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Economic Comment

Jaw-breaking inflation surge

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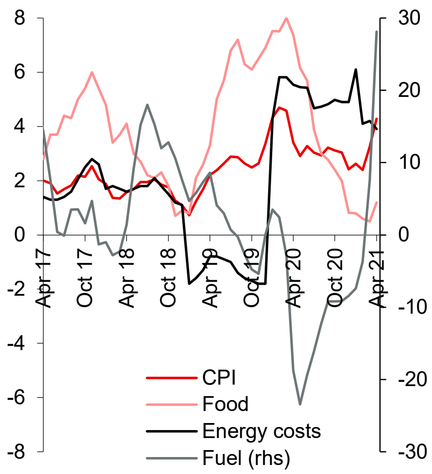
CPI surprised in April, rising to 4.3% y/y, not only due to higher than we expected rise in fuel and food prices, but also due to core component. A revision of CPI basked also played an important role. The inflation trajectory for the rest of 2021 moves higher and it is very likely now that CPI will reach 4.6% in May and even if it retraces slightly in 2H, the rest of the year will be well above the inflation target. Such scenario could be a serious challenge for the NBP's pledge to keep interest rates unchanged until the end of the MPC term of office. Nevertheless, we think the MPC will keep its dovish narrative, claiming that inflation rise is temporary and caused by exogenous factors.

Flash CPI inflation for April was a huge surprise to the upside, reaching 4.3% y/y, its highest in a year (vs market consensus 3,9% and our forecast 3.8%). Rise in fuel prices (3.6% m/m) and food prices (1.0% m/m) was higher than we expected but it does not explain the whole thing, so core component of inflation must have also been higher than we had thought. Plus, a very important factor that added as much as c.0.4pp to the annual inflation rate proved to be the re-calculation of the CPI basket, without which the 0.7% m/m CPI growth would be inconsistent with 4.3% y/y.

Our estimate of core inflation ex food and energy for April is now at 3.7% y/y (vs 3.9% in March).

The big surprise in April CPI data (and earlier in March) moves up the entire inflation trajectory for the rest of 2021 – it is very likely now that CPI will reach 4.6% in May and even if it retraces slightly in 2H, the rest of the year will be well above the inflation target (even above the upper end of the tolerance band). And if the economy starts accelerating sharply in 2H21, with the severe supply chains problems in some branches, and labour market and domestic demand heating up, it will create growing risk of inflation surging further in 2022. Such scenario could be a serious challenge for the NBP's pledge to keep interest rates unchanged until the end of the MPC term of office. Moreover, it may be a challenge also for the NBP's QE programme – if yields continue their upward trend should the NBP boost the quantitative easing once inflation is already elevated and rising? We see growing risk that the market will perceive the NBP as being well behind the curve, the result being further steepening of the POLGB yield curve.

Inflation rate and its components, % y/y



Source: GUS, Santander

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