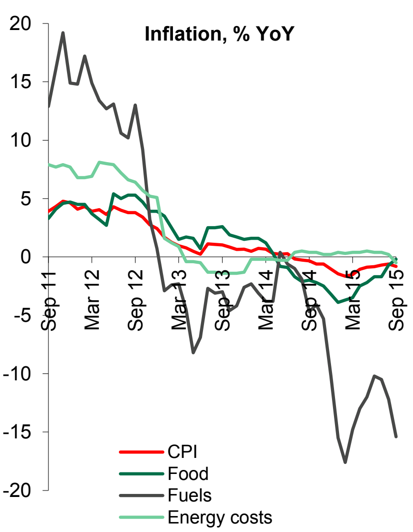
INSTANT COMMENT

15 October 2015

Inflation temporarily lower

CPI growth fell in September to -0.8%YoY, in line with the stat office's flash estimate. Three main factors that pushed inflation lower were: cut in gas tariffs, introduction of free books for schoolchildren, and much lower fuels. The first two factors will not repeat in the following months, while a drop in fuel prices continues, but is decelerating. Meanwhile, food prices rose in September much more than we expected (0.6%MoM) and we think this trend will be maintained. Also, the CPI annual growth rate in the nearest months will be under significant impact of exceptionally low base effect. Therefore, we expect inflation to rise in the coming months – it could be close to zero in November and should reach c.0.5% YoY in December. We forecast this trend to continue in 2016, towards 2%YoY.



CPI inflation dropped in September to -0.8%YoY, down from -0.6%YoY in August. The final reading was in line with the flash outcome, which Poland's CSO published for the first time on September, 30. Therefore, today's release should have no significant impact on the financial market.

On monthly basis consumer prices declined by 0.3%, which is against the seasonal pattern. It resulted mainly from a decline in prices in three categories: (1) lower prices of housing, water, electricity, gas and other fuels (-0.3%MoM) after introduction of new gas tariffs (gas prices fell by 3%MoM); (2) decline in cost of transport (-1.5%MoM) due to lower prices of fuels (-4.8%MoM) and lower payments of transport services (-3.4%MoM); (3) lower prices of recreation and culture (-1.8%MoM) due to introduction of free books for more classes in the primary and the secondary schools.

Significant increases were recorded in food prices (0.6% MoM, twice as much as we had expected) – apparently due to the this year's draught. Seasonal increase was seen also in clothing and footwear (0.8% MoM) and education (0.5% MoM).

All in all, the structure of September's CPI suggests, according to our estimate, that the core inflation excluding food energy prices fell to 0.2% YoY (back to level seen in June). Before the release we expected core inflation to rise to 0.5% YoY.

In our view, factors that drove inflation down in September will not repeat in the coming months, at least not in similar scale. Fuel prices could decline further, but in our opinion not more than 2% MoM vs. nearly 5% drop MoM in September. Food prices shall continue to rise faster than usually this time of year while the other CPI components will rather follow the seasonal pattern. At the same time, the annual inflation will be influenced by the strong effect of the exceptionally low base. That is why we expect CPI to rise gradually in the coming months – it could be close to zero in November and 0.5% YoY in December. We forecast this trend to continue in 2016.

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