased to USD3.9 billion...

While the CBRT announced January BoP figures, the current account deficit increased in line with the expectations by almost 28% to USD3.934 million in January 2008 in comparison with a deficit of USD3.074 million in January 2007. This led to a further widening in the 12-month trailing deficit, from USD38 billion in December to USD38.9 billion in January.

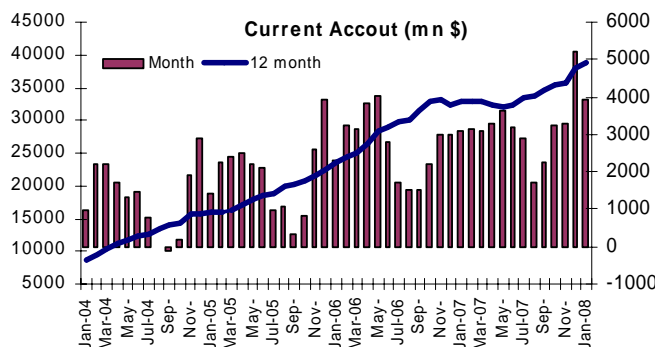
In our opinion, there was no surprise considering the current account balance. In fact, the trade deficit continued to deteriorate mainly driven by rising commodity prices and energy prices.

The foreign trade deficit increased by 44,1%...

The foreign trade deficit, according to the balance of payments figure released by the CBRT, expanded by USD4.518 million in January 2008, representing an increase of 44,1% over the same month of the previous year. As regards the sub-items, imports (CIF) including gold imports increased by 53,9% to USD16.306, while exports (FOB) increased by 61,4% to USD10.596 million and shuttle trade revenues rose by 14,8% to USD451 million.

In January, the net travel revenues increased by 28,9%...

Based on the estimates for January 2008, the travel revenues grew by 11% to USD807 million and the travel expenditures fell by 21,9% to USD200 million in comparison with the first month of 2007. As a result, the net travel revenues are estimated to grow by USD607 million in January 2008 reflecting an improvement by 28,9% over the same month of 2007.



Trade in services generated a surplus of USD537 million in January 2008...

The transportation balance which is other important item of this category recorded a net inflow of USD14 million in the first month of this year. While revenues from construction services increased by 29,1% to USD71 million in January 2008 in comparison with January 2007, Insurance services account showed net outflow of USD44 million in January 2008 corresponding to 55,1% decrease over the first month of 2007.

As a result of these developments, trade in services increased by 36,3% and generated a surplus of USD537 million in January 2008.

Looking forward, we believe that Turkey's high account deficit will continue to be a major risk factor while the turmoil in global markets continues to exist.

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