RATES AND FX OUTLOOK

POLISH FINANCIAL MARKETS

May 2015

Bank Zachodni WBK

Grupa Santander

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Summary

- **Recent data releases confirmed, in our view, that economic growth in Poland started accelerating at the beginning of 2015 and that our call last month to upgrade the GDP forecast for 2015 to 3.6% was right.** The flash GDP estimate for 1Q15 will be released on May 15th, and we expect it to show an acceleration in growth to 3.4% YoY, driven by strong consumption and investment and renewed strength in exports. Rising uncertainty about the extension of Greece's bailout has started weighing on business sentiment in Europe in recent weeks; however, we expect the Euro zone economy to perform very well this year, helped by the euro's depreciation, ECB QE, oil prices and a softer fiscal policy.
- **The Monetary Policy Council (MPC) is unlikely to change its monetary policy anytime soon, since the recent macro data were strong, deflation started bottoming out, and the appreciation of the zloty has stalled since the Council's previous meeting.** Questions on the impact of the stronger zloty on the monetary policy outlook dominated the MPC's post-meeting press conference in April, and it cannot be ruled out that the situation will also be similar in May. However, recent comments by MPC members and NBP officials clearly confirmed that the central bank was still far from mulling any actions aimed at limiting the strengthening of the zloty, especially now that the trend has lost momentum.
- After a surge in the last two weeks, Polish bond yields approached our year-end target levels. **We do not rule out a short-term rebound, especially if the next data out of the USA prove to be relatively weak, delaying the expected timing of the first rate hike by the Fed, or if the ECB's QE drags German Bund yields lower after the recent sell-off.** However, in the medium run, we remain bearish on Polish bonds for a number of reasons: (1) the predicted acceleration in growth and inflation in Poland; (2) the relatively optimistic outlook for the European economy; and (3) the start of rate hikes in the USA (probably in September). Moreover, we see a continuing negative impact of situation in Greece on Polish assets, as talks on the extension of Greece's bailout do not seem to be nearing an agreement, while its government coffers are running low.
- While the ECB's QE has failed to provide support for Polish government bonds (so far), it does seem to have helped the zloty to appreciate, with the EUR/PLN falling temporarily below 4.00, the lowest level since July 2011. **We believe there are fundamental arguments for the zloty to appreciate further in the medium term. However, in the short run we see a growing risk of EUR/PLN correction, or at least stabilisation near the 4.00 level.** The main reason for investors' caution is probably Greece, as concern about its financial situation is on the rise.

Short- and Medium-Term Strategy: Interest rate market

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	4 May 2015	1M	3M
Reference rate	-50	0	**1.50**	→	→
3M WIBOR	-35	0	**1.65**	→	→
2Y bond yield	13	6	**1.66**	→	→
5Y bond yield	58	31	**2.23**	↘	→
10Y bond yield	65	32	**2.61**	↘	→
2/10Y curve slope	52	26	**96**	↘	→

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: WIBOR rates should be stable over the next year or so, as it seems very likely that the central bank's main interest rates will remain on hold. The FRA market may react to FX movements, as –if anything– it is the potential excessive appreciation of the zloty that could push the central bank towards more monetary easing.

Short end: Fluctuations on the short end of the curve should remain muted, in our view, until the probability of further monetary policy adjustments changes significantly.

Long end: After a surge in the last two weeks, Polish bond yields approached our year-end target levels. We do not rule out a short-term rebound, especially if the next data out of the USA is relatively weak, delaying the expected timing of the first rate hike by the Fed, or if the ECB's QE drags German Bund yields lower after the recent sell-off. In the medium run, we remain bearish on Polish bonds for a number of reasons: (1) the predicted acceleration in growth and inflation in Poland; (2) the relatively optimistic outlook for the European economy; and (3) the start of rate hikes in the USA (probably in September). Moreover, we expect concerns about Greece to continue having a negative impact on Polish assets.

Risks to our view: The main risk factor –the situation in Greece– is gaining importance as talks with creditors on a bailout extension do not seem to be anywhere near the end, while its government coffers are running low. In fact, we are wondering whether Greece's default is still a risk factor or a base-case scenario. Another factor that could negatively affect Polish bonds is the Fed's policy; if the next US data releases are strong enough, they could boost concerns that the first rate hike may take place in June rather than in September.

Short- and Medium-Term Strategy: FX market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	4 May 2015	1M	3M
EURPLN	-2.5	0.3	**4.05**	→	→
USDPLN	-1.8	0.9	**3.63**	→	→
CHFPLN	-0.4	0.8	**3.88**	→	↘
GBPPLN	-3.3	-1.1	**5.50**	→	↘
EURUSD	-0.7	-0.6	**1.11**	→	→

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: We believe there are fundamental arguments for the zloty to appreciate further in the medium term, towards 3.90 at year-end. However, in the short run we see a growing risk of EUR/PLN correction, or at least stabilisation near the 4.00 level. The main reason for investors' caution is probably Greece, as concern about its financial situation is on the rise.

USD: We still expect the EUR/USD to generally edge higher through 2015E. This implies that the zloty should strengthen faster versus the dollar than against the euro.

CHF: We are still negative on the CHF versus the EUR. Consequently, as in the case of USD, we expect the zloty appreciation against the Swiss franc to be bigger than versus the euro.

Risks to our view: Should Greece miss some of its scheduled payments against international institutions, the surge of risk aversion and zloty weakening is very likely, at least in the short run. On the other hand, any material chances for agreement with creditors are likely to spur improved sentiment, resulting in the strengthening of the zloty.

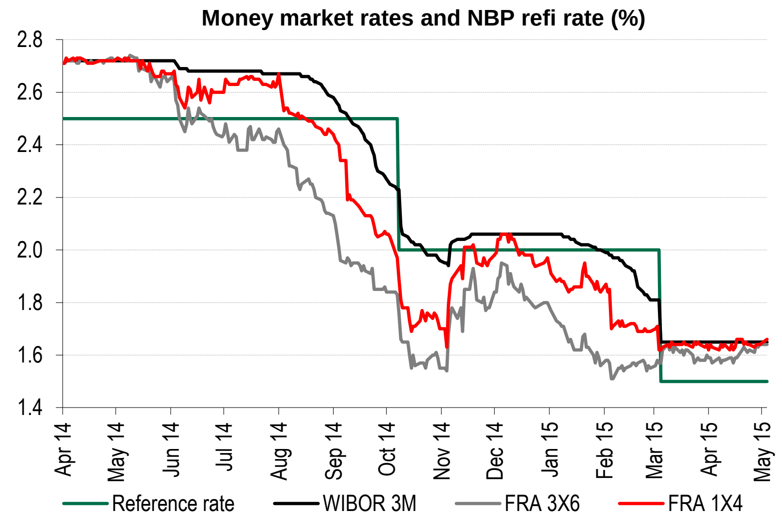
Domestic Money Market: WIBORs stable for a long period

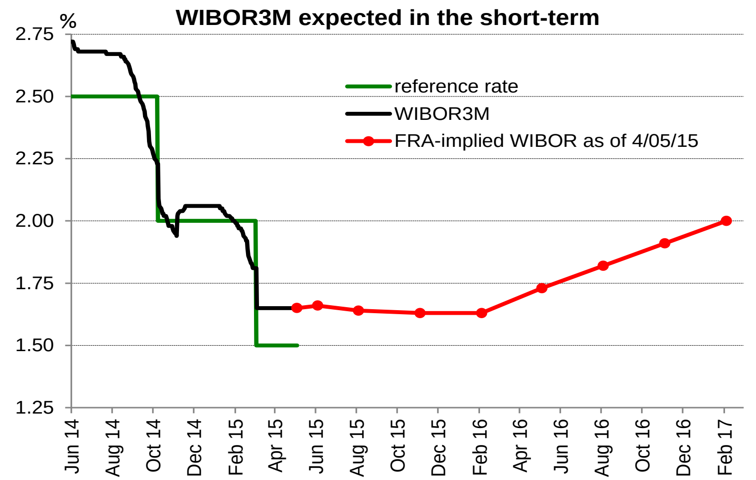
- In April, WIBORs remained stable as the Monetary Policy Council (MPC) reaffirmed its March decision to conclude the easing cycle. What's more, the recent comments of some of the MPC members show that, at the zloty's current level, it is unlikely that anybody in the Council is mulling further rate cuts and there is probably a broad consensus about staying in the 'wait and see' mode.

