

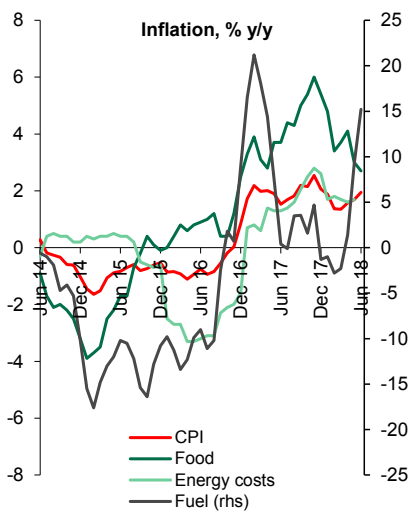
ECONOMIC COMMENT

13 July 2018

Inflation – Poland 2:0

June CPI accelerated to 2.0% y/y from 1.7% y/y in May after a monthly rise of prices by 0.1%. The earlier flash estimate pointed to 1.9%, while market consensus ahead of that release was 2.0%. So far, the CPI rise is driven mainly by food and fuels. According to our estimate, core inflation remained at 0.5% y/y in June, the lowest level since February 2017. We expect the headline CPI to stay near 2% in July and ease towards 1.5% in December later in the year owing to the high base effect.

Grzegorz Ogonek
tel. 22 534 19 23
grzegorz.ogonek@bzwbk.pl



Inflation rose from 1.7% y/y to 2.0% in June, after 0.1% m/m rise in prices. The earlier flash estimate pointed to 1.9%, while market consensus ahead of that release was 2.0%. The further rebound of inflation since the March trough at 1.4% is caused by food and fuel prices – the non-core part of CPI. Core inflation is still showing no reaction to the tight labour market with its wage pressure. According to our estimate, core inflation ex food and energy remained in June at 0.5% y/y, its lowest level since February 2017. Fuel prices are up 15.2% y/y and 1.1% m/m while food prices increased 2.7% y/y (-0.2% m/m) – in both categories there were no changes vs the flash estimate.

Among the core inflation ingredients, the footwear and clothes prices surprised on the negative side, significantly deviating from the seasonal pattern. The prices in this category fell by 1.4% m/m in June 2018, while over the last 20 years the m/m drop in June did not exceed 1.0%. The transport services prices rose faster than we expected. Total services price growth accelerated to 1.4% y/y from 1.3% y/y, while the prices of goods rose by 2.2% in June vs. 1.8% y/y in May.

CPI inflation may stay around 2% also in July, but in the following months the base effects should exert negative pressure and bring it down to c1.5% at the end of the year. There is a slight upside risk to our CPI forecasts due to the drought in Poland. Currently we estimate that if damage to crops proves to be significant, it could add 0.1-0.2 pct. points to the inflation path later this year.

Given low core inflation, the Monetary Policy Council has nothing to do but stick to the rhetoric there are no reasons to change interest rates in the foreseeable future. The new NBP projections delivered no arguments to modify the monetary policy. Lower inflation path in 2018 and 2020 versus the March forecast edition and lower GDP path in 2019 and 2020 could do nothing but confirm the MPC's devotion to keep rates unchanged. In our view, the first rate hike will be implemented at the end of 2019 at the earliest.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana P awla II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: <http://www.bzwbk.pl>

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400