

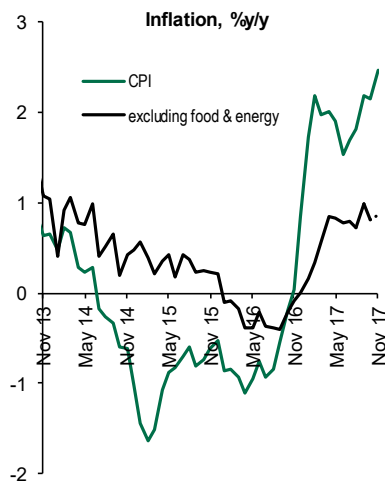
INSTANT COMMENT

30 November 2017

Inflation finally on target

Flash CPI rose to 2.5% y/y in November from 2.1% in October, reaching the official NBP target for the first time in five years. The flash release reveals no more details, but we estimate that the increase was driven mainly by prices of food (surge in prices of eggs and vegetables) and energy (petroleum and solid fuels). At the same time, it seems likely that core inflation could have inched up as well, to 0.9% y/y (from 0.8% in October). The data is a clear surprise for the market (Bloomberg consensus was 2.3%) and probably also for the central bank, as the last inflation projection predicted the 2.5% target will not be touched until late 2018. We expect CPI growth to drop to 2.0% in December due to high base effect, but it should rise again in the next months, probably exceeding the official target in mid-2018. Core inflation should be also mounting gradually in 2018, driven by strong demand and growing labour costs.

The data seem to confirm our view that the differences of views in the Monetary Policy Council may intensify, and it cannot be ruled out that a motion to hike interest rates will be submitted and voted in 1Q18. Still, we expect it will take time until the advocates of monetary tightening gather majority and the first rate hike likely in 2H18.



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