RATES AND FX OUTLOOK

POLISH FINANCIAL MARKETS

April 2015

Bank Zachodni WBK

Grupa Santander

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Summary

- **Poland's Monetary Policy Council (MPC) cut interest rates by 50bp in March and said that the easing cycle was over, with main refi rate at 1.50%.** While the pledge about the end of easing in the post-meeting MPC statement sounded decisive, the minutes from the March meeting revealed that many MPC members were unwilling to shut the door to further interest rate cuts. In fact, they agreed they should react if there were strong, unexpected shocks affecting the Polish economy. Such ambiguity, plus the zloty appreciation of recent weeks, made some investors believe that further interest rate cuts are still possible, even this year.
- **We think that the main interest rates will remain unchanged until the end of the current MPC's term in the office (end of 2015) and the first rate hikes could be expected in 2H16.** Deflation probably hit its lowest point in February (at -1.6%YoY) and we think it will edge up again in the coming months. Reaching the 2.5% inflation target is still a way off, but we think it will take place sooner than predicted in the central bank's last inflation projection (which does not foresee it happening until the end of 2017). At the same time, the outlook for economic growth is improving. **We have just revised our forecasts for this year and currently we expect GDP growth of 3.6% on average in 2015 (up from 3.2%), with 4Q15 at 4%YoY.** The labour market is booming, with the number of employed (according to Labour Force Survey) already at an all-time high (over 16mn) and still growing at over 2%YoY, a pace consistent with ~10%YoY growth in fixed investments.
- Recent weeks have shown clearly that the Polish fixed income market is currently more closely correlated with expectations for U.S. monetary policy than with the ECB's QE or domestic data. **We still do not rule out that continued money printing in Europe will trigger some portfolio flows to Polish bonds, but the room for Polish yields to decline looks limited, given the improving economic outlook (in Poland and abroad), the expected bottoming out of domestic inflation, geopolitical risks (Russia, Greece) and the approaching Federal Reserve rate hike (probably in September).** Those factors are likely to push domestic yields/IRS rates up in the medium term.
- **We think the zloty could remain quite strong**, helped by the improving macro outlook, the potential positive impact of the ECB's QE and the Polish central bank's declaration about the end of the easing cycle. However, those factors seem to be mitigated by worries about Greece leaving the euro and uncertainty about the timing of the first interest rate hike in the U.S. In the medium term, we expect EUR/PLN to resume a moderately-paced downward trend.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Current level	Expected trend	
	Last 3M	Last 1M	3 Apr 2015	1M	3M
Reference rate	-50	-50	**1.50**	→	→
3M WIBOR	-41	-16	**1.65**	→	→
2Y bond yield	-20	-2	**1.57**	→	→
5Y bond yield	-25	1	**1.88**	→	↗
10Y bond yield	-25	10	**2.26**	→	↗
2/10Y curve slope	-5	12	**69**	→	↗

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

PLN rates: our view and risk factors

Money market: WIBOR rates fell significantly after the MPC's 50bp rate cut in March and we think they should remain stable in the coming months given the central bank's pledge that the easing cycle is over. The FRA market started pricing-in odds of further rate cuts, but we think this is unjustified. Only a much stronger appreciation of the zloty would push the central bank to act, in our view, and we do not expect that to happen.

Short end: We expect the front ends of the yield curves to stay fairly stable, given the limited scope for further monetary policy adjustments in the nearest quarters.

Long end: Recent weeks have clearly shown that the long ends of the curves are currently more closely correlated with expectations for U.S. monetary policy than with ECB's QE or domestic data. We still do not rule out that continued money printing in Europe will trigger some portfolio flows to Polish bonds, but the room for yields to decline looks limited, given the improving economic outlook in Poland and abroad, the expected bottoming-out of domestic inflation, geopolitical risks (Russia, Greece) and the approaching Federal Reserve rate hike (probably in September). Those factors are likely to push domestic yields/IRS rates up in the medium term.

Risks to our view: Risk factors remain unchanged, with Greece resurfacing in headlines after Euro-zone officials dismissed the list of reforms Athens presented to its creditors. Moreover, renewed expectations that a U.S. rate hike could happen sooner rather than later may result in an earlier increase in yields as the market is not prepared for the Fed to make a move in the middle of this year. However, if the zloty appreciation suddenly accelerates, the odds of a further Polish rate cut will rise, dragging domestic yields lower.

Short- and Medium-term Strategy: FX market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	3 Apr 2015	1M	3M
EURPLN	-3.2	-0.3	**4.07**	→	→
USDPLN	0.7	-1.8	**3.74**	→	↘
CHFPLN	-2.8	-0.2	**3.90**	→	↘
GBPPLN	-1.1	-1.4	**5.55**	→	↘
EURUSD	-3.8	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.

PLN FX Market: Our view and risk factors

EUR: The EUR/PLN approached a major support level, around which it could stabilise for some time. In general, we expect the zloty to remain quite strong, helped by the improving macro outlook, the potential positive impact of the ECB's quantitative easing and the Polish central bank's declaration that the easing cycle is over. These factors are being mitigated by Grexit worries in Europe and uncertainty about the timing of the first interest rate hike in the U.S. In the medium term, we expect EUR/PLN to resume a moderately-paced downward trend.

USD: We assume that the combination of a less hawkish FOMC and an improving Euro zone economy should provide some support for the EUR. Thus, EURUSD should move upwards in the medium term, after a sideways move in the coming weeks. Consequently, USD/PLN may drop slightly faster than EUR/PLN in the coming months.

CHF: We are still bearish on the CHF against the EUR. With the stronger currency weighing on the Swiss economy, the Swiss National Bank may be forced to ease further in order to weaken the CHF. We think the zloty should keep gaining versus the Swiss franc in the coming months.

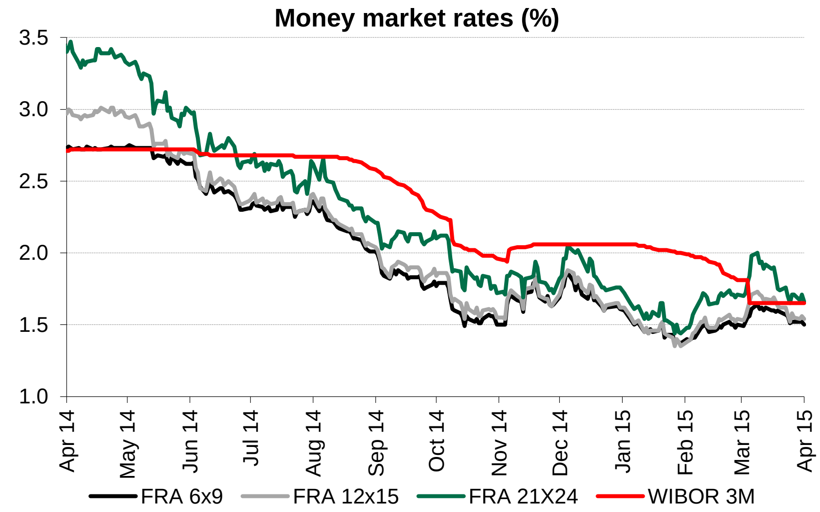
Risks to our view: The ECB's QE has already triggered some appreciation of the zloty, but there is still a risk that it might be even stronger, especially if U.S. data releases are disappointing, suggesting that a Fed rate hike may be delayed, while Polish data surprise to the upside. Negative news, such as Greece officially running out of cash or the crisis in Ukraine escalating, could cause the Polish currency to weaken.

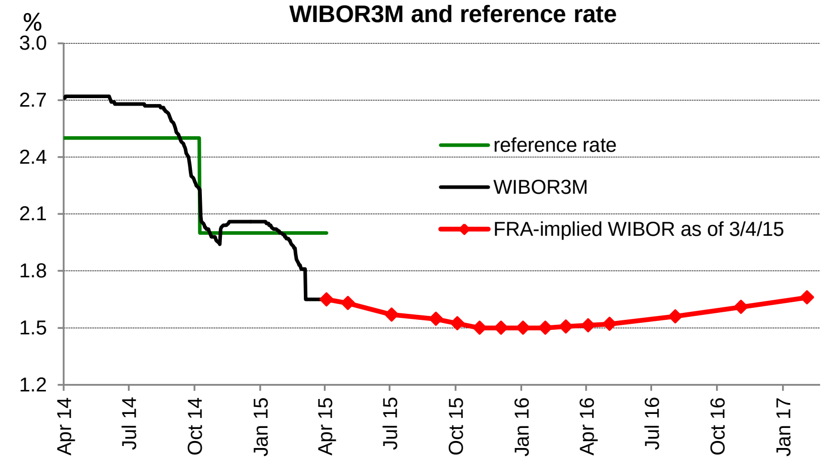
Domestic Money Market: Investors see a chance of more monetary easing

- The MPC decision in March to cut rates by 50bp and to conclude monetary easing had a significant impact on the money market. WIBOR rates fell by 11-22bp, with the biggest move at the front end of the curve. The shape of WIBOR curve is now normal, with the shortest rate at 1.63% and the longest at 1.68%.

