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# Economic Comment

## CPI melts in December

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December CPI inflation surprised to the downside and fell to 2.3% y/y from 3.0% in November while we and market had expected it to ease to 2.6%. The decline in headline CPI was mainly caused by lower core inflation, possibly sliding to 3.6-3.7% from 4.3%. The release supports our forecast that 2021 CPI will be below NBP 2.5% target.

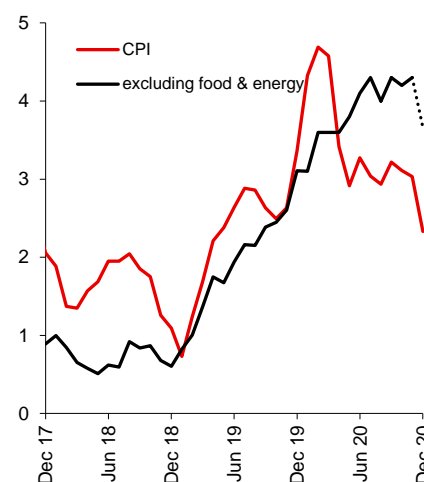
December CPI inflation surprised to the downside and fell to 2.3% y/y from 3.0% in November while we and market had expected it to ease to 2.6%. Food prices fell by 0.1% m/m and this is a quite untypical phenomenon in December. However, the decline in headline CPI was mainly caused by lower core inflation (a probable decline to 3.6-3.7% from 4.3% in November, while before the flash December release we had estimated it at 4.0%). The magnitude of decline suggests that some one-off factors may have been in play. Maybe Christmas sales, which could have been stronger this year due to epidemic environment. We will get to know more on 15 January when full dataset is released.

The release supports our forecast that 2021 CPI will be below NBP target (2.5%). While the introduction of new taxes and charges might rise headline CPI in January or at least keep it in place, we believe that most of the 2021 monthly readings will be below 2% y/y.

The negative CPI surprise seems to fit in the dovish rhetoric presented recently by some MPC members and NBP governor Adam Glapiński in particular. In his last article Glapiński claimed that the case for a rate cut could strengthen if factors negatively affecting the Polish economy increase the risk of inflation dropping below the target. We read this more as indication that the third wave of the coronavirus could be an argument for a cut rather than the fall of CPI itself. Note that recently the MPC did not put much emphasis to the CPI, and we think this attitude is unlikely to change rapidly.

We still think that the MPC will keep rates unchanged this year. In our view, the mentioned rate cut, possibly by 10bp, could be considered by the Council, but in March, when a new projection will be available and we will have more information if the vaccination process accelerated to a pace that makes herd immunity against COVID-19 within reach. We also hope that by that time it will also be easier to assess chances for the 2H21 economic rebound that is currently expected.

CPI - headline and core, % y/y



Source: GUS, Santander

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