- Last month brought significant changes in FRA rates. This was the result not only of stronger-than-expected domestic macro data but also of a sharp rise in IRS rates. In line with our expectations, FRA rates rose by 4-25bp across the curve, with the highest increase for longer tenors. As a result, investors renewed their expectations for monetary tightening in the medium-to-long term, expecting rates to climb by nearly 25bp in 18 months' time.

- We expect WIBORs to remain unchanged in the coming months. Rates are immune to macro figures, as it is obvious that the main rate should remain stable for the foreseeable future.

- As in previous months, FRA rates should be more vulnerable, depending on upcoming macro data releases and IRS moves. In our view, macro data for April should confirm further improvement in Poland's economy. This factor, together with a gradual increase in the headline CPI, might translate into further increases in FRA rates, in particular for longer tenors (especially for 12M and longer).

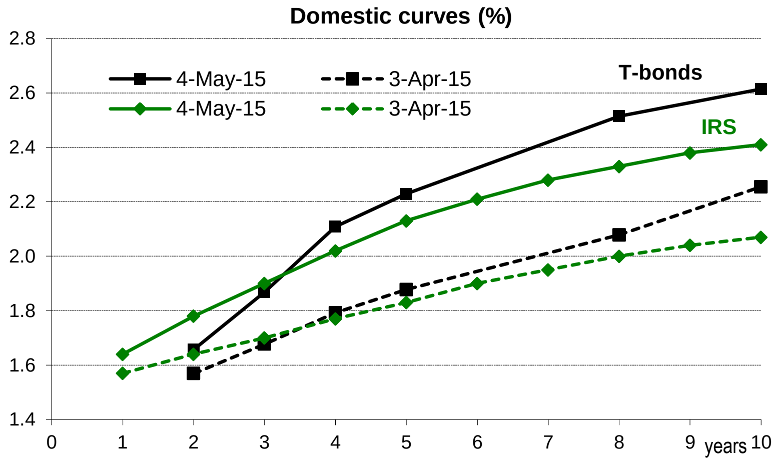


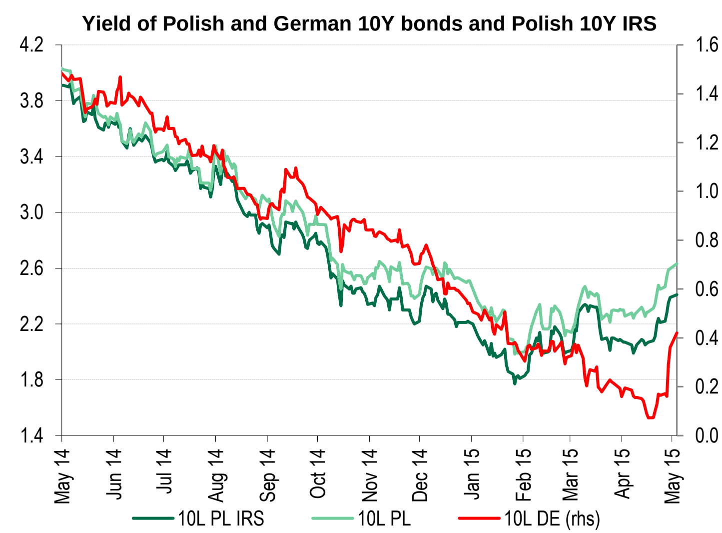


Source: Reuters, BZ WBK

Domestic IRS and the T-Bond Market: Global sentiment will continue to be a major driver

- In April, T-bond and IRS markets lost some ground and yields and IRS rates increased significantly. Investors' mood deteriorated, mainly due to much better domestic macro data (strong industrial output and retail sales, in particular) but also on growing uncertainty over Greece and the sharp sell-off on both core and peripheral Euro zone debt markets. As a result, the Polish 10Y benchmark yield briefly approached 2.70%, the highest since October 2014.
- Polish curves steepened noticeably in the past month, with the long end performing worst. The spread over Bunds also widened significantly, rising to nearly 240bp for 10Y sector, the highest since May 2014.
- This month, global sentiment will continue to be a major driver for Polish T-bonds and IRS. The ongoing negotiations with Greece are likely to stay centre stage, as reaching an agreement with creditors, in our view, will not happen quickly. The Greek saga will, therefore, weigh on domestic asset valuations, keeping yields/rates high (in particular at the long end of the curves). However, a short-term rebound on the T-bond and IRS markets is very likely after their significant weakening, especially as the recent rise in the core yields looks more like a correction in the downward trend than the beginning of a new trend.
- In our view, the front end of the curve should remain relatively stable compared with 5Y and 10Y yields until the probability of further monetary policy adjustments changes significantly. National Bank of Poland (NBP) Governor Marek Belka reiterated firmly at the April press conference that the chances of continuing or re-opening the easing cycle were minimal. He also said that policy tightening was a long way off at the moment.





Source: Reuters, Bloomberg, BZ WBK.

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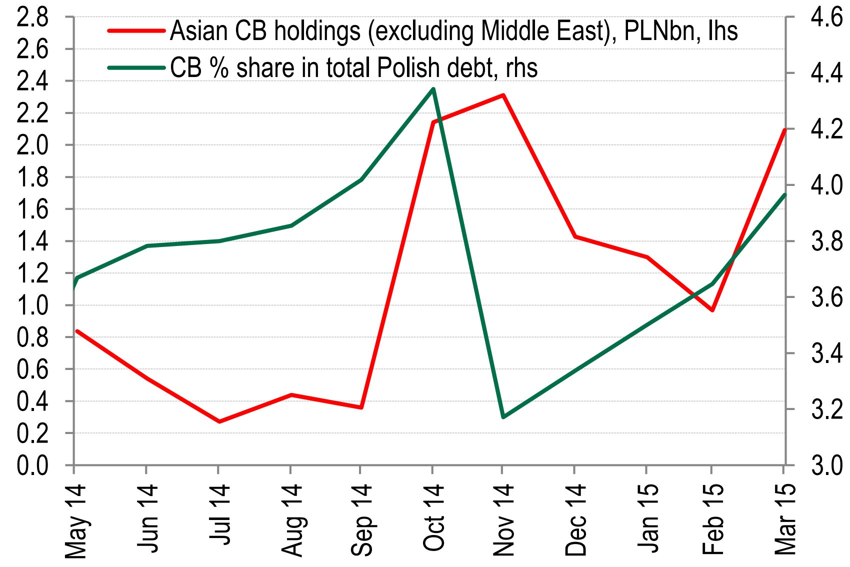
Demand Corner: Polish banks are still buyers

- Polish banks continued their sizeable bond purchases in March (+PLN3.6bn). Total debt purchased in 1Q amounted to PLN12.3bn, the biggest increase since 1Q14, when banks bought bonds worth PLN19.6bn, and up from PLN9.9bn in 4Q14. The nominal value of bonds held by Polish banks hit a fresh record at PLN163.1bn.
- Polish banks were purchasing PS and DS series bonds, selling off-the-run paper and moving cash into the most recent issues. The biggest purchases were in OK0116 (PLN1.7bn) and PS0420 (PLN1.9bn).
- There was a significant change in the case of domestic mutual funds. They disposed of PLN1.5bn of Polish bonds. This was the most aggressive selling since June 2014.
- On quarterly basis, domestic investors bought PLN13.3bn of Polish bonds, the biggest increase since 2Q13.
- Non-residents added over PLN1.6bn to their holdings, with 1Q purchases amounting to PLN7.8bn, the most since 2Q14.
- Foreign banks continued to sell Polish debt – PLN1.2bn in March after PLN2.2bn in February. Also the mutual funds have aggressively reduced their holdings – by PLN1.4bn, the biggest monthly drop since October 2014. At the same time, foreign central banks continued to purchase and Asia excluding Middle east was still most aggressive buyer – PLN2.1bn (3rd highest monthly increase since data is available, since April 2014).

Nominal holdings of marketable Polish PLN bonds (in PLN bn) by the Asian central banks (excluding Middle East) and foreign central banks' holdings as share of total Polish debt



Source: Finance Ministry, BZ WBK.

