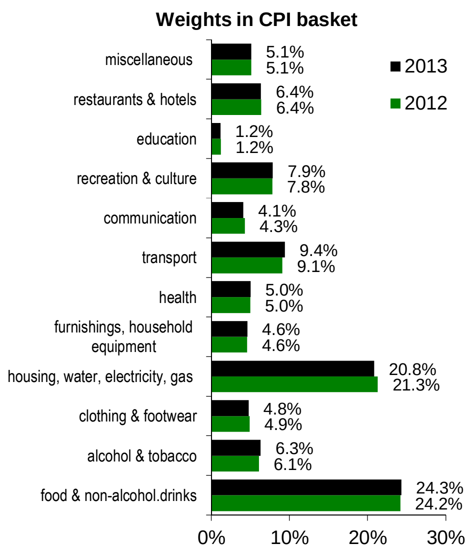
Bank Zachodni WBK

Instant comment

Inflation lower and lower

14 March 2013

CPI inflation fell in February to 1.3%YoY, below forecasts and below lower end of tolerance band around target. Core inflation, according to our estimates, fell to 1.2%. We are expecting further declines of inflation, even below 1%, which means a realization of path lower than indicated by the last NBP projection. This fuels speculation about further interest rate cuts. In reaction to data the zloty weakened by 0.01PLN against the euro (EURPLN reached 4.157), while 2Y IRS set all-time low (3.28%); domestic bonds strengthened by 5-10bps. Still, in our view data on real economy may be more important for the MPC, and whether they are in line with recovery path expected by the central bank. Balance of payments data confirmed the expected rebound in exports in January, while imports proved lower than predicted. Improvement of trade balance will be the main driver of economic growth this year.



Inflation still falling faster than expected

Inflation plunged from 1.7%YoY in January to 1.3%YoY in February, the lowest level for over six years. The release was again below expectations (our forecast at 1.6%, market consensus 1.5%). Prices of “food and non-alcoholic beverages”, and “communication” caused this surprise, as compared to our predictions. In both cases prices declined on monthly basis, by 0.2% and 3.0%, respectively. In case of communication, that was due to discounts in mobile services by telecoms. Regarding foodstuff, prices of many items declined, which is a rare situation in February. In other categories there were no surprises, monthly changes were only marginal, close to zero. Two exceptions were tobacco and alcohol (+1.3%MoM – the result of higher excise tax) and transportation (+0.7%MoM – due to higher fuel prices).

The revision of weights in CPI basket was only marginal (see the chart) and in line with our expectations pushed the inflation rate only slightly up (by ca. 0.02pp).

On the basis of CPI data, we estimate that core inflation (CPI excluding food and energy prices) amounted to 1.5% in January and 1.2% in February. This is confirming the lack of inflationary pressure, amid waning domestic demand. We predict further decline of CPI inflation (and probably also core inflation) in the upcoming months. In April inflation will probably run significantly below 1%YoY. This means that scenario of inflation path lower than the one expected in the NBP projections begins to materialize. However, we think that from the point of view of MPC it will be more important whether data on economic activity also prove disappointing.

Today’s data did not impress the MPC members too much: according to Jan Winiecki decline of inflation was expected, it was due to one-off factors and it can improve consumer confidence; meanwhile, Elżbieta Chojna-Duch stated that the data confirm that recent MPC decision was justified and that now the Council should wait for the next data to assess if decline of CPI is persistent.

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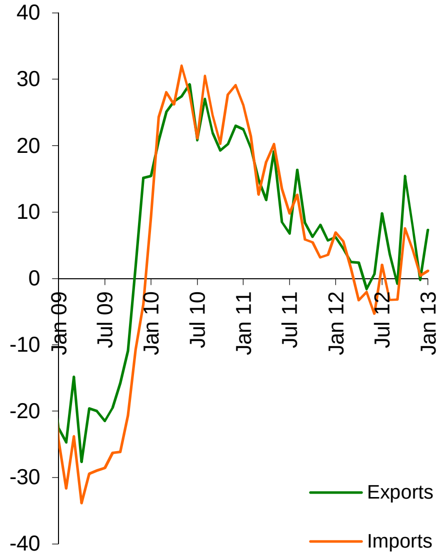
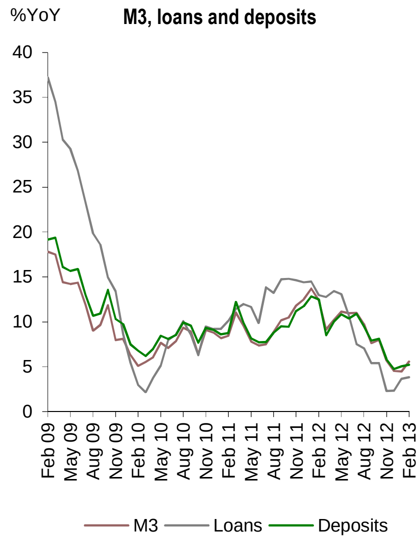
Foreign trade turnover, % YoY



M3, loans and deposits



Imports lower than expected

As we expected, foreign trade volumes rebounded in January. However, even though exports proved more or less in line with our and market forecasts (€12.2bn and rise by 7.3%YoY), imports proved to be lower than predicted (€12.2bn and rise by 1.1%YoY), which caused a considerably stronger than expected decline of trade deficit (even a small surplus was recorded). Data released yesterday by the CSO showed than a significant decline in January was posted by imports from Russia (-11.7%YoY). Let us remind that one year ago imports from this country surprised to the upside (increase by more than 40%YoY), and we had explained this development by increasing commodity prices. It is possible that the equivalent factor was the main culprit this year. We are expecting that tendencies drawn in January (rebound: stronger in exports and weaker in imports, narrowing of trade deficit) will dominate in Polish foreign trade this year.

Other balance of payments positions were more or less in line with our expectations, so, as we predicted, current account deficit widened as compared with December (€1.5bn), mainly due to lower inflow of EU funds (current transfers balance posted a deficit of €299m, while in December a surplus of €1bn was recorded).

As regards financing side, it is worth noting the strong increase of foreign investors' engagement in Polish debt instruments (almost €3bn). Coverage of current account deficit with long-term capital increased and reached 96%.

Moderate growth of M3 money supply

In February money supply M3 amounted to PLN920.8bn, which means growth by 0.8%MoM and by 5.6%YoY. Deposits and credits growth accelerated only slightly in February (by 5.2%YoY and 3.8%YoY, respectively), both as regards households and enterprises.

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