

Annual inflation continues to decline in June...

Monthly CPI declined by 0.56% MoM in June...

June CPI posted a 0.56% MoM decline, much better than the market consensus of 0.07% MoM decline.

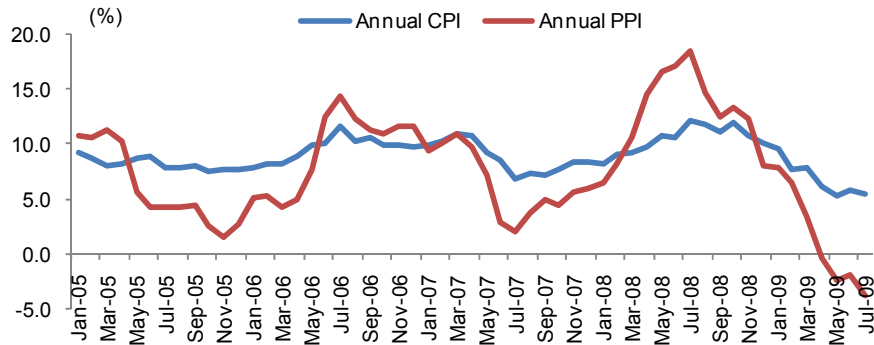
Core inflation dynamics also took a downward turn...

The Istanbul Chamber of Commerce (ICC) released its CPI figures two business days in advance of the official data, announcing a 1.13% MoM decline for June. This had pointed towards possible downside risks on the official estimates. The figures are even better than the revised forecasts. Food prices continue to leave their mark on overall CPI, declining sharply by 2.5% for the month, bringing overall CPI down by 0.72 percentage points. Price adjustments in other sectors are more or less in line with our expectations.

With annualized CPI easing further to 8.37% in June from 9.10% in May, core inflation dynamics also support the downward trend. The annual core index (I) – which excludes food, energy, tobacco and gold prices – decreased to 4.95% in June.

July	Monthly(%)	Annual(%)
CPI	0,25	5,39
Food and non-alcoholic beverages	-0,64	8,51
Alcoholic beverages and tobacco	10,89	18,76
Clothing and footwear	-5,96	1,05
Housing, water, electricity, gas and fuels	0,33	5,84
Furnishings, household equipment	0,89	-1,76
Health	0,05	4,09
Transport	0,58	-3,17
Communications	0,17	3,34
Recreation and culture	2,56	10,22
Education	0,93	4,95
Hotels, cafes and restaurants	0,42	7,88
Miscellaneous goods and services	0,89	11,62
CPI (Excluding seasonal products)	1,25	4,46
Exclidig food, energy, alcohol, gold and tobacco	-0,08	3,78
Excluding energy	0,33	6,40
PPI	-0,71	-3,75
Agriculture	-3,28	-1,46
Industry	-0,20	-4,56
Manufacturing industry	-0,38	-6,28

Source:TurkStat



Source: Turkstat

Annual PPI declined to 7.64% YoY in June...

After hovering around 10% for the past four months, annual headline CPI has eased decisively below double-digits in June on the back of 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 and administrative price hikes last year will ultimately fade out in October. Further base year effects will support inflation and reduce it to around 6% in 1Q11.

On the PPI front, monthly PPI also declined by 0.50% in June, despite expectations of a rise. In addition to agricultural prices, manufacturing prices also declined in June compared to May. Annual PPI hit its highest rate of 10.42% in April before easing to 7.64% in June.

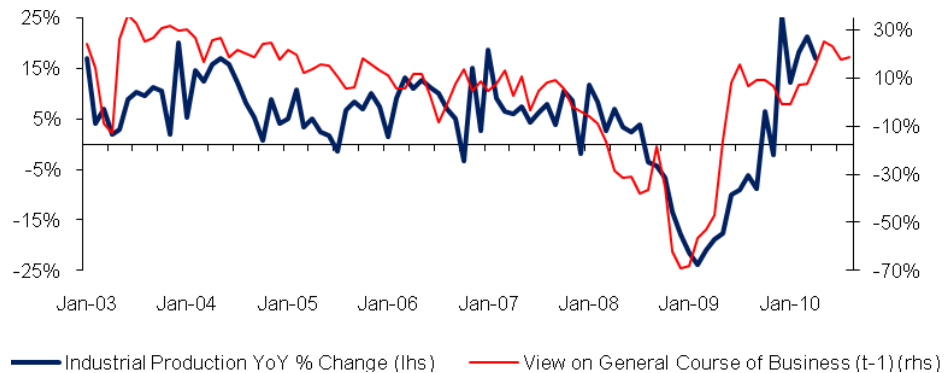
As the low base year effects fade away, the annual PPI started to surf around 8-9%. We expect PPI to stay at this level for a while.