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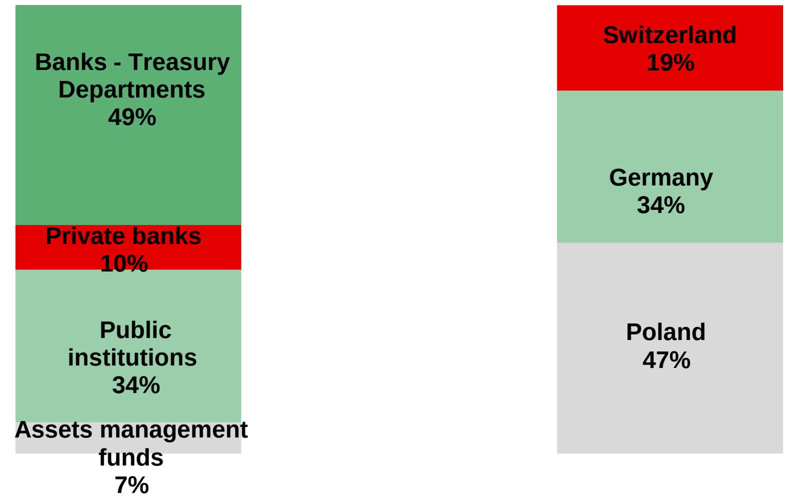
Supply Corner: Limited offer in May

- April was another consecutive month of successful issuance on both domestic and foreign markets. The Ministry of Finance sold T-bonds worth PLN11.44bn in total, despite unfavourable market conditions.

- The ministry successfully launched a 3Y CHF-denominated zero-coupon bond issue, worth CHF580mn, at a 37bp spread over the mid-swap rate. This implies a yield of -0.213%. Finance Minister Mateusz Szczurek said Poland had joined the elite club issuing treasury bonds with a negative yield. For the first time in history, Poland is going to receive money instead of paying interest for issuing bonds. The net revenue is estimated at CHF3.7mn. The cash raised will be used to buy back part of a CHF1.5bn issue that matures in May. Poland had covered 66% of its 2015 borrowing needs by the end of April.

- In May, the ministry will offer T-bonds worth PLN3-9bn at two regular auctions. At the first auction this month investors can purchase OK0717, WZ0120 and WZ0124 worth PLN3-5bn. The structure of the offer may encourage domestic retail banks to buy. The second auction, of up to PLN4bn, will depend on market conditions. In our view, the auction results will be a good test of market sentiment.

Buyers of 3Y CHF-denominated bond: institutional and geographical distribution



Auction plan for May 2015

Auction date	Settlement date	Series	Planned offer (PLN mn)
7 May 2015	11 May 2015	OK0717, WZ0120 and WZ0124	3,000 – 5,000
21 May 2015	25 May 2015	Depend on market conditions	Up to 4,000

Source: Finance Ministry, BZ WBK.

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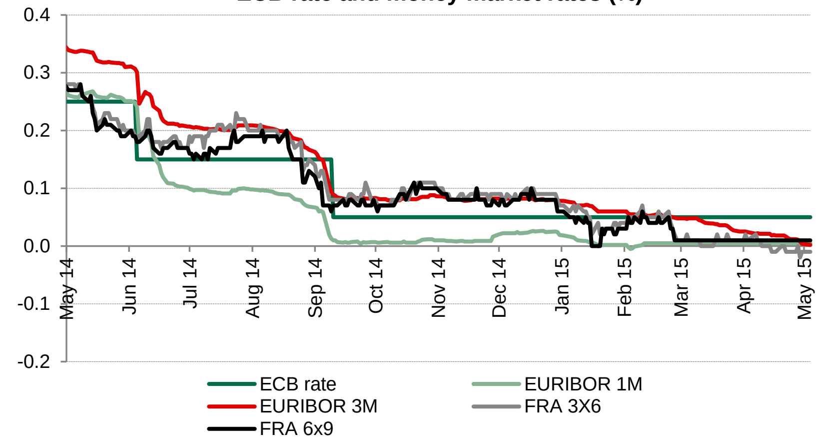
International Money Market and IRS: IRS rates should gradually shift up, due to strong macro data

- European money market rates have been mixed in recent months. In some countries (Switzerland, the UK) they increased (by 1-3bp across the curves), while in the Euro zone and Hungary they continued to shift down. Hungarian rates dropped quite significantly (by 10-20bp) due to a 15bp interest rate cut in April and the announcement of further easing in the coming months. After hovering around zero for several weeks, 3M Euribor dropped to -0.5bp, a new all-time low. At the same time, USD money market rates edged up 1bp across the curve.

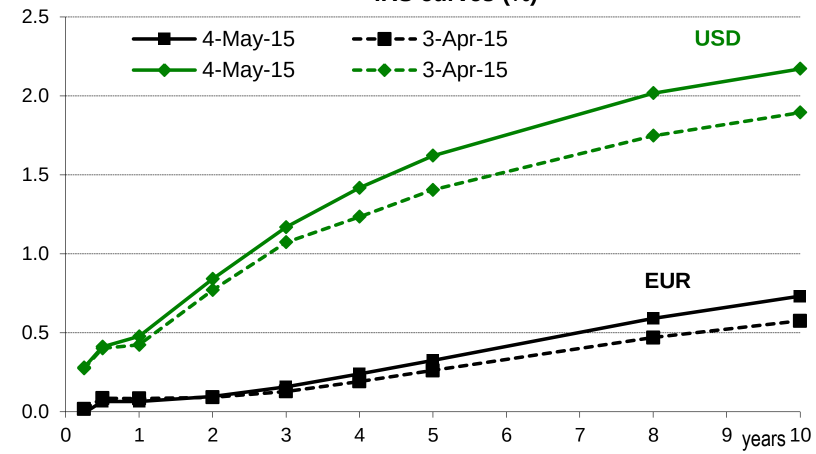
- Analysing the IRS market, both EUR and USD rates increased sharply at the end of April due to a strong sell-off in core markets. Consequently, the curves shifted up, by 1-10bp for EUR and 2-13bp for USD, and both steepened visibly as the long ends increased the most.

- This month, macro data from Europe and the US will be key for money market and IRS rates. We think Euro zone releases should confirm a better economic outlook and, as a result, the long end of the EUR IRS curve might increase slightly, implying a gradual steepening. At the same time, increasing EUR market liquidity might put downward pressure on money market rates. As regards the USD market, we foresee money market rates roughly unchanged, while IRS rates might rise slightly as the US macro data is likely to continue to be strong.

ECB rate and money market rates (%)



IRS curves (%)



Source: Reuters, ECB, Fed, BZ WBK.

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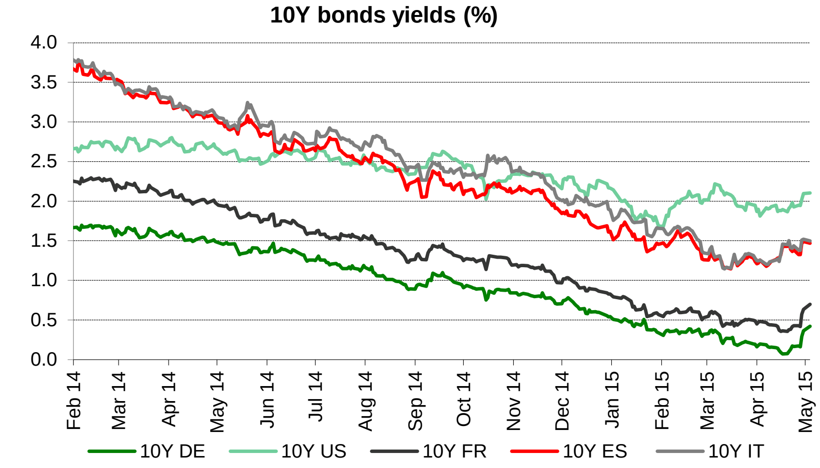
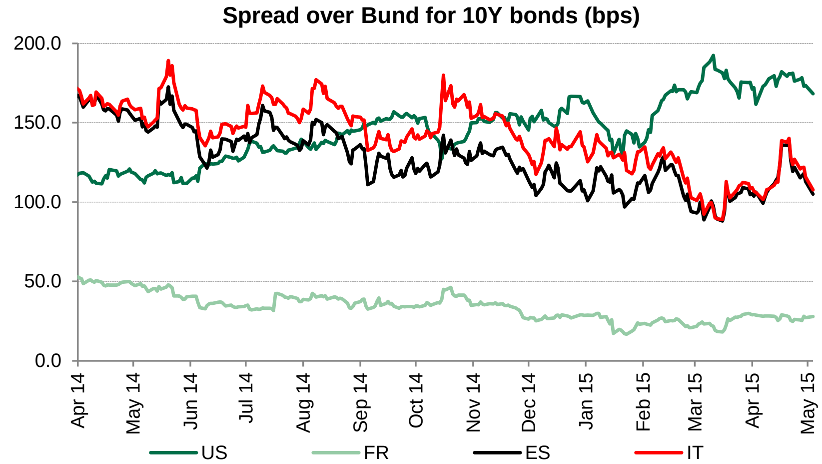
International Bond Market: Greek drama still centre stage

