

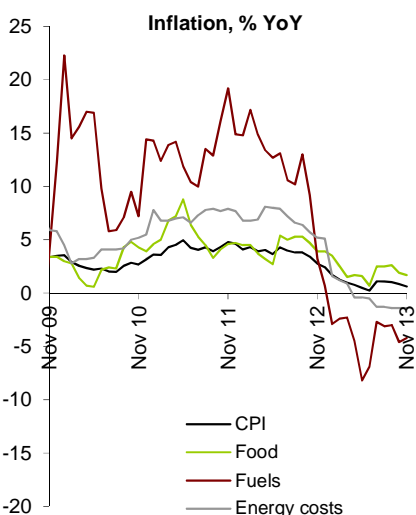
INSTANT COMMENT

13 December 2013

Inflation lower, current account deficit higher

CPI inflation in November was below our forecast, even more below market consensus and below the lowest market forecast. Decline of inflation to 0.6%YoY was mainly due to low growth of food prices (as for the season), but the most considerable surprise was delivered by prices of communication, which saw a decline by almost 5%MoM due to promotions on the mobile phone market. Today's data mean that inflation path for the upcoming months will sit lower, which stands for a higher risk that the first hike will be postponed. Interest rate cut is very unlikely.

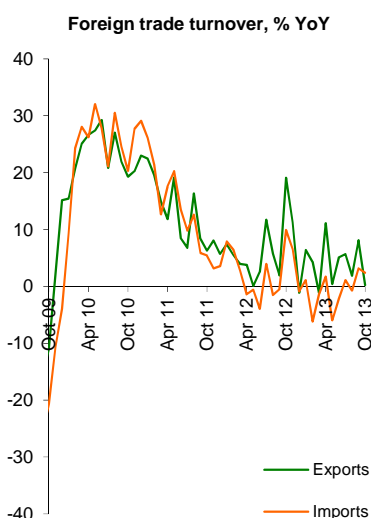
Current account deficit at €466m was higher than we expected, mostly due to a small surplus in foreign trade (imports rose more than exports, by 2.4%YoY and 0.2%YoY, respectively). What is interesting, income deficit was lowest for a number of months (€1.3bn versus average at €1.5bn in January-September). In general, the external stability of Polish economy is not threatened – 12M cumulated current account deficit is still at ca. 2% of GDP.



Inflation dropped to 0.6%

Data on November's CPI clearly surprised as a decline to 0.6%YoY was recorded, clearly below expectations (market consensus at 0.9%YoY, our forecast at 0.8%YoY). Price of goods and services declined by 0.2%MoM and this is rather unusual phenomenon at this time of year (during the past two decades only in 2001 and 2005 price index declined in November on monthly terms). Such low reading was due to – next to expected by us low prices of food and fuel – discounts on the mobile telecommunications market. Prices of communication declined by ca. 5%MoM, which dragged CPI down by 0.2pp. In the remaining categories pace of price growth remained subdued and does not suggest any serious inflation pressure. After today's inflation data we estimate that core CPI after excluding food and energy prices declined in November to 1%YoY from 1.4%YoY in October.

We still expect a gradual rebound of inflation in the coming months. Still, November's clearly below expectations reading means lower starting point for 2014 path and it may take more time to reach the NBP target (2.5%). In our monthly report we mentioned the risk of lower than expected inflation path, which could postpone interest rate hikes by the MPC. Apparently, this risk seems to be materializing already now. However, MPC member Andrzej Bratkowski said after this data that first rate hike is more likely when children come back to school after holidays, meaning September. This is our current forecast.



Import rebound suggesting faster domestic demand growth

Current account deficit amounted to €466m in October, i.e. in line with market expectations (€450m), but above our forecast (€194m). Export was below our expectations, but was at the highest level in history (€14.62bn) after rising by 0.2%YoY. On the other hand, imports surprised to the upside – was higher than expected and also reached the highest level in history (€14.57bn) after rising by 2.4%YoY. Trade balance narrowed to a mere €53m from €673m one month ago. What is interesting, imports expanded quicker than exports and situation like that occurred for the first time since December 2012. In our view, this can suggest that at the beginning of Q4 the domestic demand rebounded more considerably than we expected, so economic recovery in the upcoming quarters can be more based on this element of the GDP, which is quite important as regards monetary policy outlook. Service balance showed a surplus of €391m, transfer balance a surplus of €397m and income balance a deficit of €1307m (lowest since March 2013).

Current account deficit was covered by inflow of foreign direct investment only in 9%, which is the lowest level since comparable data are available (2000). However, this indicator reached 136% after including funds from the EU, so we see no major risk as regards C/A gap financing, especially as cumulated 12M current account deficit is equal to a mere 2% of GDP.

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