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Economic Comment

Inflation rose stronger than expected

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CPI inflation climbed to 4.9% y/y in September from 4.3% y/y in August, slightly above our and market expectations (4.8% y/y). We estimate core inflation in September at 4.3% y/y as compared to 3.7% y/y in August (prior to the data we were betting for 4.2% y/y and the market consensus for 4.1% y/y).

We expect CPI inflation to rise further in the coming months, although not by much. We see the peak in March, in the 5-6% y/y range. The government's decisions on energy prices will be crucial for the inflation path in 2025, and we currently assume that they will stabilise. At the end of 2025, in our opinion, inflation will fall below 4% y/y. Core inflation is likely to remain above 4% y/y in the upcoming months, and even to come close to 5% y/y at the turn of 2024 and 2025. Given such an inflation path, we deem it unlikely that the MPC will decide to cut rates in March 2025.

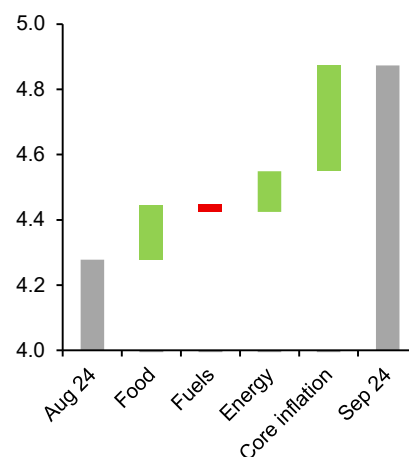
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Food prices advanced by 0.2% m/m, a bit stronger than we have assumed and markedly more than usually in this month. We think this could have been caused by the drought effects and its impact on fruit and vegetable prices. Fuel prices went down by 3.4% m/m, stronger than we have assumed, while energy prices went up by 0.2% m/m, in line with our forecasts.

We estimate core inflation in September at 4.3% y/y as compared to 3.7% y/y in August (prior to the data we were betting for 4.2% y/y and the market consensus for 4.1% y/y). While jump in CPI and core in September was primarily caused by statistical base effect (extension of free medicines and promotion in one of streaming platforms in September 2023), core prices rose by as much as 0.5% m/m in September, which is clearly more than average in this month (c0.1% m/m), suggesting a still elevated momentum in this part of the inflation basket.

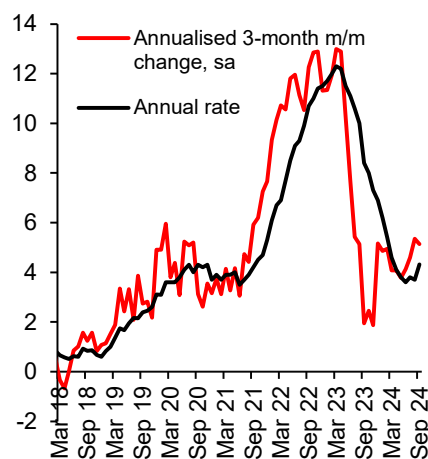
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Breakdown of change in annual CPI rate, % y/y



Source: GUS, Santander

Core inflation, % y/y



Source: GUS, Santander

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