- The initial reaction of FRA market to the MPC's decision was significant: rates increased, with FRA21x24 temporarily reaching 2%, its highest level since mid-December 2014. However, improved moods on both the IRS and FX markets caused the longer FRAs (e.g. 15x18, 18x21, 21x24) to decline by over 20bp. Consequently, while in mid-March the market was pricing-in the first rate hike in roughly 18 months' time, now it sees rising odds of additional monetary easing this year.

- We expect WIBORs to stay close to their current levels in the coming months. However, FRAs will be more vulnerable to the currency movements, especially since National Bank of Poland (NBP) Governor Marek Belka has signalled that a sharp zloty appreciation may be a problem for the economy. We believe that the currency would have to appreciate significantly more than it has so far to push the central bank to act. Therefore, we do not expect more rate cuts in our base case scenario and we think that a significant decline in FRA rates is unjustified. Moreover, strong signals from the Polish economy may imply a correction in FRAs in the coming weeks.

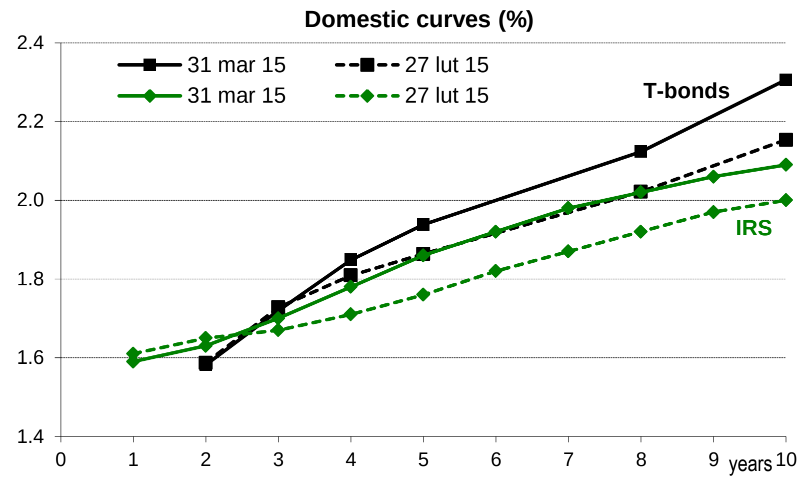


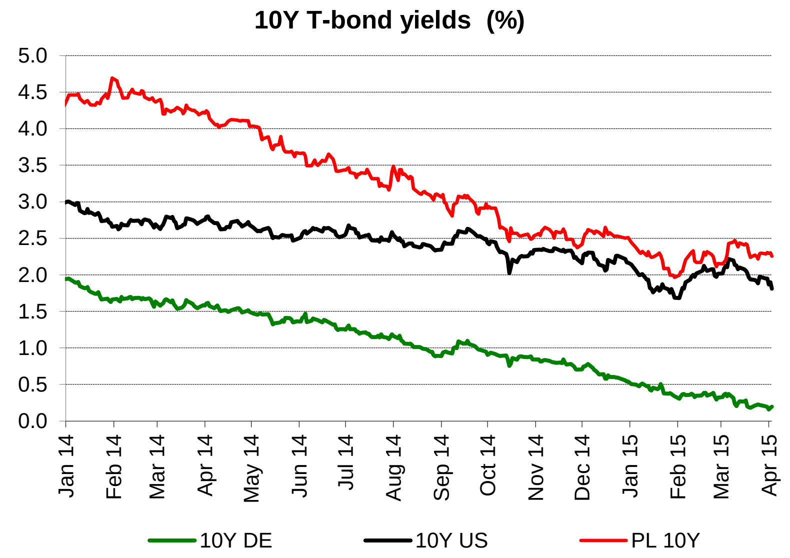


Source: Reuters, BZ WBK

Domestic IRS and the T-Bond Market: External factors remain key for domestic assets

- In March investors' moods were mixed. The early part of the month brought a sharp increase in yields and IRS rates after the MPC said it had concluded monetary easing. However, the relatively dovish outcome of the March FOMC and favourable auction results helped the market rebound later on. Both the belly and long end of the curves shifted up on a month-on-month basis (by 10bp on average), implying quite a visible widening in the 2-10Y spread. Moreover, the risk premium rose with the spread over the 10Y Bund climbing to well above 200bp (in March it reached nearly 225bp, the highest since August 2014).
- Recent weeks clearly show that domestic curves are more affected by the U.S. monetary policy outlook than by the ECB's QE or domestic data. While there is no doubt that the Fed's next move is going to be a hike, there is uncertainty about the timing, with the yield swing depending on whether data (or comments) suggest a hike sooner or later. In our view, the Fed will start a tightening cycle in September. Therefore, until then, the long end of the curve is likely to be very sensitive to news flow from the U.S. We think that positive surprises in U.S. macro data, confirming a scenario of healthy growth and job creation, could drive up domestic yields/IRS rates at the long end of the curves. As regards the front ends, we think that yields/rates are well anchored by perspectives of stable rates and continued deflation.
- Domestic macroeconomic data showing the recovery continues (our forecast for March industrial production is one of the highest in the market) are also likely to weigh on domestic curves, adding to market volatility in the short term.



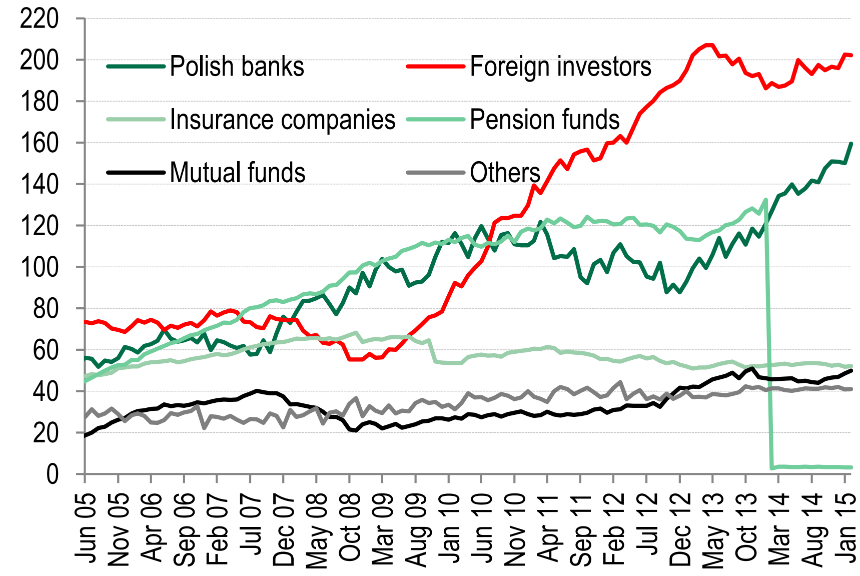


Source: Reuters, Bloomberg, BZ WBK.

Demand Corner: Polish banks make huge bond purchases

- In February, the total amount of Polish marketable PLN-denominated outstanding debt increased by PLN11bn. This was bought exclusively by domestic investors – PLN9.5bn by banks and PLN1.4bn by the mutual funds.
- After this, the biggest monthly increase since December 2008, the nominal value of the banks' bond portfolio reached the all-time high at nearly PLN160bn. Banks' share of total debt rose to 31%, also a record high.
- Elsewhere, holdings did not change much in the month. Non-residents were net sellers of Polish bonds in February, but they disposed of only PLN380mn and the nominal value of their portfolio stayed slightly above PLN202bn.
- This data clearly shows that the announcement of the ECB's QE in late January did not encourage foreign investors to accumulate Polish debt. Instead, we think the domestic banks, in anticipation of foreign capitals when Euro zone money printing kicked off, wanted to take the best seats in the train that was supposed to be the pulled by the ECB's QE. In the end, yields of the Polish bonds increased in February. However, according to Piotr Marczak, the head of Public Debt Department in the Finance Ministry, non-residents increased their holdings in March, so perhaps the train has now started moving forward.

Nominal holdings of Polish, marketable, PLN bonds (PLNbn)



Source: Finance Ministry, BZ WBK.

