

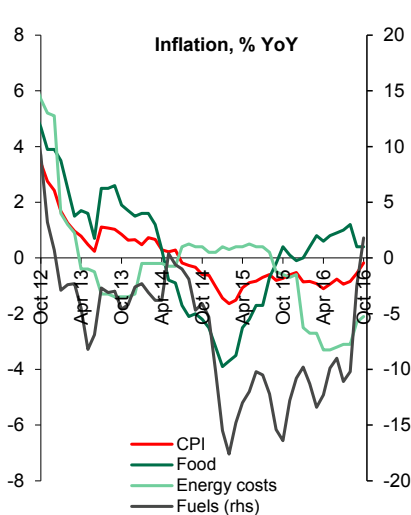
INSTANT COMMENT

14 November 2016

Export weakening, deflation's end is nigh

CPI inflation reached -0.2% y/y in October, in line with the flash estimate, and up from -0.5% y/y in September. The main source of the rebound was the statistical effect of very low base, which will continue pushing inflation rate up in the next few months. As a result, CPI growth may turn positive in November, or December at the latest, and in January it is likely to bounce to around 1% y/y. However, we think that for the rest of 2017 inflation rate should be relatively stable, due to still negative output gap and low inflationary environment abroad. Core inflation increased in October to -0.2% y/y, according to our estimate.

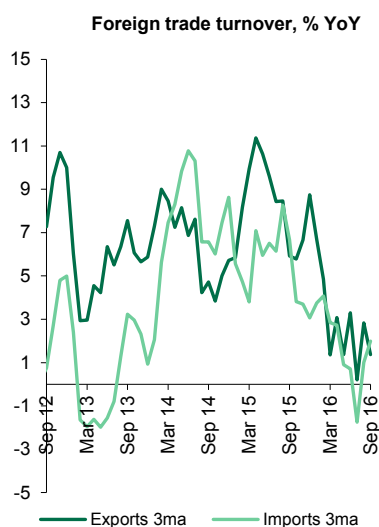
Current account deficit reached €999mn in September, more than expected (consensus: €605mn). The surprise was mainly caused by weak exports, which expanded only by 1.5% y/y. In our view, weak tendencies in global trade may continue to weigh on Polish exports also in the following months, so net exports' contribution to GDP growth may be negative in 2H16.



Deflation to end soon

In October, annual CPI rose to -0.2% y/y from -0.5% y/y in September, in line with flash estimate. The main factor pushing headline inflation up in annual terms was the low base effect stemming from significant decline in commodity and energy prices at the end of last year. Food prices that have plummeted surprisingly in September rose 0.5% y/y in October, slightly more than we had expected and roughly in line with the seasonal pattern. At the same time, in some categories the monthly price increases were stronger than we had forecasted (clothing and footwear, recreation and culture, others). At this stage, it is too early to say if companies gradually started passing through rising costs to consumers, but prices in these categories should be observed in the months to come. According to our estimates, core CPI after excluding food and energy prices rose to -0.2% r/r from -0.4% y/y in September.

The low base effect will be pushing annual CPI higher in the months to come and the strength of this effect should peak in January. As a result, deflation should end in November or in December at the latest, and in January 2017 inflation could jump to c.1% y/y. The next months, however, should bring only gradual rise in CPI amid still negative demand gap and low inflation in Europe. We expect CPI to reach 1.5% y/y at the end of 2017.



Export disappointed again

Current account deficit reached €999mn in September, more than expected (consensus: €605mn, we: €616mn). 12-month deficit amounted to c0.7% of GDP. The surprise was mainly caused by weak exports, which expanded only by 1.5% y/y and reached €15.3bn (we expected €15.8bn, market €15.6bn). Imports added 3.2% y/y. Let us note that the export has surprised to the downside for the third time in a row, and in Q2 it was above forecasts only one time.

Polish exports are being undermined by weakness in global trade. Over the last months, business climate indices in the euro zone, especially in Germany economy, recorded a considerable improvement, fueling hopes that weakening of demand from these countries will not be persistent. However, "hard" data on output and orders in German industry were less optimistic. Moreover, data from China suggesting a further slowdown in this country, prospects of Brexit and victory of Donald Trump in presidential election (elevating risk of economic protectionism in the USA) do not suggest a recovery in the global trade. We still expect an improvement of Polish exports in the upcoming quarters, but its scale will not be

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enough to offset the accelerating imports, so net exports' contribution to GDP growth will stay negative in the upcoming quarters.

Other components of the current account were in line with our expectations: surplus in services amounted to €1bn, primary incomes deficit to €1.7bn, secondary incomes deficit to €150mn.

In the entire third quarter exports of goods and services rose by 1.4% y/y in euros and by 5.1% y/y in PLN. In turn, imports rose 1.6% y/y in euros and 5.3% y/y in PLN. According to our estimates, net exports' contribution to GDP growth reached -0.1 pp.

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