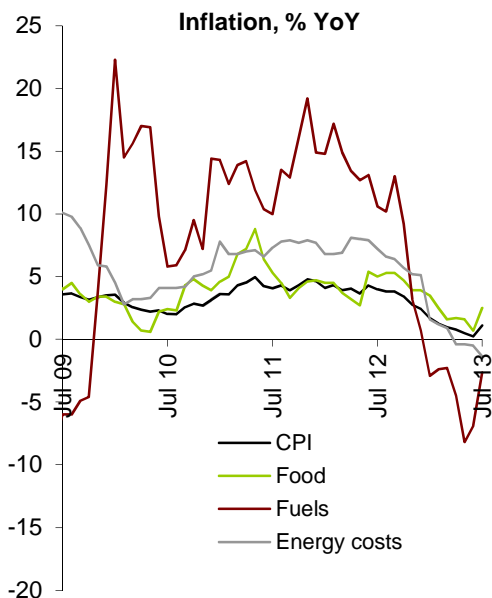


Instant comment

Strong rebound in CPI

14 August 2013

Inflation rate increased in July to 1.1%YoY, markedly beating the market forecasts. Main culprits behind the surprise were: weaker-than-usually seasonal decline in prices of vegetables and rise in waste management prices due to introduction of waste management bill. Upward surprise in July means that inflation will probably return to the target sooner than we were expecting, which can encourage the MPC to consider hiking NBP interest rates earlier. After the data release the interest rate market deepened the correction, which began after the GDP data.



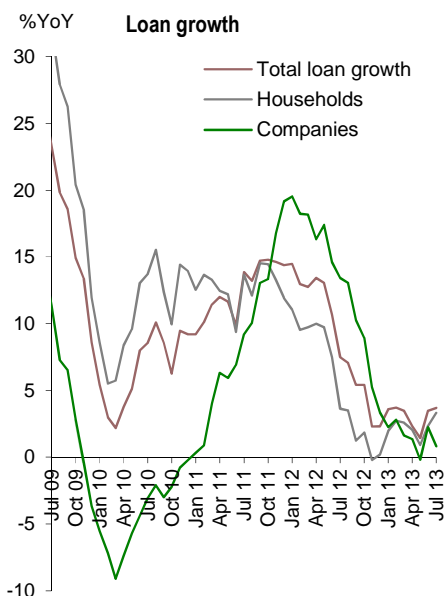
Strong rebound of inflation

July's CPI inflation accelerated to 1.1%YoY from 0.2%YoY in June, well above expectations (highest forecast on the market was at 0.9%YoY, we expected 0.5%YoY). On monthly terms prices increased by 0.3%. Today's surprise was mainly due to lower than usual seasonal decline of food prices (-0.3%MoM) and visible increase in housing costs (1.5%MoM). Food prices were most influenced by prices of vegetables that dropped only by 4.1%MoM, while average seasonal decline in July in previous years was ca. -20%MoM. In case of housing, costs of waste management surged by 47.6%MoM due to implementation of new regulations. Our forecast included these factors, but apparently the effect was clearly underestimated. Changes of prices in other categories were roughly in line with our forecast. After today's data, we estimate that the core inflation after excluding food and energy prices increased to 1.4%YoY from 0.9%YoY in June.

Strong rise of inflation in July raised the CPI path for the upcoming months. As a result, inflation rate will be probably closer to 2% than to 1% and the end of this year, while inflation target of 2.5% may be reached already in 1H2014. However, this is not necessarily a sign of rising inflationary pressure – rise in CPI was mostly due to low base from last year and to changes in administered prices (waste maintenance costs raised the CPI by ca. 0.3-0.4pp). Still, this can be an argument for the MPC to consider rate hikes, as the Council underscored many times that is it crucial for them to maintain positive real interest rates.

Loans for companies decelerated again

Pace of growth of M3 money supply declined to 6.5%YoY in July while the broad consensus expected stabilization of growth somewhere above 7%YoY. Deceleration was driven by decline of deposits in banking sector – by PLN5.8bn from June in the system, including a drop by PLN1.1bn of households' deposits and by PLN1.3bn of companies' deposits. Loans for companies, that surprised pretty much to the upside in June, declined again, this time by PLN2.8bn compared to last month (annual pace of growth slowed to 0.8%YoY). Value of loans for households also declined slightly, by PLN0.4bn MoM but this was mainly due to appreciation of the zloty.



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