Macro note – June 2025 Inflation

CPI increases by 1.37% month-on-month and 35.05% year-on-year in June. The inflation trend in May and June is creating a clear sense of optimism for the monetary policy stance...

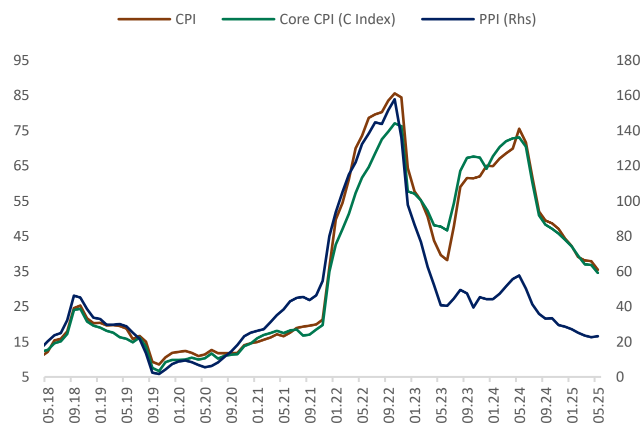
Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	1,50	1,48	1,37	35,25	35,2	35,05
PPI	-	-	2,46			24,45

The CPI rose by 1.37% in June compared to the previous month, while annual inflation stood at 35.05% (down from 35.41% previously). Market expectations were for inflation to increase by 1.5% monthly and 35.25% annually (Şeker Yatırım's expectations were 1.48% monthly and 35.2% annually). Following May's inflation figures, we see a significant decline below expectations in June's figures as well. The average inflation rate for food, housing, and transportation, which accounts for 55.52% of the index, increased by 39.2% annually. During the same period, the monthly inflation rate for the B index (core inflation), which is the Special Scope CPI Indicator, was 1.76%, while the annual inflation rate was 34.62%. Examining the details for June, we find it useful to highlight a few key points. First, there was a monthly decrease of 0.27% in food and non-alcoholic beverages, as well as clothing and footwear. All other main items showed an increase. The monthly increase in housing, education, and certain other service sectors was significantly higher than the headline figures (housing, 2.62%, and education, 4.48%, for example). When evaluating their contribution to annual inflation, housing, food, and transportation collectively account for 21.3 percentage points. In these three categories, the monthly trend in areas other than food is significantly above the targeted levels. While food inflation seems to have been resolved, the rigidity in other categories is hindering the disinflation process. In our previous reports, we stated that the real struggle against inflation would be in breaking inertia in the 30-40% band. Indeed, annual inflation is flat at these levels. However, despite the inertia in inflation, year-end forecasts and the general trend point to a limited improvement. We had noted that price developments in May and June would be critical for the CBRT's monetary policy stance. The actual figures indicate that interest rate cuts will begin by the July meeting, provided there are no shocks in the meantime. This is because real interest rates in the market point to significant tightening and slowdown. The slowdown in economic activity indicates that a cautious interest rate cut is warranted.

Producer prices increased by 2.46% month-on-month in June, while the annual change in the PPI stood at 24.45%. Examining the sub-indices of the PPI, the annual changes in the main industrial groups were as follows: a 21.77% increase in intermediate goods, a 29.92% increase in durable consumer goods, a 26.45% increase in non-durable consumer goods, a 24.15% increase in energy, and a 27.40% increase in capital goods. Monthly dynamics showed a 1.77% increase in intermediate goods, a 2.12% increase in durable consumer goods, a 1.12% increase in non-durable consumer goods, an 8.42% increase in energy, and a 2.26% increase in capital goods. Pressures on consumer inflation from the cost channel are limited. Recent geopolitical developments have also alleviated concerns over energy prices. Global developments and the domestic political and economic environment appear to provide a suitable backdrop for interest rate cuts. The inflation-focused tight stance in monetary policy has borne fruit. The only situation that could have a negative impact on macro indicators would be an excessive interest rate cut. Therefore, the most reasonable scenario appears to be rolling back the additional tightening of monetary policy that occurred in March to pre-March levels. This would both manage three-month demand-driven inflation and send a message that the market is prepared to use all available tools in the face of upward risks. This would reassure the market and buy time in the fight against inflation. In the other two scenarios (an interest rate cut exceeding expectations or a delay in the cut), we would either need greater patience in the fight against inflation or face a sharp downturn in growth. Both scenarios contain outcomes that the market would not welcome. We expect that the CBRT will revert to its March monetary policy at its July meeting and proceed with a focus on inflation.