Monthly industrial production rose by 15.6% YoY in May...

Monthly industrial production grew less than expected in May...

Monthly industrial production (IP) rose by 15.6% YoY in May against a market consensus of a 14.3% YoY rise. As the economy recovers from the recession, YoY comparisons become less relevant, therefore we focus on MoM comparisons based on a seasonally adjusted series. Accordingly, calendar adjusted IP rose by 15.1% YoY in May while calendar and seasonally adjusted IP expanded by 1.9% MoM. The latter figure indicates that IP growth gained momentum in May following April's 0.9% YoY rise. Moreover, the 6 month moving average of calendar and seasonally adjusted IP stood at 1.0% in May, more or less in line with the 1.1% 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%.



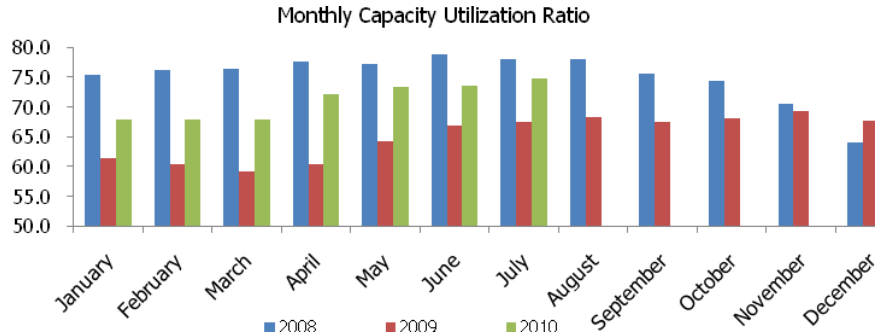
Source: Turkstat

CUR of 74.7% for July...

Monthly CUR posted a higher growth than anticipated in July...

Monthly Capacity Utilization Ratio (CUR) increased by 7.3 percentage points YoY to 74.7% in July, overshooting the market consensus of 73.1% for the month. Monthly CUR had already started increasing in December and its pace of growth peaked in April with an 11.9 percentage point YoY rise before decelerating in July.

Economic activity accelerated significantly in 1Q10 compared with 1Q09 due to low base year affects. Most market participants anticipate around a 7%-8%% YoY increase for 2Q10 GDP with an annual growth rate of 5.5% on average. July CUR which is an early growth indicator for 3Q10 has revealed that the momentum of economic activity is continuing at a slower pace. This will support the CBRT's stance of delaying its rate hiking cycle later rather than sooner.



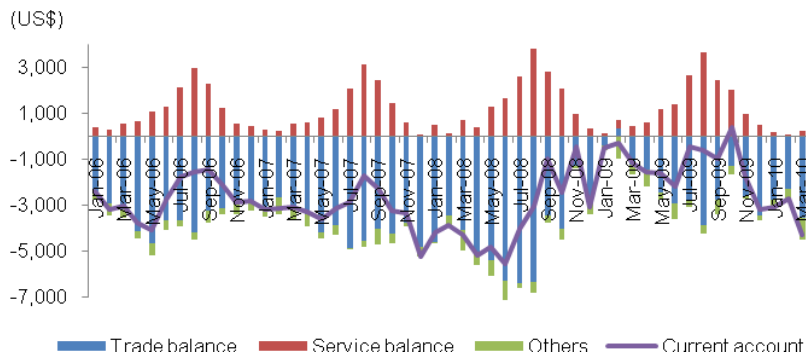
Source: TurkStat

The rolling 12-month current account deficit continues to rise in May...

The May CA balance posted a deficit of USD 2.9bn...

The current account (CA) balance posted a deficit of USD 2.9bn in May, more or less in line with the market consensus of a USD 3.0bn deficit. Moreover, the rolling 12 month CA deficit climbed to USD 26.2bn in May from USD 24.7bn in April. Annual CA deficit closed last year at USD 13.9bn due to contracting economic activity and a collapse in commodity prices, after hitting USD 41.9bn in 2008. The 12-month rolling CA bottomed out in October 2009 at a deficit of USD 12.6bn before heading north. We expect this upward trend in the external gap to continue as the economic recovery accelerates.

In our most recent scenario of 5.5% annual growth (up from 4.0%), assuming that oil prices remain at US\$75 per barrel in 2010, the CA deficit will approach USD 30bn (4.2% of estimated GDP). Note that the risks on our CA estimates are upwards, given the weak start on exports this year. Nevertheless, the data will not receive major attention from the markets since it will remain at manageable levels for a while.



Source: The CBRT