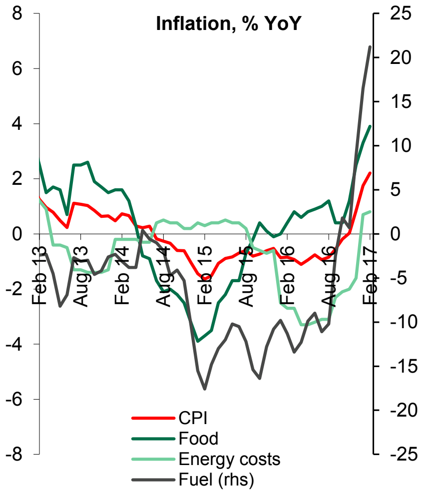
Bank Zachodni WBK
Grupa Santander

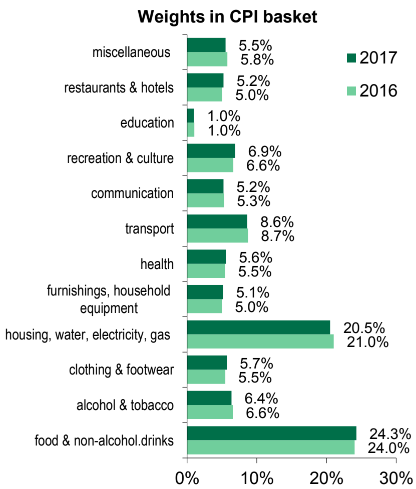
INSTANT COMMENT

14 March 2017

Inflation higher due to vegetable prices

CPI inflation increased in February to 2.2% y/y from 1.7% y/y in January (revised down from 1.8% after the change in inflation basket weights). The outcome was above our and market expectations (at 2.0% y/y and 2.1% y/y, respectively), and the upward surprise was mainly in food prices – they rose 1.0% m/m (the highest growth this month since 2000). This mainly stemmed from significant growth in prices of fresh vegetables. According to our estimates, core inflation after excluding food and energy prices reached 0.1% y/y in January and 0.2% y/y in February. We expect further rise in CPI in the months to come – inflation should reach its peak at 2.4% y/y in April and then return to 2.0% y/y. One cannot exclude that inflation will temporarily reach its 2.5% target but this is not our base scenario for the time being. We think the MPC will stick to its rhetoric saying that CPI rise is temporary and its persistent increase above the target is rather unlikely and so NBP interest rates will stay on hold at least until the end of the year.





Vegeflation persisted in February

CPI inflation increased in February to 2.2% y/y from 1.7% y/y in January (revised down from 1.8% after the change in inflation basket weights). The outcome was above our and market expectations (at 2.0% y/y and 2.1% y/y, respectively), and the upward surprise was mainly in food prices – they rose 1.0% m/m (the highest growth this month since 2000). This mainly stemmed from significant growth in prices of fresh vegetables, which rose by 6.4% m/m, its highest in February for at least ten years. As we mentioned earlier the increase in vegetable prices at the start of the year was due to the severe winter in Southern Europe, which damaged vegetable crops and pushed the Polish import prices up. Currently, however, the weather conditions have improved and there were reports that the prices of vegetables in the markets have started falling. Therefore, we expect that food prices growth will slow in the coming months.

Prices in culture and recreation also rose slightly faster than we expected (by 0.9% m/m) which was due to higher prices for cable/satellite TV. Gas prices fell 0.9% m/m, less than we forecasted and we think that March will bring yet bigger decline (due to new gas tariff that came into force on January 18). At the same time, prices of alcoholic beverages and tobacco rose 0.5% y/y, below our expectations and we expect stronger rise in March (on higher prices of cigarettes). Price changes in the remaining categories were roughly in line with our forecasts.

Change of weights in the inflation basket was not very significant, shares of food, clothes and footwear, culture and recreation rose while weight of household maintenance, energy, alcohol beverages and tobacco fell. According to our estimates, implementation of the new weights in the CPI basket will lower the average 2017 inflation by 0.015pp.

According to our estimates, core inflation after excluding food and energy prices reached 0.1% y/y in January and 0.2% y/y in February.

We expect further rise in CPI in the months to come – inflation should reach its peak at 2.4% y/y in April and then return to 2.0% y/y. One cannot exclude that inflation will reach its 2.5% target but this is not our base scenario for the time being. We think the MPC will stick to its rhetoric saying that CPI rise is temporary and its persistent increase above the target is rather unlikely and so NBP interest rates will stay on hold at least until the end of the year.

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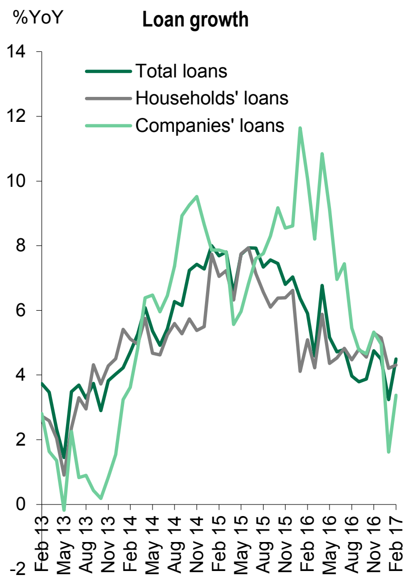
Slight slowdown in deposits, rebound in loan growth



In January the M3 money supply slowed to 8.2% y/y from 8.5% y/y in January. This mainly stemmed from slower growth of total deposits (to 7.4% y/y from 8% y/y in previous month and from c10% y/y on average in the last 12 months). On monthly basis the deposits of households and municipal institutions increased markedly (by PLN6.3bn and by PLN4.7bn, respectively), while corporate deposits inched lower by PLN5.3bn, the highest monthly decline in February ever. As regards money in circulations, it grew by PLN1.1bn, which resulted in acceleration of annual growth to 13.3% from 12.7% a month ago.

February brought some acceleration in loans by 0.5% m/m and by 4.5% y/y, only slightly below the average level in the last 12 months (4.7% y/y). In nominal terms loans for households (by PLN6.3bn) and for corporate sector (by cPLN4bn) grew the most. Consequently, the pace of growth improved slightly for households (to 4.3% y/y from 4.2% y/y in January), while strongly accelerate for firms to c3.5% y/y, from 1.6% y/y in Janury, but it was still well below the average level in the last 12 months (at c7% y/y). In February credit to the social security funds increased substantially (to PLN1.8mn from PLN0.1mn in the previous month), which can be considered an unusual situation in the last four years.

We are expecting the M3 money supply growth to stabilise above 8% y/y in the upcoming months. The gradual recovery in Polish economic activity should be supportive for acceleration of loan growth.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.