- Investors' mood in the core and peripheral debt markets was mixed in April, with a significant sell-off in the second half of the month despite softer macro data (in particular from the Euro zone) and fears about Greece. The 10Y Bund yield rose towards 0.40% (its highest since January), while the 10Y UST climbed above 2.10% (the highest level since mid-March).
- Peripheral Euro zone debt also weakened quite considerably in the past month, due to the still-unresolved case of Greek financial aid. As a result, peripheral countries' yields rose between 15bp (for Ireland) and 37bp (for Portugal) and the spread over Bunds widened visibly, in particular for Portugal (by 20bp compared with the end of March).
- In our view, macroeconomic data will be the key for European and the US debt markets in May, due to a lack of central bank meetings this month. We expect data to confirm a positive outlook for both economies, which might put upward pressure on the long end of the curves in the coming weeks. However, we still believe that the ECB's QE programme and the lack of progress in Greece should help German yields decrease. The recent rise in core yields is more likely just a correction in the downward trend than a beginning of a new trend, we think.
- Profit-taking and Greek noise have fuelled periphery underperformance, but the supply/demand balance is set to improve and, ultimately, other sovereigns have ECB backing. Thus, we expect lower peripheral yields ahead.

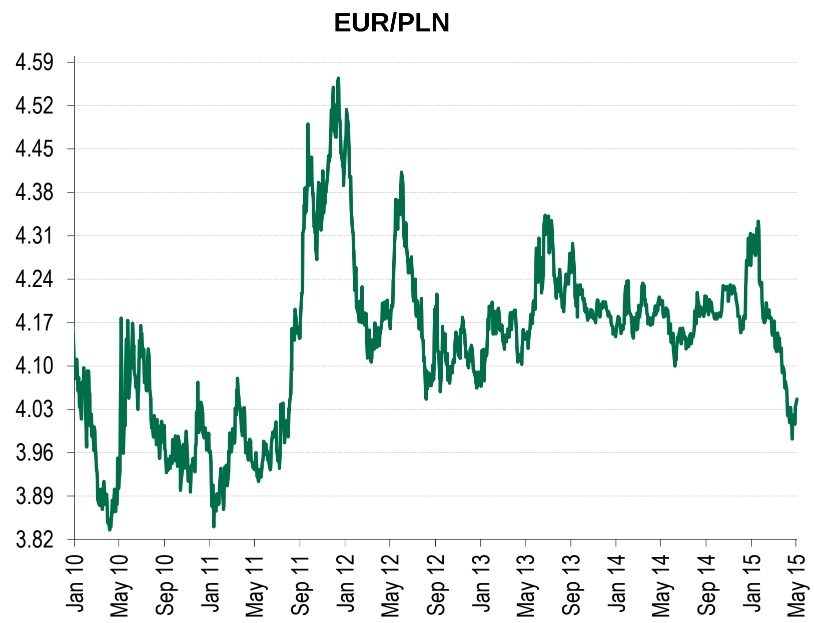




Source: Reuters, BZ WBK.

Foreign Exchange Market: Stuck between strong macro and Greece

- We had expected the zloty to strengthen, but the scale of the EUR/PLN's drop in the last couple of weeks was even bigger than we had anticipated. Thus, we are moving our forecasts down again (see table on page 16).
- We believe there are fundamental arguments for the zloty to appreciate further in the medium run, as the currency should be supported by high real interest rates, accelerating economic growth, a low current account gap, the improving fiscal position and the ECB's QE. However, we think that in the short run the downward EUR/PLN move will stop and the rate will stabilise near the 4.0 level.
- The main reason for investors' caution is probably Greece, as concern about the country's future is growing and this may weigh heavily on the market until some kind of solution emerges. Another factor that may limit scope for the zloty to appreciate could be uncertainty about the Fed's monetary policy, especially if the next data releases in the US prove to be relatively strong. There is still very little evidence of net capital inflows to the Polish bond market (in fact, yields of Polish bonds have increased, despite the recent zloty appreciation). This may be a sign that, even if the ECB's QE spurs some demand from European investors, it may be offset by outflows of US capital, discouraged by the higher USD/PLN and looming Fed rate hikes.



Source: Bloomberg, BZ WBK

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FX Technical Analysis Corner: Signal for (much?) higher EUR/PLN

- In March we noted that the RSI dropped below 30 points and that weekly buy signals on EUR/PLN are rare, but they usually give a good hint. In early May the oscillator gave a buy signal.
- There have been four such signals in the last five years and, given past experience, a EUR/PLN surge to as much as 4.30 would not be surprising.
- The daily chart's recent upward move is the biggest in the down wave that has lasted since the turn of 2014/2015, which also suggests a risk of a higher EUR/PLN.

Source: Reuters, BZ WBK.

FX Technical Analysis Corner: EUR/USD extends the rebound

- Last month we said the recent correction in the EUR/USD was the sharpest since it started falling in May 2014, which suggested that the rate could stay above the recent low for longer. This proved to be the case. Additionally, the exchange rate broke the 65 MA, which had been serving as resistance.
- We still think that there is a upside bias for EUR/USD.

Source: Reuters, BZ WBK.

Macroeconomic Forecasts

Poland		2012	2013	2014	2015E	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLNbn	1,615.9	1,662.1	1,728.7	1,797.2	403.7	419.5	427.1	478.3	419.9	433.6	442.6	501.1
GDP	%YoY	1.8	1.7	3.4	3.6	3.5	3.6	3.3	3.3	3.4	3.5	3.6	4.0
Domestic demand	%YoY	-0.4	0.2	4.9	4.3	3.6	6.1	5.1	5.0	3.4	4.6	4.5	4.7
Private consumption	%YoY	1.0	1.1	3.1	3.5	3.0	3.0	3.2	3.0	3.3	3.6	3.6	3.5
Fixed investment	%YoY	-1.5	0.9	9.2	8.6	11.4	8.7	9.2	8.6	8.7	8.8	8.9	8.2
Unemployment rate [a]	%	13.4	13.4	11.5	10.1	13.5	12.0	11.5	11.5	11.7	10.4	9.8	10.1
Current account balance	EURmn	-13,697	-5,148	-5,762	-3,480	-1,222	-789.0	-1780.0	-1971.0	1,598	-767	-2,351	-1,961
Current account balance	% GDP	-3.5	-1.3	-1.4	-0.8	-1.1	-1.2	-1.3	-1.4	-0.7	-0.7	-0.8	-0.8
General government balance (ESA 2010)	% GDP	-3.7	-4.0	-3.2	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	-0.7	0.6	0.3	-0.3	-0.7	-1.5	-0.9	-0.6	0.3
CPI [a]	%YoY	2.4	0.7	-1.0	0.8	0.7	0.3	-0.3	-1.0	-1.5	-0.7	-0.4	0.8
CPI excluding food and energy prices	%YoY	2.2	1.2	0.6	0.6	0.8	0.8	0.5	0.4	0.4	0.4	0.6	1.0

Source: CSO, NBP, Finance Ministry, BZ WBK estimates. [a] at the end of the period

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Interest Rate and FX Forecasts

