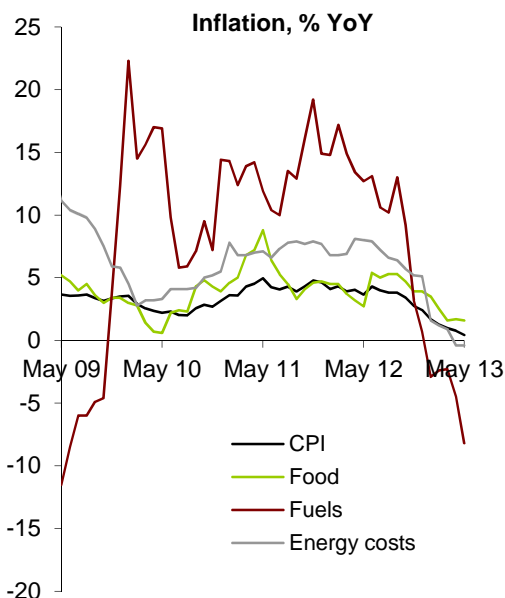


Instant comment

Inflation close to the bottom

13 June 2013

CPI inflation fell in May to 0.5%YoY, in line with our forecast and below market expectations. Weak domestic demand was the most important factor behind a drop. However, it was also reinforced by cuts in fuel prices and new (lower) tariffs introduced by phone and TV operators. We expect another inflation drop in June, and in the second half of the year it should start a gradual pickup, however still remaining well below the NBP target. The data are supportive for our expectations of MPC's interest rate cut by 25bps in July (probably the last one in the cycle). Interest rate market's reaction to the release was not significant, perhaps because of the strengthening that took place in the first part of the day.



Consumer price index declined in May by 0.1%MoM and thus the annual inflation rate plunged to 0.5%YoY, lowest level since March 2006. This release was exactly in line with our forecast and below market consensus (0.7%YoY). Just like we expected, prices of food and beverages increased in May by 0.7%MoM (mainly due to more expensive fruits and vegetables) while clear decline was recorded in transportation (due to 4%MoM decline of fuel prices), communication (lower prices on telecommunication market) and recreation (withdrawal of earlier price hikes by cable and digital TV operators). In the remaining categories – just like in many previous months – stabilization or slight increase of prices was observed.

According to our estimate, core CPI after excluding food and energy prices reached 1.0%YoY in May (before today's data we expected rather 0.9%), slightly lower than April's 1.1%.

The low and falling inflation is primarily an effect of weak domestic demand. We think that this is still not the lowest reading – in June the CPI inflation may decline again, probably to ca. 0.3%YoY, and it will probably start a gradual upward trend in second year-half after reaching this bottom. Still, it will be running below central bank's target. Today's data will support the MPC decision to cut interest rates again in July. Still, the crucial argument for a cut will be the new NBP projection that will probably show a low medium-term path of inflation and GDP.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 586 83 63, email ekonomia@bzwbk.pl, http://www.bzwbk.pl

Maciej Reluga Chief Economist +48 22 586 8363

Piotr Bielski +48 22 586 8333

Marcin Luziński +48 22 586 8362

Email: ekonomia@bzwbk.pl

Agnieszka Decewicz +48 22 586 8341

Marcin Sulewski +48 22 586 8342