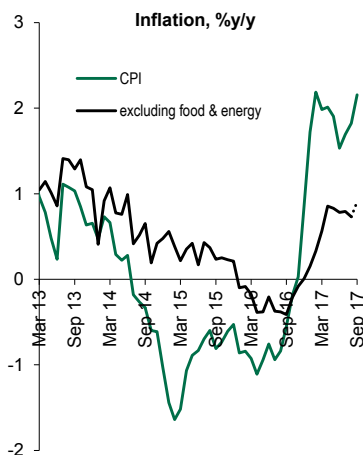


INSTANT COMMENT

12 October 2017

Core CPI awakens

In September, CPI inflation reached 2.2% y/y, in line with the flash estimate. The acceleration vs 1.8% y/y in August came from a rise of prices in categories like food, alcoholic drinks, clothing & footwear (most likely due to bad weather) and health (where low base played a role). Our core CPI estimate pointed to 0.9% y/y in September, up from 0.7% y/y and after 0.8% was recorded between April and July. This would be its strongest reading since 1H14. Now that we know that some core categories were involved in the acceleration of CPI we may assume that at least some Council members will be less relaxed about the NBP governor's rhetoric of keeping rates unchanged until the end of 2018. That said we expect CPI and core CPI to go much higher from here only in early 2018.



CPI up on core categories

Polish CPI inflation was confirmed by the stats office at 2.2% y/y and 0.4% m/m in September. Now that we have the details of inflation we can see that the acceleration came from a rise of prices in categories like food, alcoholic drinks, clothing & footwear (late August and early September were relatively cold which might have spurred consumers to show demand for warmer clothes), health (due to low statistical base as the government program of free medicine for the elderly was launched a year ago). If the rise of prices of clothes is a weather-linked phenomenon then we could see a correction in the y/y growth of prices of this category in the next CPI release. However the strong consumer optimism and healthy financial situation of households suggest that the demand for such goods and tolerance for price increases should be growing.

While core CPI will be officially released tomorrow, the data published today allow us to estimate it at 0.9% y/y in September, up from 0.7% y/y and after 0.8% was recorded between April and July. This would be the strongest core reading since 1H14.

At the last press conference, the MPC tried to play down the surprisingly strong September reading of CPI. The stats office flash estimate was already known at that time, but not the categories that pushed inflation up. Now that we know that some core categories were involved in elevating inflation we may assume that at least some Council members can be less relaxed about the NBP governor's rhetoric of keeping rates unchanged until the end of 2018. There are already four out of ten members pointing to mid-2018 as the moment when there should be a serious discussion on what to do with rates.

That said, That said we expect CPI and core CPI to go much higher from here only in early 2018. With the start of 2018 there could be a jump in core CPI that would take it above the 1.5% y/y threshold that in the past served as an important trigger for the MPC to change its stance.

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