

Instant comment

Start of sharp downward inflation trend

14 November 2012

In line with expectations CPI inflation fell to 3.4%YoY in October. While our forecast amounted to 3.5%, the monthly change in prices was at 0.4%, exactly as we predicted. As we already suggested, the significant decrease from 3.8% in September starts the downward trend, which will be continued in the following months. After reaching the upper end of tolerance band around the target, we see 12M CPI below 3% in November and close to the target in the first quarter of 2013. After today's release we do not change our estimate for core inflation figure for October (1.9% against market consensus at 1.8%). The market reaction was muted, but one should remember that in the last couple of weeks we already saw sharp drop in market rates.

Inflation in tolerance band around the NBP target

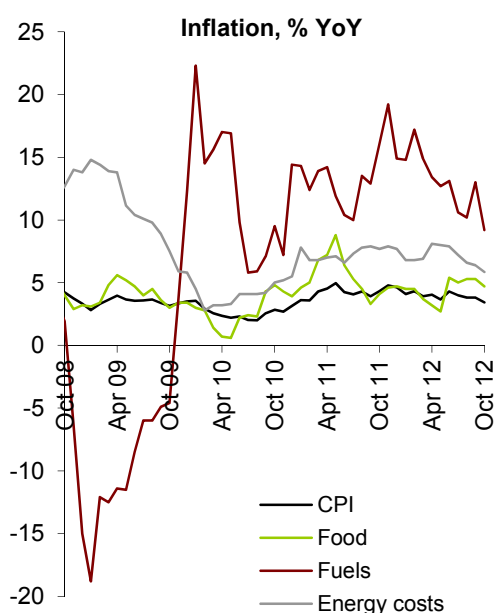
In October the CPI inflation declined to 3.4%YoY from 3.8%YoY in September, in line with market expectations. Consequently, the inflation returned after 21 months into the tolerance band (of 1.5-3.5%) and in our opinion will stay within during coming quarters. What is more, during the next few months it shall even get very close to inflation target.

On monthly basis prices increased by 0.4%, which was a rather small increase given the seasonal factors. In particular, food and non-alcoholic beverages prices advanced by 0.6%MoM, slightly above our forecasts. Also changes in prices in such categories as "housing, water, electricity, gas and other fuels" (+0.2%MoM), "education" (+0.5%MoM) and "health" (-0.2%MoM) were below expectations. On the other hand, "clothing and footwear" surprised to the upside as they increased by 3.5%MoM due to new autumn-winter clothing collections and "furnishings, household equipment and routine maintenance of the house" after an increase by 0.3%MoM. Just like we expected, fuel prices declined in October slightly (by 0.1%MoM) and in November these category is expected to decline even more visibly.

As one could have expected, data on October's CPI are clearly dovish and show that upward pressure on price growth is weak. In reaction to these data MPC's Anna Zielińska-Głębocka said that she can decide for an interest rate cut of 50bps, while rates should be cut by 100bps in total during the cycle.

Further slowdown of loan growth

M3 money supply growth accelerated in October to 8.0%YoY from 7.6%YoY in September. FX-adjusted loan growth slowed down to 6.8%YoY from 7.5%YoY. Corporate loans recorded a ninth consecutive deceleration (to 10.2%YoY).



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