Bank Zachodni WBK

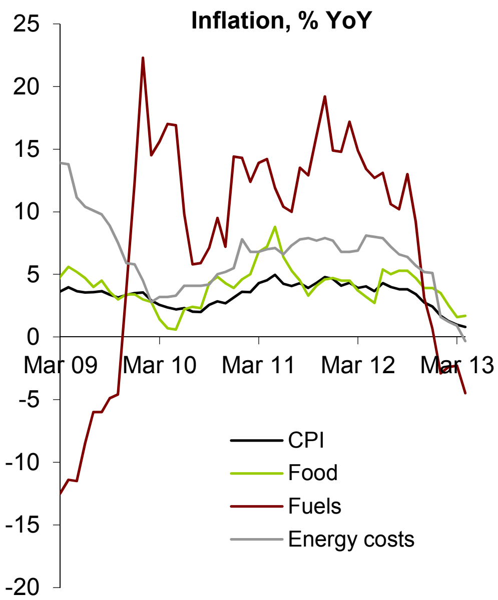
Instant comment

Inflation going down, but not so fast

15 May 2013

Today's data showed inflation above expectations. Though 12M CPI fell in April to 0.8% from 1.0% in March, market consensus was at 0.7% (our forecast 0.6%). As compared to our assumptions, higher prices were recorded in clothing and footwear, as well as in the recreation and culture categories. The breakdown of CPI data suggests that core inflation may reach 1.2%YoY vs. 0.8% anticipated before today's release. However, we still expect continuation of the downward trend of inflation in coming two months towards 0.4%-0.5% in June. This should support market expectations for more NBP rate cuts and given 1Q GDP data the MPC may indeed trim rates by total of 25-50bps during next two meetings. We do not forecast the easing cycle to be continued after the summer holidays and we still perceive market expectations in this regard as too aggressive.

Data on trade balance showed exports in line with our forecast and higher imports. Consequently, the trade deficit and current account deficit were deeper than we expected.



Inflation still heading south, but not that clearly

In line with market expectations, inflation recorded another decline. However, the scale of move was smaller than assumed (consensus at 0.7%YoY, our forecast at 0.6%YoY). As compared to our assumptions, higher inflation was recorded in clothing and footwear (stronger effect of new collections) and recreation and culture (end of discounts on the publishing market). Food prices were slightly higher than we expected (0.4%MoM vs. 0.3%MoM). The breakdown of CPI data suggests that core inflation after excluding food and energy prices may reach 1.2%YoY vs. 0.8% anticipated before today's release. Interestingly, the annual pace of CPI's growth reached 0.8% and as much as a half of this increase occurred last month (in April prices increased by 0.4%MoM). This shows how significant is the effect of the statistical base from the 2H 2012 (prices were falling on average on monthly basis). We still expect that in 2H 2013 inflation will clearly rebound to ca. 1.5% at the end of the year. The same may happen with core CPI – it may reach a bottom below 1% in coming two months and accelerate above 1.5% in 2H 2013.

We continue to anticipate further decline of inflation in next two months. However, while before today's release we saw a possibility that all-time-low may be approached (0.3%YoY from April 2003), currently this is less likely. Nevertheless, more discounts on the mobile phone services market and withdrawal of the price increase for clients of one of cable TV supplier after the regulators' intervention, as well as due to statistical base effect (particularly in case of food prices in June), the annual CPI may decline to 0.4-0.5% in June.

This should support market expectations for more rate cuts by the MPC and given the 1Q GDP data, the MPC is likely to cut rates by the total of 25-50bps at two next meetings. However, we do not forecast the easing cycle to be continued after the summer holidays and we still perceive market expectations as too aggressive.

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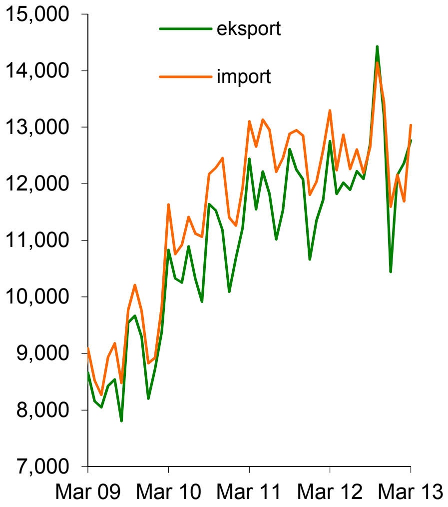
Import rebounds, deficit widens

Foreign trade turnover, € m



Balance of payment for March surprised negatively as regards external imbalance. The current account deficit amounted to €200m, much higher than our (we predicted surplus at €146m) and market (€-33m) expectations. In March imports slightly exceeded €13bn and was 11.5% higher than in February (the highest monthly increase in March since 2010). However, in annual terms imports fell by 2%. In case of exports, volume was in line with our expectations – exports increased slightly by 3.2%MoM, which translated into annual growth by only 0.1%. Recall that, in March we noted the significant decline in industrial production due to lower number of working days, which affected exports. Therefore, we do not think the annual growth rate should be disturbing. On the other hand, imports growth might result from a temporary revival in retail sales (pre-Easter shopping).

In March balance of foreign trade was negative and amounted to €273m (vs. a surplus at €66m expected by us). In case of other balance of payments categories, figures were roughly in line with our predictions, in which surplus of current transfers exceeded €1bn (as we predicted).

Our calculations show that in 1Q the current account deficit reached 3.6% of GDP (only slightly higher ratio than in 4Q 2012). We expect a gradual decline of this indicator in coming quarters to ca. 2.5% in 4Q 2013.

Regarding the financing of the deficit, it is worth to notice inflow of foreign directs investments of €1bn and foreign portfolio investments of €0.5bn (after a decline by nearly €0.7bn in February). In March the 12-monht current account deficit was covered in 134% by the inflow of long term capital (FDI's + EU funds).

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