



# RATES AND FX OUTLOOK

## POLISH FINANCIAL MARKETS

August 2015



Bank Zachodni WBK

 Grupa Santander

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# Summary

- ❶ **The Polish economy is still in an expansionary phase** and, if we exclude statistical noise (e.g. the impact of changes in working days), we see activity accelerating consistently and expect this trend to continue. The flash estimate of 2Q GDP growth will be released in the middle of August and we expect it to show a similar result to 1Q (3.6% YoY increase). The growth is still driven, in our view, by almost all the possible engines: solid investment and consumption growth and reviving exports, with a (cyclical) decrease in inventories being the only drag. **We maintain our forecast of 3.8% 2015 GDP expansion, with growth likely to approach 4% in 4Q15E.** The median market forecast is gradually converging towards our estimates. Economic growth in Europe continues to foster a positive environment for Polish exporters, especially as the exchange rate remains at a highly competitive level.
- ❷ Deflation has halved in the last five months, going from -1.6% YoY in February to -0.8% YoY in June. The rebound is a bit slower than we had anticipated, but we expect the trend to continue and think that **CPI growth is likely to turn positive by November, ending this year at c.0.5% YoY, and moving towards 2% YoY by the end of 2016E.**
- ❸ A continuation of decent economic growth, tightening of the labour market (jobless rate likely to approach all-time lows next year) and an inflation rate slowly approaching the target **would justify, in our view, a start of monetary policy normalisation at the end of 2016.** Meanwhile, the IMF recently said Poland may need additional monetary easing if inflation expectations continue to disappoint. There is also a lot of uncertainty about the composition of the new MPC, which will decide on monetary policy in 2016 (eight of the nine members will be replaced at the start of 2016 and the central bank governor's tenure ends in mid-2016). The opposition Law and Justice (PiS) party, which is leading opinion polls ahead of the October general election, declares it would expect the central bank to actively support the economy, which clearly indicates the type of central banker it prefers. **This generates a risk of stable interest rates for a longer time.**
- ❹ The short end of the yield curve is no longer pricing in any rate hikes in 2016 and the FRA rates even imply a c40% chance of a rate cut in six to nine months. We think the market perception may change later this year, after inflation turns positive and GDP growth accelerates. However, **in the next few weeks we expect range-trading in a horizontal trend, as the macroeconomic data should again be a mixed bag and liquidity is likely to be muted during the holiday season.**
- ❺ The zloty has regained some ground now that the risk of Grexit has decreased. However, we think there are still several risk factors on the horizon, so **August –as in previous years– is more likely to see a rise than a fall of the EUR/PLN.** We expect the zloty to strengthen later this year, supported by an improving internal and external macro outlook.

# Short- and Medium-Term Strategy: Interest Rate Market

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	3 August 2015	1M	3M
Reference rate	0	0	1.50	→	→
3M WIBOR	7	0	1.72	→	→
2Y bond yield	14	-12	1.79	→	↗
5Y bond yield	25	-17	2.46	→	↗
10Y bond yield	32	-25	2.93	→	↗
2/10Y curve slope	18	-13	114	→	↗

Note: Single arrow down/up indicates at least a 5bp expected move down/up, double arrow means at least a 15bp move. Source: BZ WBK.

## PLN rates: our view and risk factors

**Money market:** WIBORs were roughly stable in July, while FRAs have begun pricing-in a resumption of the easing cycle in six to nine months time. In our view, an improvement in economic activity and a further inflation pickup will not justify any additional monetary easing in Poland, especially given the risk of more relaxed fiscal policy. We still expect the main interest rates to remain on hold until the last quarter of 2016, when a rate hike is possible. In such a scenario, WIBORs are likely to move in horizontal trend in the coming months and increase gradually in the medium to long term.

**Short end:** We expect short-term bond yields and IRS rates to vary little in August, as next macro data releases are likely to be a mixed bag, and will probably not change the economic outlook substantially. The belly of the curves could be more vulnerable to changes in the global mood.

**Long end:** The long end of curves benefited most from “risk-on” mode as the risk of Greece leaving the euro faded. We expect the long-dated yields to move sideways in the coming weeks, but volatility should remain high, as there are still many risk factors that may affect the global mood. We maintain our view that increasing yields on core markets (due to an improving macro outlook and Fed’s rate lift-off in September) will push Polish yields higher in the medium to long run.

**Risks to our view:** Major disappointment in upcoming domestic data releases may strengthen market speculation about possible rate cuts, dragging Polish yields lower. On the other hand, yields may go up in the event of a surge in global risk aversion (potential triggers include: a break-down in Greek bailout negotiations, a deepening market rout in China), or in case of weakening core debt markets (if, for example, economic data from the Euro zone and/or the US appear much stronger than expected). Large outflows from fixed income funds may also raise volatility in an illiquid market.

# Short- and Medium-Term Strategy: FX Market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	3 August 2015	1M	3M
EURPLN	2.9	-1.0	4.15	→	↘
USDPLN	5.4	0.5	3.79	→	↘↘
CHFPLN	2.4	-1.7	3.94	→	↘
GBPPLN	6.2	0.1	5.90	→	↘↘
EURUSD	-2.4	-1.5	1.09	↗	↗

Note: Single arrow down/up indicates at least a 1.5% expected move down/up, double arrow means at least a 5% move. Source: BZ WBK.

## PLN FX Market: Our view and risk factors

**EUR:** The zloty regained some ground after the risk of Grexit risk decreased. However, we think there are still several risk factors on the horizon, and so August – as in previous years – is more likely to see a slight rise than a decline of the EUR/PLN. Apart from the external risks (FOMC, China, Brazil, Greece), domestic politics may also weigh on the currency ahead of the October election. We expect the zloty to strengthen later this year, supported by an improving internal and external macro outlook.

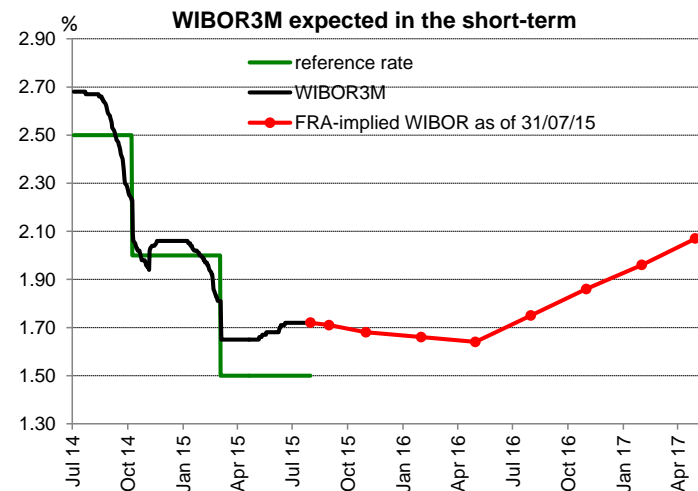
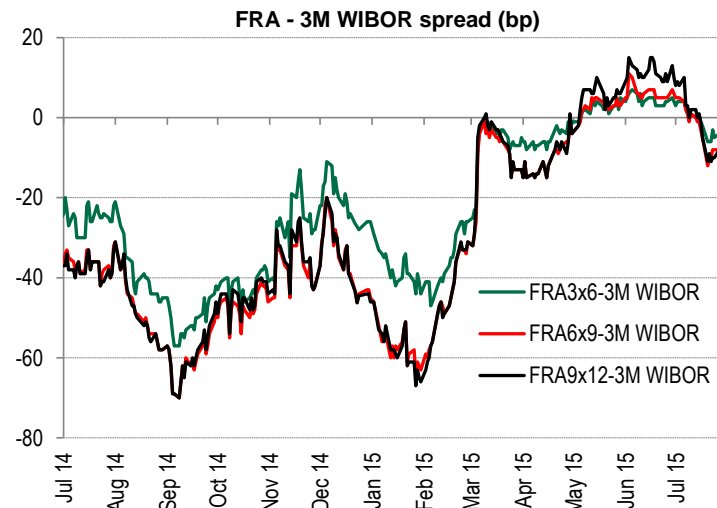
**USD:** The EUR/USD should edge higher in 2H15 if economic data continue to improve and the ECB's QE shows signs of supporting sentiment and, eventually, boosting the CPI in the Euro zone. However, the prospect of a US rate hike in September may offer support for the dollar in the near term. Thus, zloty appreciation vs the dollar in August-September may be limited, in our view, and should gain pace later this year.

**CHF:** We are still negative on the CHF versus the EUR, and expect EUR/CHF to end 2015 at 1.10. In this scenario, CHF/PLN is likely to drop quite substantially (by c5%) by the end of the year. However, in August the rate may stay close to current levels, like EUR/PLN.

**Risks to our view:** The zloty may get stronger in the nearest weeks if next data releases in Poland and the Euro zone prove much better than expected. On the other hand, an intensification of the market rout in China, the failure of EU bailout talks with Greece, or much better data in the US –raising the odds of a Federal Reserve rate lift-off in September– may fuel PLN depreciation.

# Domestic Money Market: Rate Cut Speculation Returns

- In July, the situation on the money market was mixed. WIBORs were roughly stable, supported by the Monetary Policy Council's (MPC) unchanged stance and a slower-than-expected CPI rebound. At the same time FRAs fell significantly (by 3-30 bp across the curve), with the highest decline in the longest tenor.
- Currently, investors are pricing in a further decline in WIBOR 3M, with c40% odds of a 25bp rate cut in six to nine months and then stable rates. Moreover, investors now see a first rate hike of 25bp in 21 months time instead of in 12 months, as expected at the end of June.
- We stick to our forecast of WIBOR rates continuing their gradual increase in the coming months, despite a slower CPI rebound than we previously anticipated. A further improvement in Polish GDP should support an upward trend in money market rates in the medium to long term. In the short term, we expect WIBOR rates to move in horizontal trend.
- Volatility on FRA market should remain high during the holiday period, with rates strongly dependent on the situation on IRS market. The next set of economic data releases due in August (including 2Q15 GDP growth) are likely to be a mixed bag, in our view, and may fail to provide any significant direction to the money market.



