

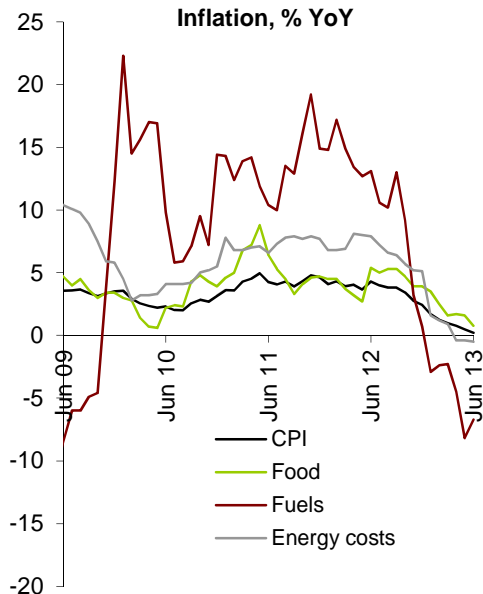
Instant comment

Inflation at the bottom

15 July 2013

Inflation in June fell slightly more than expected, to 0.2%YoY, the lowest level since the beginning of the 90s. Core inflation excluding food and energy prices declined to 0.8%YoY, according to our estimates. Debt market reacted to today's release with a slight strengthening of bonds at the front end. In our view, the data do not change the monetary policy outlook. Performance of the domestic economy would have to be really dramatic to encourage the MPC to change its neutral bias. In our opinion the gradual increase of inflation and acceleration of economic growth will cause that soon the market will start thinking about the timing of the first rate hike rather than about possibility of more easing in monetary policy.

Inflation, % YoY



Consumer prices of goods and services in June remained at the level from May and thus the annual inflation rate declined to 0.2%YoY, lowest level in history of Polish economy after 1990. The release was slightly below forecasts – we and the market consensus expected 0.3%YoY. Compared to our estimates, slightly lower than we anticipated were prices of food and beverages (-0.3%MoM, we expected no change), clothes and footwear (-0.8%MoM – start of seasonal discounts), household appliance (-0.02%MoM) and recreation and culture (+0.2%YoY). On the other hand, prices in communication did not change on monthly basis while we had expected their further visible decline amid continuation of price war on the mobile telecommunication market.

Based on CPI data, we estimate that core inflation excluding food and energy prices declined in June to 0.8%YoY (our earlier predictions pointed to 0.9%YoY).

Our forecasts indicate that CPI inflation reached its minimum level in June and in the following months the trend should reverse. This development will be supported by very low statistical base, but also by hikes of living costs due to new waste management bill, rising prices of fuels, and gradual acceleration of growth in food prices (changes in this category will be crucial, as usually, due to high weight in the CPI index). However, rise of inflation will be rather sluggish – in July it may return to ca. 0.5%, and to ca. 1.2-1.3%YoY at the year-end.

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