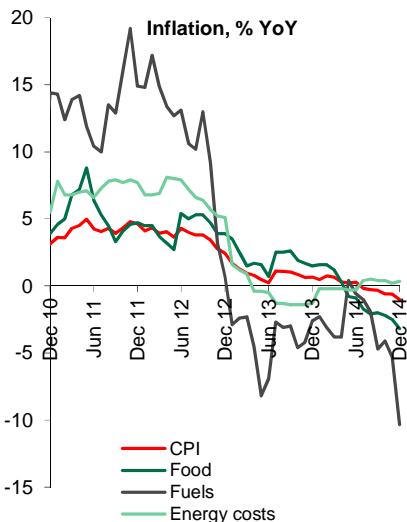


# INSTANT COMMENT

15 January 2015

## Deflation surprised again

CPI inflation decreased in December 2014 to -1.0%YoY from -0.6%YoY in November, slightly below expectations (-0.9%YoY). In monthly terms, consumer prices declined by 0.3% and deflation deepened mainly due to declining prices of fuel, footwear and clothing as well as stable prices of food. We estimate that core inflation excluding food and energy prices remained at 0.4%YoY. We expect the deflation to deepen further in the upcoming months and to be visible until 3Q or 4Q 2015. Inflation keeps on surprising to the downside, which is an argument in favour of NBP interest rate cut in February or March. The data triggered a strengthening in the domestic interest rate market.



CPI inflation decreased in December 2014 to -1.0%YoY from -0.6%YoY in November, falling below our and market expectations (-0.9%YoY). In monthly terms, prices of consumer goods and services declined by 0.3%. We were taken by surprise by stabilisation of food prices versus November (we expected a decline by 0.3%MoM) and a strong decline in footwear and clothing (-1.1%MoM versus our forecasts of decline by 0.5%MoM). Changes in other categories were in line with our expectations. Strong decline in fuel prices (by 4.8%MoM) was also one of the main culprits behind the decline of CPI. We estimate that core inflation excluding food and energy prices remained at 0.4%YoY.

Data show complete lack of pressure on price growth. Moreover, the collapse of global crude oil prices will continue pushing lower fuel prices at the pump stations in Poland, which will have significant impact on Polish CPI inflation. We estimate that in January average fuel prices at the pump stations will drop by further 5%MoM. If average Brent oil price stabilises at \$45 per barrel in 2015, it could reduce the CPI growth by c.1.5pp, according to our estimates.

CPI continues to surprise to the downside. We expect even deeper deflation in the coming months and annual prices change may stay in the negative territory until 3Q15 or even 4Q15. In our view this will convince the MPC to cut rates in February or in March. More easing already next month cannot be excluded should next macro data disappoint and the volatility in the FX market fades. Let us remind, that NBP's governor Marek Belka stressed yesterday during the MPC press conference that worries over the financial stability are main arguments for rate cuts opponents and significant movements in the FX market make environment for a cut less convenient.

On average, in 2014 prices stayed unchanged vs. 2013 and according to the stat office, this was the first case of average yearly inflation at zero since 1972.

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