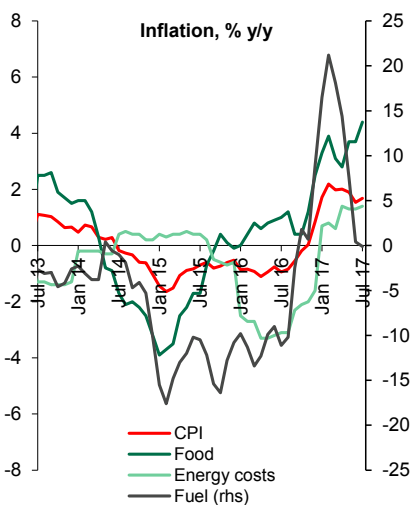


INSTANT COMMENT

11 August 2017

Food prices push CPI up

CPI inflation amounted to 1.7% y/y in July, in line with flash reading, while C/A balance declined but much less than we expected (from €-298m to €-932m with our forecast at €-1496m). CPI's rise versus June (1.5% y/y) was mostly due to changes in food prices, which fell by 0.2% m/m – the least since 2000. We estimate core inflation excluding food and energy prices stayed unchanged at 0.8% y/y. In our view inflation will stabilise in months to come and could ease slightly at the end of the year. Risk to our forecast is tilted to the upside given the likely acceleration of upward trend in food prices.



CPI up due to higher food prices

CPI inflation amounted to 1.7% y/y in July, in line with flash reading. Rise versus June (1.5% y/y) was mostly due to changes in food prices, which fell by 0.2% m/m – the least since 2000. Main culprits were: butter prices, which went up by 7.8% m/m, meat prices (1.0% m/m), especially poultry (3.1% m/m). Fruit and vegetable prices fell in July, in line with the seasonal pattern, but less than in the previous yeears. In our view, food prices will be putting an upward pressure on CPI – fruit are likely to become more expensive given weak harvests, butter and meat prices may go up further, fipronil congestion in the Western Europe can affect egg prices. Prices changes in the remaining categories were roughly in line with our estimates – prices of clothing and footwear continued to fall (-3.4% m/m), fuel prices also dropped (-1.7% m/m) while international travels became more expensive (+1.2% m/m in recreation and culture). We were surprised by higher drug prices (0.6% m/m in health). We estimate core inflation excluding food and energy prices stayed unchanged at 0.8% y/y.

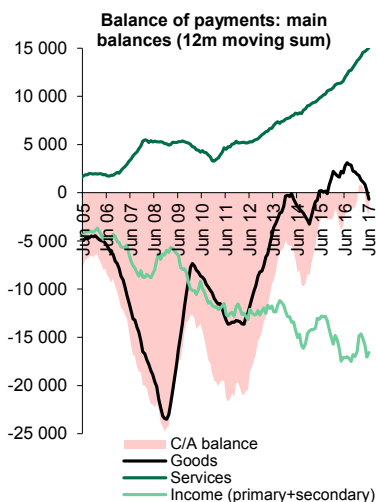
In our view inflation will stabilise in months to come and could ease slightly at the end of the year. Risk to our forecast is tilted to the upside given the likely acceleration of upward trend in food prices.

Import remained strong in June

Polish C/A balance declined in June much less than we expected (from €-298m to €-932m with our forecast at €-1496m). The market consensus was closer to the outcome presented by the NBP.

June was another month of trade balance oscillating around zero. This time the balance was at €-227m, compared to €-277m in May and €221m in April. The data left us a bit disappointed due to weaker-than-estimated exports. While working day issues are responsible for much of the export slowdown, from 16.2% y/y to 8.7%, we expected that the current level of activity and the ongoing economic rebound among main trading partners (confirmed by the Euro zone 2Q GDP print of 2.1% y/y) would warrant an outcome closer to 10% y/y. That said, we think average export growth in 2H will be around 12%, compared to c10% in 1H. In general, import remained strong in June, scoring +15% y/y which confirms that domestic demand is elevated.

What was also surprising in the June data, was the scale of outflows in the primary income category, which should be linked to limited dividend payments (smaller by c€1bn vs June 2016). There was a big-ticket item in the financing part of the balance of payments - FDI saw a EUR3bn outflow due to the sale of a local bank by a foreign owner.



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>

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 18 86

Konrad Soszyński +48 22 534 18 86

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

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. 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 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.