Poland		2012	2013	2014	2015E	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
Reference rate [a]	%	4.25	2.50	2.00	1.50	2.50	2.50	2.50	2.00	1.50	1.50	1.50	1.50
WIBOR 3M	%	4.91	3.02	2.52	1.71	2.71	2.71	2.59	2.06	1.87	1.65	1.65	1.65
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.65	3.01	2.76	2.26	1.80	1.61	1.64	1.65	1.70
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.10	3.71	3.35	2.67	2.11	1.90	2.09	2.18	2.25
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.49	4.38	3.82	3.18	2.58	2.24	2.49	2.60	2.63
2-year IRS	%	4.52	3.10	2.51	1.70	3.07	2.82	2.32	1.83	1.65	1.70	1.70	1.75
5-year IRS	%	4.47	3.51	2.92	2.00	3.70	3.31	2.63	2.02	1.80	1.99	2.08	2.12
10-year IRS	%	4.56	3.86	3.34	2.29	4.16	3.73	3.07	2.40	2.06	2.26	2.40	2.43
EUR/PLN	PLN	4.19	4.20	4.18	4.03	4.19	4.17	4.18	4.21	4.20	4.02	3.97	3.92
USD/PLN	PLN	3.26	3.16	3.15	3.57	3.06	3.04	3.15	3.37	3.72	3.64	3.52	3.41
CHF/PLN	PLN	3.47	3.41	3.45	3.79	3.42	3.42	3.45	3.50	3.93	3.84	3.77	3.63
GBP/PLN	PLN	5.16	4.94	5.19	5.48	5.06	5.11	5.26	5.33	5.64	5.52	5.41	5.37

Source: CSO, NBP, Finance Ministry, BZ WBK estimates. [a] at the end of period

Economic Calendar and Events

Date		Event:	Note:
6-May	**PL**	**MPC meeting – interest rate decision**	**We expect the MPC to leave monetary conditions unchanged**
7-May	**PL**	**Auction of T-bonds OK0717/WZ0120/WZ0124**	**Offer: PLN3.0-5.0bn**
	CZ	CNB meeting – interest rate decision	We expect monetary policy to remain unchanged
10-May	**PL**	**Presidential election**	
11-May	EZ	Eurogroup meeting about Greece	
14-May	**PL**	**CPI inflation for April**	**We expect the headline rate to increase to -1.1%YoY, slightly more than market consensus**
	PL	**M3 money supply for April**	**Our forecast is 8.6%YoY**
15-May	**PL**	**Current account for March**	**We expect a C/A surplus of €1.4bn (vs consensus at €1.08bn) and a trade surplus**
	PL	**Core CPI measures for April**	**We expect to see core inflation, excluding food and energy prices, at 0.3%YoY, slightly above market consensus**
	PL	**Flash GDP for 1Q 2015**	**We expect 1Q GDP growth at 3.4%YoY in line with market consensus**
19-May	**PL**	**Wages in the corporate sector for April**	**We expect a significant increase to 5%YoY, well above market consensus**
	PL	**Employment in the corporate sector for April**	**Our forecast of employment growth is at 1.2%YoY vs market expectations at 1.1%YoY**
20-May	**PL**	**Industrial output for April**	**Industrial output is widely expected to grow by 5.6%YoY**
	PL	**Retail sales for April**	**We predict retail sales up 4.1%YoY, significantly above market consensus (1.2%YoY)**
21-May	**PL**	**Auction of T-bonds**	**Offer: up to 4.0bn**
26-May	HU	MNB meeting – interest rate decision	We expect a rate cut of 15bp
29-May	**PL**	**GDP for 1Q 2015 – with breakdown of growth**	
TBA	**PL**	**Unemployment rate for April**	**Likely to decline to 11.2% for seasonal reasons**

Source: CB, Markit, CSO, Finance Ministry

Annexe

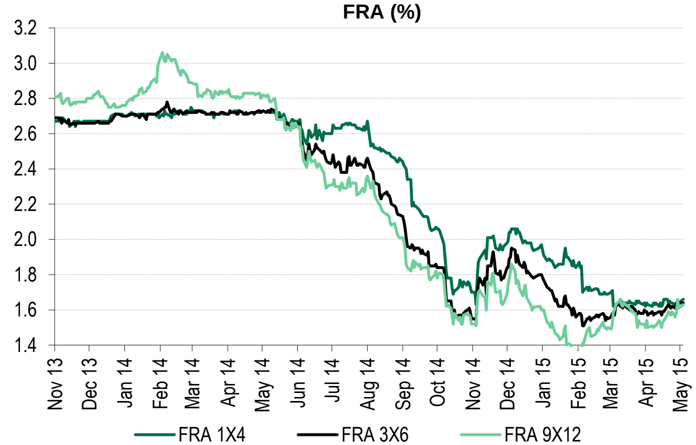
1. Domestic Market Performance

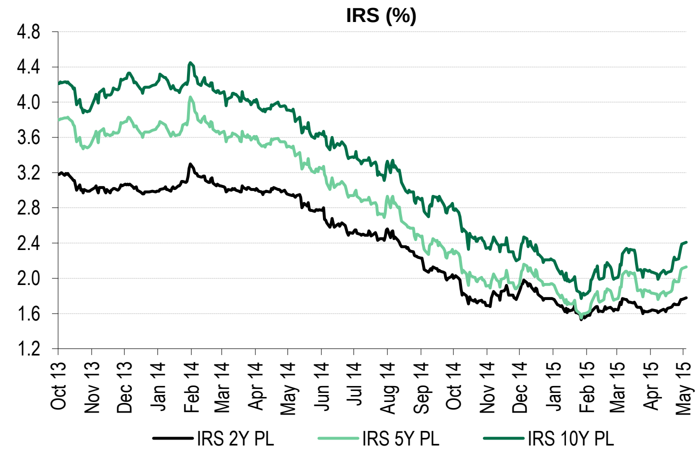
Money market rates (%)

	Reference rate (%)	Polonia (%)	WIBOR (%)				OIS (%)				FRA (%)			
			1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of April	**1.50**	**1.53**	**1.63**	**1.65**	**1.66**	**1.68**	**1.45**	**1.44**	**1.43**	**1.43**	**1.64**	**1.64**	**1.61**	**1.61**
Last 1M change (bp)	0	4	-1	0	0	0	0	2	1	1	0	4	9	9
Last 3M change (bp)	-50	-24	-38	-35	-33	-29	-35	-13	1	5	-20	8	24	27
Last 1Y change (bp)	-100	-97	-99	-107	-108	-111	-95	-101	-103	-107	-108	-108	-112	-119

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of April	**1.65**	**2.21**	**2.61**	**1.76**	**2.11**	**2.39**	**-11**	**10**	**22**
Last 1M change (bp)	7	27	30	13	25	30	-6	2	0
Last 3M change (bp)	13	56	65	21	51	58	-8	5	6
Last 1Y change (bp)	-123	-133	-142	-120	-138	-152	-3	5	10





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
T-bond auctions	11,204	10,908	4,639	11,440	8,000	5,000	8,000		5,000	15,000	6,000		85,191
T-bill auctions													0
Retail bonds	97	126	127	130	150	150	150	150	150	150	150	150	1,680
Foreign bonds/credits					4200		1700						5,900
Pre-financing and financial resources at the end of 2014	38,700												38,700
Total	**50,001**	**11,034**	**4,766**	**11,570**	**12,350**	**5,150**	**9,850**	**150**	**5,150**	**15,150**	**6,150**	**150**	**131,470**
Redemption	6,071	159	98	14,774	5,887	110	14,096	1,616	451	26,652	213	241	70,369
Net inflows	**43,930**	**10,875**	**4,668**	**-3,204**	**6,463**	**5,040**	**-4,246**	**-1,466**	**4,699**	**-11,502**	**5,937**	**-91**	**61,101**
Rolled-over T-bonds			6,502										**6,502**
Buy-back of T-bills/ FX-denominated bonds													**0**
Total	**43,930**	**10,875**	**11,170**	**-3,204**	**6,463**	**5,040**	**-4,246**	**-1,466**	**4,699**	**-11,502**	**5,937**	**-91**	**67,604**
Coupon payments from domestic debt	*3,445*			*4,186*			*1,999*		*946*	*7,762*			*18,339*

