June Inflation …

June inflation printed below expectation with -0.27%. Annual inflation fell to 10.9% YoY in June from 11.7% YoY in May.

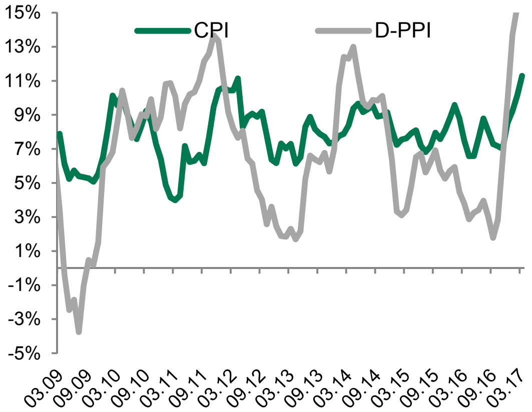
Of note, food inflation fell to 14.3% YoY from 16.9% YoY. Energy inflation fell to 7.5% YoY from 8.7% YoY. These two items were the major drivers of lower inflation.However, further significant positive news came from core inflation – C (previously - I%) at only 0.07% MoM. Accordingly, annual core inflation fell to 9.2% from 9.4%.

Annual inflation decline to 10.9%

Adjusted for seasonal effects, core inflation, led by core goods has been on a firm decline in June, being pushed downwards by items across the board, including the services inflation. We expect core inflation momentum to continue easing going forward, although base effects will delay market decline in annual rate.

We expect annual inflation to remain high, rising close to 12% due to base effects between August-September, before easing to 10% in December. Recent softness in core inflation indicators, along with rapid deceleration in food prices and lower energy prices suggest somewhat downward pressure on our inflation estimate. However, we continue to expect significant disinflation towards end of 1H2018, with inflation easing considerably toward 6.0 % YoY.

Going forward, food inflation is the only major pressure point on inflation as core momentum has shown more signs of significant easing. Given that the core inflation outlook is the one the CBRT takes more into account in monetary policy decisions, as repeatedly stated and acted upon in the past, there could be ample room for easing.



April CAD in line with the expectations…

CA deficit was at USD3.6bn in April (same with consensus). 12-m cumulative CA deficit, which has hovered around USD33.0bn since October 2016, expanded to USD33.6bn from USD32.7bn in March.

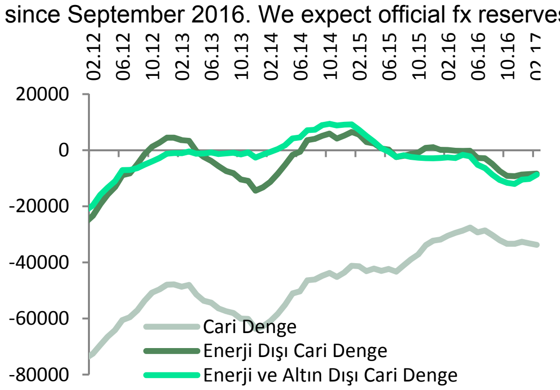
April Balance of Payments still point to very weak capital inflows due to the quite moderate investment flows and unidentified (net E&Os) capital outflows.

In April net FDI investmetn was USD0.8bn.

Thanks to Eurobonds issues (USD1.25bn) and inflows into local currency Government bonds (USD1.2bn), net portfolio investments recorded an inflow of USD3.3bn in the month. Equity inflows were moderate at USD0.3bn in the month.

12mth rolling deficit at USD33.6 bn…

USD3.9bn official fx reserve loss in April realized, adding the total loos of fx reserve to USD16.5bn since September 2016. We expect official fx reserves decline to stop, going forward.

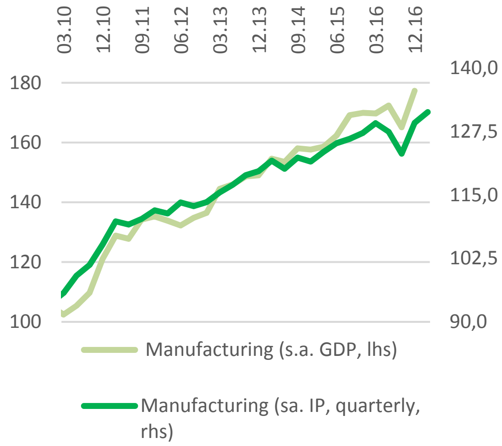


IP April 2017…

April's seasonally-adjusted industrial production expanded 2.2% MoM on top of 1.3% MoM, bringing 3m/3m IP growth to 2.1% (annualized 8.4%). Manufacturing growth was even stronger at 2.2% (8.8%). In calendar-adjusted terms, the 3m ma of IP (1Q17) continued to accelerate rising to 3.5% YoY from 2.2% YoY in April from 1.7% YoY in February. By comparison, 4Q16 IP growth was at 2.1% YoY.

Hence, GDP growth in 2Q17 had probably been as strong as 1Q17.

However, behind strong sequential IP growth was the surge in capital goods manufacturing, more specifically other motor vehicles manufacturing, sub-item accounting for almost entirety of the increase. Nonetheless, recent IP data points to warming of the economy. While there is an upside risk to our 5% YoY growth estimate for 1Q17 (to be announced on Monday), the acceleration signal (April IP, May PMI) point to similar YoY GDP growth in 2Q17.



GDP 1Q17…

1Q17 growth was at %5.0

Growth at 5.0% YoY in 1Q was exactly in line with our expectations (consensus 3.5% YoY); however, investments were below our expectation, and consumption above (possibly due to the methodological categorization of public spending). Overall we note very resilient annual growth in 1Q17, especially in household consumption (3.5ppt contribution to annual growth).

However, private investment is likely to have disappointed as total investment contracted quarter on quarter in seasonally-adjusted terms, despite a significant boost from the government spending (here we don't have a composition by sector). However, government consumption spending (1,3 ppts contribution) compensated for the slack. Net exports (2.4 ppts) were also a major driver of growth, hence keeping growth momentum even more sustainable.

Seasonally/calendar adjusted GDP was up 1.4% QoQ after a 3.8% QoQ print in 4Q16 thanks to dramatic 6.0% QoQ expansion in exports of goods and services (following 4Q16's 13.8% QoQ expansion). Imports of goods and services contracted 1.3% QoQ, third consecutive contraction in imports. Since 1H2013, QoQ import volume has been close to flat on average (partly due to moderation in investment in machinery&equipment, in part due to lower propensity of the economy for intermediate&consumption good.

We revised our estimate from 3.5% YoY to 4.5% YoY.

In April, seasonally adjusted industrial production increased by 2.2% month on month (1.3% in March), while the 3 month / 3 month change was 2.1% (8.4% annualized). Strong signals for PMI data for May, rapid credit growth, and import & export performance indicate that the net export growth will continue to fuel growth in 2H17. We are expecting investments to rebound to some extent by 3Q17&4Q17. However, the actual acceleration of investments may find 2018.