

Poland: Low inflationary pressures; surprisingly strong trade balance

Decent figures shouldn't provoke a change of strategy at the Polish central bank



CPI in line with expectations

The annual CPI dynamics decelerated by 0.1ppt to 2.1%YoY, in line with expectations. Food & beverage prices accelerated further from 5%YoY to 5.4%YoY, driven mainly by insufficient supply. Poland faces some deficiency of dairy products and butter similar to other European countries. Domestic shocks increased prices of fruit & vegetables along with energy for heating.

We estimate that core inflation decelerated from 1%YoY to approximately 0.8%YoY. The lower core was caused by a decrease in vehicle prices (by 1.5ppt on monthly basis), alcoholic beverages, package holidays and miscellaneous goods & services (notably financial services).

0.8%

Core inflation (%YoY)

Worse than expected

Next central bank moves

Today's inflation reading calls against recent hawkish MPC rhetoric; the core inflation structure does not provide signals for a broad-based price acceleration. Such a view is also supported by recent NBP projections – central bank analysts presented limited tweaks to wage forecasts, arguing that a labour shortage problem should not increase as the activity of workers aged between 45 and 60 is strongly improving. As a result, the projection presented a downward revision to the 2018 core CPI forecast, by 0.1ppt to 1.9%YoY. We think it unlikely we'll see a shift of centrist members moving towards the hawkish win over the coming months.

C/A balance:

The Current Account balance in September closed with a relatively low deficit of €100m, also last month's reading was revised upward by €20m to €80m. The Trade Balance surprised positively with a €764m surplus as export dynamics (10.8%YoY) strongly outpaced imports (5.7%YoY) for the second consecutive month.

The GUS survey shows expected export orders are close to the 2007 peak. Secondly, we see structural improvements in automotive production (6.9%YoY in 3Q17 on a seasonally adjusted basis), computer manufacturing (12.3%YoY), electrical equipment (8.5%YoY) and furniture (8.3%YoY).

Monday's readings confirm that the CA/GDP gap should close below 0.5% of GDP, close to historically low readings.