

Montly CPI increased by 0.25% MoM in July...

The annual inflation eased to 5.39% in July...

Monthly CPI rose by 0.25% MoM in July, more or less in line with market consensus of 0.22% MoM rise. Thus, annual CPI eased to 5.39% YoY for the month from 5.73% YoY in June.

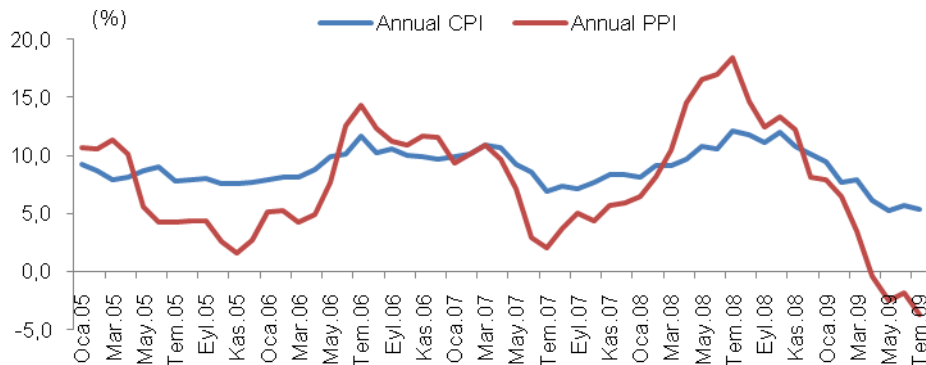
The upward trends in the core inflation are temporary...

The rise in the CPI index is mainly driven by one-off price hikes and seasonal downward price adjustments for the month. The impact of one-off tobacco products price increases (up by 10.89% MoM) contributed around 0.55 percentage points to July CPI. The contraction in clothing sector (down by 5.96% MoM) and food sector (0.64%) prices supported monthly CPI. Transportation (0.58% MoM rise), accommodation & restaurants (0.42% MoM) and other goods & services (0.49% MoM) were the other main sectors that registered rises in their price movements.

The core indices, which exclude the one-off price effects, look good despite their upward trends in July. The annual core index (I) – that excludes food, energy, tobacco and gold prices – rose to 3.78% in July following its lowest record of 2.98% in June. We consider this upward trend temporary as the core excluding seasonal products remained its downward trend. Clothing prices, which is included in core index (I), contracted by 5.96% MoM in July compared with last year’s 8.00% MoM decline.

July	Montly(%)	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 footw ear	-5,96	1,05
Housing, w ater, 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
Excldig 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



Annual PPI contracted by 3.75% YoY in July...

While monthly PPI declined by 0.71% MoM in July, its annual reading posted a 3.75% YoY decline for the month. The drastic adjustments in the commodity prices on the back of the global economic slump continue to shape the PPI. The metal prices contracted by 38% YoY in July, while the refined petroleum products prices declined by 32% YoY. The easing in the food prices is also supportive of overall PPI.

Recent commodity price adjustments have sharply reduced the overall PPI. But we expect annual PPI to climb to 4%-5% territory once the low based-year effects faded out.

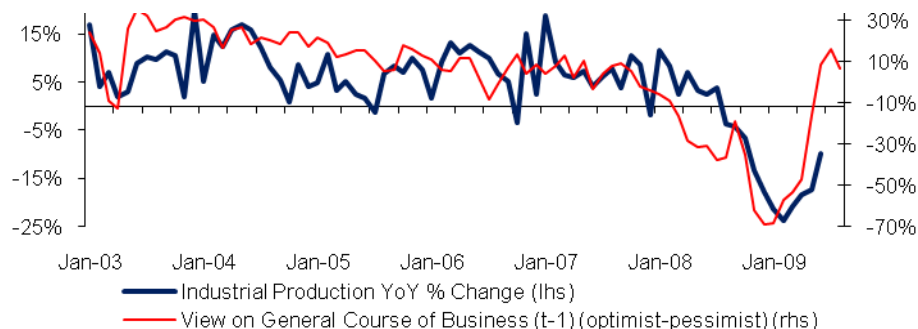
Monthly industrial production contracted by 9.7% YoY in June...

Monthly industrial production decreased at decelerating rate in June...

The deceleration in monthly industrial production contraction pace continued in June with a 9.7% YoY decline, lowest of the past 7 months.

