Bank Zachodni WBK

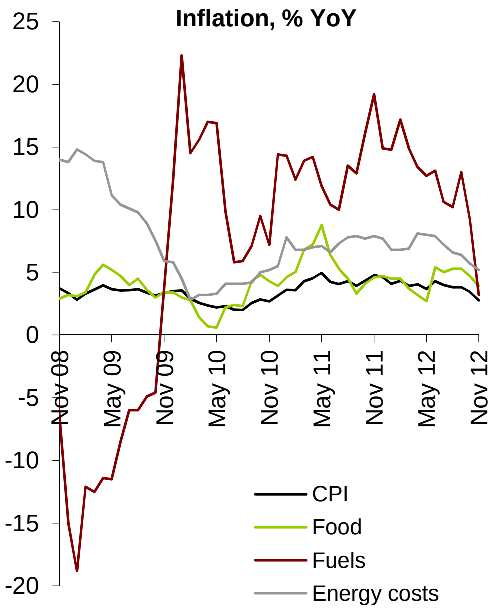
Instant comment

CPI inflation below 3%, high exports

13 December 2012

In line with our expectations, the CPI inflation declined to 2.8%YoY in November, down from 3.4% in October. We uphold our forecasts that in coming months downward trend will be continued and at the beginning of 2013 inflation rate will be near 2%. What is more, in whole 2013 the headline CPI might remain below the NBP's target (2.5%). November's data confirm lack of inflation pressure, justifying continuation of monetary policy easing. In our opinion rate cut in January seems to be certain.

Balance of payment data for October surprised on the positive side. The current account deficit amounted to only €650m, mainly due to significant improvement in foreign trade (surplus was recorded second month in a row). 12-month cumulative deficit is fully financed by long term capital inflows.



CPI inflation more and more close the NBP's target

In November the CPI inflation reached 2.8%YoY, in line with our forecast and slightly below market consensus (2.9%YoY). On monthly terms, prices increased by 0.1%, just like we anticipated. Such considerable decline of annual inflation (compared to 3.4%YoY in October) was to a large extent due to high base effect, but much impact was provided also by lower fuel prices (-2.4%MoM). Food prices surprised most as they increased only by 0.5%MoM. We did expect low growth in this category, but visible plunge of fruit prices surprised us (-2.2%MoM). Changes of prices in other categories were in line with our expectations. Lack of demand pressure on prices should be confirmed by core inflation data. According to our estimates core CPI, excluding energy and food prices, declined in November to ca. 1.7%YoY versus 1.9%YoY in October.

We expect the CPI inflation to continue downward trend in upcoming months. In December inflation rate might reach NBP's target, while in January it could be near 2%YoY as a consequence of lower gas prices. In whole 2013 we predict that the CPI inflation will remain below NBP's target (i.e. 2.5%).

Data on November's inflation and expected developments regarding change in prices in next months/quarters justify continuation of monetary policy easing by the MPC. In our opinion, next rate cut (just as it was announced in the December's statement of the Council) should be expected in January. In 2013 we expect three rate cuts by 25bps each and in April the main NBP rate shall be at 3.50%.

Significant improvement in trade balance

Data on October's balance of payments surprised to the upside. The current account deficit reached €650m, clearly below our forecast (-€1291m) and market consensus (-€1054m). Better than expected reading mainly came from the improvement in trade balance – we noted a surplus in foreign trade that amounted to €225m (second month in a row). That was due to higher pace of growth of exports (15.5%YoY) than imports (7.6%YoY). It is worth to notice, that in nominal terms, both exports (€14156m) and imports (€13931m) reached highest levels since comparable data is available. After October's data on industrial output such improvement shall not be too big surprise (due to positive effect of working days), but the scale of this impact clearly beat expectations. It is

Maciej Reluga Chief Economist +48 22 586 8363 Email: ekonomia@bzwbk.pl

Piotr Bielski +48 22 586 8333
Marcin Luziński +48 22 586 8362
Agnieszka Decewicz +48 22 586 8341
Marcin Sulewski +48 22 586 8342

rather unlikely that situation from October will repeat in next months. Abating foreign and domestic demand will have a negative impact on the trade volume, though deceleration in exports should be smaller than in imports. In other elements of current account there was also a more visible improvement than we expected.

From the financing side, it is worth to notice that in October inflows of foreign direct investments was at very high level compered to the previous months (at nearly €1.5bn versus nearly €200m on average in January-September period). October was next month of strong inflows of foreign portfolio investment into the debt market (€1.05bn). After October the 12-month cumulative current account deficit was covered by inflows of long term capital in 126%.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone +48 22 586 83 63. email ekonomia@bzwbk.pl. http://www.bzwbk.pl