Source: Reuters, BZ WBK

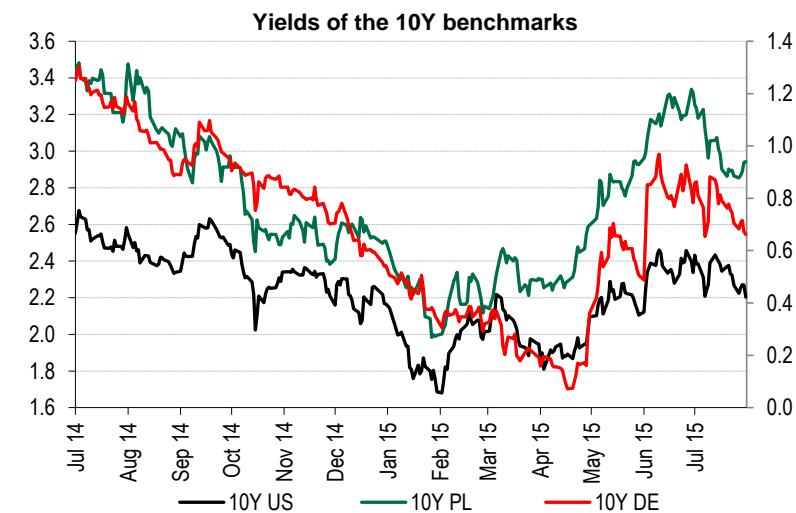
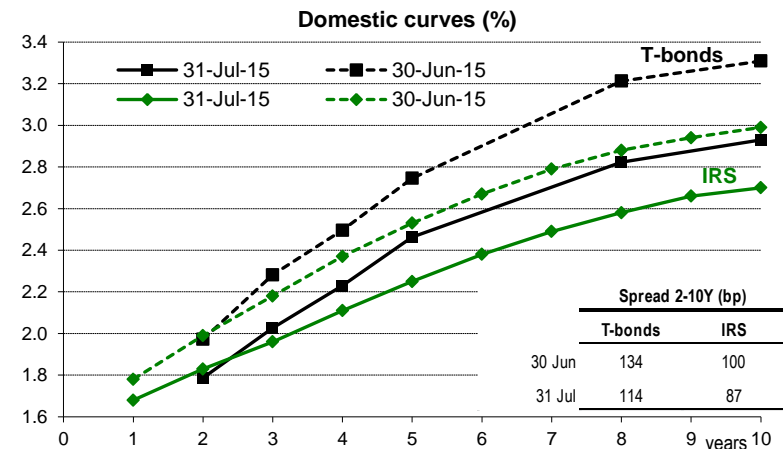
# Domestic IRS and the T-Bond Market: External Factors Still Dominate

In July, both T-bond and IRS markets rebounded visibly as the risk of Greece leaving the euro diminished significantly. Strengthening on core and peripheral debt markets also supported Polish interest rate instruments. Consequently, yields and IRS rates reversed all their June losses, with the 10Y benchmark yield decreasing temporarily to 2.85%, the lowest level since mid-May. The end of July brought some profit-taking, pushing the 10Y benchmark yield above 2.90%.

Both curves have flattened considerably over the past month as the belly and long end of curves benefited most from the improvement in global sentiment. The spread over Bunds for the 10Y sector, which rose above 250bp in early July, tightened temporarily to 210bp (the lowest level since end of March) just after the agreement with Greece.

In our view, global factors are likely to continue to play the main role in determining market trends in the coming weeks. Without central bank meetings in August, investors will mainly focus on the macro data releases from the US, in particular the monthly labour market data, in the context of the Fed's next rate decision. In our view, the door to rate lift-off in September remains wide open and, as a result, we expect yields on core markets to edge higher. This would weaken Poland's interest rate market, pushing domestic yields/IRS rates upwards in the medium to long term. Therefore, we stick to our baseline scenario of moderate growth in domestic yields and IRS rates until the end of the year.

In the short term, we expect a horizontal trend in both yields and IRS rates. However, the holiday period and the resulting low liquidity could add to market volatility (in particular at the long end of the curves) in the upcoming weeks.

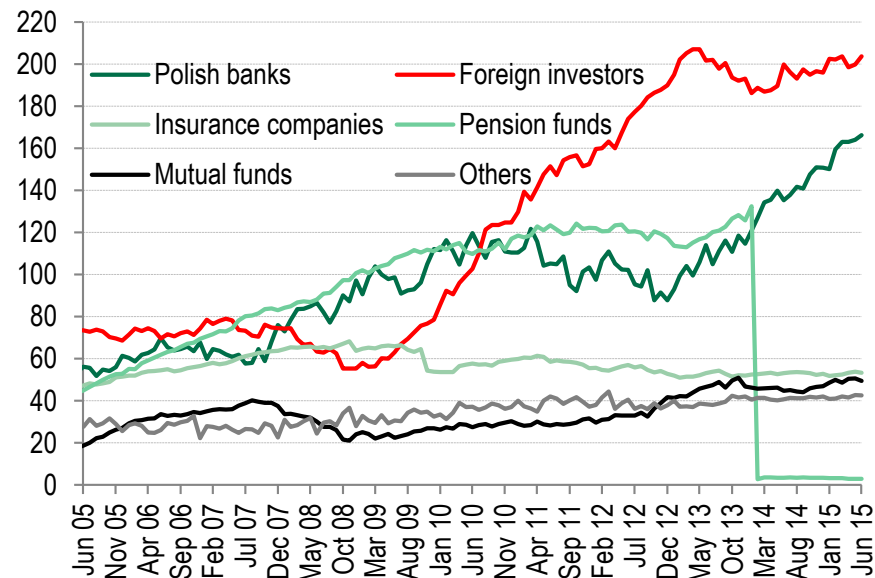


Source: Reuters, Bloomberg, BZ WBK.

# Demand Corner: Foreigners' Portfolio Is Back Above PLN200bn

- Non-residents' holdings of Polish, PLN marketable bonds rose to PLN203.7bn in June, after the strongest monthly increase since January (PLN3.8bn).
- The biggest contribution to this increase was provided by the commercial banks (PLN1.3bn) and "others" (PLN2.1bn). On the sell side, among others were central banks, which reduced their holdings by PLN450mn. This was their first reduction since November 2014 and was due to Asian central banks, which sold Polish bonds for the first time since comparable data are available (April 2014). That said, the biggest sellers were the hedge funds, which disposed of PLN551mn of Polish bonds, the biggest monthly outflow since comparable data are available. The hedge fund portfolio is now at PLN40mn, its lowest level since comparable data are available and compared with a peak of PLN1.09bn in March and April this year.
- In the case of Polish investors, commercial banks continued to expand their portfolios (by PLN2.3bn, to the all-time high of PLN166.3bn). The biggest sellers were mutual funds, which disposed of PLN1.2bn of Polish bonds. Insurance companies cut their holdings too, for the first time since January.
- In terms of particular bond series, the biggest changes were recorded for PS0420 (nearly PLN2bn buying by the foreigners), PS0416 (PLN903mn selling by Polish banks), DS0725 (PLN922 buying by the foreigners) and WZ0120 (PLN1bn buying by Polish banks).

**Holder of Poland's marketable T-bonds**



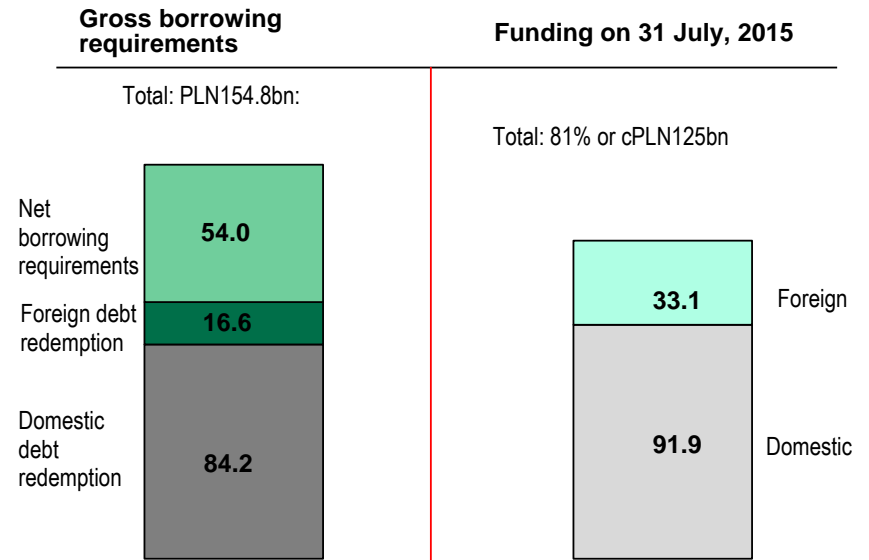
Source: Finance Ministry, BZ WBK.



# Supply Corner: Supply Drops in Summer

- Poland's Finance Ministry successfully launched floating and fixed rate T-bonds on the primary market. It sold T-bonds worth PLN8.3bn in total at two regular auctions in July. At the second, tender bids were supported by funds coming from OK0715 redemptions and interest rate payments worth cPLN11bn in total.
- With the inflow of funds from T-bond sales in July and credit from the World Bank (c€913mn), this year's borrowing requirements are now c81% covered. Poland's Finance Minister Mateusz Szczurek said after the second tender in July that the ministry could complete financing of the 2015 borrowing needs by the end of September. Asked about FX issues this year, Szczurek suggested a rather restrained approach.
- The Finance Ministry confirmed there will be only one bond auction with an offer of PLN1-4bn, in line with the plan. Given the current level of financing of 2015 borrowing needs, we expect a flexible approach to the offer. A variety of bond series is possible, but we think that the current market situation still favours fixed-rate instruments rather than floaters, though the latter could appear at the special request of investors. In our view, the ministry should be able to tap the primary market for T-bonds without any problems.

