Bank Zachodni WBK
Grupa Santander

INSTANT COMMENT

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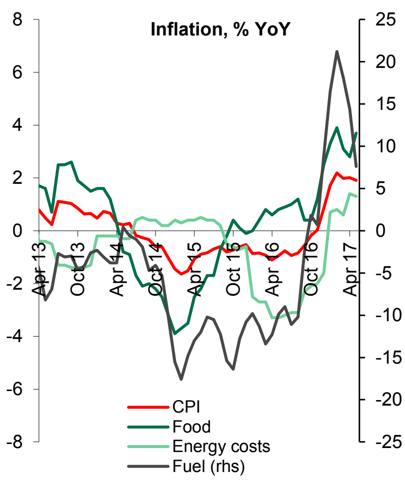
CPI goes below 2% y/y

CPI eased in May from 2% y/y to 1.9%. Market expectations were corrected from 2% y/y to 1.9% after the flash release from May 31. The full May release confirms that we are dealing with a strong reaction of food prices in expectation of significant ground freeze losses in fruit output this year. And yet there was no positive surprise in the headline inflation because of the drop in fuel prices and a contraction in the prices of transport services after a spike in April, ahead of the Spring holiday period (airline fares). We estimate that core inflation remained at 0.9% y/y in May, but only thanks to a rise of the cost of telecom services by 2.4% m/m – the strongest monthly move since June 2014. Without this factor core CPI would decline to 0.7% y/y. Fuel prices kept declining in early June which makes it quite likely that we will see 1.8% y/y in the next release of CPI.

With the fruit-flation effect entirely offset by sizeable declines in other categories the MPC can continue its 'wait and see' rhetoric. The scenario of the NBP governor that interest rates might stay in place until the end of 2018 gained credibility with this CPI release, especially that another MPC member, Eryk Łon was heard today explaining how lower oil prices are easing the inflation pressure in Poland.



CPI eased in May from 2% y/y to 1.9%. This was in line with the flash release from May 31, but we remind You that the flash release itself was a negative surprise – the median of market expectations was equal to 2% y/y ahead of the preliminary data. The full stats office inflation release for May confirms that we are dealing with a strong reaction of food prices in expectation of significant ground freeze losses in fruit output this year (the 'fruit' category showed a 5.8% m/m rise in prices). And yet there was no positive surprise in the headline inflation. There were several offsetting factors to the strong 0.8% m/m rise in food prices (the last time food prices increased this much in May was in 2012). The 'transport' category saw a double whammy: a drop in fuel prices (-2% m/m) and a contraction in the prices of transport services after a spike in April (back then airline fares jumped ahead of the Spring holiday period).

We estimate that core inflation remained at 0.9% y/y in May, but only thanks to a rise of the cost of telecom services by 2.4% m/m – the strongest monthly move since June 2014. Without this factor core CPI would decline to 0.7% y/y. Such price developments among telecom operators may be a form of preparations ahead of the EU-wide 'Roam Like At Home' regulations, which could weigh on their margins.

With the fruit-flation effect entirely offset by sizeable declines in other categories the MPC can continue its 'wait and see' rhetoric. The scenario of the NBP governor Adam Glapiński, which he repeats on every press conference of late - that Polish interest rates might stay in place until the end of 2018 - gained credibility with this CPI release, especially that another MPC member, Eryk Łon was heard today explaining how lower oil prices are easing the inflation pressure in Poland. He admitted that the MPC may leave rates unchanged until the end of next year. We still think that there could be a rate hike in 2H18.

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