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	9,110		136	**9,247**	4,802	**14,049**
August	0		184	**184**	1,412	**1,597**
September	0		162	**162**	284	**446**
October	23,010		146	**23,156**	3,440	**26,596**
November	0		213	**213**	0	**213**
December	0		241	**241**	0	**241**
Total 2015	52,822		1,710	**54,532**	15,681	**70,214**
Total 2016	87,607		2,034	**89,641**	13,886	**103,527**
Total 2017	65,527		1,032	**66,559**	11,759	**78,318**
Total 2018	66,317		1,103	**67,420**	10,844	**78,264**
Total 2019+	63,863		972	**64,835**	22,248	**87,084**
Total 2020+	183,898		2,383	**186,281**	119,836	**306,117**

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

Scheduled wholesale bond redemptions by holders (data at the end of March 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	9,737	4,501	1,720	145	441	39	37	1,477	18,097
Q3 2015	2,827	3,579	1,026	128	484	45	9	1,407	9,506
Q4 2015	10,631	5,591	4,356	95	2,289	27	219	2,161	25,370
Total 2015	**23,196**	**13,671**	**7,102**	**368**	**3,214**	**111**	**265**	**5,044**	**52,972**
	44%	**26%**	**13%**	**1%**	**6%**	**0%**	**1%**	**10%**	**100%**
Total 2016	43,147	22,424	7,623	601	8,625	116	184	5,890	88,610
	49%	25%	9%	1%	10%	0%	0%	7%	100%
Total 2017	22,351	23,999	6,042	506	6,529	77	222	4,408	64,134
	35%	37%	9%	1%	10%	0%	0%	7%	100%
Total 2018	19,728	29,325	4,042	367	7,640	84	183	4,947	66,317
	30%	44%	6%	1%	12%	0%	0%	7%	100%
Total 2019+	19,086	27,215	5,682	524	7,400	77	195	3,677	63,856
	30%	43%	9%	1%	12%	0%	0%	6%	100%
Total 2020+	74,618	42,913	21,594	821	16,553	178	598	5,827	163,103
	46%	26%	13%	1%	10%	0%	0%	4%	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 March			Share of total in March (%)
	End Mar'15	End Feb'15	End Dec'14	End 3Q 2014	End 2Q 2014	End 2013	MoM	3-mth	YoY	
Domestic investors	309.1	305.8	295.9	283.2	277.2	381.2	1.08	4.28	11.25	60.3 (0.1pp)
Commercial banks	163.1	159.5	150.8	140.9	135.4	114.7	2.23	8.16	21.48	31.8 (0.4pp)
Insurance companies	52.4	52.1	52.8	53.4	53.1	52.0	0.52	-0.88	-1.05	10.2
Pension funds	3.1	3.2	3.3	3.5	3.3	125.8	-1.45	-5.63	-10.18	0.6
Mutual funds	48.5	50.0	46.9	44.1	44.8	46.7	-2.93	3.44	5.81	9.5 (-0.4pp)
Others	42.0	41.0	42.0	41.2	40.6	42.0	2.4	0.0	1.6	8.2 (0.1pp)
Foreign investors*	203.8	202.1	196.0	197.5	199.8	193.2	0.82	3.98	9.04	39.7 (-0.1pp)
Banks	9.9	11.1	9.9	12.1	12.6	n.a.	-11%	0%		1.9 (-0.3pp)
Central banks	20.3	18.5	16.4	19.3	18.0	n.a.	10%	23%		4.0 (0.3pp)
Public institutions	8.8	8.5	8.1	0.5	0.7	n.a.	3%	9%		1.7
Insurance companies	11.0	10.2	10.7	10.9	9.5	n.a.	8%	3%		2.1 (0.1pp)
Pension funds	13.2	13.3	13.0	12.7	12.3	n.a.	-1%	1%		2.6
Mutual funds	80.2	81.6	78.1	80.8	83.4	n.a.	-2%	3%		15.6 (-0.4pp)
Hedge funds	1.1	1.1	0.8	0.1	0.1	n.a.	-4%	44%		0.2
Non-financial sector	8.2	8.1	11.6	12.1	12.2	n.a.	2%	-29%		1.6
Others	17.0	17.3	14.3	17.7	16.5	5.2	-2%	19%		3.3 (-0.1)
TOTAL	512.9	507.9	491.8	480.7	477.0	574.3	1.0	4.5	10.4	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.

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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*)
Austria	24.7	91.4	13.3	17.0	26
Belgium	31.8	102.2	28.1	32.5	55
Finland	10.0	119.6	7.6	11.4	43
France	173.0	117.4	116.5	187.0	45
Germany	161.0	100.0	155.0	147.0	37
Greece	-	-	-	-	-
Ireland	10.0	117.5	2.3	7.5	70
Italy	235.4	111.8	205.2	252.9	43
Netherlands	50.0	101.7	39.9	48.0	43
Portugal	16.7	101.7	7.2	13.9	60
Spain	129.3	105.4	86.4	130.0	41
Total	**841.9**	**108.1**	661.5	**847.3**	**43**

**/ 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
Poland	**3.3**	**3.4**	**-0.4**	**1.1**	**-1.8**	**-2.2**	**-2.8**	**-2.6**	**50.9**	**50.8**
Czech Republic	2.5	2.6	0.2	1.4	0.4	0.7	-2.0	-1.5	41.5	41.6
Hungary	2.8	2.2	0.0	2.5	5.5	6.2	-2.5	-2.2	75.0	73.5
EU	1.8	2.1	0.1	1.5	1.9	1.9	-2.5	-2.0	88.0	86.9
Euro zone	1.5	1.9	0.1	1.5	3.5	3.4	-2.0	-1.7	94.0	92.5
Germany	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)

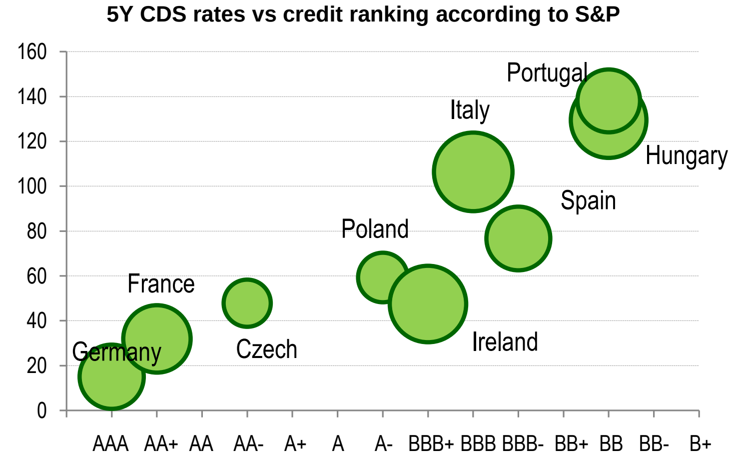
	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2014	end-Apr 2015	2014	end-Apr 2015	2014	end-Apr 2015	2014	end-Apr 2015	2014	end-Apr 2015
Poland	**2.00**	**1.50**	**2.06**	**1.65**	**2.51**	**2.61**	**197**	**224**	**71**	**59.3**
Czech Republic	0.05	0.05	0.04	0.03	0.75	0.56	2	20	55	47.8
Hungary	2.10	1.80	2.10	1.70	3.69	3.54	315	318	178	138.1
Euro zone	0.05	0.05	0.08	-0.005						
Germany					0.54	0.36			17	15.1

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

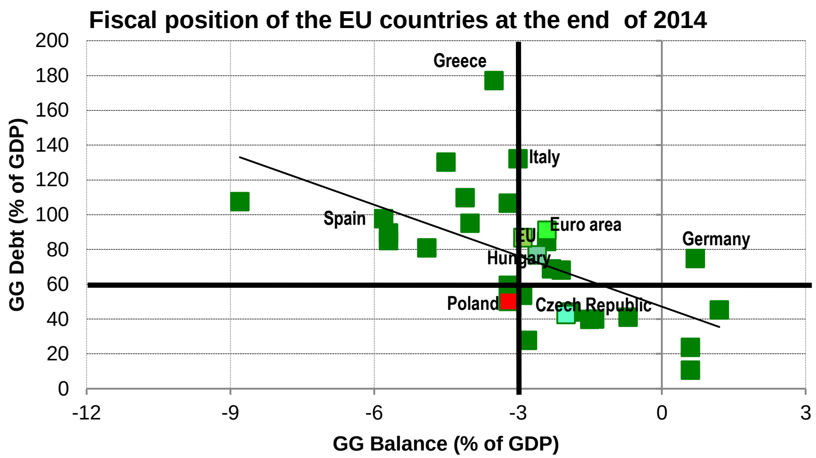
5. Poland vs. Other Countries (cont.)