## Gross borrowing requirements and financing in 2015



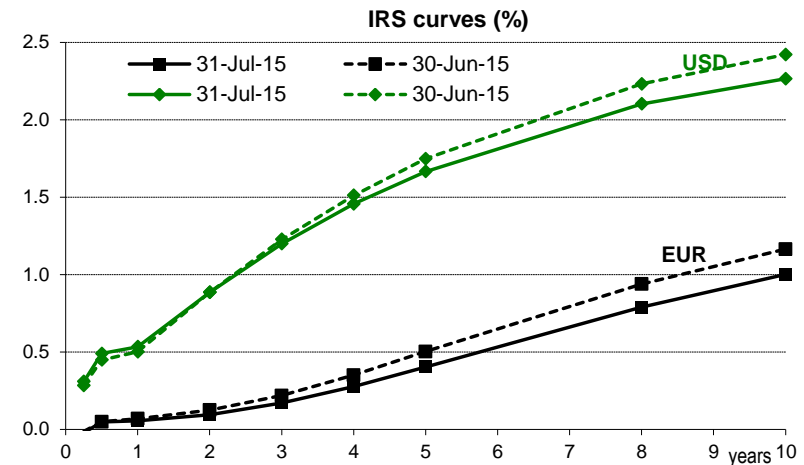
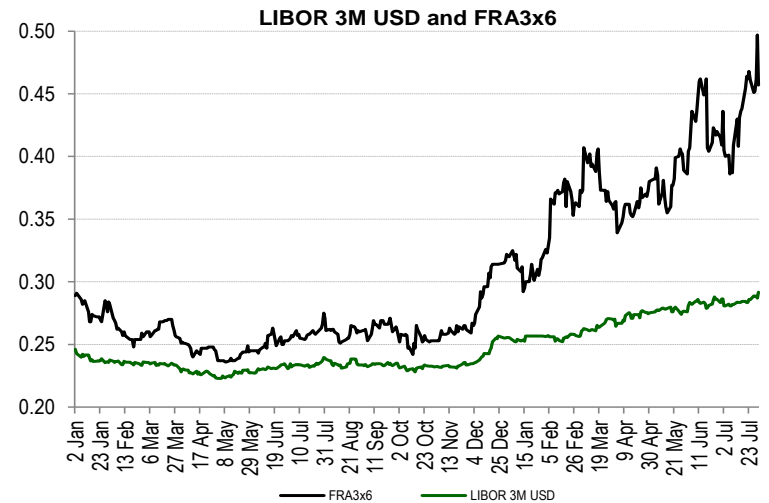
## Auction plan for August 2015

Auction date	Settlement date	Series	Planned offer (PLN mn)
6 Aug 2015	10 Aug 2015	To be announced	1,000 – 4,000

Source: Finance Ministry, BZ WBK.

# International Money Market and IRS: Some Rebound in IRS as Global Mood Improves

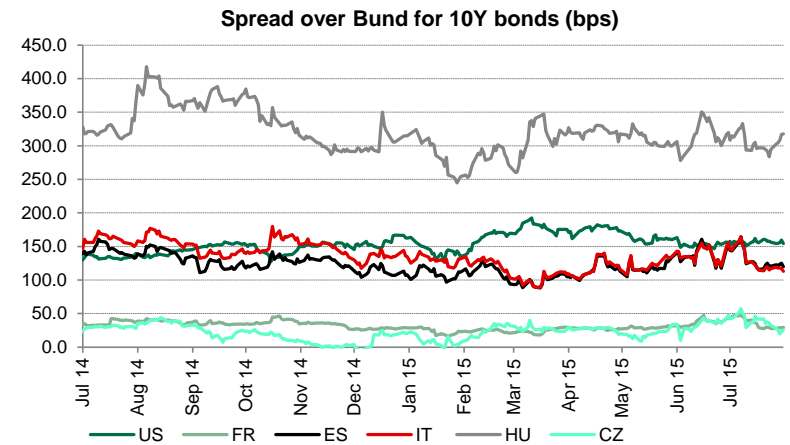
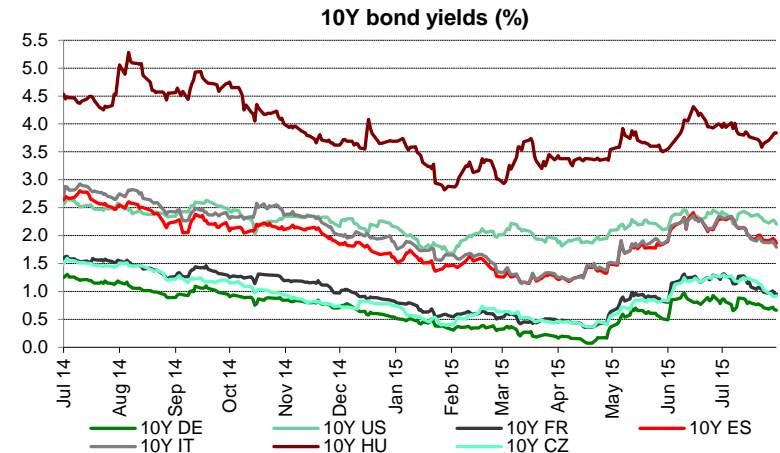
- As in previous months, European money markets did not change significantly in July. Swiss rates up to 3M increased gradually, while in the UK rates were little changed, despite an increasing risk of a rate hike by the Bank of England later this year. Euro zone money market rates fell gradually, with 3M reaching a new all time low of -22bp. There was a significant fall in money market rates in Hungary after the central bank cut its benchmark rate by 15bp on July 21.
- Both EUR and USD IRS rates declined slightly over the month due to an improvement in global sentiment. However, the scale of the decline was muted due to still strong data from the US economy, which supports the view that the Fed will start tightening later this year. What is more, the EUR-USD IRS spread widened gradually, and touched 135bp, its highest level since mid-May.
- In our view, money market rates in the Euro zone and the US should remain largely unchanged. As regard IRS, we expect the EUR swap curve to continue to broadly track the rise in US rates in the coming months, as has happened in the past months. We also see the recent decline in commodity prices further supporting low rates in the Euro zone. Thus, we expect a significant EUR-USD spread widening.



Source: Reuters, ECB, Fed, BZ WBK.

# International Bond Market: Yields Could Edge Higher in the Medium Term on Fed Re-pricing

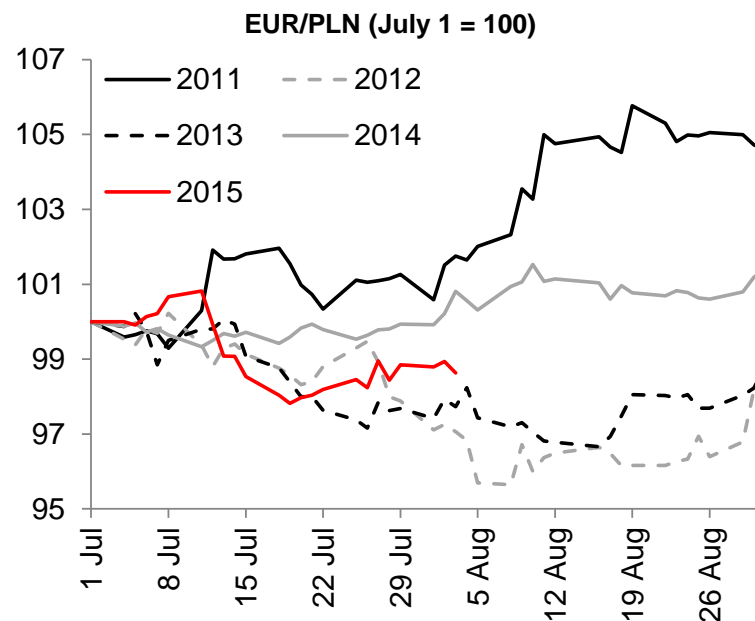
- In July, core debt markets strengthened gradually as the risk of a Greek euro debacle faded. The uncertain situation in the Chinese markets and the decline in crude oil prices, which could negatively affect inflation expectations, also shifted capital towards lower risk assets. Both the EUR and USD yield curves have flattened over the past month as the long ends have performed better.
- Peripheral debt yields gained significantly more than core market yields as investor sentiment improved. As a result, bonds reversed most of their June losses. Peripherals' spread over the Bund in the 10Y sector tightened visibly and Spanish and Italian bond yields reached their lowest levels since the end of May. CEE debt markets also benefited from the peripheral and core debt revival. The yield on the Czech 10Y benchmark fell below 1% for the first time since the beginning of June. However, Hungarian debt underperformed both the Czech and Polish markets due to a slightly faster rebound in headline CPI and the Hungarian central bank's (NBH) announcement that its easing cycle had ended.
- August should be relatively calm on the debt market. However, growing expectations that Fed will start monetary tightening in September may result in yields increasing, not only in the U.S. but also in Europe. That said, we expect the US bonds to underperform European ones on Fed re-pricing and extremely low net supply in Europe. T-bonds in peripheral Euro zone countries are likely to remain volatile and sensitive to news flow from Greece, in particular progress in negotiations over the third bailout.



Source: Reuters, BZ WBK.

