Bank Zachodni WBK
Grupa Santander

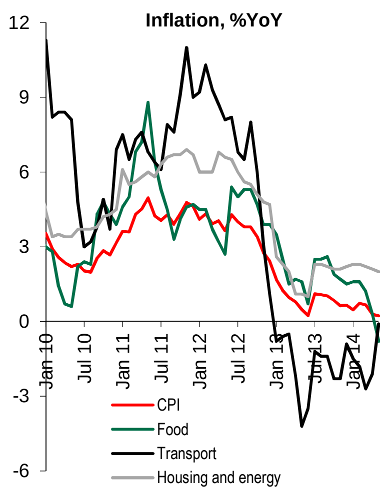
INSTANT COMMENT

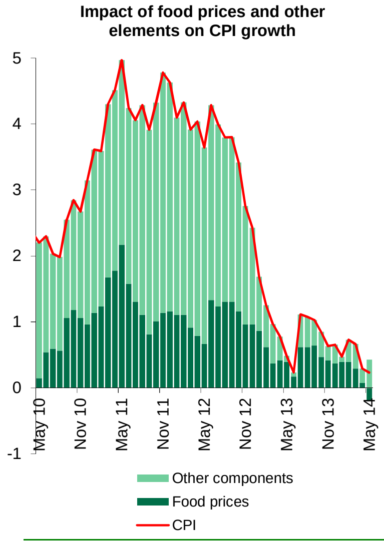
13 June 2014

Inflation record low again, exports going up

Inflation was lower than expected again, falling to 0.2%YoY in May. The decline was again driven mainly by falling food prices. We estimate that core CPI after excluding food and energy prices stabilized at 0.8%YoY. Inflation rate may drop below zero in the summer months but we do not think that there is a serious threat of prolonged deflation in Poland as the recovery of the domestic demand will push prices up in the coming months. NBP data on balance of payments confirmed earlier signals from the CSO, showing continuation of decent export growth and significant trade and current account surpluses. At the same time, data from the banking sector show a continuation of the credit market recovery, which confirms that the Polish economy remains on path of expansion.

Low inflation may fuel market expectations for rate cuts in the nearest future. However, if – in line with our expectations – the pace economic revival does not abate in the coming months/quarters, then monetary policy easing should not be necessary.





Inflation again below expectations

Inflation rate fell again, this time to 0.2%YoY. Our forecast pointed to a slight increase to 0.4%YoY while the market consensus was at 0.5%YoY. May's inflation reached again the level established in June 2013, the lowest in post-transition history.

Lower CPI was again driven mainly by prices of food and non-alcoholic beverages that dropped by 0.4%MoM and their annual pace of growth was negative (-0.8%YoY) for the first time since June 2006. Prices declined mainly in the case of vegetables and sugar while meat and fruits, among others, were more expensive. Strong downward trend in food prices is the main factor driving Polish inflation down in the recent months – this is illustrated by the charts on the left. Although this factor may continue to push CPI lower in the summer months, we think that its impact may soon reverse. This may happen due to likely increase of grain prices due to drought in biggest countries producing grain and anticipated by us rebound of pork meat prices (originating from lower production of Polish pork due to information on African swine fever). Actually, pork prices have already started to increase during the last two months after earlier plunge due to Russian embargo on Polish meat.

Growth rate of prices of goods and services other than food still remains quite low, however stopped slowing. According to our estimate, core inflation excluding food and energy prices remained at 0.8%YoY in May, i.e. at April's level. Still, the accelerating growth rate of domestic demand will be supportive for upward trend in those categories, which are most vulnerable to consumer demand.

In July the inflation rate is likely to decline again due to a strong base effect – in July 2013 we saw effect, named by the NBP governor as "peelings inflation" (change in registration of vegetables' prices by the Central Statistical Office and hike of waste maintenance prices), which will not be repeated this year. In due course, CPI may temporarily fall below zero (in July and possibly also in August). Still, we are expecting inflation rate to climb gradually in the following months.

Balance of payments data better than expected

April's data on balance of payments proved much better than expected: current account balance showed a surplus of €1bn (the highest since comparable data are available, i.e. 2000) as compared to market expectations at €426mn and our forecasts at €537mn. Thus, 12-month current account deficit narrowed to c0.8% of GDP.

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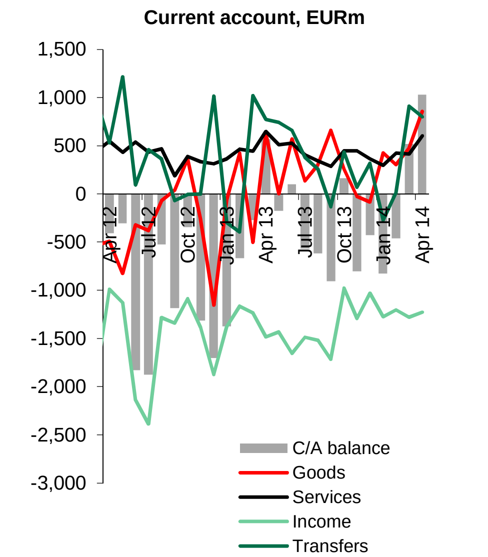

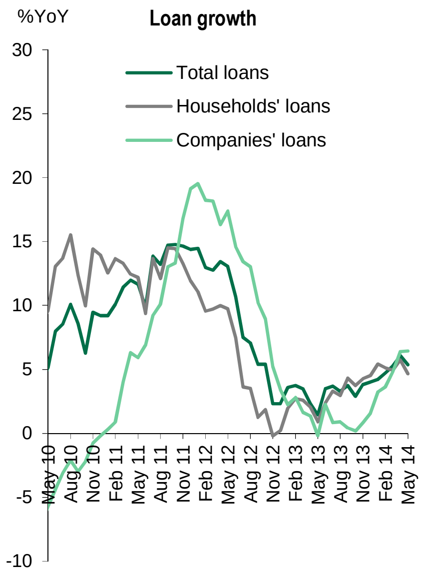

Exports were in line with our forecast and amounted to €14.2bn (increase by 6.8%YoY). The good result of export supports our claim that weaker trade volumes with Russia and Ukraine are more than offset by the euro zone recovery. Imports were lower than we expected and showed €13.4bn (5.3%YoY). Surplus in goods balance amounted to €856mn and was the highest since comparable data are available. Other balances were more or less in line with our expectations: services posted a surplus of €601mn, incomes a deficit of €1.2bn and current transfers a surplus of €800mn.

We are expecting that in the upcoming months exports will be still posting good results, supported by the economic recovery in the euro zone. Imports are likely to grow stronger under impact of accelerating domestic demand. Thus, we are not expecting any further narrowing of current account deficit. In the upcoming quarters it is likely to stay close to current levels.

Healthy growth of loans to corporate sector

In May money supply M3 increased by PLN5.8bn to cPLN992bn and was higher by 5.3% as compared with the same period of last year. Households deposits climbed by 6.2%YoY (the third month in a row), while corporate deposits slowed to 4.4%YoY (despite nominal growth by PLN3.4bn to PLN195.6bn, the highest since December 2013).

At the same time total loans slowed to 5.4%YoY, down from 6.1%YoY in previous month. Loans to households fell to 4.7%YoY from 5.8%YoY in April, while loans to corporate grew to 6.5%YoY (vs 6.4%YoY in April). Decline in loans partly came from zloty appreciation against the main currencies in May. After exchange rate adjustment total loans grew in May by 6.2%YoY from 5.6%YoY in previous month. As regards corporate sector, the pace of loans increased to 7.3%YoY, the highest since November 2012.