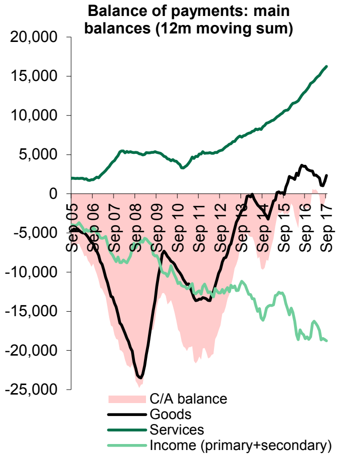
INSTANT COMMENT

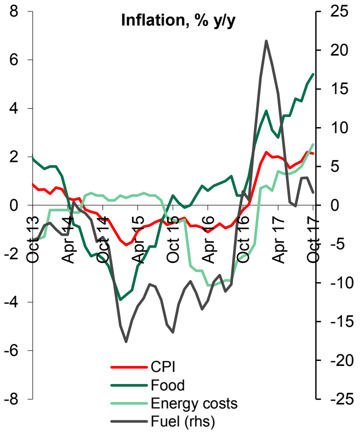
13 November 2017

Lower inflation, higher export

Data on balance of payments for September were better than expected, showing a current account deficit of €100mn versus market expectations at -€350mn and our forecast of -€667mn. Exports surprised to the upside and amounted to €17.2bn, growing by 10.2% y/y and reaching the second-highest level ever recorded in nominal terms. Imports were weaker than expected and reached €16.4bn after a growth by 5.7% y/y (the weakest rate this year). Weaker import is a puzzle given very strong domestic demand. It may be the evidence of falling supplies in the Polish economy after they were hoarded over the previous few months. Surprisingly good results of foreign trade in September confirm that GDP growth was considerably above 4% y/y in 3Q17.

CPI declined in October to 2.1% from 2.2% amid m/m growth of prices at 0.5%. Food prices went up more than we estimated in that month, by 0.9% m/m. The last time when food prices rose by a comparably high amount in October was 2011. Prices of clothing and footwear rose even stronger than in September (3.5% m/m vs 2.1%) when bad weather triggered an earlier than usual change of collection at retailers. According to our calculations core CPI returned from 1% y/y to 0.8% in October. We expect that in November the CPI inflation will rise again, even to 2.3-2.4% y/y, amid continuing growth in food prices, and a surge in fuel prices triggered by a recent spike in Brent oil. In December we may see a drop again, amid very high base effect, but probably not below 2% y/y.





Foreign trade data better than expected

Data on balance of payments for September were better than expected, showing a current account deficit of €100mn versus market expectations at -€350mn and our forecast of -€667mn. Exports surprised to the upside and amounted to €17.2bn, growing by 10.2% y/y and reaching the second-highest level ever recorded in nominal terms. Imports were weaker than expected and reached €16.4bn after a growth by 5.7% y/y (the weakest rate this year). Solid export performance is strongly supported by the robust economic growth in the euro zone, Poland's major trade partner. However, a weaker import is a puzzle given very strong domestic demand. Let us remind that August import data also surprised to the downside and weak results were recorded mostly in industrial supplies coming from the new European Union countries (Czechia, Slovakia, Hungary). In our view, it may be the evidence of falling supplies in the Polish economy after they were hoarded over the previous few months. Surprisingly good results of foreign trade in September confirm that GDP growth was considerably above 4% y/y in 3Q17.

Other elements of current account were in line with our expectations (services balance with €1.3bn surplus, primary income balance with €2.1bn deficit, neutral secondary income balance). 12-month current account deficit amounted to 0% of GDP.

Inflation temporarily lower

Detailed report on inflation in October confirmed that the y/y growth of consumer prices declined from 2.2% to 2.1% amid m/m growth of prices at 0.5%. Food prices went up more than we estimated in that month, by 0.9% m/m. The last time when food prices rose by a comparably high amount in October was 2011. Eggs prices alone climbed 5.2% m/m, while butter prices rose 3.3% m/m. Prices of clothing and footwear rose even stronger than in September (3.5% m/m vs 2.1%) when bad weather triggered an earlier than usual change of collection at retailers. This seems to correspond to record-high consumer optimism and strong financial stance of households. For a second month in a row we got a strong rise of energy prices of 0.4% m/m - again with 2011 as the last year similar price hikes were seen in the same month. On the other hand fuel price changes were a bit smaller than we expected. According to our calculations core

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CPI returned from 1% y/y to 0.8% in October, which is the same level where this measure had stayed in the middle of the year. With food prices responsible for a big chunk of CPI growth and a decline in core inflation this release may be neutral from the point of view of monetary policy.

We expect that in November the CPI inflation will rise again, even to 2.3-2.4% y/y, amid continuing growth in food prices, and a surge in fuel prices triggered by a recent spike in Brent oil. In December we may see a drop again, amid very high base effect, but probably not below 2% y/y, and in 2018 the upward trend should resume, so it is likely, in our view, that the 2.5% inflation target may be reached already in mid-2018.

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