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Supply Corner: Moderate supply for 2Q15

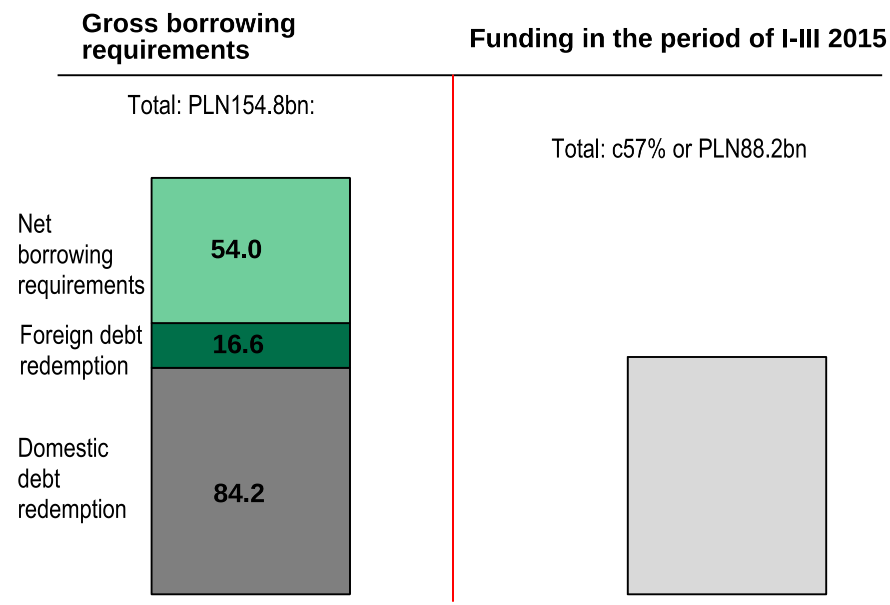
- In March, Poland's Finance Ministry successfully launched T-bonds on domestic and foreign markets. The ministry sold cPLN11bn of bonds via regular and switch tenders and issued 12Y Eurobonds worth €1bn with a 35bp spread over the swap rate (the lowest in history). All in all, it has financed 57% of the 2015 borrowing needs and had increased its PLN and FX liquidity cushion to around PLN55bn at end-March.

- Planned issuance for 2Q15 is moderate, as expected. The ministry plans to hold five or six regular T-bond auctions, with total supply of PLN20-28bn (vs PLN33.3bn in 1Q15), with the structure dependent on market conditions. What is more, it is only planning a switch auction in June. Poland is in a comfortable position in terms of foreign debt funding after the Eurobond issue.

- April's T-bond offer is quite high compared with the total on offer in 2Q15, but is roughly neutral taking into account the PS0415 redemption and interest payments worth cPLN19bn in total. In mid-April, the ministry is due to offer long-term T-bonds, ie WZ0124, DS0725 and WS0428, worth PLN2.0-5.0bn, followed by double that amount (PLN5.0-9.0bn) at a second auction this month. In our view, market conditions are still favourable and we think the ministry should have no problem selling the entire offer.

Auction plan for April 2015

Auction date	Settlement date	Series	Planned offer (PLN mn)
9 Apr 2015	13 Apr 2015	WZ0124 and DS0725	2,500 – 4,500
23 Apr 2015	27 Apr 2015	Depend on market conditions	5,000 - 9,000



Source: Finance Ministry, BZ WBK.

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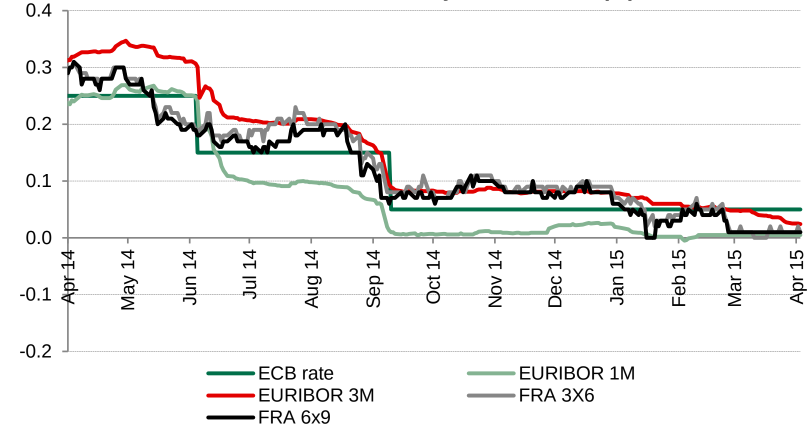
International Money Market and IRS: Improving economic outlook should limit IRS declines

- The ECB's launch of QE in March had a significant impact on EUR IRS, while EUR money market rates were generally unchanged. IRS rates, in particular longer tenors (starting from 5Y), fell by nearly 10bp on average on a monthly basis. The EUR IRS market shifted down despite increasingly positive news from the European economy. A similar situation occurred in the USD market, with IRS rates falling 10-11bp in the 5-10Y sector. Consequently both EUR and USD IRS curves flattened, tracking the trend on bond markets.

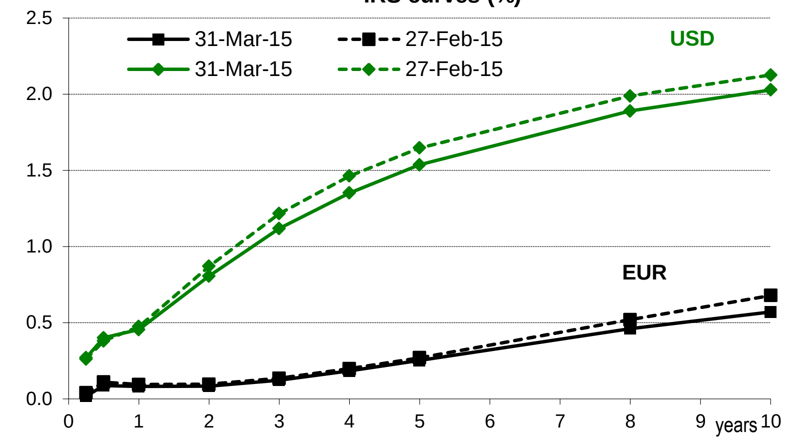
- In our view, the QE programme should boost excess liquidity in the euro system in the coming months (we should remember that the ECB expects to take its balance sheet above €3trn in mid-2016). Therefore, we think that EURIBOR could gradually decline in the coming weeks, while we expect the downward trend in IRS to be limited by the improving macroeconomic outlook.

- On the back of our baseline expectation of the first Fed rate hike coming in September, we expect 3M USD Libor to oscillate near the current level until June, when new inflation and GDP projections will be released. We expect strong U.S. economic data and the associated trend in U.S. interest rates to result in increasing USD IRS rates in the next few months.

ECB rate and money market rates (%)



IRS curves (%)



Source: Reuters, ECB, Fed, BZ WBK.

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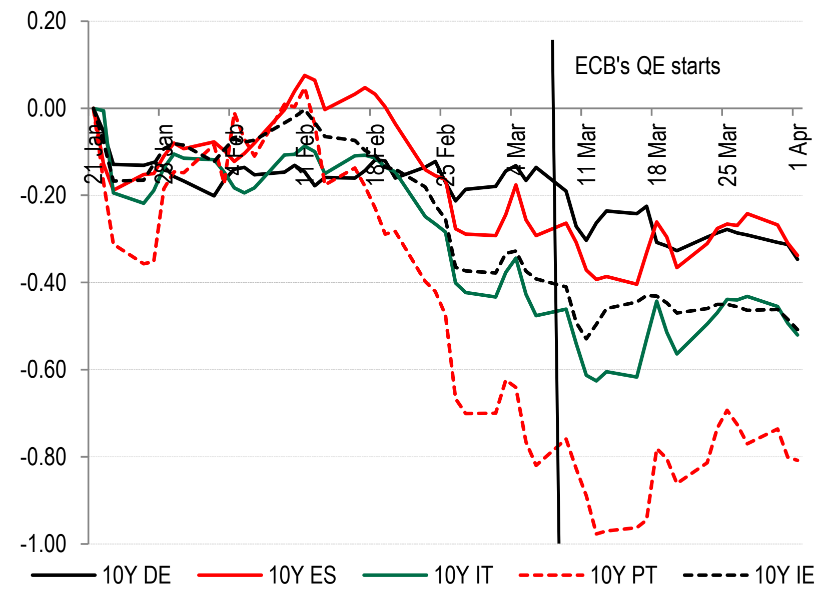
International Bond Market: Greece and strong data diminish the impact of QE

- The ECB started to buy Euro zone government debt on March 9, implementing its extended QE programme. However, European debt markets reacted in different ways. German debt appeared to be the clear winner, with yields falling to new all-time lows. Meanwhile, the bonds of other Euro zone countries, which had strengthened significantly in the previous weeks in anticipation of QE starting, suffered a correction, or at least saw the downward trend in yields halted.
- Two forces contributed to higher bond yields in the past month. First, Euro zone economic activity data surprised (on average) on the upside. PMI indices, the German Ifo index and consumer confidence measures supported hopes that economic revival in Europe will continue at a solid pace in the coming quarters. Second, the still-unresolved case of Greek financial aid clearly weighed on market sentiment in peripheral Euro zone countries. The Greek debt market suffered the most, with the 10Y yield surging by over 160bp in the month and other peripheral bonds also underperforming.
- The first few weeks of QE showed that even a considerable inflow of cash into the system will not keep yields falling when risk factors are present. The Greek case does not look likely to be resolved any time soon and this may continue to limit the gains that European debt can achieve from QE. Also, more positive economic data might encourage investors to seek higher-risk assets.