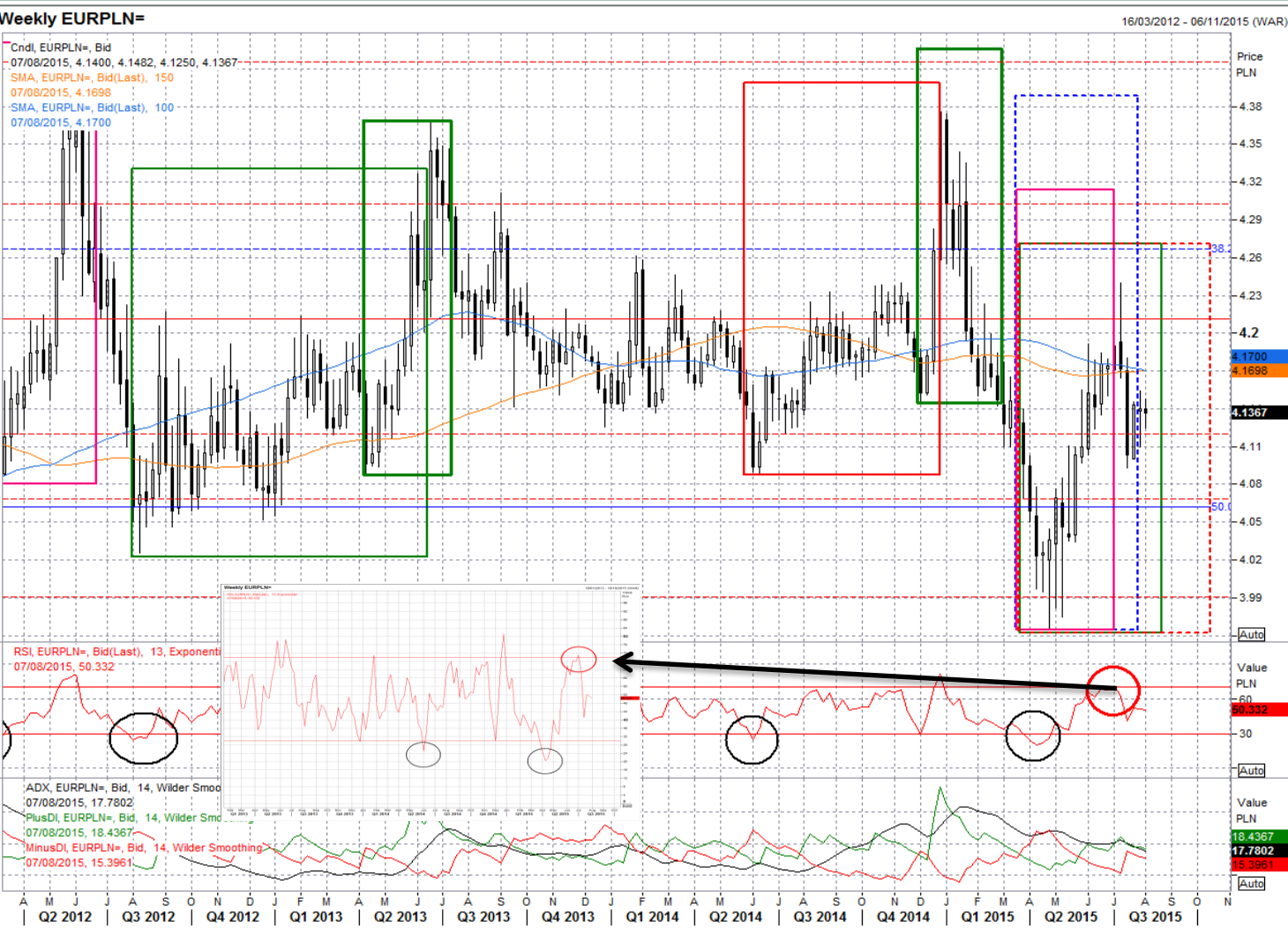
# Foreign Exchange Market: Zloty Tends to Weaken in August

- Concern about Greece and China pushed EUR/PLN to 4.24 in early July, but after the agreement between Greece and its creditors the zloty trimmed its losses and the rate dropped below 4.15.
- We think expectations that the global central banks could step in and stabilize markets in the case of any turmoil, plus Polish data confirming that economic growth and inflation are rising (which limits, at least for now, the scope for a resumption of monetary easing) should back the zloty. Still, we are cautious about the coming months and have raised our 3Q and 4Q EUR/PLN forecasts.
- The chart shows the zloty depreciated in August in the last four years. If it emerged stronger vs the euro after the holidays, this was thanks to its performance in July. In each case, the main drivers of its poor August performance were global events and we think this could be the case again. The risk of Grexit seems to have faded after the last EU summit, but there are still crucial steps ahead before a deal can be closed. National parliaments have approved conditions for the bailout package, but now Greece has to start implementation. There are other risk factors that may hit investor sentiment, for example the situation in China. Attention could also switch to US data, after the Fed signalled that the door to a rate hike in September remains open.
- Internal Polish issues may also attract attention, as parliamentary elections are scheduled for October 25 and the campaign is in progress. If the leading parties unveil more populist ideas in the coming weeks, the market may start to worry about the fiscal and monetary outlook, which could increase the volatility of Polish asset prices.



Source: Bloomberg, BZ WBK

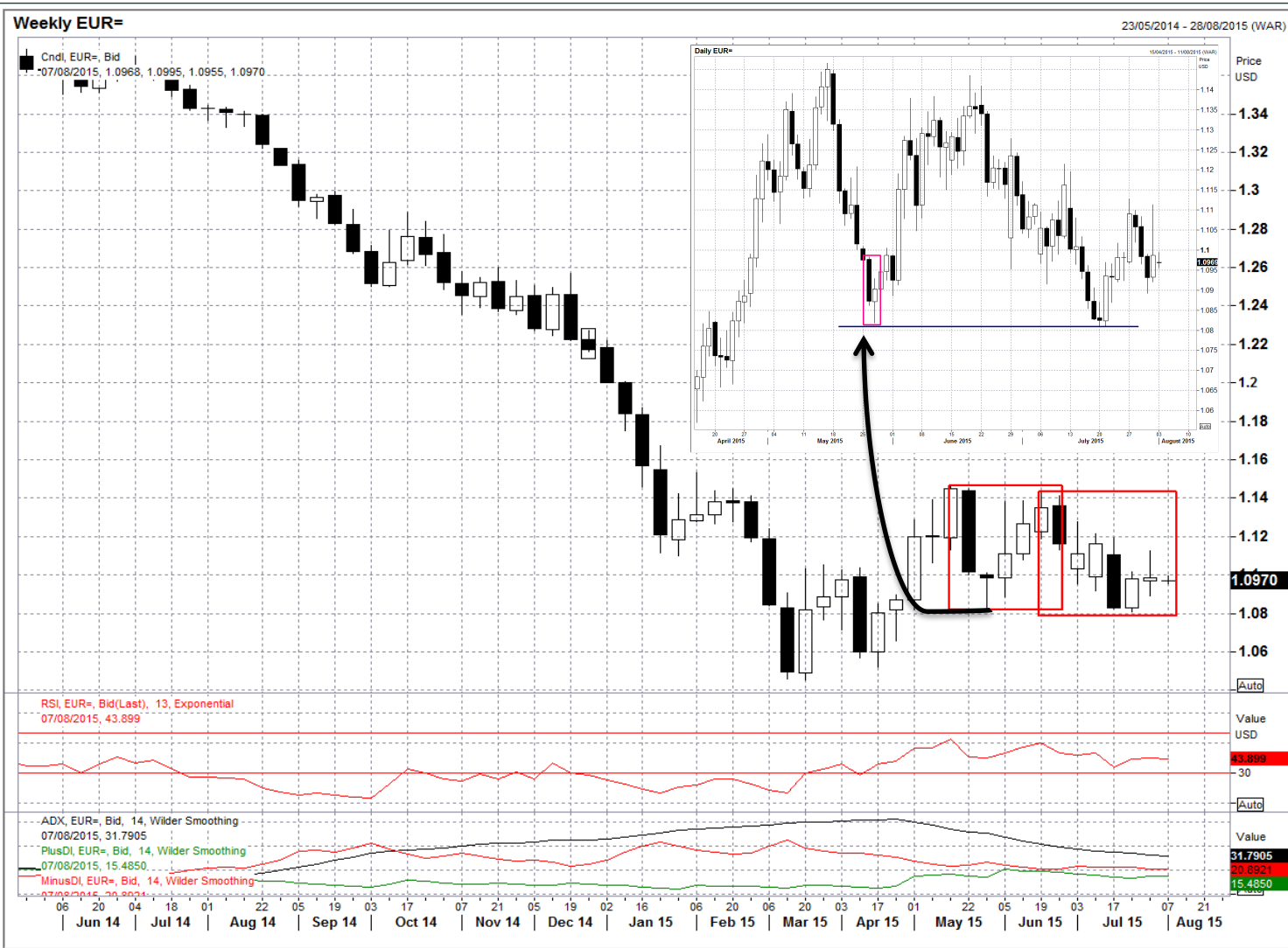
# FX Technical Analysis Corner: Downside Bias for EUR/PLN



- In May we wrote that the RSI gave a signal to buy EUR/PLN and the exchange rate surged in the following weeks.
- In early July the RSI fell below 70pts giving a sell signal. Unlike the case for buy signals, recent history does not provide any clear hints of the scale of the expected decline. There has been noise after sell signals and double peaks in RSI have emerged.
- Still, the bias for now seems to be to the downside and the low and high of the biggest dark candle in the recent decline determines key levels to watch: 4.093 and 4.18.

Source: Reuters, BZ WBK.

# FX Technical Analysis Corner: EUR/USD Moving Sideways



- ▶ The EUR/USD trended down in July but did not manage to fall below c1.08. This support is the local low from May, but there has also been a "reversal day" drawn at this level in mid-May (we wrote about this three months ago). The current down wave is roughly equal to the previous one and this makes the 1.08 support stronger and more important.
- ▶ TA does not currently give any hint on the direction. The next support below 1.08 is at 1.045-1.05. Resistance levels are at 1.12 and 1.146.

Source: Reuters, BZ WBK.

