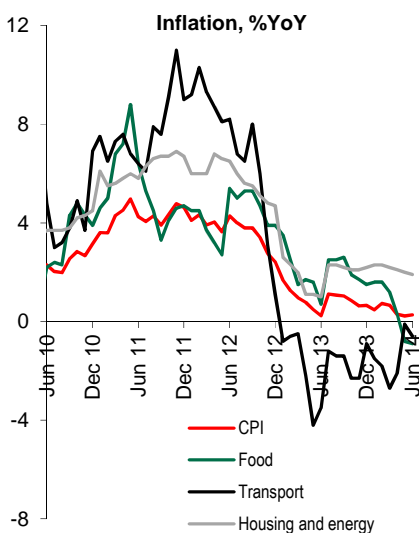


INSTANT COMMENT

15 July 2014

CPI slightly up, but will be sub-zero during summer vacations

Inflation climbed slightly in June to 0.3%YoY, in line with our expectations and slightly above market consensus. This caused a slight correction on the interest rate market, which in our view may be continued in the upcoming days, as we are expecting other releases of the week (wages, output) also to be above market consensus. We still assume that inflation in July and August will temporarily fall below zero, but this scenario is anticipated by the MPC so information about the economic growth – if it is decelerating or running at a decent level – will be crucial for the decision on interest rates. We are expecting the latter scenario, so we still think that the MPC will not decide to cut interest rates.



Growth rate of consumer prices accelerated slightly in June to 0.3%YoY, in line with our forecast (market consensus assumed stabilization at 0.2%YoY).

As compared with May, the overall level of prices remained stable. Food prices fell by 0.3%MoM, in line with seasonal pattern and more or less in line with our expectations. Taking into account the scale of cuts of food prices in the previous months, this is not a considerable decline, especially as for the season. Summer price cuts were also observed in clothing and footwear (-0.8%MoM, the same scale as one year before). Slight decrease of costs of housing was a surprise, in particular a decrease of energy prices (-0.1%MoM) and lower costs of household equipment (-0.3%MoM). On the other hand, prices of communication increased strongly (2.4%MoM), mainly due to introduction of new tariff in cellular networks. Costs of education increased 0.1MoM, against their seasonal pattern.

All in all, inflation remains very low and it is hard to find any symptoms of rising price pressure. At the same time, talking about the deflation threat in Polish economy would also be an exaggeration – if we exclude food and energy, consumer prices are rising, although slowly. We estimate that core CPI after excluding food and energy prices increased in June to 1.0%YoY from 0.8%YoY in previous two months.

Annual inflation is likely to decline below zero during the summer months. However, it should then rebound in the following quarters as strengthening domestic demand will be gradually affecting price decisions of producers and retailers.

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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 22 534 18 88, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.

ECONOMIC ANALYSIS DEPARTMENT:

ul. Marszałkowska 142. 00-061 Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luziński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400