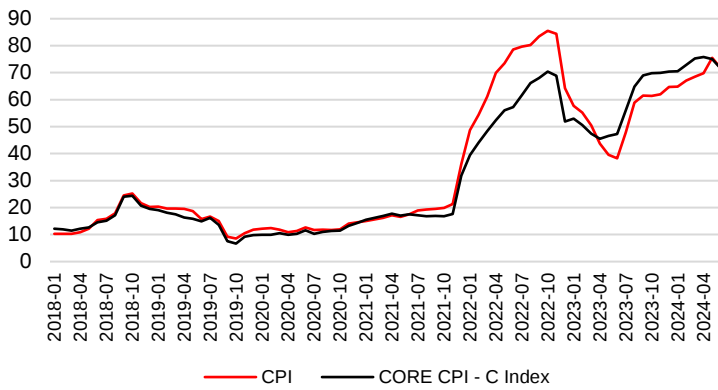


July 3, 2024

Slight ease in trend inflation

Monthly CPI inflation is at 1.64%... CPI inflation in June came in at 1.64%, below both market consensus and our expectation of 2.2% and 1.9%, respectively. Accordingly, annual inflation receded from 75.45% in May to 71.60%. Meanwhile, monthly trend inflation was 2.86%, decreasing from 3.24% a month ago. 103 items' prices out of 143 main categories increased in June, while 35 items' prices declined and 5 were unchanged, pointing to a better picture compared to the previous months. Core inflation, in the meantime, was 70.4% and 71.4%, respectively, according to the B and C indices, down from 73.0% and 75.0%. Recall that the 5-year average June inflation was 2.39%, while monthly inflation was 3.92% in the same month of the last year. We project that annual inflation will further retreat in July and August to 62.6% and 52.7%, respectively. However, the flattish USDTRY parity should not last longer as appreciation in TL will threaten trade balance. In this regard, breaking the inertia in inflation and cooling the economy should be the primary drivers behind the decline in the inflation trend.

Chart 1: CPI Inflation and Core Inflation (y/y, %)



Source: Turkstat

Housing inflation remained elevated... Among the sub-categories, housing inflation added inflation 0.55 pps, while food and hotel&cafe inflation contributed by 0.44 pps and 0.28 pps, respectively. Housing inflation rose by 3.8% in June mainly rise in mains water prices, while monthly rent inflation was 5.1% in June. Monthly food inflation was stronger than our expectation in June with a 1.78% rise mainly due to 11.8%, 5.2% and 8.5% rise in cereal, cheese and fresh fruits prices. Houseware inflation was 1.62% in June, as refrigerator and washing machine prices were up by 1.3% and 1.3% thanks to firm TL performance. Monthly transportation inflation was negative in July despite increase in bus and airfare prices mainly due to decline in automotive prices. Additionally, communication inflation was 2.54% again remained higher than headline inflation.

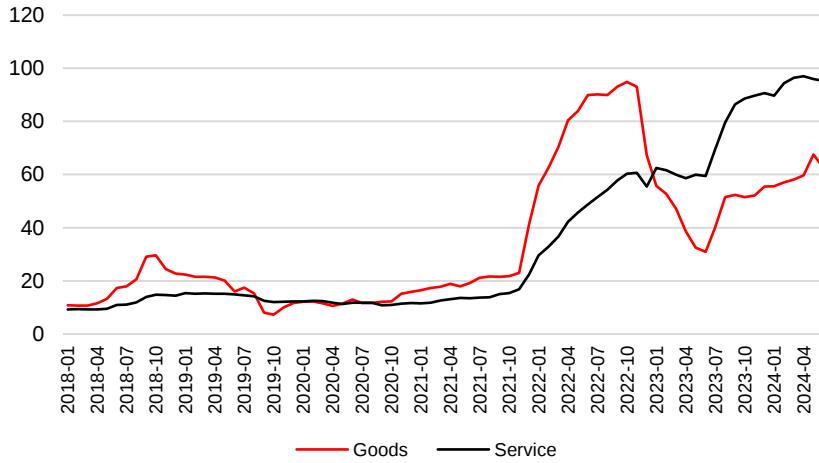
Table 1: Inflation Indicators June-24 (pps)

	mom, % 2024-06	mom, % 2023-06	yoy, % 2024-06	yoy, % 2024-05	ytd, % 2024-06	ytd, % 2024-05
CPI	1.64	3.92	71.6	75.45	24.73	22.72
Food, Beverages	1.78	3.02	68.08	70.14	25.25	23.06
Tobacco and Liquor	0.07	11.13	67.93	86.48	21.06	20.97
Clothing and Shoes	-0.58	1.45	47.84	50.85	15.32	15.99
Housing	3.79	2.99	94.72	93.21	29.45	24.72
Houseware	1.62	2.61	67.72	69.34	23.01	21.05
Health	1.69	1.21	78.51	77.67	29.38	27.23
Transportation	-0.13	7.96	65.67	79.1	15.76	15.91
Communication	2.54	3.91	52.27	54.31	21.28	18.28
Entertainment and Culture	0.26	2.12	61	63.99	22.24	21.92
Education	3.47	2.32	107.11	104.8	48.06	43.09
Restaurant, Cafe and Hotels	3.09	4.32	90.67	92.94	40.01	35.8
Miscellaneous	1.56	2.57	64.27	65.9	25.88	23.95