# Macroeconomic Forecasts

Poland		2013	2014	2015E	2016E	1Q15	2Q15	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLNbn	1,662.1	1,728.7	1,796.5	1,885.8	417.8	434.7	442.8	501.2	435.1	456.7	465.4	528.6
GDP	%YoY	1.7	3.4	3.8	3.5	3.6	3.6	3.7	4.0	3.7	3.7	3.2	3.4
Domestic demand	%YoY	0.2	4.9	3.1	4.0	2.6	2.4	3.4	3.9	3.6	4.0	4.0	4.3
Private consumption	%YoY	1.1	3.1	3.2	3.2	3.1	3.0	3.4	3.5	3.3	3.2	3.1	3.1
Fixed investment	%YoY	0.9	9.2	9.0	6.8	11.4	9.0	9.0	8.0	8.0	7.0	7.0	6.0
Unemployment rate <sup>a</sup>	%	13.4	11.5	10.2	9.6	11.7	10.3	9.9	10.2	10.4	9.2	9.1	9.6
Current account balance	EURmn	-5,148	-5,250	2,646	286	1,648	2,390	-1,010	-382	1,115	2,199	-1,719	-1,308
Current account balance	% GDP	-1.3	-1.3	0.6	0.1	-0.6	0.1	0.3	0.6	0.5	0.4	0.3	0.1
General government balance (ESA 2010)	% GDP	-4.0	-3.2	-2.7	-2.3	-	-	-	-	-	-	-	-
CPI	%YoY	0.9	0.0	-0.8	1.6	-1.5	-0.9	-0.8	0.1	1.2	1.5	1.7	1.9
CPI <sup>a</sup>	%YoY	0.7	-1.0	0.5	1.9	-1.5	-0.8	-0.6	0.5	1.3	1.6	1.8	1.9
CPI excluding food and energy prices	%YoY	1.2	0.6	0.4	1.2	0.4	0.3	0.2	0.7	0.9	1.1	1.4	1.3

Source: CSO, NBP, Finance Ministry, BZ WBK estimates. <sup>a</sup> at the end of the period

# Interest Rate and FX Forecasts

Poland		2013	2014	2015E	2016E	1Q15	2Q15	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
Reference rate <sup>a</sup>	%	2.50	2.00	1.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	2.00
WIBOR 3M	%	3.02	2.52	1.75	1.87	1.87	1.67	1.72	1.74	1.75	1.75	1.80	2.17
Yield on 2-year T-bonds	%	2.98	2.46	1.78	2.18	1.61	1.75	1.83	1.95	1.98	2.07	2.17	2.50
Yield on 5-year T-bonds	%	3.46	2.96	2.36	2.78	1.90	2.35	2.51	2.70	2.70	2.70	2.77	2.93
Yield on 10-year T-bonds	%	4.04	3.49	2.85	3.52	2.24	2.79	3.06	3.30	3.42	3.48	3.53	3.65
2-year IRS	%	3.10	2.51	1.84	2.28	1.65	1.85	1.86	2.00	2.07	2.17	2.27	2.60
5-year IRS	%	3.51	2.92	2.23	2.68	1.80	2.23	2.34	2.55	2.55	2.58	2.70	2.88
10-year IRS	%	3.86	3.34	2.63	3.37	2.06	2.57	2.79	3.08	3.26	3.33	3.38	3.50
EUR/PLN	PLN	4.20	4.18	4.12	4.07	4.20	4.09	4.13	4.07	4.03	4.06	4.09	4.10
USD/PLN	PLN	3.16	3.15	3.66	3.43	3.72	3.70	3.70	3.52	3.43	3.43	3.43	3.42
CHF/PLN	PLN	3.41	3.45	3.88	3.53	3.93	3.93	3.92	3.74	3.64	3.59	3.50	3.39
GBP/PLN	PLN	4.94	5.19	5.67	5.56	5.64	5.67	5.82	5.57	5.48	5.52	5.61	5.62

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

<sup>a</sup> at the end of period



# Economic Calendar and Events

Date		Event:	Note:
6-Aug	PL	T-bonds auction	Offer: PLN1.0-4.0bn
	CZ	MPC meeting – interest rate decision	No change in monetary policy conditions
7-Aug	US	Non-farm payrolls / Unemployment rate	Key number for Fed's monetary policy outlook; market expects relatively strong data
13-Aug	PL	Balance of payments for June	We expect a C/A surplus of €0.8bn
	PL	CPI for July	We expect inflation at -0.8%YoY, flat as compared with previous month
14-Aug	PL	Core CPI measures for July	We see core inflation, excluding food and energy prices, at 0.2%YoY
	PL	Flash 2Q15 GDP	We expect GDP growth at 3.6%YoY, in line with market consensus
18-Aug	PL	Wages and employment for July	We expect stable employment growth at 0.9%YoY and an increase in wages of 3.3%YoY
19-Aug	PL	Industrial output for July	We expect a modest increase of 4.3%YoY
	PL	Construction output for July	In our view, construction output will continue to decline. Our forecast is for -3.4%YoY
	PL	Retail sales for July	We estimate retail sales grew by c3%YoY, slightly less than the previous month
	US	Minutes from July FOMC meeting	-
20-Aug	PL	Minutes from July MPC meeting	-
25-Aug	HU	NMB meeting – interest rate decision	We expect rates to remain unchanged as the NBH ended the easing cycle in July
TBA	PL	Unemployment rate for July	We expect a further slide in unemployment to 10.1%
28-Aug	PL	2Q15 GDP growth with the breakdown	We expect GDP growth for 2Q15 at 3.6%YoY, with private consumption increasing 3%yoY and investment by 9%YoY

Source: CB, Markit, CSO, Finance Ministry

# Annexe

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1. Domestic Market Performance
2. Polish Bonds: Supply Recap
3. Polish Bonds: Demand Recap
4. Euro Zone Bonds: Supply Recap
5. Poland vs Other Countries
6. Central Bank Watch

# 1. Domestic Market Performance

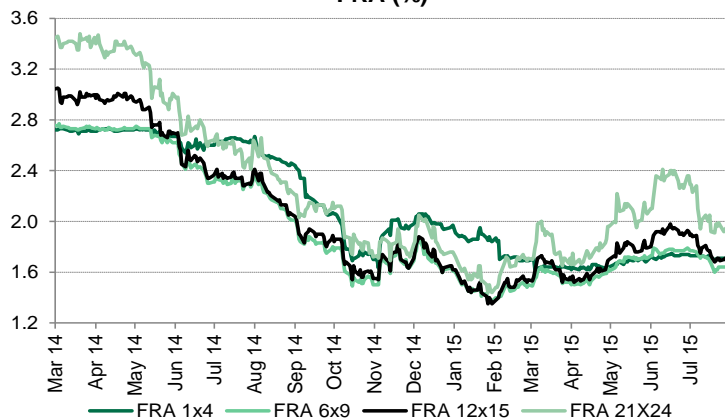
## Money market rates (%)

	Reference	Poland	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of July	1.50	1.53	1.66	1.72	1.79	1.83	1.45	1.46	1.46	1.46	1.71	1.68	1.66	1.64
Last 1M change (bp)	0	3	0	0	0	1	0	-1	-3	-6	-3	-8	-12	-18
Last 3M change (bp)	0	11	3	7	13	15	0	2	3	3	7	4	5	3
Last 1Y change (bp)	-100	-98	-94	-95	-90	-90	-102	-92	-84	-77	-92	-77	-69	-70

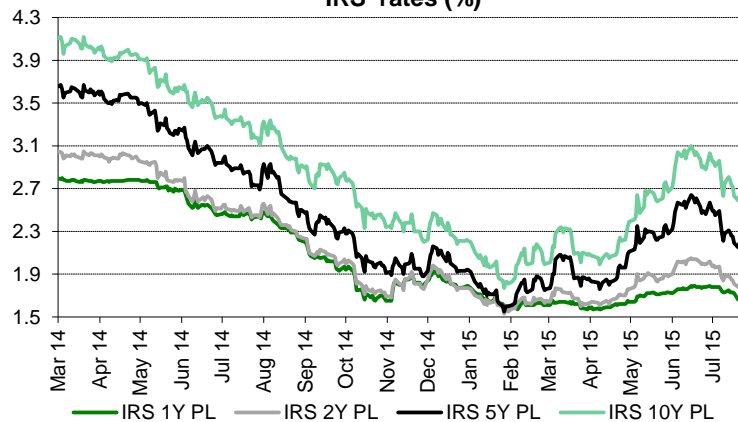
## Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of July	1.79	2.46	2.93	1.83	2.25	2.70	-4	21	23
Last 1M change (bp)	-19	-28	-38	-16	-28	-29	-3	0	-9
Last 3M change (bp)	14	25	32	7	14	31	7	11	1
Last 1Y change (bp)	-67	-40	-48	-72	-63	-59	5	24	11

FRA (%)



IRS rates (%)



Source: Reuters, BZ WBK

## 2. Polish Bonds: Supply Recap

### Total issuance in 2015 by instrument (in PLN mn, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>T-bond auctions</b>	11,204	10,908	4,639	11,442	4,056	4,237	8,283	4,000	2,000	12,000	6,000		78,768
<b>T-bill auctions</b>													0
<b>Retail bonds</b>	97	126	127	129	207	181	150	150	150	150	150	150	1,767
<b>Foreign bonds/credits</b>				4,127	2,278		3,797						10,202
<b>Pre-financing and financial resources at the end of 2014</b>	38,700												38,700
<b>Total</b>	<b>50,001</b>	<b>11,034</b>	<b>4,766</b>	<b>15,698</b>	<b>6,541</b>	<b>4,417</b>	<b>12,230</b>	<b>4,150</b>	<b>2,150</b>	<b>12,150</b>	<b>6,150</b>	<b>150</b>	<b>129,437</b>
<b>Redemption</b>	6,071	159	98	14,774	5,858	110	12,597	1,597	446	26,007	213	241	68,172
<b>Net inflows</b>	<b>43,930</b>	<b>10,875</b>	<b>4,668</b>	<b>924</b>	<b>683</b>	<b>4,307</b>	<b>-367</b>	<b>2,553</b>	<b>1,704</b>	<b>-13,857</b>	<b>5,937</b>	<b>-91</b>	<b>61,265</b>
<b>Rolled-over T-bonds</b>			6,502			2,082							8,585
<b>Buy-back of T-bills/ FX-denominated bonds</b>													0
<b>Total</b>	<b>43,930</b>	<b>10,875</b>	<b>11,170</b>	<b>924</b>	<b>683</b>	<b>6,389</b>	<b>-367</b>	<b>2,553</b>	<b>1,704</b>	<b>-13,857</b>	<b>5,937</b>	<b>-91</b>	<b>69,850</b>
<b>Coupon payments from domestic debt</b>	3,454			4,267			3,306		946	7,762			19,736

