Bank Zachodni WBK
Grupa Santander

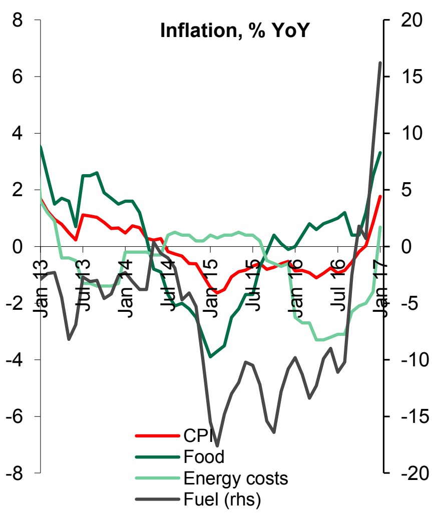
INSTANT COMMENT

13 February 2017

Inflation rising faster than expected

CPI inflation rose in January to 1.8% y/y from 0.8% in December, slighlty more than expected (our forecast and market consensus at 1.7% y/y). Food prices surprised strongly to the upside, rising 1.8% m/m. Healthcare prices (0.4% m/m) were also slightly higher than we estimated, but in other categories there were mainly surprises to the downside – the biggest in cloting and footwear (-4.3% m/m) and transport prices (-0.8% m/m). On balance, despite higher than expected headline CPI (mainly caused by food and energy), our estimate of core inflation went down slightly, to 0.1% y/y in January. We think the CPI may reach 2% y/y already in February, while core inflation will be rising much slower this year. The Polish central bank signalled recently that it was ready to tolerate 'temporarily' negative interest rates, and will probably maintain dovish rhetoric in the near term. However, once inflation exceeds 2% the market speculation about rate hikes may intensify, in our view.

Current account deficit was at €533mn in December, in line with our expectations. Exports and imports were above our expectations and rose by 6.7% y/y and 9.0% y/y, respectively. Data seem to confirm that the foreign demand for Polish products is reviving.



Vegeflation is coming

The CPI inflation rose sharply to 1.8% y/y in January 2017, up from 0.8% y/y in December, exceeding our and market expectations (both at 1.7% y/y). This means that inflation rate is now at the highest level since 2012 and it has topped the bottom of the acceptable deviations band around the NBP's inflation target (2.5% ±1pp). On monthly basis the consumer prices increased by 0.4%, mainly as result of sharp growth in food and non-alcoholic beverages prices (by 1.8% m/m, the highest increase in January since 2011, and the second-highest since 1996!).

Significant growth in food prices stemmed from higher prices of fresh fruit, vegetables and wheat flour. To large extent, it is probably the aftermath of severe winter, which damaged vegetable crops in the Southern Europe. This effect may continue pushing food prices up in the nearest weeks. What is more, January brought significant increase in category of "housing, water, electricity, gas and other fuels" mainly as a consequence of higher fees for garbage disposal, water supply and sewage services and also due to higher energy prices. Those price hikes were, however, fully consistent with our expectations. Healthcare prices increased 0.4% m/m, which was slightly higher than we had expected. However, in other categories there were mainly surprises to the downside – the biggest in cloting and footwear (-4.3% m/m, which was the biggest monthly deflation in January since we have the data available) and transport prices (-0.8% m/m, as cuts in transport tariffs apparently outweighed slight increase in fuel costs). On balance, despite higher than expected headline CPI (mainly caused by food and energy), our estimate of core inflation went down slightly, to 0.1% y/y in January.

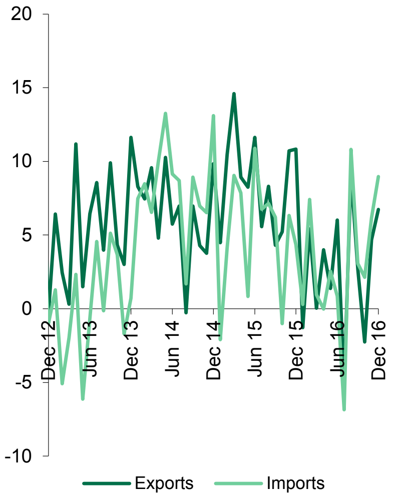
We think the CPI will rise further in the nearest months, pushed up by still very low base and the faster than expected growth in food prices – in February the CPI may reach 2% y/y, and in the next months it is likely to exceed this level. The situation on food and fuel markets will determine how much further inflation will go. However, the core inflation will be probably rising much slower this year, as there are still no signs of the underlying price pressure.

The Polish central bank signalled recently that it was ready to tolerate 'temporarily' negative interest rates, and will probably maintain dovish rhetoric in the near term (MPC's Kropiwnicki and Żyżyński said today after the data release inflation rise is temporary). However, once inflation exceeds 2% the market speculation about rate hikes may intensify, in our view.

ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl
Maciej Reluga (Chief Economist) +48 22 534 18 88
Piotr Bielski +48 22 534 18 87
Agnieszka Decewicz +48 22 534 18 86
Marcin Luziński +48 22 534 18 85
Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:
Poznań +48 61 856 5814/30
Warszawa +48 22 586 8320/38
Wrocław +48 71 369 9400

Foreign trade turnover, % y/y



Trade volumes above expectations

Current account deficit was at €533mn in December, in line with our expectations (€562mn) and below market consensus (€726mn). Moreover, deficit for the preceding months was revised down, so 12-month rolling current account deficit amounted to 0.5% of GDP in December 2016 and this was the lowest result since comparable data are available (2004).

Exports and imports were above our and market expectations and rose by 6.7% y/y and 9.0% y/y, respectively. Exports amounted to €14.615bn, imports to €14.766bn Data seem to confirm that the foreign demand for Polish products is reviving, which is a positive sign for the upcoming quarters. Still, we are expecting that imports will be growing at a higher rate, fuelled by strong consumer demand, so current account deficit is likely to widen in 2017.

Other current account elements showed a bit higher deficit than we expected: primary income deficit was at €1.125bn, secondary income deficit at €0.324bn and services surplus at €1.067bn.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.