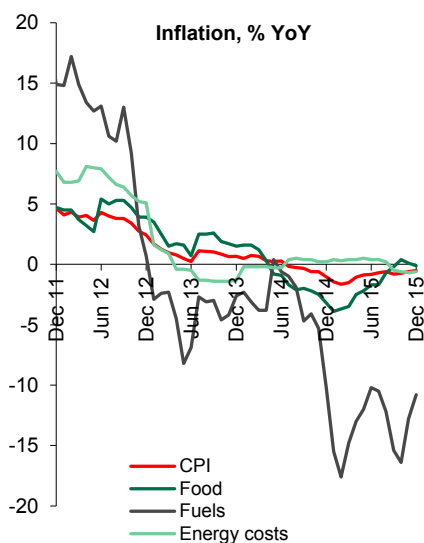


INSTANT COMMENT

15 January 2016

Deflation could last until 3Q16

Final CPI data confirmed flash estimate at $-0.5\%YoY$. In MoM terms prices fell by 0.2% mainly due to declining prices of food and fuels. At the same time, in other categories there were completely no signs of any upward pressure on prices. According to our estimate, core inflation excluding prices of food and energy remained at $0.2\%YoY$, the same as in November. We expect that CPI growth will remain very low in the coming months, depressed by very low prices of commodities and food, plus a reduction of gas and electricity prices since January. Thus, deflation is not going to end before 3Q16. Very low inflation in the nearest months will encourage the MPC to make a decision to ease monetary policy, in our view.



Inflation rate amounted to $-0.5\%YoY$ in December, confirming the flash statistics office's reading and our forecast. Such a low reading was due to food prices, which fell by $0.1\%MoM$, probably due to very low global food prices (as regards seasonal pattern, this is very untypical, as usually food prices go up in the winter). A strong drop was recorded in fuel prices ($-2.6\%MoM$) and this trend will most probably be continued and even deepened in January – average fuel prices at the pump are declining by $4\%MoM$ this month, according to our estimates. Clothing and footwear prices also fell ($-1.0\%MoM$) due to the start of seasonal sales. Prices in other categories were mostly stable.

We expect CPI to stay at the very low level in the months to come due to, among others, low prices of fuel and food. In our view, deflation could last until 3Q16. We think this will convince the new MPC to cut rates. We expect first 25bp reduction in March when the new NBP report is due and is likely to show lower inflation path.

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