Note: Our forecasts = shaded area

Source: MF, BZ WBK

## 2. Polish Bonds: Supply Recap (cont.)

Schedule of Treasury security redemptions by instrument (in PLN mn)

	Bonds	Bills	Retail bonds	Total domestic redemption	Foreign bonds/credits	Total redemptions
January	6,023		48	6,071	0	6,071
February	0		159	159	0	159
March	0		98	98	0	98
April	14,679		95	14,774	0	14,774
May	0		116	116	5,742	5,858
June	0		110	110	0	110
July	7,658		136	7,794	4,802	12,597
August	0		184	184	1,412	1,597
September	0		162	162	284	446
October	22,420		146	22,567	3,440	26,007
November	0		213	213	0	213
December	0		241	241	0	241
<b>Total 2015</b>	<b>50,781</b>		<b>1,710</b>	<b>52,491</b>	<b>15,681</b>	<b>68,172</b>
<b>Total 2016</b>	<b>87,607</b>		<b>2,034</b>	<b>89,641</b>	<b>13,886</b>	<b>103,527</b>
<b>Total 2017</b>	<b>67,997</b>		<b>1,032</b>	<b>69,029</b>	<b>11,759</b>	<b>80,788</b>
<b>Total 2018</b>	<b>66,317</b>		<b>1,103</b>	<b>67,420</b>	<b>10,844</b>	<b>78,264</b>
<b>Total 2019+</b>	<b>63,811</b>		<b>972</b>	<b>64,783</b>	<b>22,248</b>	<b>87,032</b>
<b>Total 2020+</b>	<b>199,982</b>		<b>2,383</b>	<b>202,365</b>	<b>119,836</b>	<b>322,201</b>

Source: MF, BZ WBK.

## 2. Polish Bonds: Supply Recap (cont.)

Scheduled wholesale bond redemptions by holders (data at the end of June 2015, in PLN mn)

	Foreign investors	Domestic banks	Insurance funds	Pension funds	Mutual funds	Individuals	Non-financial sector	Other	Total
Q1 2015	0	0	0	0	0	0	0	0	0
Q2 2015	0	0	0	0	0	0	0	0	0
Q3 2015	2,832	3,301	1,067	108	116	35	9	189	7,658
Q4 2015	10,333	4,346	4,291	94	1,124	25	173	2,034	22,420
<b>Total 2015</b>	<b>13,166</b>	<b>7,648</b>	<b>5,358</b>	<b>202</b>	<b>1,240</b>	<b>60</b>	<b>182</b>	<b>2,223</b>	<b>30,078</b>
	<b>44%</b>	<b>25%</b>	<b>18%</b>	<b>1%</b>	<b>4%</b>	<b>0%</b>	<b>1%</b>	<b>7%</b>	<b>100%</b>
Total 2016	39,608	26,053	7,828	590	7,814	129	106	6,495	88,623
	45%	29%	9%	1%	9%	0%	0%	7%	100%
Total 2017	26,134	22,812	6,442	496	6,798	85	160	5,072	67,997
	38%	34%	9%	1%	10%	0%	0%	7%	100%
Total 2018	20,794	27,597	3,949	287	8,034	88	170	5,398	66,317
	31%	42%	6%	0%	12%	0%	0%	8%	100%
Total 2019+	20,983	25,553	5,515	476	6,928	78	150	3,963	63,646
	33%	40%	9%	1%	11%	0%	0%	6%	100%
Total 2020+	83,009	56,596	24,180	824	18,536	183	261	8,672	192,261
	43%	29%	13%	0%	10%	0%	0%	5%	100%

Source: MF, BZ WBK.

## 3. Polish Bonds: Demand Recap

### Holders of marketable PLN bonds

	Nominal value (PLN bn)			Nominal value (PLN bn)			% change in June			Share of total in June (%)
	End Jun'15	End May'15	End Apr'15	End 1Q 2015	End 2014	End 2013	MoM	3-mth	YoY	
<b>Domestic investors</b>	314.3	313.7	311.1	309.1	295.9	381.2	0.2	1.0	13.4	60.7 (-0.4pp)
<b>Commercial banks</b>	166.3	164.0	163.0	163.1	150.8	114.7	1.4	1.9	22.8	32.1 (0.2pp)
<b>Insurance companies</b>	53.3	53.8	53.2	52.4	52.8	52.0	-0.9	1.7	0.2	10.3 (-0.2pp)
<b>Pension funds</b>	2.9	2.8	2.9	3.1	3.3	125.8	2.0	-8.5	-12.3	0.6
<b>Mutual funds</b>	49.3	50.6	50.4	48.5	46.9	46.7	-2.4	1.8	10.2	9.5 (-0.3pp)
<b>Others</b>	42.6	42.6	41.6	42.0	42.0	42.0	-0.1	1.3	4.8	8,2 (-0.1pp)
<b>Foreign investors*</b>	203.7	199.9	198.6	203.8	196.0	193.2	1.9	0.0	1.9	39.3 (0.4pp)
<b>Banks</b>	14.0	12.7	12.4	9.9	9.9	n.a.	10.1	41.0	10.6	2.7 (0.2pp)
<b>Central banks</b>	22.6	23.1	22.2	20.3	16.4	n.a.	-2.0	11.2	25.4	4.4 (-0.1pp)
<b>Public institutions</b>	9.4	9.3	9.0	8.8	8.1	n.a.	0.9	7.0	1210.5	1.8
<b>Insurance companies</b>	11.0	10.6	9.8	11.0	10.7	n.a.	3.8	-0.1	15.5	2.1
<b>Pension funds</b>	12.4	12.2	13.1	13.2	13.0	n.a.	1.1	-6.0	0.7	2.4
<b>Mutual funds</b>	71.5	70.8	72.3	80.2	78.1	n.a.	1.1	-10.7	-14.2	13.8
<b>Hedge funds</b>	0.0	0.6	1.1	0.1	1.1	n.a.	-93.2	-96.3	-55.8	0,0 (-0.1pp)
<b>Non-financial sector</b>	8.4	8.5	7.8	12.6	8.2	n.a.	-1.4	2.3	-40.8	1.6
<b>Others</b>	18.6	16.5	16.9	17.0	14.3	n.a.	12.8	9.3	12.5	3.6 (0.4pp)
<b>TOTAL</b>	518.0	513.6	509.7	512.9	491.8	574.3	0.9	1.7	8.6	100

\*Total for foreign investors does not match sum of values presented for sub-categories due to omission of a very small group of investors. Detailed data on foreign investors are available only since April 2014.

Source: MF, BZ WBK.

## 4. Euro Zone Bonds: Supply Recap

Euro zone: 2014 issuance completion and 2015 estimated gross borrowing requirements and redemptions (€ bn)

	2014 bond supply	% of completion	2015 total redemption	2015 bond supply	% of completion (YTD*)
<b>Austria</b>	24.7	91.4	13.3	17.0	72
<b>Belgium</b>	31.8	102.2	28.1	32.5	77
<b>Finland</b>	10.0	119.6	7.6	11.4	57
<b>France</b>	173.0	117.4	116.5	187.0	77
<b>Germany</b>	161.0	100.0	155.0	147.0	61
<b>Greece</b>	-	-	-	-	-
<b>Ireland</b>	10.0	117.5	2.3	7.5	84
<b>Italy</b>	235.4	111.8	205.2	252.9	65
<b>Netherlands</b>	50.0	101.7	39.9	48.0	74
<b>Portugal</b>	16.7	101.7	7.2	13.9	76
<b>Spain</b>	129.3	105.4	86.4	130.0	68
<b>Total</b>	<b>841.9</b>	<b>108.1</b>	<b>661.5</b>	<b>847.3</b>	<b>69</b>

\* YTD is supply since January 1, 2015

Source: European Commission, Euro zone countries' debt agencies, BZ WBK.



