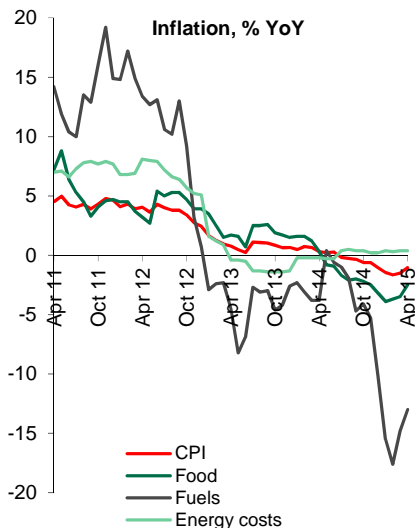


# INSTANT COMMENT

14 May 2015

## CPI rebounds

Just like we anticipated, CPI rebounded in April to -1.1% YoY from -1.5% YoY while M3 money supply growth decelerated to 7.2% YoY from 8.9% YoY in March, below expectations. On monthly terms, prices rose by 0.4%, the strongest increase since April 2013. The increase in the annual CPI was driven mainly by higher fuel and food prices. Prices of fruit and vegetables rose considerably and this apparently is the fading effect of Russian embargo. We expect inflation to rise further in the coming months. However, deflation will persist until 3Q and only in late 2015 we will see +0.6-0.7% YoY, still well below the MPC inflation target. Upside pressure on the CPI will be generated by the revival in the economic growth and low base effect. The data was neutral for the monetary policy and the zloty gained slightly after the number was released.



### CPI up in line with our expectations

Just like we anticipated, CPI rebounded in April to -1.1% YoY from -1.5% YoY in March while the market expected -1.2% YoY. On monthly terms, prices rose -0.4%, the strongest increase since April 2013. Data confirms that deflation has already reached its peak and CPI should rise in the course of the year.

The increase in the annual CPI was driven mainly by higher fuel prices (transport prices rose 0.9% MoM) amid higher oil price in the global market and food prices that added 0.6% MoM. In the latter category, it was prices of fruit and vegetables that increased by most – 5.8% MoM and 2.2% MoM, respectively. So far, prices of these goods were falling under the pressure of Russian embargo that resulted in excess supply. However, Polish producers managed to sell the excess supply to the foreign and domestic markets and now we see the effect of this in the food prices. Changes in the remaining categories were roughly in line with our estimates but in telecommunications where prices increased by 0.8% MoM while we expected a stabilization. After today's release, we estimate the April core CPI at 0.4% YoY vs. 0.2% YoY in March. Today's data is neutral for the monetary policy and confirms that there is no need to cut interest rates further.

We expect inflation to rise further in the coming months. However, deflation will persist until 3Q and only in late 2015 we will see +0.6-0.7% YoY, still well below the MPC inflation target. Upside pressure on the CPI will be generated by the revival in the economic growth and low base effect.

### Money supply M3 declined significantly in April

In April money supply M3 fell by 0.9% in comparison with March and increased by 7.2% YoY (vs 8.9% growth in March – revised data). It mainly resulted from decrease in corporate deposits by PLN6.4bn (by 3% MoM). Households deposits also slightly dropped (by PLN1.2bn or 0.2% MoM).

In April the scope of credit growth in total slowed to 6.5% YoY, down from 7.8% YoY in March, in which corporate loans declined to 5.5% YoY from 7.8% YoY. It mainly resulted from changes on the FX market – zloty gained significantly against the main currencies, including by 1.4% MoM against the euro. However, in our view, this move does not explain the whole slowdown in credit growth.

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