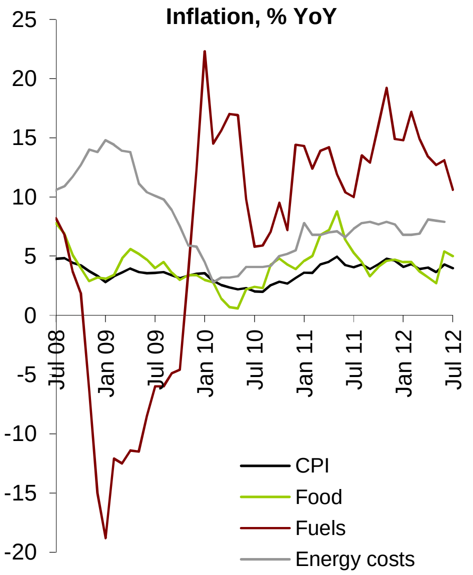
Bank Zachodni WBK

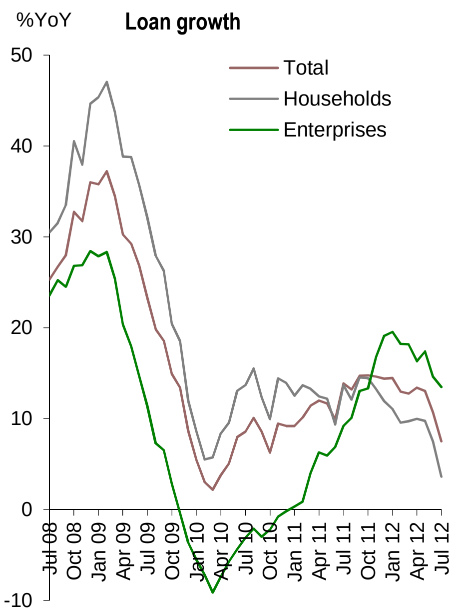
Instant comment

Inflation below expectations

14 August 2012

Inflation fell in July to 4.0%YoY, below forecasts, thanks to considerable reductions of food prices. Core inflation remained unchanged according to our estimates (2.3%). Still, it seems that this is not enough to encourage majority of MPC members to cut interest rates this year, especially as CPI will remain close to 4% (much above target) until late autumn. Nevertheless, a gradual easing of Council's stance will probably be visible, supporting the shorter end of the yield curve. Data from credit market, in spite of signals from NBP's study showing increasing demand for loans, show further deceleration of loans, especially in households sector.





Inflation below expectations, but still above target

CPI inflation rate decreased in July to 4.0%YoY, falling below our forecast (4.3%) and market consensus (4.1%). Main factor responsible for than was deeper than expected fall in food prices. They collapsed by 2%MoM, what is the strongest price drop in July in the last decade. Thereby, the data did not confirm our estimations based on data delivered by the Ministry of Agriculture, which indicated that a seasonal fall of food prices was in July lower than usually because of rising fruit prices. In comparison with June also prices of clothing and fuel decreased significantly (in both categories -2.4%MoM). In other categories prices inched up marginally or stabilised, in line with expectations. Our estimations point out that core inflation excluding food and energy prices remained stable in July, at the level of 2.3%YoY.

July's inflation data can positively surprise the MPC members. After today's release Anna Zielińska-Głębocka said that she does not rule out an interest rate cut this year (although it is not certain yet), thus joining the dovish couple (Bratkowski, Chojna-Duch), who mentioned a rate-cut possibility earlier. Still, we do not think such a reading is enough to make a majority of Council members ease monetary policy in the upcoming months. CPI is still running clearly above the NBP's target and will probably stay close to 4% until October. This means that the Council will not see a significant decline of inflation virtually until the year-end. Interest rate cuts cannot be ruled out next year, especially if economic growth slowdown proves to be deeper than previously expected.

Further deceleration of credit growth

Pace of growth of M3 money supply maintained in July at June's level, i.e. 11.1%YoY and proved to be above our and market expectations. Data showed a further deceleration of credit growth, which means that direction suggested by recent NBP study, showing increasing demand for loans, was not confirmed. FX-adjusted growth of households' loans slowed to 3.6%YoY from 4.8%YoY in June and corporate loans decelerated to 12.9%YoY from 13.0%YoY. We expect that the pace of credit growth may continue its downward trend in the upcoming months due to tighter banks' lending criteria and rising economic uncertainty.

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