Lower Polish inflation builds the case for a 25bp November rate cut

CPI inflation moderated below both our expectations and those of the market in October, thanks to a lower core rate, making yet another 25bp rate cut in November highly probable. Our baseline scenario had assumed a pause in monetary easing, but given Poland's ongoing disinflationary trend, we're bracing for another 25bp rate cut next week

The main surprise came from core inflation (excluding food and energy prices), which we estimate dropped to around 3% YoY from 3.2% YoY in the last two months

Consumer inflation declined to 2.8% year-on-year in October from 2.9% YoY in September, creeping closer to the National Bank of Poland's target of 2.5%. There were no major surprises with respect to gasoline and house energy prices, and both categories had a pro-inflationary impact on October's CPI reading.

High frequency data suggested that this year food prices were relatively stable, and we expected only a slight increase, whereas seasonality was largely what drove food prices up last October. A flat reading for food prices (0.0% MoM) was surprisingly low this year. Still, the main surprise came from core inflation excluding food and energy prices. We don't yet know the full CPI details, but we estimate that it dropped to around 3% YoY from 3.2% YoY in the last two months.

The flash October CPI may convince the Monetary Policy Council to consider yet another 25bp rate cut at the November meeting. Policymakers have cut rates at each policy sitting on the rates since July, but the Council still has room for further policy easing. The new macroeconomic projection may also provide rate setters with more confidence in a favourable inflation scenario for Poland over the medium term. Our baseline scenario had assumed that rates would remain unchanged in November, but the low October CPI reading puts the decision into a slightly different perspective.

Policymakers continue to stress upside risks to the mid-term inflation outlook, including expansionary fiscal policy, robust consumption growth, elevated wage dynamics and uncertainty about the impact of ETS2 on prices – but inflation is inevitably heading towards the central bank target of 2.5% and may even undershoot it temporarily. We think a 25bp rate cut in November is now more likely than a pause.

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