Yield changes since QE was announced

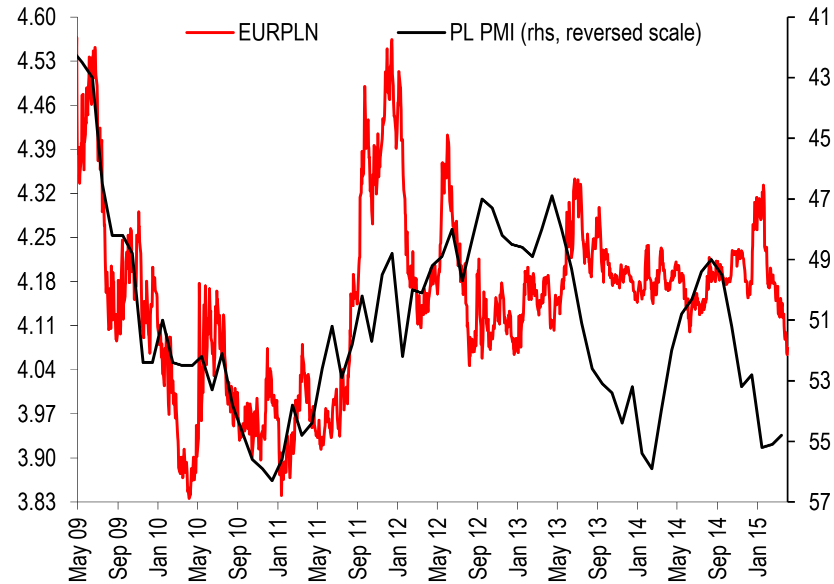


Source: Reuters, BZ WBK.

Foreign Exchange Market: Zloty strengthens

- EUR/PLN continued the decline it began when the ECB announced QE in January and hit 4.05, its lowest level since August 2012. The main drivers of this move were the MPC's pledge that the easing cycle had concluded with the 50bp rate cut in March and the less-hawkish-than-expected outcome of the FOMC's March meeting. PLN was also supported by the NBP governor saying that there may be 'appreciation pressure' on the zloty from the ECB's easing and suggesting that the NBP is not keen on FX intervention.
- We think the zloty may remain strong. First, expectations of further rate cuts will no longer weigh on the currency. Second, even after the recent rate cut, real interest rates in Poland are still among the highest in the EM world. This, combined with QE in the Euro zone, could result in capital inflows to the Polish debt market, which may strengthen the currency. We think that when Euro zone yields approach zero or negative levels, foreign investors' interest in alternative markets may increase, and Polish bonds may prove an attractive alternative for some portfolio managers. Furthermore, the outlook for economic growth is improving, in our view, and upcoming data releases should confirm the optimistic picture. Last, but not least, the recent change in the FOMC's statement suggested that U.S. tightening is less imminent, which is a net positive for emerging market currencies.
- These circumstances, and the zloty's bigger-than-expected gain in recent weeks, have led us to revise our EUR/PLN forecasts. We now assume a faster zloty appreciation this year.

Sound Polish fundamentals should support the zloty



Source: Bloomberg, BZ WBK

FX Technical Analysis Corner: EUR/PLN close to 4.05

- EUR/PLN finally broke the 4.15 support and fell to 4.05.
- The exchange rate has been falling for three consecutive weeks, the longest decline since a four-week losing streak in late 2013.
- Note, that RSI fell below 30 pts. Weekly buy signals on EUR/PLN are quite rare, but when they do occur they usually give a good hint on the EURPLN direction.
- All in all, there are several circumstances pointing to a possible rebound in EURPLN in the very short term.

Source: Reuters, BZ WBK.

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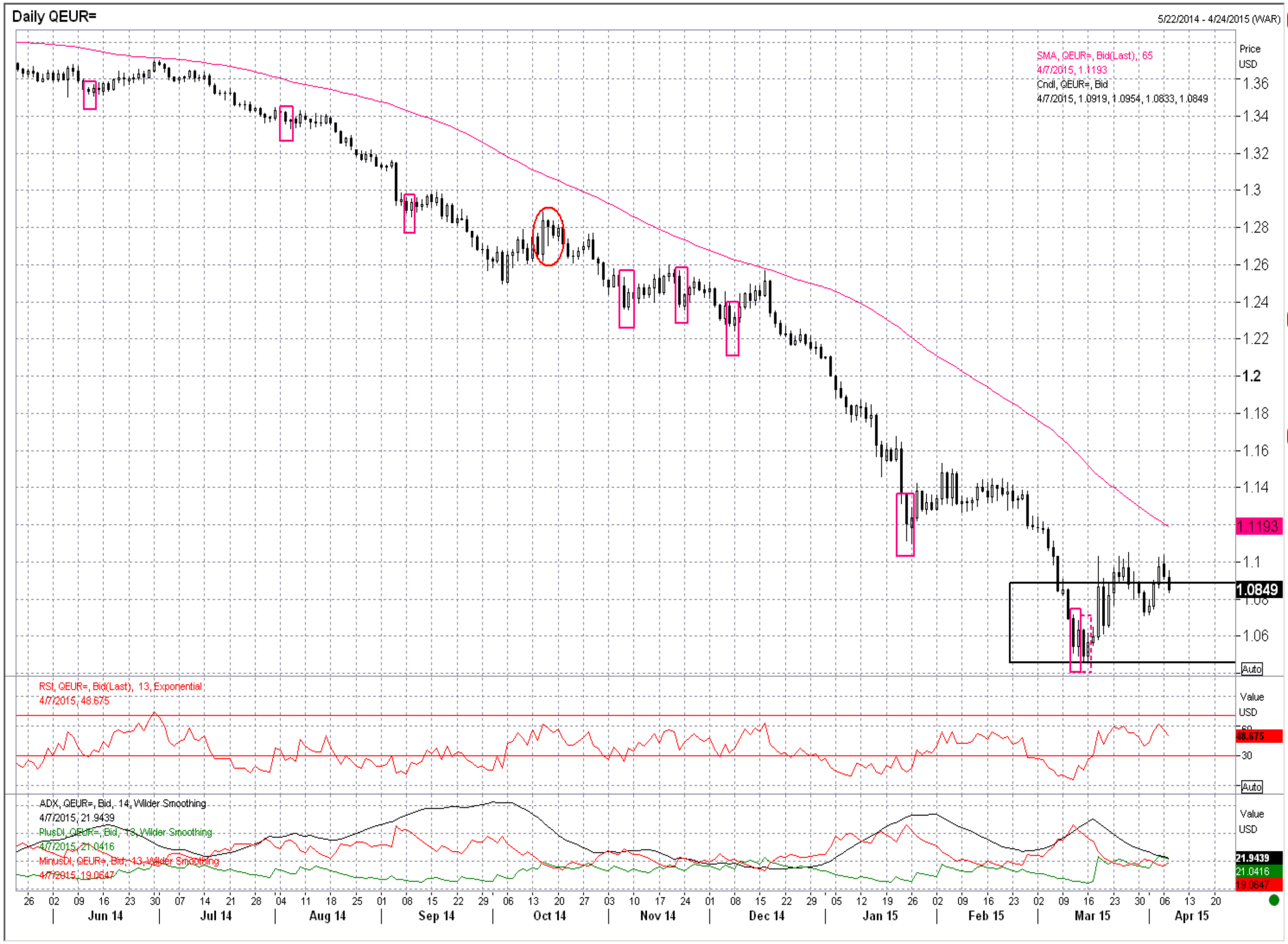
FX Technical Analysis Corner: EUR/USD above the local low



- The recent correction in the EUR/USD is the sharpest since it started falling in May 2014 and this suggests that the rate could stay above the recent low for longer.
- At the same time, it is far too early to call the trend reversal.
- The recent correction started with the ”reversal day” formation and cancelling it (if it fell below 1.045) would be a strong sell signal.

