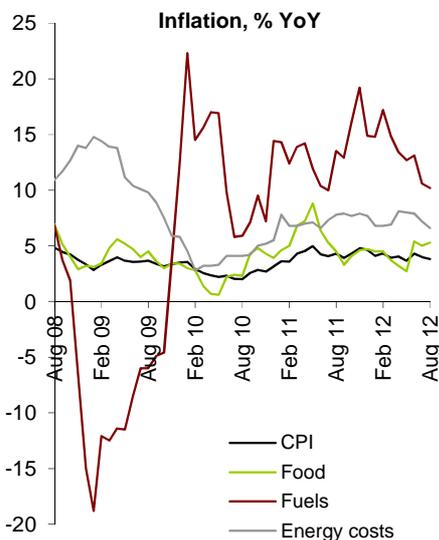


# Instant comment

## CPI down as expected

13 September 2012

August's decline of inflation to 3.8%YoY (from 4.0%YoY in July) was in line with expectations. This development was due to further cuts of food prices (mainly vegetables and fruit) as well as of clothing and footwear prices. Taking into account inflation basket breakdown, we estimate that core inflation excluding food and energy prices slid to 2.0%YoY from 2.3%YoY one month earlier. These data do not change our scenario for consumer prices for the upcoming months, assuming a rebound in inflation rate to ca. 4.0%YoY in September and a more considerable decline in the following months, to ca. 3.0% in December. MPC's A. Bratkowski and E. Chojna-Duch said after the figures that interest rate cut in October is justified (thus confirming their earlier opinions). In our view, inflation data together with weak figures from the real economy, expected by us, will invigorate the MPC to implement monetary easing in the upcoming month.

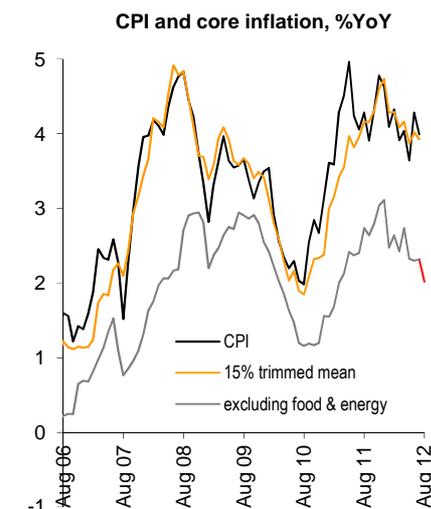


CPI inflation declined in August to 3.8%YoY from 4.0%YoY one month before. In monthly terms consumer prices declined by 0.3%, which was primarily due to cuts of food prices by 1.3% (after decline by 2.2% in July), mostly because of falling vegetables (-9.0%) and fruit (-8.4%) prices. A negative contribution was also provided by drop of clothing and footwear prices by 2.8%. Transport prices rose by 0.7%MoM, mostly due to climbing fuel prices (by 0.9%), which were recording drops in three earlier months. Healthcare prices also posted an increase (by 0.3%MoM) as pharmaceuticals' prices were on the rise (0.3%). Price developments in other categories were in line with our expectations.

Taking into account breakdown of price changes in the inflation basket, we estimate that core inflation excluding food and energy prices amounted to 2.0%YoY (fall from 2.3%YoY in July). A strong drop of core inflation is mostly due to high statistical base from August 2011, which saw a rise in telecommunication services prices when promotion at one of the main operators came to an end.

Decline of CPI in August was in line with market expectations, and lightly smaller than we expected (3.7%YoY). Still, that does not influence our inflation path for the upcoming months. We expect inflation to rebound to ca. 4.0%YoY in September and decline clearly in Q4 to 3% in December and further towards inflation target at turn of Q1 and Q2 2013.

From the monetary policy point of view, today's data should support dovish fraction of the MPC. Today's release together with expected by us poor data from real economy (clear deceleration of industrial output and retail sales as well as still weak data from labour market) should prompt the MPC to cut rates by 25bps in October.



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