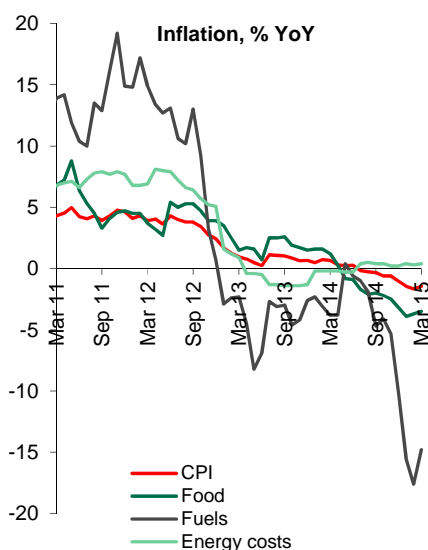


INSTANT COMMENT

15 April 2015

Inflation bottoming out, but slowly

March inflation reached -1.5% YoY and started to rebound from the trough but at the pace clearly slower than we had been expecting. The following months should show a further increase but we expect CPI to remain below zero until at least the end of 3Q15. Today's inflation data strengthened Polish debt and weighed on the zloty, but in our view it does not change the outlook for the monetary policy. The most important issue for the central bankers in nearest months will be probably the situation in the FX market. The Polish MPC press conference after today's meeting starts at 16:00CET.



CPI inflation rate amounted to -1.5% YoY in March. This was a slight increase versus February (-1.6% YoY), but the result was clearly below expectations (our forecast and Bloomberg consensus were at -1.3% YoY). Change of food and non-alcoholic beverages' prices was the biggest surprise for us, as they fell by 0.1% MoM while our estimates based on market prices suggested an increase by 0.3% MoM. Lower prices of services related to recreation and culture also surprised us, falling 0.2% MoM, and this was mainly due to new tariffs introduced by TV operators. In line with our expectations, fuel prices rebounded visibly (by 3.7% MoM – due to higher oil prices and weakening of the zloty versus the dollar), and clothing and footwear prices also went up due to seasonal effect (0.8% MoM as new summer collections were introduced).

We estimate that core inflation excluding food and energy prices fell slightly in March, to 0.3% YoY (down from 0.4% YoY in February).

We continue to expect that in the coming months CPI inflation will gradually go up, firstly because of the extremely low base effect in food prices, and secondly due to the impact of a strong domestic demand on services prices. But it will take quite a long time before the CPI starts approaching the NBP's inflation target. In our view, inflation rate will remain below zero at least until the end of 3Q15, and at the end of this year it will be in the range of $0.6\text{--}0.7\%$ YoY.

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