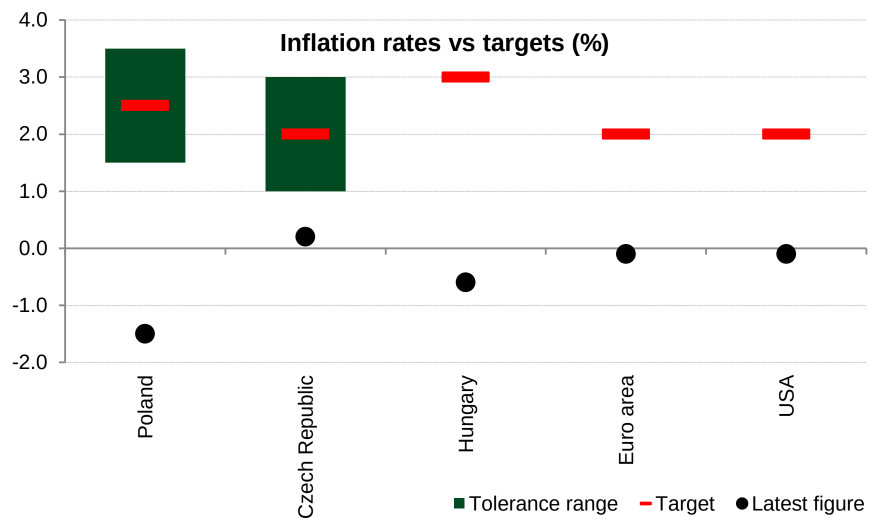
Sovereign ratings

	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+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	CCC+	negative	Caa2	negative	B	stable
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



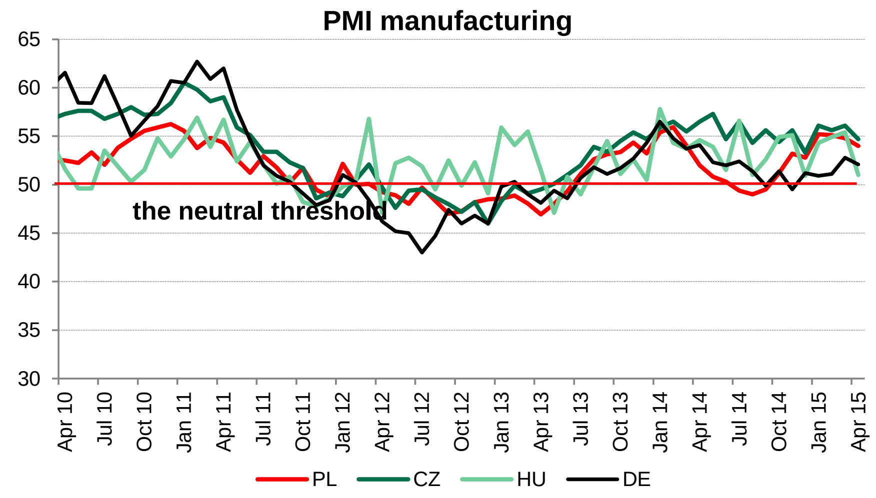
Note: Size of bubbles reflects the debt/GDP ratio

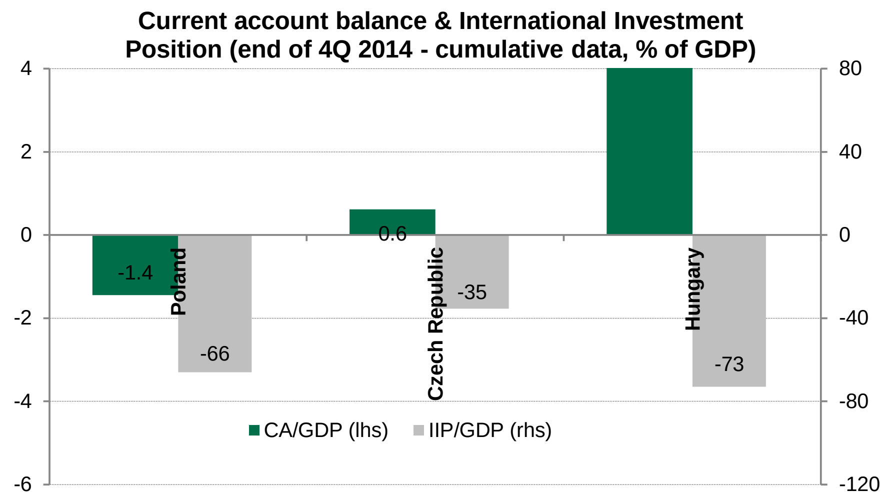


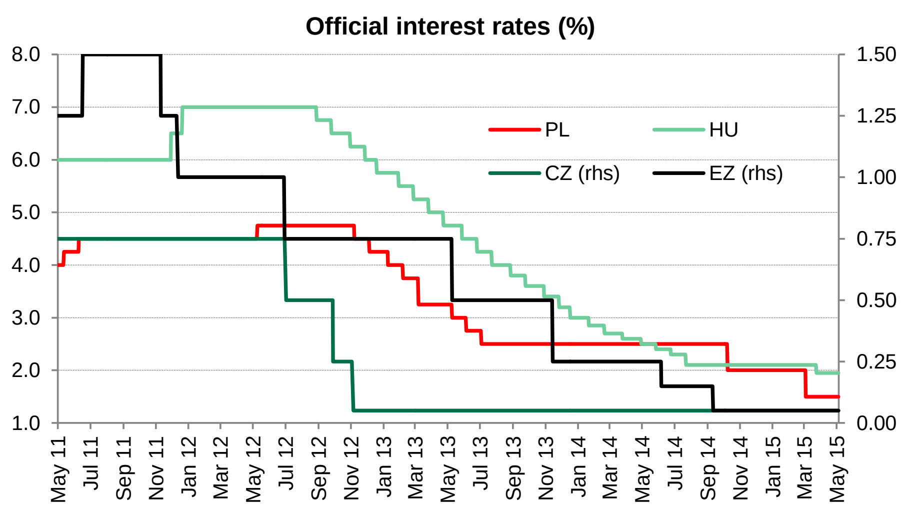


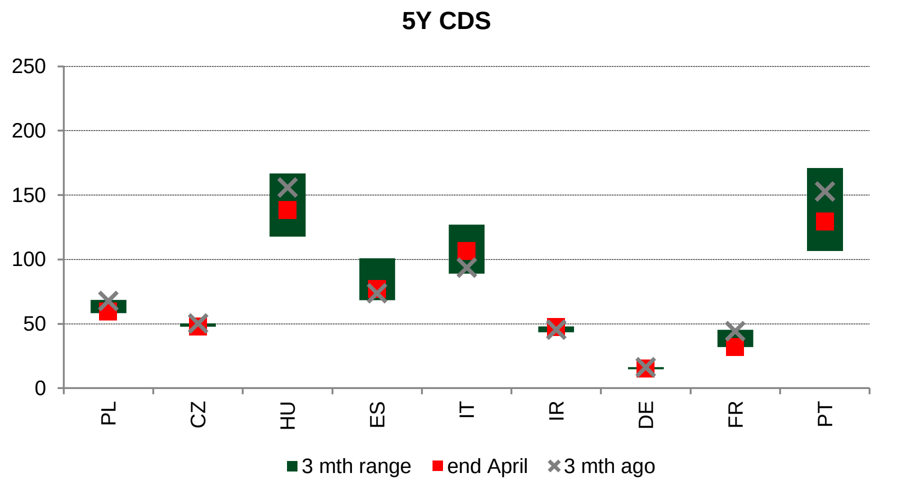
Source: Rating agencies, Reuters, EC, BZ WBK.

