Bank Zachodni WBK

Instant comment

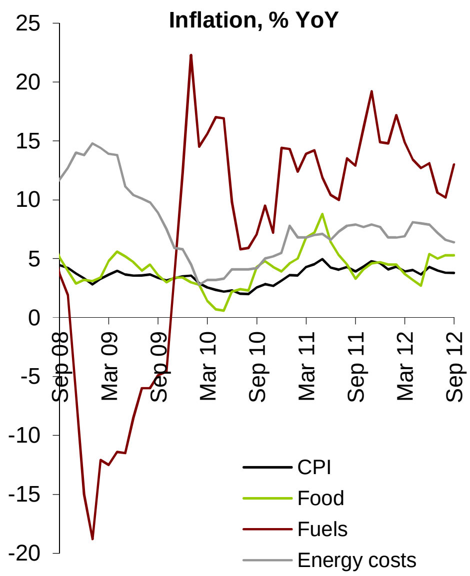
Inflation and trade deficit below forecasts

15 October 2012

The inflation rate remained unchanged in September at 3.8%YoY. That is still above the NBP target but in the coming month the downward trend of the CPI is likely to kick off, bringing inflation back to the NBP tolerance band already in October, and below 3% before the year-end. In the first quarter of 2013 we expect the inflation to reach the NBP's official target or even decline below 2.5%. The structure of price changes suggests that core CPI after excluding fuel and food prices retreated in September to 1.9%YoY. These data support expectations that the MPC will start monetary easing cycle in November with a 25bps rate cut. The current account deficit narrowed quite visibly in August and annual pace of growth of exports and imports was lower than in previous month. In the following months we expect further slowdown in Polish foreign trade.

Inflation did not rise in September, will start falling in October

In September consumer prices rose by a mere 0.1%MoM, which translated into annual CPI inflation at 3.8%YoY (unchanged as compared to August). Our forecast and market consensus assumed an acceleration to 4.0%YoY. The lower-than-expected September's reading is a result of decline of prices in: food (by 0.1%MoM), healthcare (-0.2%MoM), culture and recreation (-0.8%MoM). Seasonal hikes of prices footwear and clothing (0.6%MoM) as well as in education (1.3%MoM) proved to be less considerable than we expected. Also fuel prices climbed less than expected (1.8%MoM). Observations from the recent weeks show that October has brought a slight drop of prices on the domestic fuel market. Price growth was very moderate in other categories. Based on data released today, we estimate that core inflation excluding food and energy prices declined to 1.9%YoY in September from 2.1%YoY in August.



Fact that inflation rate did not record a temporary increase in September (despite relatively low base from last year) is indicating that outlook for the upcoming months can also be more optimistic than previously expected. We have been predicting for some time that CPI inflation will decline considerably starting from October, among others thanks to high base effect, waning effects of hikes on commodity and food prices as well as increasing effect of slowdown in domestic demand, which translates into lower price pressure. Provided that no new shocks emerge, e.g. a sharp zloty depreciation or strong rise of commodity prices, the CPI inflation will fall below 3%YoY until the year-end and may reach the NBP target in 1Q2013.

Today's data is another factor supporting easing of monetary policy and fuels expectations for rate cut in November. We maintain our forecast of NBP main interest rate at 4% at the end of 1Q 2013.

Significant improvement in trade balance

In line with our expectations, July's improvement in trade was only one-off effect. In August annual growth of imports slowed to -3%, down from 2% in July, while nominal value of imports amounted to €12.1bn, more or less as we expected (€12.0bn) and significantly lower than market consensus (€12.5bn). At the same time exports slowed down from 10.9%YoY in July to

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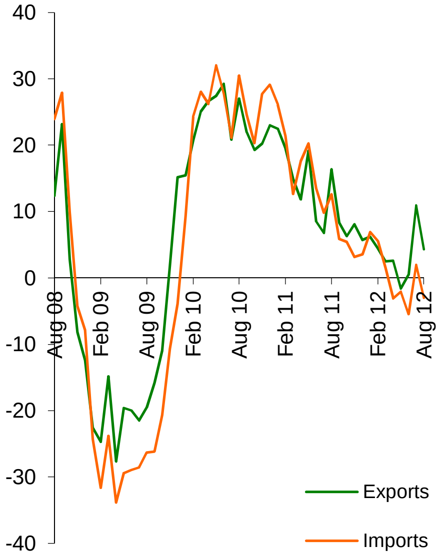
Foreign trade turnover, % YoY



4.3%YoY in August, reaching the level of €12.0bn, i.e. in line with market predictions (€12bn) and more than we forecasted (€11.7bn). Consequently, trade gap narrowed significantly to only €48m. We expect foreign trade volume to decelerate further in upcoming months, with slower exports decline than imports, resulting partly from relatively strong demand for Polish goods from emerging economies.

The surplus in services account was higher than expected and reached €538m. Deficit on the income account reached €1.5bn and surplus on current transfers reached €396m. That led to narrowing the current account deficit to €633m (from €711m in July after the revision). Cumulated current account deficit for past 12 months declined according to our estimates to ca. 4% of GDP, lowest level for 3 years.

Regarding the financial account, it is worth to notice high inflow of foreign direct investments, which reached €1.2bn, and strong demand for Polish securities (€1.4bn). The coverage of the current account deficit by long-term capital inflow reached 114%, highest level since 2006.

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