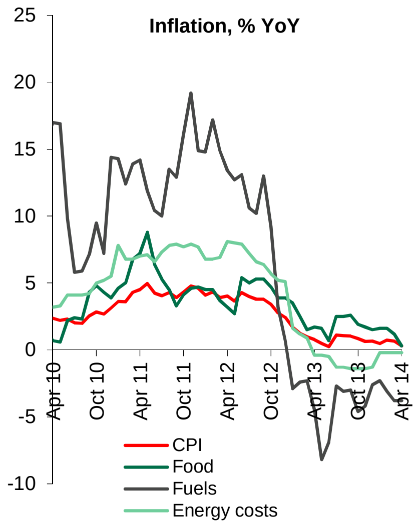
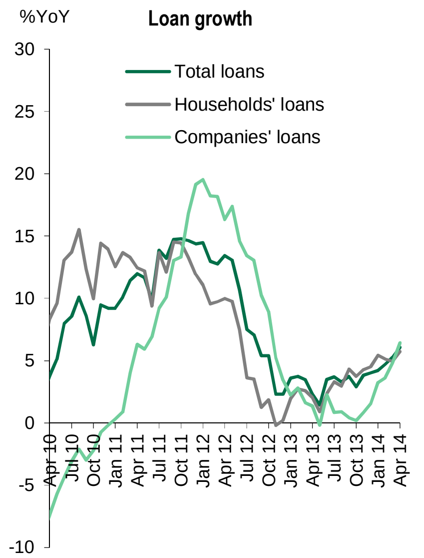
INSTANT COMMENT

14 May 2014

Inflation close to zero again

Inflation plunged unexpectedly in April to 0.3%YoY, well below expectations. Biggest surprise came from lower food prices, but according to our estimates, the core inflation also declined (to 0.8%YoY). This indicates a continuation of noninflationary economic recovery. It looks like the inflation may need more time than we had so far assumed to reach the NBP target and this may justify longer period of stable interest rates. On the other hand, accelerating loan growth indicates that recovery of the domestic demand strengthens and may surprise to the upside later in the year.





Inflation well below forecasts

Inflation rate declined in April to 0.3%YoY, well below expectations (our forecast and market consensus were at 0.7%YoY – unchanged vs. past two months – while the lowest market forecasts were at 0.5%YoY). Prices did not change on monthly basis.

Biggest surprise came from prices of food and nonalcoholic beverages, which declined noticeably (-0.5%MoM, while we expected a 0.4%MoM increase). Pork meat prices rebounded, in line with our expectations, but this was neutralized by strong prices decline of other items (including sugar, flour, vegetables or drinks). Second category that dragged CPI down was communication (by -1.5%MoM) while the seasonal increase of clothing and footwear prices (+2.8%MoM) proved weaker than we had expected. Price changes in the remaining categories were roughly in line with our forecasts and continued to show no signs of demand-side pressure. After today's data, we estimate April core inflation after excluding food and energy prices at 0.8%YoY vs. 1.1%YoY in March.

Much lower than expected April CPI means that even if pace of price growth accelerates in the following months (among others, due to low base effect and strengthening of domestic demand), the rebound shall start from the lower level and it is likely to take longer to get closer to the NBP target (unless food prices rebound suddenly). Consequently, the MPC may feel comfortable to keep interest rates unchanged for longer than we had expected so far. At the same time, we do not think that today's data got us closer to a scenario of interest rate cuts in Poland even if the ECB eases monetary policy further in June. We share the opinion of the NBP governor Marek Belka, who said that cutting interest rates amid visible acceleration of a GDP growth would be a pro-cyclical action.

Credit growth accelerating

Data on the M3 money supply confirmed that loan growth in the banking sector continues accelerating – in April households' loans increased by 5.7%YoY (most since June 2012) and companies' loans by 6.4%YoY (strongest performance since November 2012). Increasingly strong recovery of the demand for credit is probably the result of rising domestic demand – consumption of households and investments of companies.

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