Bank Zachodni WBK
Grupa Santander

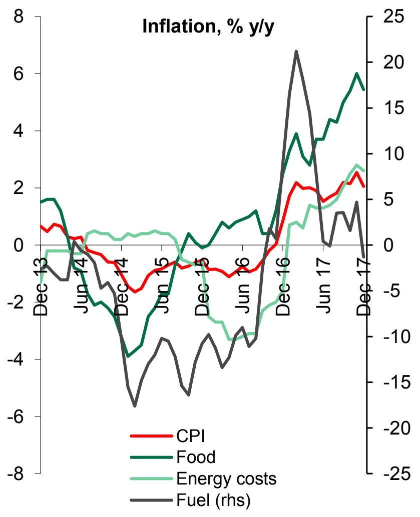
INSTANT COMMENT

15 January 2018

Inflation down to 2.1% y/y, imports surprised on the upside

Final reading of December CPI was at 2.1% y/y versus 2.0% shown in the flash release. Still, m/m reading showed 0.2% in both cases. Decline from November's 2.5% was due to high base effect in food and fuels. We estimate core inflation excluding food and energy prices at 0.8% y/y. In our view, inflation is likely to oscillate in 2.0-2.5% range in the months to come with a major change in its breakdown - from food/energy driven to core driven (we expect core inflation at 2.0% at the end of 2018). Recent rise in oil prices would pose an upward risk for our forecast, if it proves permanent. The data are neutral from the MPC's point of view. Close-to-target inflation will give the MPC the comfort to stick to its 'wait-and-see' mode at least until end of 2018.

C/A remained in surplus in November (EUR233mn vs. EUR693mn consensus, previous reading revised down from EUR575mn to EUR297mn). Both exports and imports recorded a higher pace of y/y growth than expected, but it was the strength of November imports and its upward revision for Ocotber that caused the surprise. In case of exports the 14.8% y/y growth reveals how beneficial is the current external environment. The reported pace of imports (15.9% y/y) suits better the very strong domestic demand. Net exports may add less to GDP growth than in 3Q, but we do not feel the November C/A data call for downward growth revisions. The 12 month rolling C/A balance to GDP ratio set a new record high at 0.3% in November.



Final inflation a bit higher than the flash

Final December CPI at 2.1% y/y versus 2.0% shown in the flash update. The flash readings are usually in line with the final one and we have seen the last revision in 2016. Still, in our view the revision was actually very slight as m/m reading showed 0.2% in both cases.

Decline from November's 2.5% was due to high base effect in food and fuels. Food prices advanced in December by 0.5% m/m. The Stat Office did not release detailed data yet, but in our view egg prices still went up, while butter and sugar posted a significant decline. Fuel prices fell by 0.7% m/m, but the whole transport category added 0.7% m/m, most probably due to a rise in air transport. Changes in other categories were more or less in line with our expectations. We estimate core inflation excluding food and energy prices at 0.8% y/y.

In our view, inflation is likely to oscillate in 2.0-2.5% range in the months to come with a major change in its breakdown - from food/energy driven to core driven (we expect core inflation at 2.0% at the end of 2018). Recent rise in oil prices would pose an upward risk for our forecast, if it proves permanent. The data are neutral from the MPC's point of view. Close-to-target inflation will give the MPC the comfort to stick to its 'wait-and-see' mode at least until end of 2018.

Acceleration of imports decreased the trade surplus

C/A remained in surplus in November (EUR233mn vs. EUR693mn consensus, previous reading revised down from EUR575mn to EUR297mn). Both exports and imports recorded a higher pace of y/y growth than expected. In case of exports (14.8% y/y) this reveals how beneficial is the current external environment. The reported pace of imports (15.9% y/y) suits better the very strong domestic demand than the surprisingly weak readings from mid-2017. November surprise in trade balance and downward revisions for previous months were caused by higher import figures. Net exports may add less to GDP growth than in 3Q, but we do not feel the November C/A data call for downward growth revisions, as it may reflect some revival in investments as well as strong continued strong consumption requiring plenty of imported goods.

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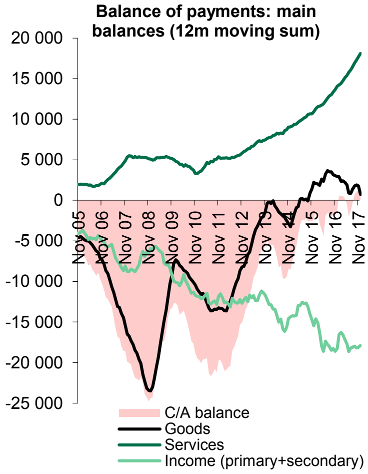

Trade balance of goods was in case of our forecasts the only source of surprise. Services balance, primary and secondary income account all behaved as expected in November registering EUR1.55bn, -EUR1.60bn and EUR0.2bn accordingly.

The 12 month rolling C/A balance to GDP ratio was 0.3% in November, up from 0.2%, and is the new record at least since 2004 (when the data are provided by NBP in the current methodology).

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.