

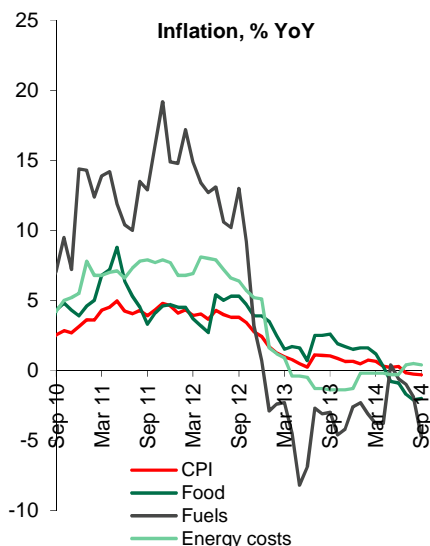
INSTANT COMMENT

15 October 2014

Inflation still below zero, but above forecast

CPI inflation in Poland remained at -0.3%YoY in September, which was slightly above forecast. The surprise came mainly from food prices, which rose slightly after seven consecutive months of decline. At the same time, prices in other categories remained surprisingly stable (except clothing and footwear, where a seasonal spike was recorded), showing lack of any significant upward pressure. According to our estimate, core inflation excluding prices of food and energy rose slightly to 0.7%YoY. We forecast that until the end of this year CPI growth will remain below zero and core inflation below 1%.

Inflation data was probably not a big surprise the central bank, as the sub-zero reading was widely anticipated. However, the publication triggered a slight correction in the fixed income market and we think that next data releases may generate similar impulses. We still expect the MPC to cut interest rates again in November, most likely by 25bp.



CPI inflation dropped in September by 0.3% YoY, at the same rate than in August, vs. our forecast and the market consensus at -0.4% YoY.

In contrast to what we had expected, the food prices interrupted a seven-month-long series of downward trend and inched marginally up in September (by 0.1% MoM). However, we do not expect this to be a long-lasting rebound. Sanctions imposed by Russia on food imports from Europe, high harvest this year and sharp drop in oil prices in the global market should keep food prices at low levels for many months to come. At the same time, other categories show no significant upward movements in prices. On monthly basis, only prices of clothing and footwear increased noticeably (by 1.1% MoM), but this was only a seasonal phenomenon (the end of discounts and introduction of new autumn collections). We estimate that core inflation excluding prices of food and energy moved slightly up in September, to 0.7% YoY, but it will remain low in the coming months (below 1% until the year-end). CPI growth is likely to stay below zero until December

Inflation data should not come as a surprise for the MPC, which probably expected a third month in a row of negative reading. We expect the Council to cut rates in November by 25bp.

For the fixed income market the above-consensus CPI was a trigger for slight correction, so bond yields slightly trimmed their earlier gains. In our view, macroeconomic releases planned for the remaining part of this week (wages and employment on Thursday, and especially industrial output on Friday) will provide further impulses for a correction, showing a slightly better set of information than one month before. On the other hand, any correction may be only temporary if the downward trend of yield in core debt markets continues.

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