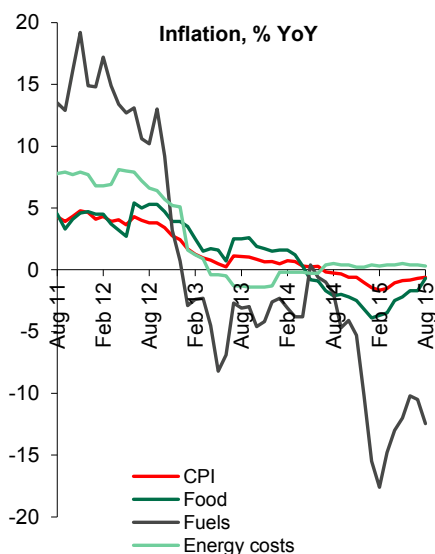


INSTANT COMMENT

15 September 2015

Inflation above expectations

CPI inflation in August reached -0.6% YoY versus -0.7% YoY in July (above market expectations at -0.7%). In monthly terms prices dropped by 0.4% . Smaller deflation resulted mainly from slowed decline of food prices (-0.7% YoY vs. -1.7% YoY in July). In the coming months the drought is likely to push food prices up, however in our view the strength of this effect will be moderated by cheap imported food and lower fuel prices. August inflation reading did not change our predicted inflation path – we expect CPI to reach 0.7% YoY in December 2015 and to head towards 2% in 2016, which will justify keeping monetary policy on hold.



CPI inflation rose in August to -0.6% YoY from -0.7% YoY in July, above our and market expectations at -0.8% and -0.7% , respectively. On monthly basis, prices dropped 0.4% . The fall in deflation was driven mainly by slower decline of food prices (-0.7% YoY vs. -1.7% YoY in July). There has been a drought this summer in Poland that could put an upward pressure on food prices. It seemed to us that it is yet too early to see this effect in CPI data, but vegetable prices dropped only 5.9% MoM and fruit prices only 3.2% MoM, by least since August 2008 in both cases. At the same time, the price of sugar rose considerably, by 4.5% MoM.

Prices changes in the remaining categories were roughly in line with our expectations, with transport prices falling 1.1% MoM thanks to the lower fuel price and clothing and footwear by 2.4% MoM amid continuation of discounts in stores.

Drought will continue to have a positive impact on domestic inflation, but in our opinion its overall effect will be limited for at least two reasons. First, the increase in food prices should be curbed by higher (and relatively cheap) food imports. We should recall global food prices are at multi-year lows. In August the FAO Food Price Index registered the sharpest monthly decline since 2008 and dropped to the lowest level since early 2009. The decline results from ample supplies, a slump in energy prices and concern about an economic slowdown in China. Secondly, the impact of more expensive food on the CPI should be partly offset by less expensive fuel (prices at the pump fell $c2.5\%$ in August and we expect them to drop a further 4% in September) and a cut in gas tariffs in September.

According to our estimates, core inflation excluding food and energy prices amounted to 0.35% YoY. The August inflation reading does not change our inflation path till the end of the year and we expect the headline CPI at $+0.7\%$ YoY in December 2015 and further increase towards 2% YoY at the end of 2016, which will be an argument for stable parameters of monetary policy.

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