The autos, white goods and metals sectors led the way with lower contraction rates in July compared with the same month of last year while food and chemicals posted a growth for the month.

Moreover, the early growth-related indicators have slightly started to point some relative recovery in the economic activity. The Central Bank of Turkey (CBT) business survey results spelled out real sector optimistic expectations for next 3 months. The expectations for general course of business hit drastically the bottom in November 2008 while they have been at the positive territory since April 2009. Moreover, the overall sentiments improved in July 2009.



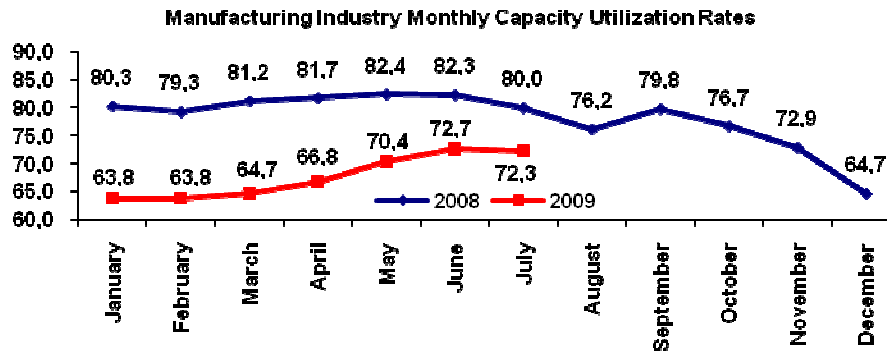
Source: Turkstat

CUR realized at 72,3% in July...

The CUR contraction rate compared with last year has decelerated in July...

Monthly Capacity Utilization Ratio (CUR) contracted by 7.7 percentage point to 72.3% in July with lower decelerating rate. Moreover, the refined petroleum products and autos have posted the highest contraction among the sectors. The former declined by 21.6 percentage points YoY while the latter saw 19.1 percentage points YoY decline in July.

In the first seven months of the year, monthly KKO averaged at 67.8%, corresponding 13.2 percentage points YoY for the period. Public sector KKO in 7M09 compared with 7M08 shrank more than private KKO. While public KKO for the corresponding phrase declined by 15.4 percentage points to 74.9%, private KKO eased by 12.2 percentage points YoY to 67.6%.



Source: TurkStat

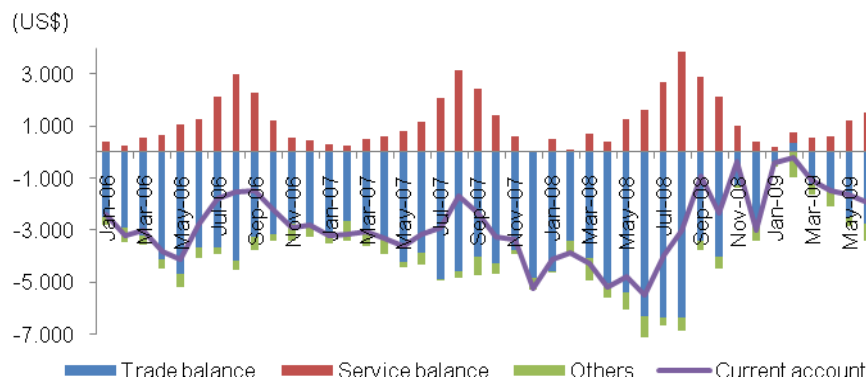
The rolling 12-month current account deficit has declined to US\$20.3bn in June...

Monthly current account deficit contracted by 65% YoY to US\$1.9bn in June...

Monthly current account (CA) deficit contracted by 65% YoY to US\$1.9bn in June. The narrowing trade gap seemed to soften in the CA data with more supportive “other exports” (such as luggage trade and freight income and expenses) that do not appear in Turkstat figures.

The rolling 12 month CA deficit declined to US\$20.44bn in June from US\$24.04bn in May. Should oil prices remain at 70\$/barrel in the remaining of 2009, the ratio of CA deficit over the estimated GDP will decline sharply to around 2.0% in 2009 from 5.6% in 2008.

The 12-month capital account flows indicate that its CA deficit is mainly financed through net FDI and errors& omissions. Net FDI flows declined to US\$10.82bn on a 12-month basis, while errors & omissions stood at US\$15.31bn in June. Such huge undefined capital inflows have raised concerns on its sustainability.



Source: The CBRT