## 5. Poland vs. Other Countries

### Main macroeconomic indicators (European Commission forecasts)

	GDP (%)		Inflation (HICP, %)		C/A balance (% of GDP)		Fiscal balance (% of GDP)		Public debt (% of GDP)	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
<b>Poland</b>	3.3	3.4	-0.4	1.1	-1.8	-2.2	-2.8	-2.6	50.9	50.8
<b>Czech Republic</b>	2.5	2.6	0.2	1.4	0.4	0.7	-2.0	-1.5	41.5	41.6
<b>Hungary</b>	2.8	2.2	0.0	2.5	5.5	6.2	-2.5	-2.2	75.0	73.5
<b>EU</b>	1.8	2.1	0.1	1.5	1.9	1.9	-2.5	-2.0	88.0	86.9
<b>Euro zone</b>	1.5	1.9	0.1	1.5	3.5	3.4	-2.0	-1.7	94.0	92.5
<b>Germany</b>	1.9	2.0	0.3	1.8	7.9	7.7	0.6	0.5	71.5	68.2

### Main market indicators (% , end of period)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2014	end-Jul 2015	2014	end-Jul 2015	2014	end-Jul 2015	2014	end-Jul 2015	2014	end-Jul 2015
<b>Poland</b>	2.00	1.50	2.06	1.72	2.51	2.94	197	228	71	69
<b>Czech Republic</b>	0.05	0.05	0.04	0.03	0.75	0.92	2	26	55	49
<b>Hungary</b>	2.10	1.35	2.10	1.36	3.69	3.84	315	318	178	149
<b>Euro zone</b>	0.05	0.05	0.08	-0.023						
<b>Germany</b>					0.54	0.66			17	14

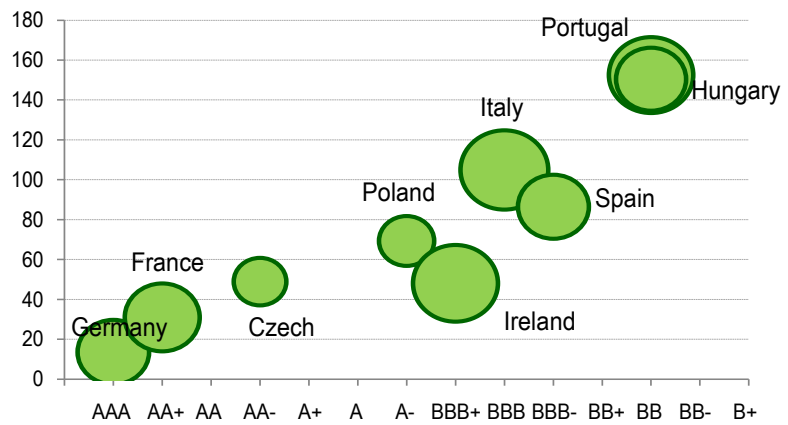
Source: EC – Spring 2015, statistics offices, central banks, Reuters, BZ WBK.

# 5. Poland vs. Other Countries (cont.)

**Sovereign ratings**

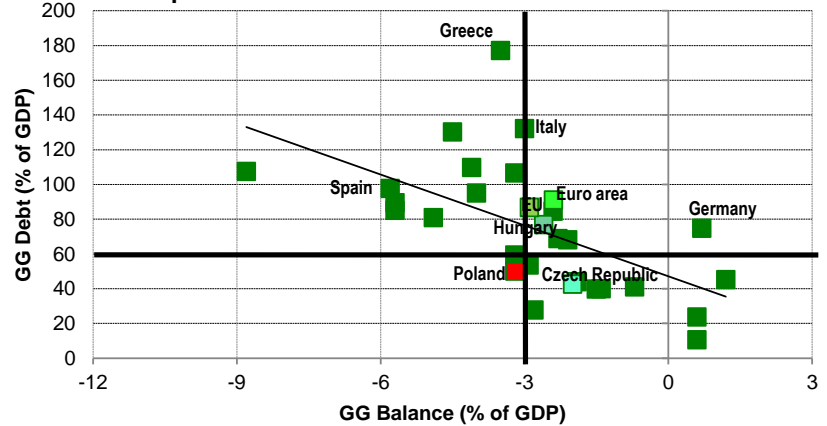
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	positive	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa1	negative	AA+	stable
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	CCC+	stable	Caa3	negative	CC	negative
Ireland	A	stable	Baa1	stable	A-	stable
Italy	BBB	stable	Baa2	stable	BBB+	negative
Portugal	BB	stable	Ba1	stable	BB+	negative
Spain	BBB	stable	Baa2	positive	BBB+	stable

**5Y CDS rates vs credit ranking according to S&P**



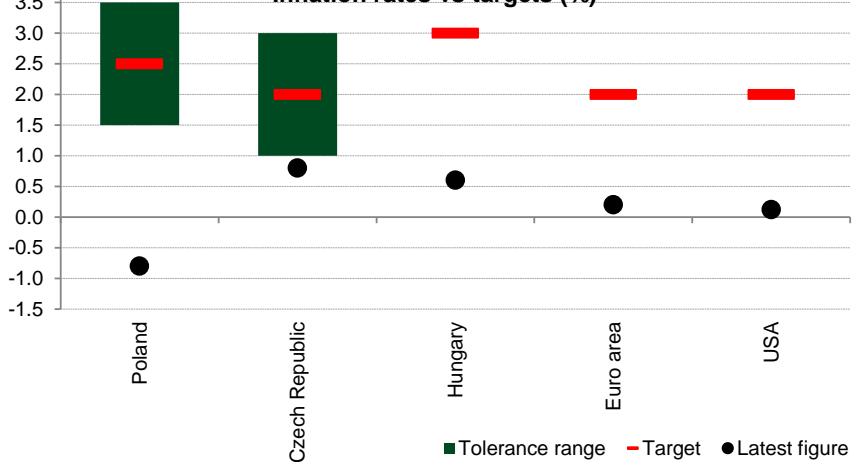
Note: Size of bubbles reflects the debt/GDP ratio

**Fiscal position of the EU countries at the end of 2014**

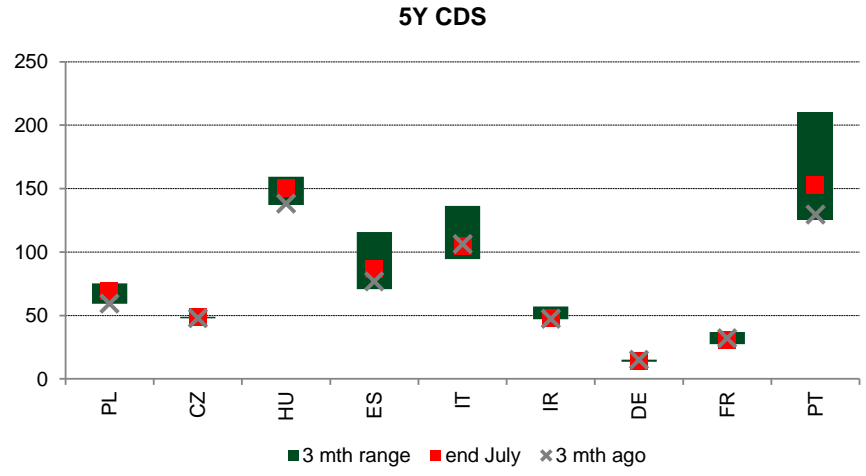
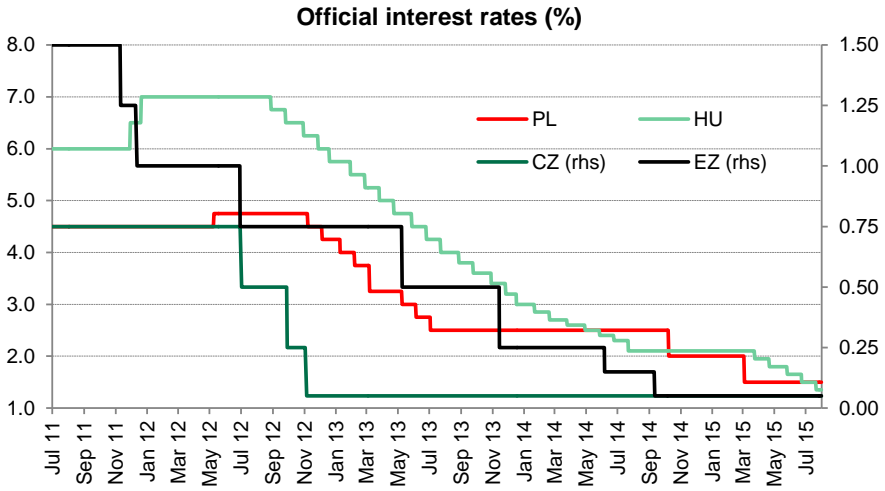
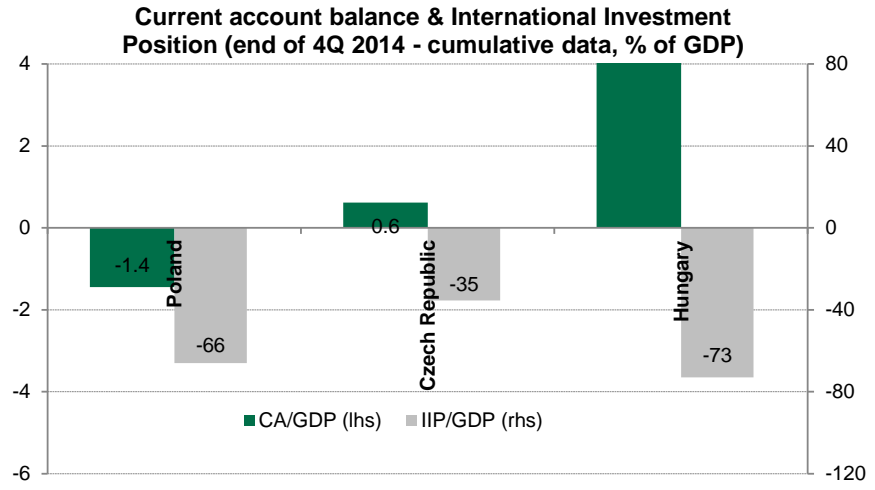
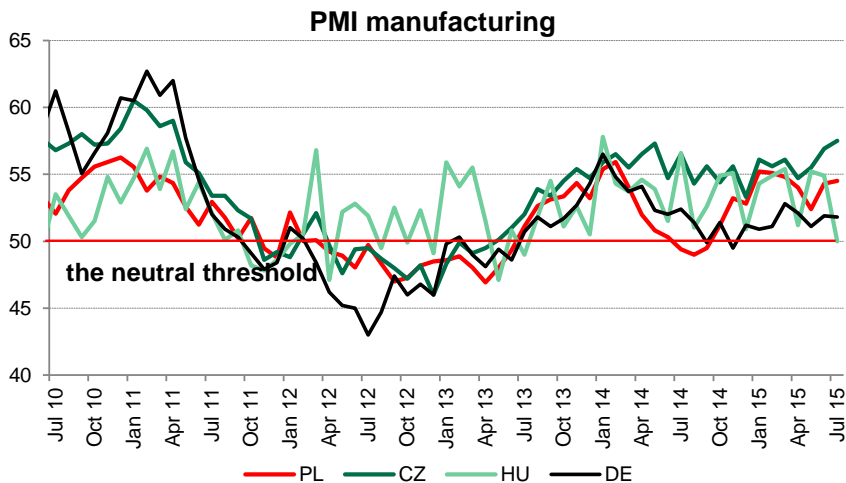


Source: Rating agencies, Reuters, EC, BZ WBK.

