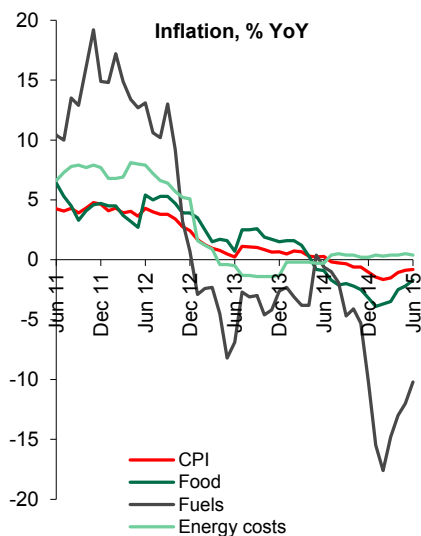


# INSTANT COMMENT

15 July 2015

## Slow rebound of CPI inflation

Inflation rate amounted to  $-0.8\%$ YoY in June, in line with market expectations, but slightly below our forecast. Rebound in price growth was mainly due to low base effect, especially in case of food and fuel prices. At the same time, there are no signs of faster price growth under impact of stronger consumer demand. We are still expecting a gradual rise of CPI in the upcoming months, yet it will most probably remain below zero until end of Q3. At the end of 2015 we are expecting inflation at  $c0.7\%$ YoY.



Deflation decreased slightly again in June and amounted to  $-0.8\%$ YoY versus  $-0.9\%$ YoY in May and all-time low at  $-1.6\%$ YoY in February. The result was in line with median market forecast, but slightly below expectations as we assumed a rebound to  $-0.7\%$ YoY.

As we expected, the upward march of CPI is mostly due to fuel and food prices. The former rose by  $1.8\%$ MoM in June and data suggest a further rise by  $0.8\%$ MoM in early July, which will push the annual growth rate of fuel prices further up. Prices of food and non-alcoholic beverages climbed by a mere  $0.1\%$ MoM, in line with our forecast, as compared to usual seasonal drop in earlier years. Unfavourable weather conditions (draught) and rather weak PLN should make the seasonal drop in food prices less considerable than usually, contributing to a further drop in annual CPI.

The main source of surprise to us were the communication prices that dropped  $0.7\%$  MoM (amid lower prices of communication services and equipment). Also the pace of growth in some other categories was slightly slower than we had expected. As a result, we estimate that the core CPI excluding food and energy prices dropped in June and reached the record low  $0.2\%$ YoY established this year in March. Today's data do not give any evidence of prices increase on the back of the rising consumers' demand despite the sound labour market and decent growth in private consumption.

We expect CPI to rise further in the months to come but will probably stay in the negative territory as long as until the end of 3Q15. We forecast the year-end inflation at  $0.7\%$ YoY.

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