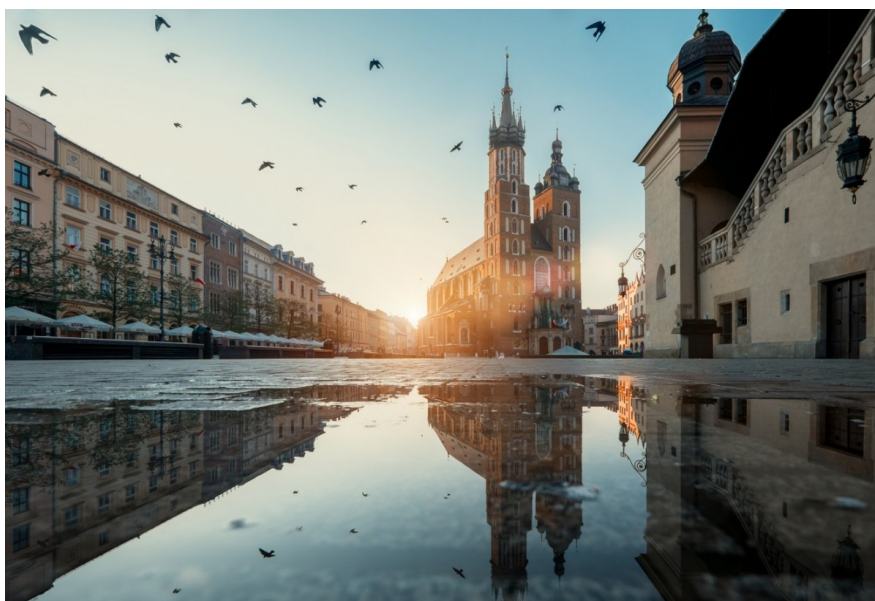


Polish inflation dampened by oil prices

CPI decelerated strongly on the back of fuel prices. Core inflation is likely to drop too as a result of lower demand once lockdowns end.



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In April, Polish inflation decelerated from 4.6% to 3.4% year on year, in line with consensus forecasts. These days, forecasting is a tough job and recent readings have been uncertain, so the forecasts were incredibly varied from 2.6% to 4.1%. We were somewhere in the middle with 3.7%.

The most substantial drop was that of fuel prices, which contracted by 15.9pp to -18.8%YoY and lowered inflation by 0.8pp alone.

Growth of food prices was also lower compared to the previous months but still remained elevated (7.4%YoY). We expect prices in this group to remain high as the serious drought in central Europe will definitely hit supply.

Core inflation remained high. Based on available data we estimate stabilisation at 3.6%YoY. Again the disagreement between forecasters was greater than usual as forecasts spread between the 2.5% to 3.7%YoY range. This time we were at the higher end with 3.7%. Furthermore, this figure is an example of a statistical artefact.

Right now, the statistical office is unable to collect prices of services due to the ongoing lockdowns

and is applying imputations. In the short-term, that prolongs previous trends, but core inflation should be lower after lockdowns end.

We expect subdued demand to hamper prices of recreation services and luxury goods.

We expect CPI to decelerate further as weaker demand and base effects should hamper it. 2Q and 3Q readings should remain high, leaving 2020 average around 2.9%YoY.

Still, we expect a drop towards 1.9%YoY average in 4Q and 1.5% in December.

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