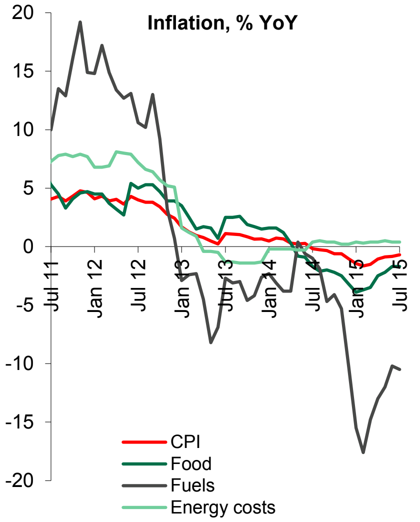
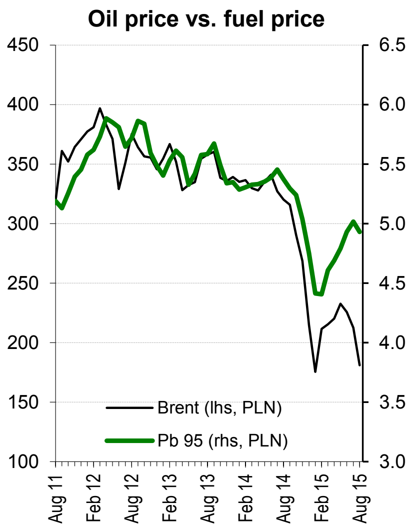
INSTANT COMMENT

13 August 2015

Surprising economic data

CPI inflation amounted to -0.7%YoY, which was slightly above expectations, both our and market's estimates. The key factors responsible for the rise were prices in healthcare and communication categories. As a result we have increased our forecast for core inflation to 0.4%YoY (from 0.2%). We do not change our forecasts that 12M inflation will be around zero in November and will reach c.0.5%YoY in December.
Current account balance showed a deficit of €848m, against expectations for a surplus (€353m according to consensus and €77m our forecast). This was driven by a significant increase in imports (by 10%YoY), which may indicate a strength of domestic demand. It is worth to notice, however, that imports in the previous month was relatively weak, so some shifts could have taken place. Exports was slightly below consensus forecast, but showed strong growth of above 10%YoY.





Inflation above forecasts

July CPI inflation reached -0.7% YoY, slightly above our and market expectations. Although we had expected another marginal fall in deflation, this month it occurred at a higher than anticipated scale. Main factors driving prices up were healthcare and communications where prices rose by c.1.5% MoM. In the first case this was due to higher prices of medicines (by 2.5% MoM), while in the latter due to higher prices of telecommunication services due to new offer of internet services. In the remaining categories, prices' changes were roughly in line with our expectations – food prices ddown by 1.1% MoM, sharp drop in clothing and footwear (2.5% MoM), higher fuel prices (over 1% MoM), a seasonal increase in the tourist services. We revise our core CPI estimate up to 0.4% YoY from 0.2%.

Despite today's surprising release, we do not make any significant changes in our inflation path for the coming months. The biggest uncertainties are related to the supply factors. First, hot summer could limit the supply and influence the food prices. However, we do not expect any significant price increase in this category: 0.3-0.4% MoM on average in September-December. This would not deviate much from the long-term historical average, but would be much above the (extraordinarily low) changes seen last year and would work towards higher inflation. Second, we expect some decline in fuel prices in August-September. We estimate it will amount to above 5% in total, but there is a risk for a deeper fall given the fact that drop in oil price in PLN terms was bigger than the fall in price in the retail market (see chart). As regards the core CPI, we expect its further gradual increase in the remainder of the year. We still think that consumer inflation will be close to zero in November and 0.5% YoY at the year-end.

C/A balance much weaker than expected

June balance of payments disappointed. The current account balance showed a €849mn deficit while the market expected a €353mn surplus (we predicted +€77mn). It is worth to mention that C/A deficit was recorded first time after three months of a high surpluses amounting to well above €1bn.

12-month rolling C/A deficit reached 0.1% of GDP, unchanged from the previous month.

The main source of a surprise was imports that reached €14.21bn (+10%YoY) vs. consensus at €13.71bn. According to the NBP, imports was fuelled mainly by the electronic and automotive purchases. This could mean a strong consumption demand and maybe also higher investments. On the other hand, the strongest increase of imports (fastest this year) occurred after a very weak May (0.2% YoY contraction). One cannot exclude that there has

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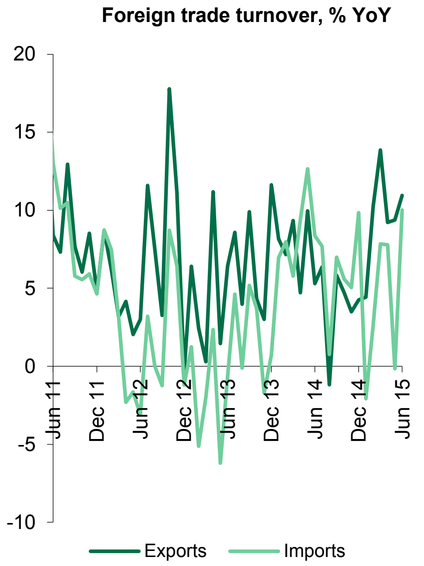

been some shift in imports in these two months. Exports disappointed as it reached €14.26bn (rise by 10.9%YoY) vs. market consensus at €14.56bn. The trade balance reached €56mn while €852mn was anticipated.

We expect rapid growth in exports and imports also in subsequent months. In our view the 12-month current account deficit will continue to narrow and could soon turn into a surplus - the first time since comparable data are available.

Other components of the current account balance were roughly in line with our expectations: the surplus in services amounted to €708mn, the primary income deficit reached the level of € 1,546mn, while the secondary income deficit €67mn.

Money supply M3 is growing slightly faster than expected

In July, money supply M3 increased by 8.6%YoY (growing by 0.9%MoM), stronger than our and market expectations. This stemmed from further acceleration in the pace of growth of currency in circulation (to almost 16%YoY from approx. 15%YoY in previous month), but also from maintaining high dynamics of deposits and other liabilities (by 8%YoY, mainly due to double-digit growth in corporate deposits). It is worth noting a significant increase in deposits of non-monetary financial institutions in monthly basis (by 8.7%MoM, the largest monthly increase since August 2014.). At the same time total loans increased by 7.8%YoY, with loans to corporate sector growing by 7.6%YoY (up from 6.9%YoY a month earlier) and loans to non-monetary financial institutions by almost 24%YoY.