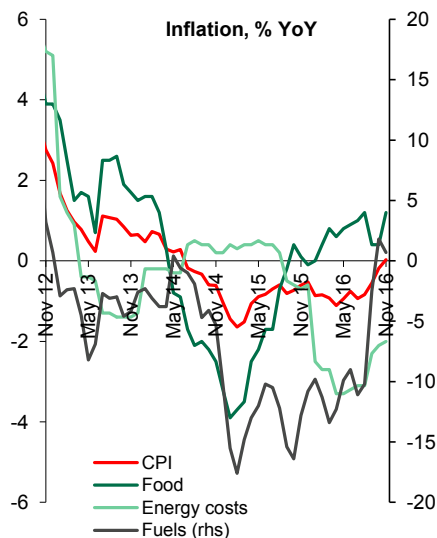


INSTANT COMMENT

12 December 2016

End of deflation in Poland

In November, CPI inflation rose to 0.0% y/y from -0.2% y/y in October, in line with the flash estimate and our forecast. After 28 months we have a big farewell to deflation and we do not expect its return in the medium term. Food prices, which rose 0.4% m/m, were the main factor pushing CPI up last month. According to our estimates, core inflation climbed to -0.1% y/y. We expect to see further inflation rise in the coming months, to 0.5% y/y in December and c1% y/y in January. Inflation rate will go up mostly due to higher food and fuel prices. Positive inflation is an argument to stabilize interest rates in Poland.



In November, CPI inflation rose to 0.0% y/y from -0.2% y/y in October, in line with the flash estimate and our forecast. After 28 months we have a big farewell to deflation and we do not expect its return in the medium term. Food prices, which rose 0.4% m/m, were the main factor pushing CPI up last month. Within this category, the core driver were dairy products, particularly butter (+3.8% m/m in November, +10% since June). The other factor generating upside pressure on CPI were rising prices of car insurance (+1.4% m/m). In the remaining categories, there seems to be no price pressure and they are roughly stable. One exception would be prices of transportation services that fell 2.4% m/m. In our view, this might have been the effect of cheaper airplane tickets.

We expect to see further inflation rise in the coming months, to 0.5% y/y in December and c1% y/y in January. Inflation rate will be pushed up not only by factors mentioned above but also by rising costs of fuels, resulting from increasing crude oil prices and weaker zloty, and also by strong effect of statistical base. Usually a surge in crude oil price is also followed by an increase of global food prices. In January some other effects will appear too, for example the rise of security services costs resulting from introduction of higher minimum wage, but in our view it would have a negligible impact on the CPI due to very low share of those services in the CPI basket.

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