

## Poland: CPI slows on food and core inflation

According to a flash reading, CPI slowed down to 2.3% year-on-year in December from 3.0% YoY in November. The decline reflects lower food prices and the core rate slowing from 4.3 to 3.7% YoY



The drop in CPI came significantly below the consensus (2.6% YoY). The surprise largely reflects the core component, as the local consensus stood at 4.0% YoY. The CPI structure is not yet available but the surprise may be linked to categories which have been hard to measure during the pandemic, such as package holidays, airline tickets etc., that have been volatile in recent months. The decline in food prices was partially expected, due to base effects, but was deeper than those would imply.

The data should support bets for an interest rates cut at the January MPC meeting. Those expectations dimmed following recent remarks by MPC Chairman Adam Glapiński, who said that further rate cuts are an option in the Bank's negative scenario, i.e. a worsening of the pandemic and subdued economic performance.

We see a 50% probability that the National Bank of Poland will cut rates at the meeting next week. Continued FX intervention is also an option but much depends on the zloty's performance; the stronger the PLN the more likely the central bank is to act on rates.

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