Graph 1: CPI, PPI, and Core CPI (YoY %)



Graph 2: PPI – CPI Spread

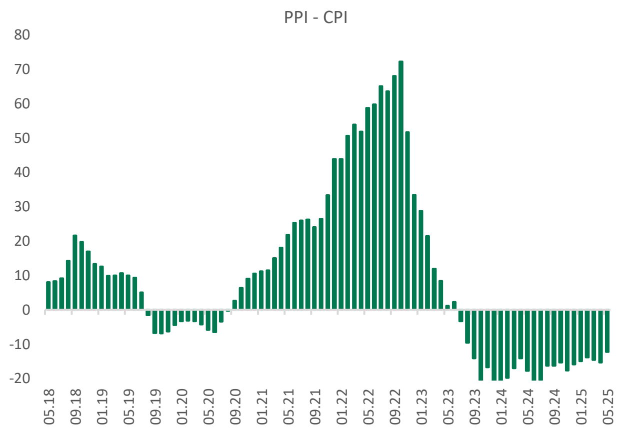


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	**100,00**	**1,37**	**16,67**	**35,05**
Food and non-alcoholic beverages	24,97	-0,27	13,58	30,20
Alcoholic beverages and tobacco	3,52	0,14	11,22	27,96
Clothing and footwear	7,16	-0,27	-0,24	14,47
Housing, water, electricity, gas, and other fuels	15,22	2,62	26,77	65,54
Furnishing, household equipment, routine domestic maintenance	7,67	2,01	15,44	30,19
Health	4,09	0,66	21,56	38,70
Transportation	15,34	2,38	17,44	27,72
Communication	3,62	1,83	7,13	18,43
Recreation and Culture	3,36	1,44	13,32	27,53
Education	2,31	4,48	33,91	73,33
Hotels, cafes, and restaurants	8,32	2,10	20,82	35,59
Miscellaneous goods and services	4,43	1,73	19,65	36,21

Source: TURKSTAT

In summary, the CPI rose by 1.37% month-on-month in June, while annual inflation stood at 35.05%. Inflation figures, which were below market and our expectations, have created optimism regarding the monetary policy stance. Our baseline scenario at the beginning of the year was disrupted by political developments in March. The levels observed in June strongly confirmed the slowdown in prices seen in May. The significant declines in goods and services inflation are also limiting upward risks for year-end forecasts. Inflation developments have opened up significant room for the Central Bank of the Republic of Turkey (CBRT) to return to the pre-March scenario. We anticipate that the economic administration, which is gradually adjusting monetary and fiscal policies in line with inflation trends, will adopt a stance supportive of economic activity as of July. We are closely monitoring inflation expectations, as improvements in the expectation channel will affect pricing behavior and costs. Contributions to inflation due to cost and exchange rate pressures have been limited, and consumption and demand inflation have entered a downward trend. Considering the scope of monetary policy, measures that take into account both financial stability and price stability will reduce exchange rate volatility and contribute to risk premiums and macro-financial stability. We therefore maintain our year-end inflation forecast at 30%. We emphasize that we may update our inflation forecasts in response to developments in monthly inflation levels and the course of monetary policy.

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: http://www.sekeryatirim.com/english/index.aspx

For additional information, please contact:

Research

Kadir Tezeller	**Head**	**+90 (212) 334 33 81**	ktezeller@sekeryatirim.com
Burak Demirbilek	**Utilities, Defense Industry**	**+90 (212) 334 33 33-128**	bdemirbilek@sekeryatirim.com
Engin Değirmenci	**Cement**	**+90 (212) 334 33 33-201**	edegirmenci@sekeryatirim.com
A. Can Tuğlu	**Food & Bev., Retail, Auto, Aviation, Oil&Gas**	**+90 (212) 334 33 33-334**	atuglu@sekeryatirim.com
Başak Kamber	**Glass**	**+90 (212) 334 33 33-251**	bkamber@sekeryatirim.com

Economy & Politics

Abdulkadir Doğan	**Chief Economist**	**+90 (212) 334 91 04**	adogan@sekeryatirim.com

Institutional Sales

Batuhan Alpman	**Head**	**+90 (212) 334 33 70**	balpman@sekeryatirim.com
Deniz Keskin	**Trader**	**+90 (212) 334 33 36**	dkeskin@sekeryatirim.com
M.Kerim Culum	**Trader**	**+90 (212) 334 33 33-316**	kculum@sekeryatirim.com.tr

DISCLAIMER

I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position, and use independent advisors as they deem necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform, or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.