Source: Turkstat

Service inflation is yet to be kept under control... Goods inflation in June increased by 0.91%, while y/y inflation receded to 62.56% from 67.58%. 2.7% jump in processed food m/m was the main driver of the monthly inflation, while energy inflation realized at 1.43% in June. On a yearly basis, energy inflation reached at 84.58% from 89.68% in the previous month, while goods excluding energy & food and core goods inflation stood at 52.56% and 50.62%, respectively. Service inflation slightly retreated in June with an 95.27% y/y from 95.93% a month ago, while monthly inflation also slowed down with 3.31% m/m rise following 4.03%, 4.16% and 4.20% rises over the last 3 months. Among service categories, rent inflation, which was 125.1% in May, receded to 123.6% in June, on a 5.1% m/m increase, while yearly transportation services, hotels/restaurants inflation materialized at 103.5% and 90.7% in June, compared to 99.1% and 92.9% in May, respectively. Service inflation is likely to slow down in the second half of 2024 as there is no further increase in wages.

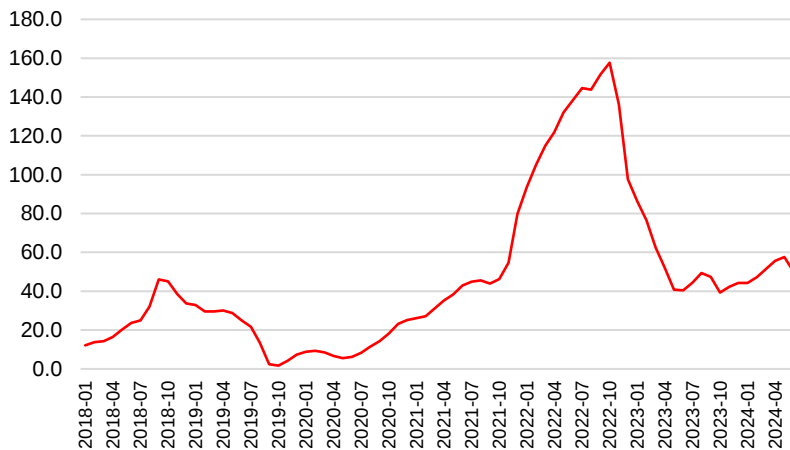
Chart 2: Goods and Service inflation (% y/y)



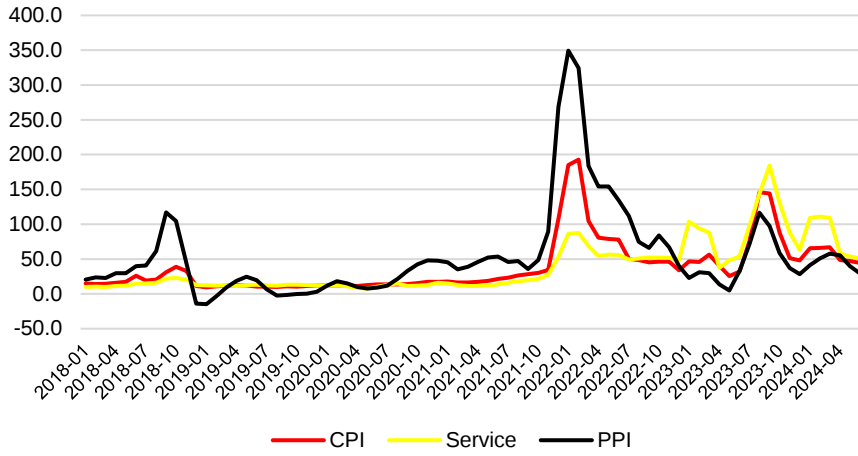
Source: Turkstat

PPI inflation turned its direction downwards... PPI inflation came in at 1.38% in June following firm performance of TL against hard currencies, while y/y inflation retreated to 50.1% in June, up from 57.7% a month ago. Among the subgroups, basis metals and coke&refined oil prices were down by 0.8% and 0.7% in parallel with global commodity prices. On the other hand, coal and lignite prices rose by 12.0% in June. Electricity prices rose by 2.7% in June mainly due to hot summer conditions as monthly electricity consumption rose by 15.5% on an annual basis, much higher than the previous month. The gap between PPI and goods inflation remained elevated in June, again indicating that domestic demand is still robust in Türkiye.

Chart 3: PPI Inflation (y/y, %)



Source: Turkstat

Trend Inflation (seasonally adj, m/m, %, annualized, 3m MA)

Source: Turkstat

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