5. Poland vs Other Countries (cont.)









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

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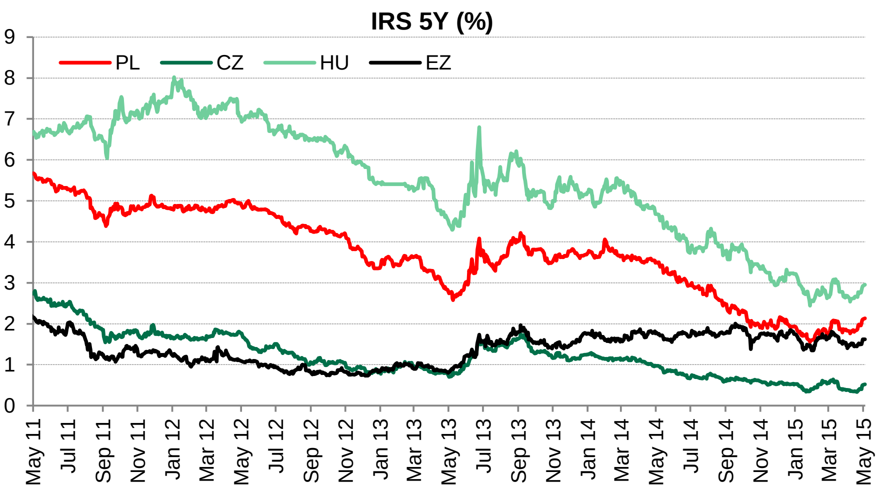
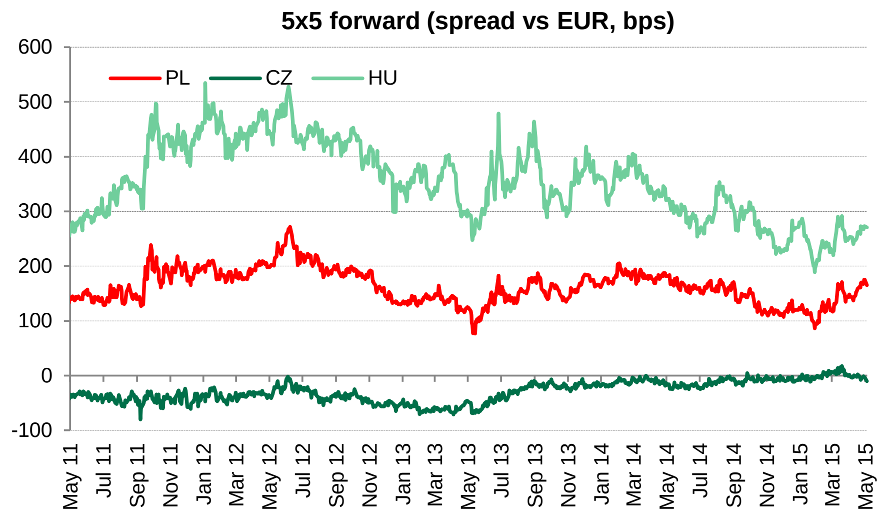
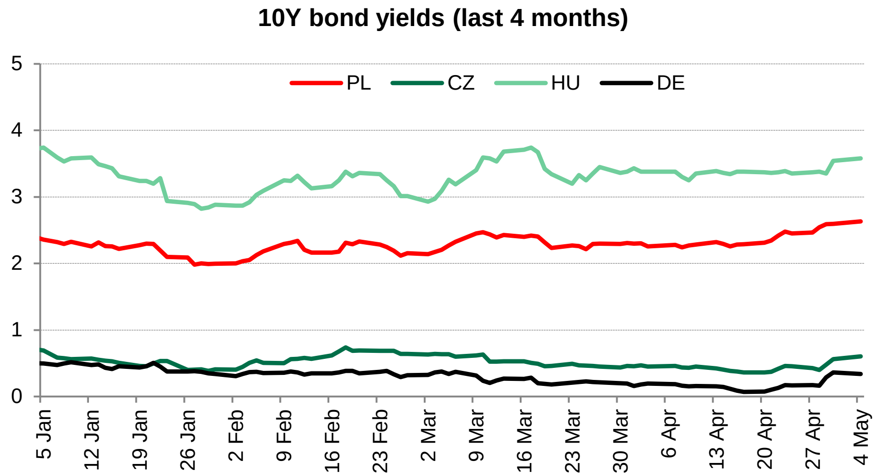
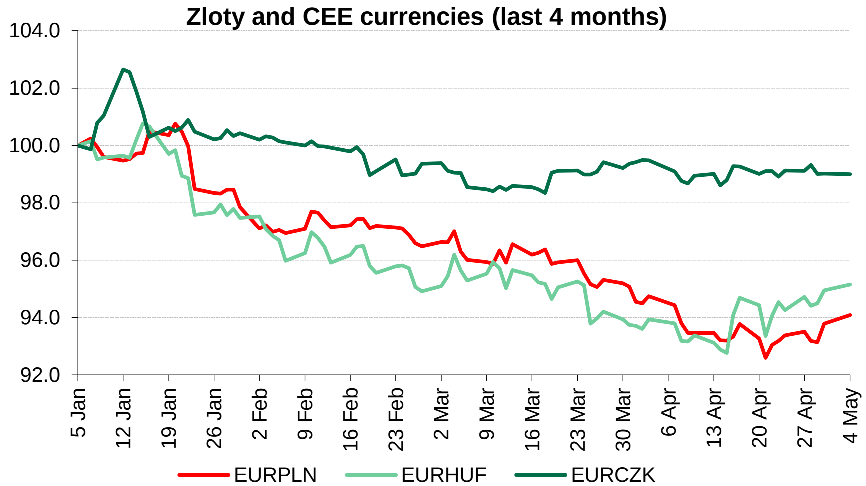
5. Poland vs Other Countries (cont.)









Source: Reuters, BZ WBK.

6. Central Bank Watch

		Last	2014	2015	Expected changes (bp) 1M	3M	6M	Comments
Euro zone	Forecast	0.05	0.05	0.05				As expected, the ECB confirmed its current monetary policy stance after the April meeting. At the press conference ECB governor Mario Draghi noted the progress made by the Euro zone economy towards recovery, but reiterated a strong commitment to the QE programme. The next meeting will take place in June, when the ECB presents new forecasts.
	Market implied »				-5	-7	-6	
UK	Forecast	0.50	0.50	0.75				We have delayed our expectation for the first rate hike to 4Q15, after disappointing preliminary 1Q GDP data. We do not expect electoral uncertainty to prevent a 2015 rate hike.
	Market implied »				2	5	14	
US	Forecast	0-0.25	0-0.25	0.50				As widely expected, the FOMC statement released after the April meeting was more dovish than in March, with the Fed acknowledging the weakness seen in 1Q15. The FOMC meeting in June should bring new CPI and GDP forecasts. Even so, we still think that September is the most likely time for the first rate hike.
	Market implied »				18	28	41	
Poland	Forecast	1.50	2.00	1.50				We think that the May MPC meeting is set to be rather uneventful as we expect the Council to keep its monetary conditions and rhetoric unchanged.
	Market implied »				1	-1	-2	
Czech Republic	Forecast	0.05	0.05	0.05				We expect the CNB to leave monetary conditions unchanged in May despite the central bank Governor Miroslav Singer warning recently that the risk of lifting the EURCZK floor has increased since the last meeting. Investors are likely to focus on a new inflation forecast.
	Market implied »				28	32	23	
Hungary	Forecast	1.80	2.10	1.65				In line with expectations, in April the Hungarian central bank, the MNB, cut the base rate by 15bp to 1.80%. The decision was justified by the disinflationary pressure and subdued inflationary outlook. The MPC may continue monetary easing for as long as inflation fails to meet the target.
	Market implied »				5	1	3	

Source: Reuters, BZ WBK.

This analysis is based on information available through May 5, 2015 and has been prepared by:

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EXPLANATION OF THE RECOMMENDATION SYSTEM

DIRECTIONAL RECOMMENDATIONS IN BONDS		DIRECTIONAL RECOMMENDATIONS IN SWAPS	
	Definition		**Definition**
Long / Buy	Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk.	**Long / Receive fixed rate**	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.
Short / Sell	Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk.	**Short / Pay fixed rate**	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
Long a spread / Play steepeners	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).
Short a spread / Play flatteners	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
Long / Buy	Appreciation of a given currency with an expected return of at least 5% in 3 months.
Short / Sell	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.

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