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	1,724.7	1,792.0	403.1	418.4	426.8	476.4	418.8	432.5	442.2	498.6
GDP	%YoY	1.8	1.7	3.3	3.6	3.4	3.5	3.3	3.1	3.1	3.4	3.7	4.0
Domestic demand	%YoY	-0.4	0.2	4.7	4.5	3.4	5.6	4.9	4.6	4.0	4.7	4.6	4.8
Private consumption	%YoY	1.0	1.1	3.0	3.6	2.9	3.0	3.2	3.1	3.5	3.6	3.6	3.5
Fixed investment	%YoY	-1.5	0.9	9.5	8.8	11.2	8.7	9.9	9.0	9.0	9.0	9.0	8.5
Unemployment rate [a]	%	13.4	13.4	11.5	10.0	13.5	12.0	11.5	11.5	11.7	10.3	9.8	10.0
Current account balance	EURmn	-13,697	-5,148	-5,762	-5,040	-1,222	-789	-1,780	-1,971	194	-822	-2,402	-2,010
Current account balance	% GDP	-3.5	-1.3	-1.4	-1.1	-1.1	-1.2	-1.3	-1.4	-1.0	-1.0	-1.2	-1.1
General government balance (ESA 2010)	% GDP	-3.9	-4.3	-3.2	-2.9	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	-0.7	0.6	0.3	-0.3	-0.7	-1.5	-0.9	-0.7	0.3
CPI [a]	%YoY	2.4	0.7	-1.0	0.7	0.7	0.3	-0.3	-1.0	-1.3	-0.8	-0.5	0.7
CPI excluding food and energy prices	%YoY	2.2	1.2	0.6	0.7	0.8	0.8	0.5	0.4	0.4	0.6	0.7	1.2

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

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	1.66	1.65	1.65
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.63	3.01	2.76	2.26	1.80	1.61	1.59	1.63	1.70
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.03	3.71	3.35	2.67	2.11	1.90	1.94	2.08	2.23
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.37	4.38	3.82	3.18	2.58	2.24	2.27	2.43	2.55
2-year IRS	%	4.52	3.10	2.51	1.72	3.07	2.82	2.32	1.83	1.65	1.65	1.68	1.89
5-year IRS	%	4.47	3.51	2.92	1.96	3.70	3.31	2.63	2.02	1.80	1.84	2.02	2.18
10-year IRS	%	4.56	3.86	3.34	2.28	4.16	3.73	3.07	2.40	2.06	2.17	2.37	2.52
EUR/PLN	PLN	4.19	4.20	4.18	4.06	4.19	4.17	4.18	4.21	4.20	4.04	4.03	3.97
USD/PLN	PLN	3.26	3.16	3.15	3.61	3.06	3.04	3.15	3.37	3.72	3.69	3.56	3.46
CHF/PLN	PLN	3.47	3.41	3.45	3.82	3.42	3.42	3.45	3.50	3.93	3.86	3.82	3.68
GBP/PLN	PLN	5.16	4.94	5.19	5.52	5.06	5.11	5.26	5.33	5.64	5.52	5.48	5.44

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

Economic Calendar and Events

Date		Event:	Note:
9-Apr	**PL**	**Auction of long-term T-bonds WZ0124/DS0725**	**Offer: PLN2.5-4.5bn**
13-Apr	**PL**	**Current account for February**	**We expect a C/A deficit of €176m and a trade surplus**
14-Apr	**PL**	**M3 money supply for March**	**Our forecast is 8.5%YoY**
15-Apr	**PL**	**MPC meeting – interest rate decision**	**We expect the MPC to leave monetary conditions unchanged**
	PL	**CPI inflation for March**	**We expect the headline rate to increase to -1.3%YoY, in line with market consensus**
	EZ	ECB meeting – interest rate decision	-
16-Apr	**PL**	**Core CPI measures for March**	**We expect to see core inflation, excluding food and energy prices, at 0.4%YoY, slightly above market consensus**
	PL	**General government deficit and debt for 2014**	
17-Apr	**PL**	**Wages in the corporate sector for March**	**We expect a gradual increase to 3.4%YoY, slightly more than market consensus**
	PL	**Employment in the corporate sector for March**	**Employment is widely expected to grow 1.2%YoY**
20-Apr	**PL**	**Industrial output for March**	**Our forecast assumes an acceleration to 8.3%YoY and we are more optimistic than the market (7.0%YoY)**
	PL	**Retail sales for March**	**We predict retail sales up 1.1%YoY, below market consensus (1.7%YoY)**
21-Apr	HU	MNB meeting – interest rate decision	We expect a rate cut of 15bp
23-Apr	**PL**	**Auction of T-bonds**	**Offer: PLN5.0-9.0bn**
	EZ	Flash PMI manufacturing for March	-
29-Apr	US	FOMC meeting – interest rate decision	**-**
TBA	**PL**	**Unemployment rate**	**Likely to decline to 11.7% for seasonal reasons**

Source: CB, Markit, CSO, Finance Ministry

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Annexe

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

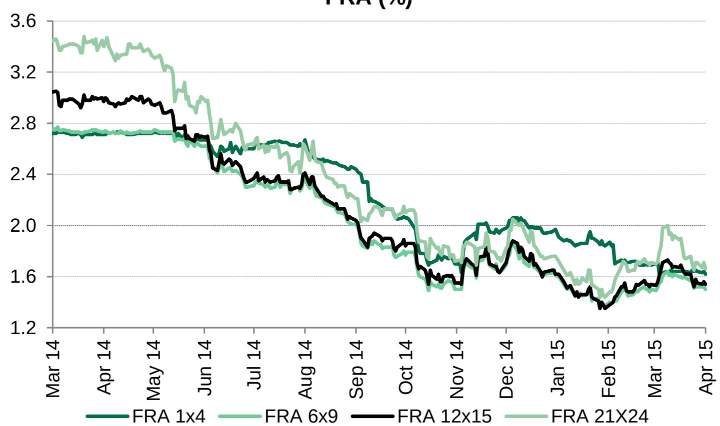
Money market rates (%)

	Reference rate (%)	Polonia (%)	WIBOR (%) 1M	3M	6M	12M	OIS (%) 1M	3M	6M	12M	FRA (%) 1x4	3x6	6x9	9x12
End of March	**1.50**	**1.53**	**1.64**	**1.65**	**1.66**	**1.68**	**1.45**	**1.42**	**1.42**	**1.42**	**1.64**	**1.60**	**1.52**	**1.52**
Last 1M change (bp)	-50	5	-25	-16	-14	-11	-31	-18	-7	-4	-5	5	2	2
Last 3M change (bp)	-50	-13	-44	-41	-39	-36	-43	-38	-31	-25	-33	-20	-9	-8
Last 1Y change (bp)	-100	-89	-97	-106	-108	-111	-98	-101	-101	-106	-107	-111	-121	-132

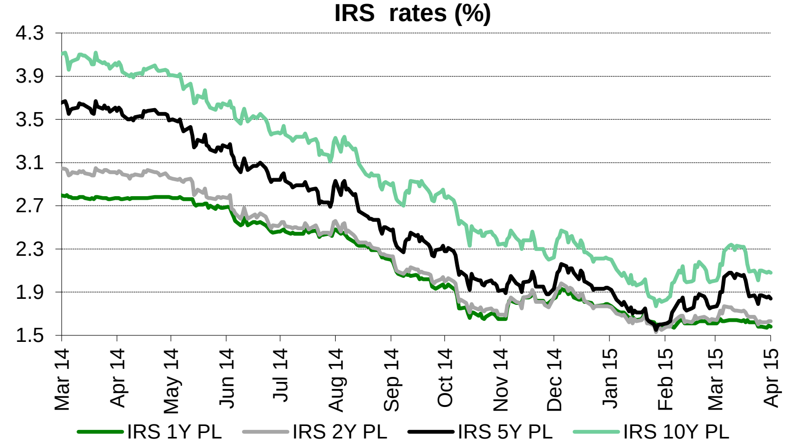
Bond and IRS market (%)