**Inflation rates vs targets (%)**

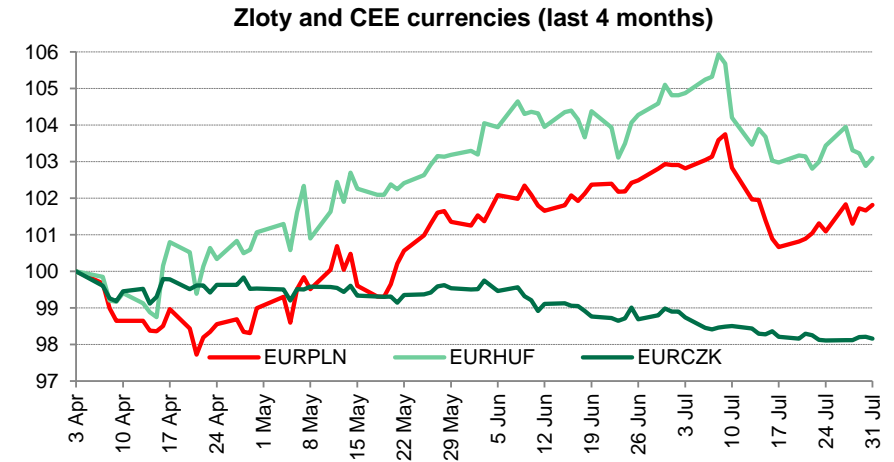
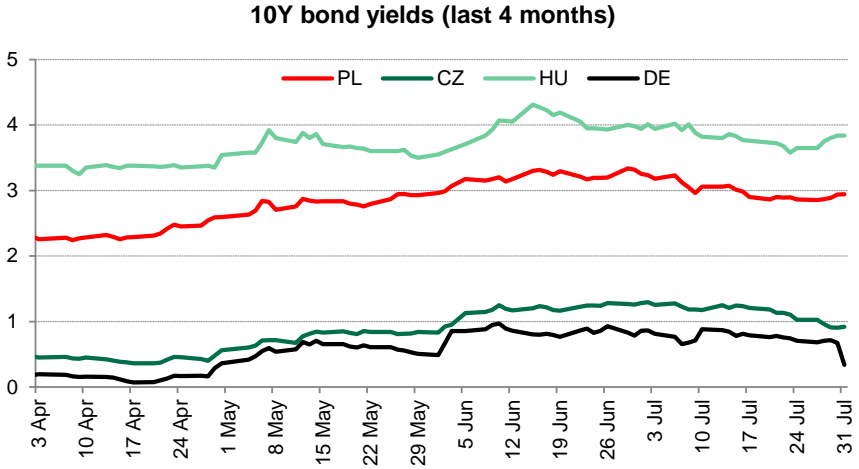
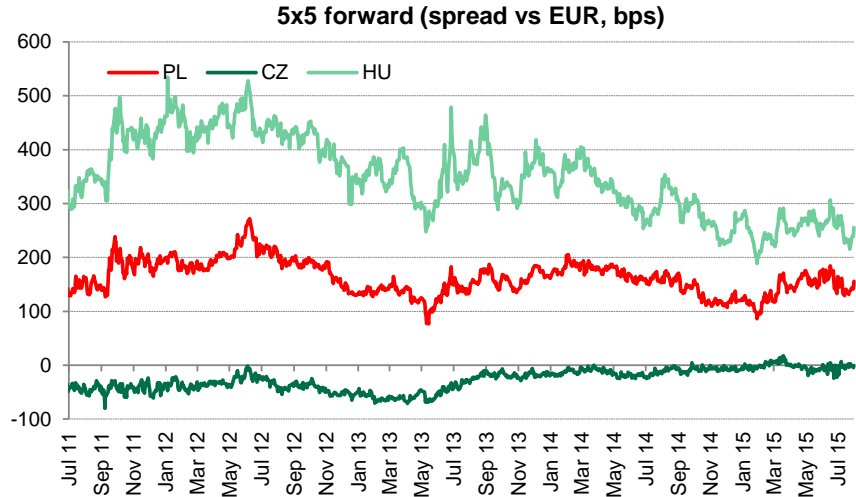
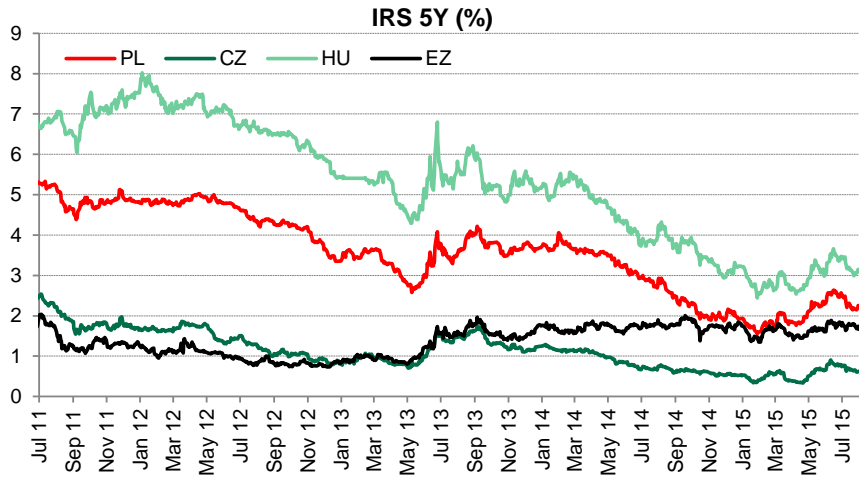


# 5. Poland vs. Other Countries (cont.)



Source: Markit, Eurostat, central banks, Reuters, BZ WBK, EC.

# 5. Poland vs. Other Countries (cont.)



Source: Reuters, BZ WBK.

## 6. Central Bank Watch

		Last	2014	2015	Expected changes (bp)			Comments
					1M	3M	6M	
<b>Euro zone</b>	Forecast	0.05	0.05	0.05				As expected, the ECB left policy rates unchanged at its July meeting and reconfirmed its intention to proceed with asset purchases at the current pace of EUR60bn per month until September 2016. In our view, the ECB is convinced that, despite the moderate economic and monetary progress, monetary policy should remain highly stimulative.
	Market implied »				-11	-9	-8	
<b>UK</b>	Forecast	0.50	0.50	0.75				We expect the BoE to keep monetary policy unchanged at its August meeting. Some members are likely to vote for hikes at this meeting and we expect the majority to agree by November.
	Market implied »				2	8	19	
<b>US</b>	Forecast	0-0.25	0-0.25	0.50				As expected, the July FOMC meeting brought almost no changes. The Fed anticipates that it will be appropriate to hike rates when it has seen some further improvement in the labor market. Looking forward, labor market data will be crucial, as a recovery of the labor market is a condition for a sustainable increase of the inflation rate. We think September is the most likely date for a first rate hike.
	Market implied »				19	31	49	
<b>Poland</b>	Forecast	1.50	2.00	1.50				Poland's Monetary Policy Council kept NBP rates unchanged in July with the reference rate at 1.50%. The MPC's communiqué did not change significantly compared with the previous one. As we expected, the new inflation projection shows higher inflation and GDP in the coming years than the bank's March update.
	Market implied »				-1	-4	-6	
<b>Czech Republic</b>	Forecast	0.05	0.05	0.05				The CNB is expected to keep its monetary conditions unchanged at its August meeting. However, the meeting could provide some clues as to whether the 27.0 EUR/CZK floor will be maintained or raised in the coming months.
	Market implied »				-3	-6	-11	
<b>Hungary</b>	Forecast	1.35	2.10	1.35				The NBH cut the base rate by 15bp (slightly more than expected) to 1.35%, a new record low, and announced the end of the easing cycle. The MPC suggested rates would now remain on hold for a prolonged period.
	Market implied »				1	3	7	

Source: Reuters, BZ WBK.

This analysis is based on information available through August 3, 2015 and has been prepared by:

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The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga\***, **Piotr Bielski\***, **Agnieszka Decewicz\***, **Marcin Luziński\***, **Marcin Sulewski\***.

### EXPLANATION OF THE RECOMMENDATION SYSTEM

DIRECTIONAL RECOMMENDATIONS IN BONDS		DIRECTIONAL RECOMMENDATIONS IN SWAPS	
	Definition		Definition
<b>Long / Buy</b>	Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk.	<b>Long / Receive fixed rate</b>	Enter a swap receiving the fixed rate for an expected average return of at least 10bp in 3 months (decline in the swap rate), assuming a directional risk.
<b>Short / Sell</b>	Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk.	<b>Short / Pay fixed rate</b>	Enter a swap paying the fixed rate for an expected average return of at least 10bp in 3 months (increase in the swap rate), assuming a directional risk.
RELATIVE VALUE RECOMMENDATIONS			
	Definition		
<b>Long a spread / Play steepeners</b>	Enter a long position in a given instrument vs a short position in another instrument (with a longer maturity for steepeners) for an expected average return of at least 5bp in 3 months (increase in the spread between both rates).		
<b>Short a spread / Play flatteners</b>	Enter a long position in given an instrument vs a short position in other instrument (with a shorter maturity for flatteners) for an expected average return of at least 5bp in 3 months (decline in the spread between both rates).		
FX RECOMMENDATIONS			
	Definition		
<b>Long / Buy</b>	Appreciation of a given currency with an expected return of at least 5% in 3 months.		
<b>Short / Sell</b>	Depreciation of a given currency with an expected return of at least 5% in 3 months.		

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

## Important Disclosures (cont.)

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