	BONDS 2Y	5Y	10Y	IRS 2Y	5Y	10Y	Spread BONDS / IRS (bp) 2Y	5Y	10Y
End of March	**1.58**	**1.94**	**2.31**	**1.63**	**1.86**	**2.09**	**-5**	**8**	**22**
Last 1M change (bp)	-1	7	15	-2	10	9	1	-3	6
Last 3M change (bp)	-19	-19	-20	-14	-8	-12	-5	-11	-8
Last 1Y change (bp)	-141	-181	-192	-138	-175	-193	-3	-6	1

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
T-bond auctions	11,204	10,908	4,639	14,000	5,000	5,000	8,000		5,000	15,000	6,000		84,751
T-bill auctions													0
Retail bonds	100	100	100	150	150	150	150	150	150	150	150	150	1,650
Foreign bonds/credits					4200		1700						5,900
Pre-financing and financial resources at the end of 2014	38,700												38,700
Total	**50,004**	**11,008**	**4,739**	**14,150**	**9,350**	**5,150**	**9,850**	**150**	**5,150**	**15,150**	**6,150**	**150**	**131,001**
Redemption	6,071	159	98	14,774	5,949	110	14,140	1,628	453	26,684	213	241	70,521
Net inflows	**43,932**	**10,849**	**4,641**	**-624**	**3,401**	**5,040**	**-4,290**	**-1,478**	**4,697**	**-11,534**	**5,937**	**-91**	**60,480**
Rolled-over T-bonds			6,502										**6,502**
Buy-back of T-bills/ FX-denominated bonds													**0**
Total	**43,932**	**10,849**	**11,143**	**-624**	**3,401**	**5,040**	**-4,290**	**-1,478**	**4,697**	**-11,534**	**5,937**	**-91**	**66,982**
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**	5,833	**5,949**
June	0		110	**110**	0	**110**
July	9,110		136	**9,247**	4,893	**14,140**
August	0		184	**184**	1,443	**1,628**
September	0		162	**162**	291	**453**
October	23,010		146	**23,156**	3,528	**26,684**
November	0		213	**213**	0	**213**
December	0		241	**241**	0	**241**
Total 2015	52,822		1,710	**54,532**	15,988	**70,521**
Total 2016	87,607		2,034	**89,641**	13,892	**103,533**
Total 2017	46,772		1,032	**47,804**	10,981	**58,785**
Total 2018	63,764		1,103	**64,867**	10,206	**75,073**
Total 2019+	70,616		972	**71,589**	21,181	**92,770**
Total 2020+	198,346		2,383	**200,729**	113,381	**314,110**

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

Scheduled wholesale bond redemptions by holders (data at the end of February 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	21,871	19,840	5,907	506	5,789	77	172	4,381	58,543
	37%	34%	10%	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+	73,010	39,885	21,243	815	15,254	176	598	5,707	156,689
	47%	25%	14%	1%	10%	0%	0%	4%	100%

Source: MF, BZ WBK.

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3. Polish Bonds: Demand Recap

Holders of marketable PLN bonds

	Nominal value (PLN bn)			Nominal value (PLN bn)			% change in February			Share of total in February (%)
	End Feb'15	End Jan'15	End Dec'14	End 3Q 2014	End 2Q 2014	End 2013	MoM	3-mth	YoY	
Domestic investors	305.8	294.5	295.9	283.2	277.2	381.2	6.35	5.67	25.75	60.2 (1.0pp)
Commercial banks	159.5	150.0	150.8	140.9	135.4	114.7	0.57	-0.23	-0.99	31.4 (1.2pp)
Insurance companies	52.1	51.8	52.8	53.4	53.1	52.0	-2.46	-6.97	19.59	10.3 (-0.2pp)
Pension funds	3.2	3.3	3.3	3.5	3.3	125.8	2.97	7.47	9.46	0.6
Mutual funds	50.0	48.5	46.9	44.1	44.8	46.7	0.3	-1.1	-0.9	9.8 (0.1pp)
Others	41.0	40.9	42.0	41.2	40.6	42.0	-0.19	2.81	7.12	8.1 (-0.2pp)
Foreign investors*	202.1	202.5	196.0	197.5	199.8	193.2	-0.19	2.81	7.12	39.8 (-1.0pp)
Banks	11.1	13.3	9.9	12.1	12.6	n.a.	-16%	13%		2.2 (-0.5pp)
Central banks	18.5	17.4	16.4	19.3	18.0	n.a.	6%	19%		3.6 (0.1pp)
Public institutions	8.5	8.1	8.1	0.5	0.7	n.a.	5%	-3%		1.7
Insurance companies	10.2	10.6	10.7	10.9	9.5	n.a.	-4%	-3%		2.0 (-0.1pp)
Pension funds	13.3	12.7	13.0	12.7	12.3	n.a.	5%	4%		2.6 (0.1pp)
Mutual funds	81.6	81.1	78.1	80.8	83.4	n.a.	1%	4%		16.1 (-0.3pp)
Hedge funds	1.1	0.7	0.8	0.1	0.1	n.a.	52%	88%		0.2 (0.1pp)
Non-financial sector	8.1	11.6	11.6	12.1	12.2	n.a.	-30%	-33%		1.6 (-0.7pp)
Others	17.3	15.8	14.3	17.7	16.5	5.2	10%	17%		3.4 (0.2)
TOTAL	507.9	497.0	491.8	480.7	477.0	574.3	2.2	3.8	10.9	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*)
Austria	24.7	91.4	13.3	17.0	19
Belgium	31.8	102.2	28.1	32.5	45
Finland	10.0	119.6	7.6	11.4	43
France	173.0	117.4	116.5	187.0	35
Germany	161.0	100.0	155.0	147.0	27
Greece	-	-	-	-	-
Ireland	10.0	117.5	2.3	7.5	70
Italy	235.4	111.8	205.2	252.9	28
Netherlands	50.0	101.7	39.9	48.0	35
Portugal	16.7	101.7	7.2	13.9	46
Spain	129.3	105.4	86.4	130.0	34
Total	**841.9**	**108.1**	661.5	**847.3**	**32**

Source: European Commission, EZ countries' debt agencies, BZ WBK

**/ YTD is supply since January 1, 2015*

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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)	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Poland	**3.0**	**2.9**	**0.2**	**1.1**	**-2.0**	**-2.4**	**-3.4**	**-2.9**	**49.1**	**50.2**
Czech Republic	2.5	2.7	0.5	1.4	-1.3	-0.9	-1.4	-2.1	44.4	44.7
Hungary	3.2	2.5	0.1	2.5	4.3	4.3	-2.9	-2.8	76.9	76.4
EU	1.3	1.1	0.6	1.0	1.4	1.5	-3.0	-2.7	88.1	88.3
Euro zone	0.8	1.1	0.5	0.8	2.5	2.6	-2.6	-2.4	94.5	94.8
Germany	1.3	1.5	0.9	1.2	7.1	7.1	0.2	0.0	74.5	72.4

Main market indicators (%, end of period)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2014	end-Mar 2015	2014	end-Mar 2015	2014	end-Mar 2015	2014	end-Mar 2015	2014	end-Mar 2015
Poland	**2.00**	**1.50**	**2.06**	**1.65**	**2.51**	**2.31**	**197**	**211**	**71**	**60.3**
Czech Republic	0.05	0.05	0.04	0.04	0.75	0.46	2	27	55	47.8
Hungary	2.10	1.95	2.10	1.89	3.69	3.38	315	319	178	136.6
Euro zone	0.05	0.05	0.08	0.02						
Germany					0.54	0.19			17	15.1

Source: EC – Autumn 2014, statistics offices, central banks, Reuters, BZ WBK.

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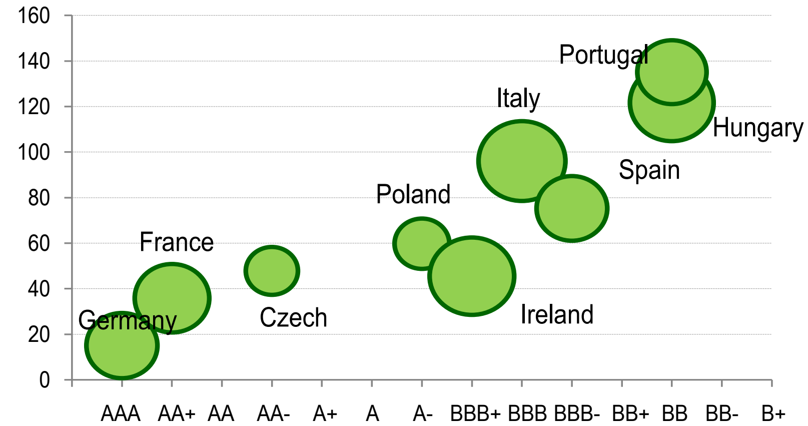
5. Poland vs. Other Countries (cont.)

Sovereign ratings

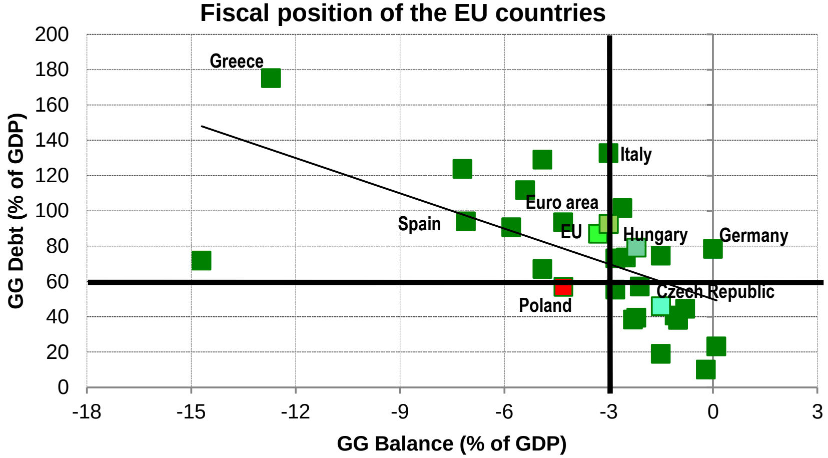
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	positive	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	negative	Caa1	stable	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

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

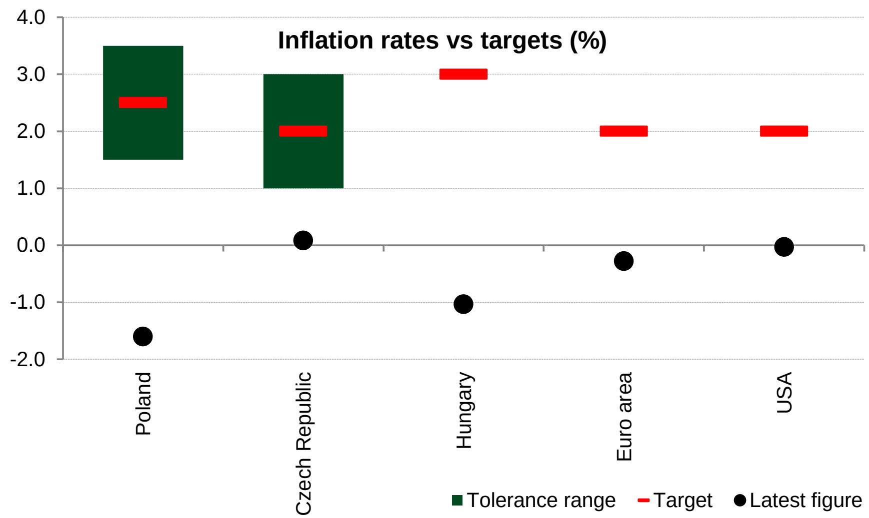


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

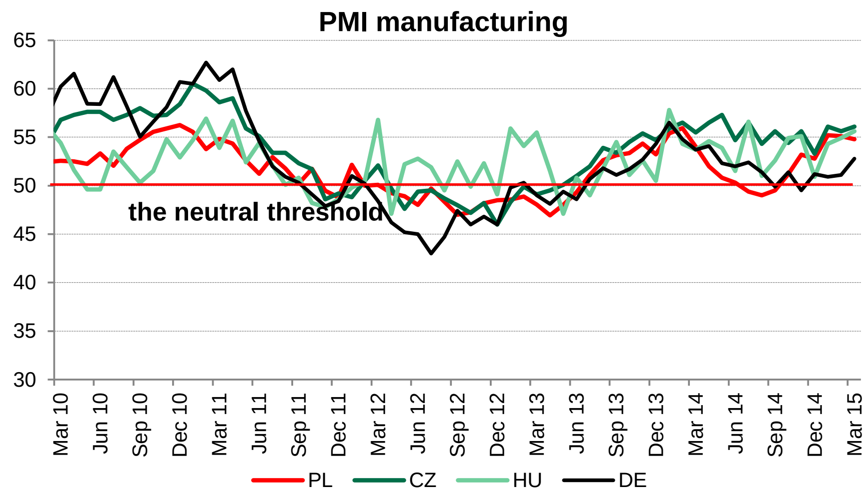


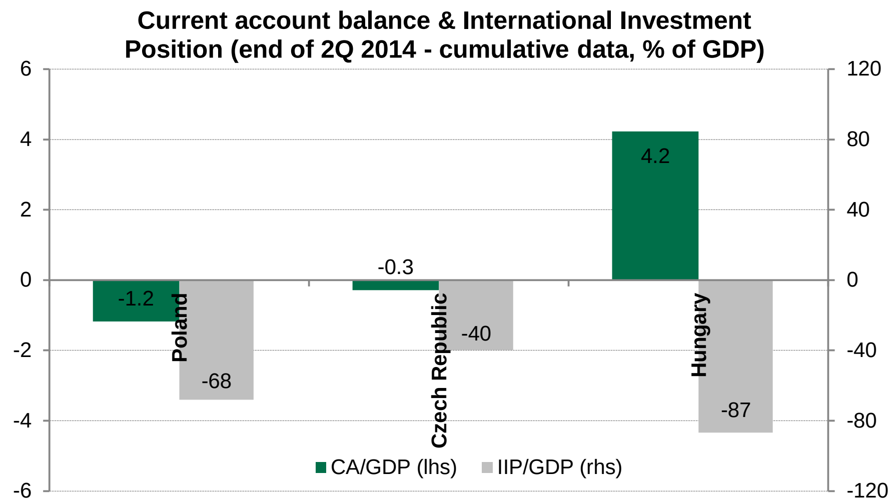
Inflation rates vs targets (%)

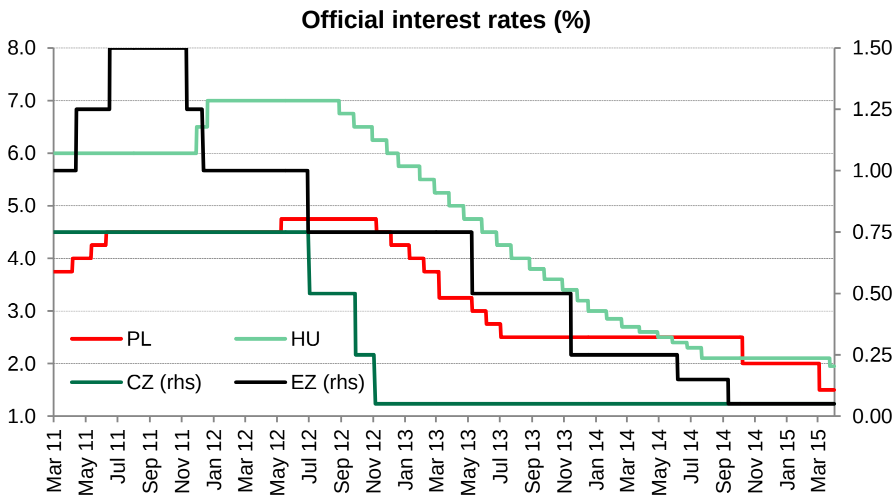


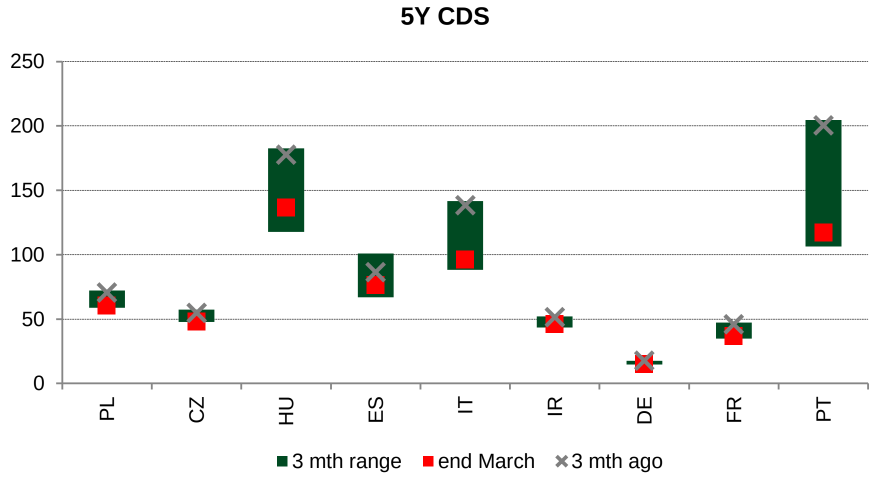
Source: Rating agencies, Reuters, EC, BZ WBK.

5. Poland vs Other Countries (cont.)









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

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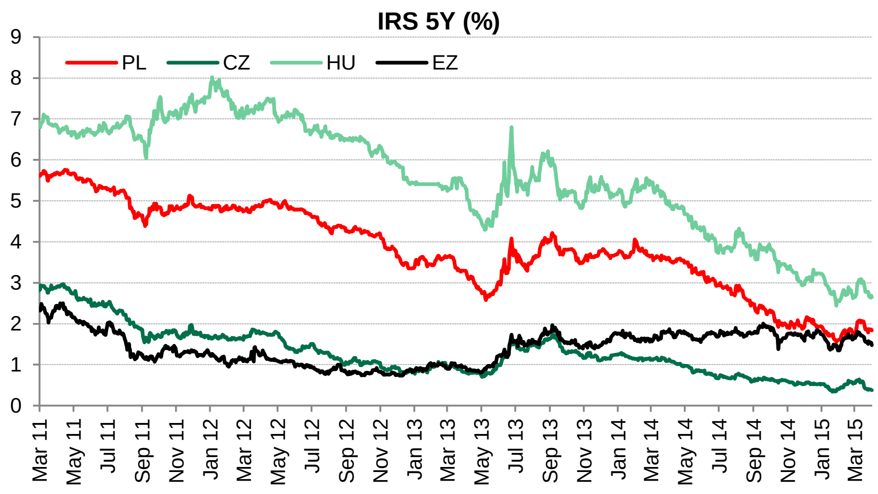
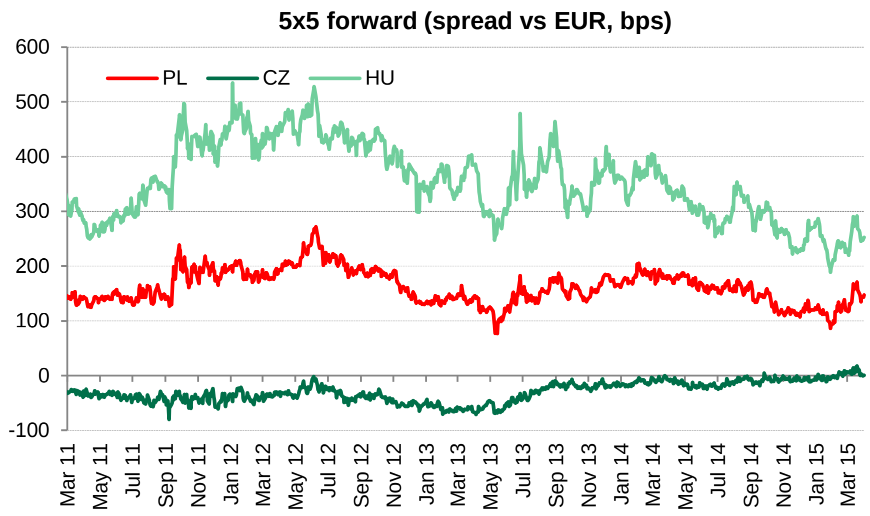
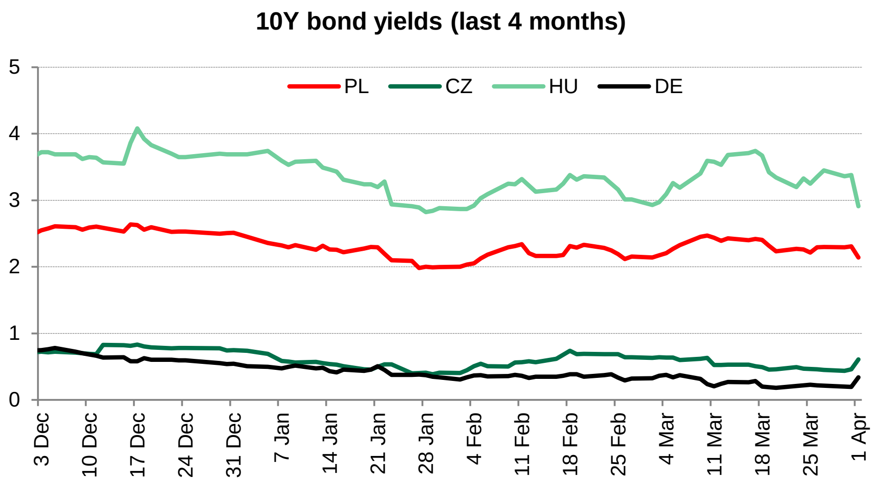
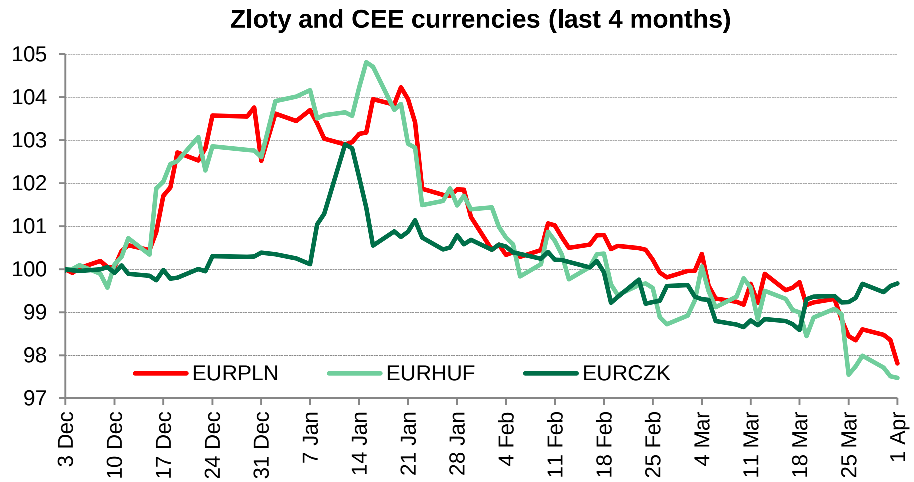
5. Poland vs Other Countries (cont.)









Source: Reuters, BZ WBK.

6. Central Bank Watch

					Expected changes (bp)			Comments
		Last	2014	2015	1M	3M	6M	
Euro zone	Forecast	0.05	0.05	0.05				As announced, the ECB started its QE programme in March and the results of the first days of fully-fledged purchases were quite promising. We expect the Board to leave monetary conditions unchanged in April as recent economic data point to a continuing steady recovery.
	Market implied »				-4	-4	-4	
UK	Forecast	0.50	0.50	1.00				We expect the BoE to keep its monetary policy unchanged as recent macroeconomic data confirm the UK's economic health. We expect an uneventful meeting in April as investors will wait for a new *Inflation Report*, due in May.
	Market implied »				58	59	62	
US	Forecast	0-0.25	0-0.25	0.50				As expected, in March the FOMC removed the word "patient" from its statement. However, the downward revision to the GDP and inflation forecasts, together with a less hawkish projection of official rates by the FOMC members, resulted in a much more dovish outcome than expected. We expect the FOMC to keep monetary conditions unchanged at its April meeting.
	Market implied »				0	0	0	
Poland	Forecast	1.50	2.00	1.50				In March, Poland's MPC cut interest rates by 50bp and concluded the easing cycle with its main refi rate at 1.50%. We still think that excessive zloty appreciation could be a potential trigger for the central bank to consider additional easing. But, in our view, the currency's strengthening will be rather muted. Thus, our base-case scenario still assumes stable NBP interest rates until the end of this year.
	Market implied »				-2	-8	-15	
Czech Republic	Forecast	0.05	0.05	0.05				In line with expectations, in March the CNB kept interest rates at their all-time low of 0.05% and confirmed its commitment to defend the EURCZK from appreciating below the 27 threshold if necessary.
	Market implied »				25	31	16	
Hungary	Forecast	1.95	2.10	1.80				As expected, in March the central bank, the MNB, cut the base rate 15bp to 1.95%. The decision was justified by the subdued inflation outlook. The MPC will continue the easing cycle in April, in our view.
	Market implied »				-10	-24	-24	

Source: Reuters, BZ WBK.

This analysis is based on information available through April 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**
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.

Important Disclosures (cont.)

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