RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

April 2014

Bank Zachodni WBK

Grupa Santander

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Summary

- Economic activity in Poland has continued moderate acceleration. Recent data (for the first two months of the year) confirm that the economy is on an upward path, fuelled not only by net exports, but also by reviving domestic demand. The acceleration in consumption growth goes hand in hand with a gradual improvement in the labour market. We also observe some rebound in investments, mainly in private sector, which growth fully balanced public investment decline. All in all, recent macro data confirm the recovery of domestic economy, which in our view expanded by more than 3% in 1Q 2014 and may grow by 3.5% in the whole 2014.
- Despite positive tendencies in economic activity, there are no traits of inflationary pressure so far and CPI growth remains low. Scenario of non-inflationary economic recovery is suggested by the new NBP projection, which shows that CPI should stay below official target almost until the end of 2016. The new CPI inflation outlook allowed the MPC to extend its forward guidance by one quarter at its March's meeting. Taking into account recent changes in rate outlook by MPC and comments from the Council members, we decided to revise our monetary policy outlook. Currently we expect the reference rate to stay on hold till year end. As our inflation forecasts are not as optimistic as these presented by the NBP, we assume the first hike in 1Q 2015. Therefore, we foresee April's MPC meeting as uneventful.
- Among the data releases and economic events, April's ECB meeting will be the most important to watch. We do not expect the European monetary authority to change the main monetary parameters, however some investors expect such a move on the back of recent "dovish" statements by the Bundesbank governor. Lack of decision despite still dovish statement might result in some profit taking, but it could be only short-lived as investors' attention will move towards macro data, in particular from the US economy, which might influence further Fed's decision.
- In March domestic interest rate market was quite resistant to risk aversion. It was supported by the MPC's decision to extend the period of stable rates and improvement in global mood. Our CPI forecast for March (it is below market consensus) favours the front end and even the middle of curves. The long-end of curves we see as most vulnerable to any possible risk (Ukraine) or upcoming macro data from US and euro zone economy, which may influence central banks' decisions. While in short term we foresee range trading, in medium to long term we uphold our view of gradual increase, following rising yields on core markets.
- The zloty was quite volatile in March, however, it benefited from improving global mood and no new negative information from Ukraine, which helped erase nearly all earlier losses. As market sentiment has remained very fragile, we foresee range trading of the zloty against the main currencies in coming weeks. But we expect the zloty to continue appreciation trend in mid to long term due to strong fundamentals (faster GDP growth, narrowing current account deficit) and positive investors' interpretation of Polish economic performance versus other economies.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-March	1M	3M
Reference rate	0	0	**2.50**	→	→
WIBOR 3M	0	0	**2.71**	→	→
2Y bond yield	0	-2	**3.00**	→	↗
5Y bond yield	-6	-12	**3.75**	→	↗
10Y bond yield	-10	-14	**4.22**	↗	↗↗
2/10Y curve slope	-9	-12	**123**	↗	→

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

PLN Rates Market: our view and risk factors

Money market: We decided to revise downwards our forecast of the reference rate and money market rates till year-end due to unexpected MPC's decision to extend its forward guidance by one quarter. Our new base line scenario assumes gradual increase in WIBOR 3M towards 2.80% (on average for December), which is more or less in line with market expectations. In short term we foresee WIBOR 3M stable at current level amid still low CPI reading in nearest months.

Short end: March's MPC decision and comments of the Council's members well anchored the front end of the curve. We believe that in one month period CPI reading may favour the front and mid of the curve. But decline of yields/rates can be limited by further signals of economic revival. All in all, yield of 2Y and 5Y bonds will stay in horizontal trend, but in 3 months period we foresee a gradual increase in yields/IRS rates.

Long end: As in March, the long end of the curve will be most vulnerable to changes in risk aversion and upcoming macro data for global economy. More visible signals of further improvement in global outlook may result in more significant yield/IRS rates increase, following rising yields on core markets.

Risk factors to our view: The ECB's decision to ease monetary conditions at its April's meeting (which is not our baseline scenario) may positively influence Poland's debt market and even result in strengthening across the curve (in particular on the long end). Situation in Ukraine still remains the main risk factor.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-March	1M	3M
EURPLN	0.6	0.3	**4.17**	→	↘
USDPLN	0.7	0.3	**3.03**	→	↘
CHFPLN	1.1	-0.1	**3.42**	→	↘
GBPPLN	1.3	-0.4	**5.05**	→	↘
EURUSD	-0.2	0.0	**1.37**	→	→

Note: Single arrow down/up indicates at least 1.5% expected move down/up, double arrow means at least 5% move

PLN FX Market: our view and risk factors

EUR: As we observed in March, the Polish zloty is sensitive to geopolitical tensions. However, global mood improvement quickly helps domestic currency to rebound. Fragile CEE mood (Ukraine, parliamentary election in Hungary in April) should stabilse EURPLN near current level, but in medium to long term period we expect appreciation of zloty due to further improvement in economic outlook and narrowing current account deficit.

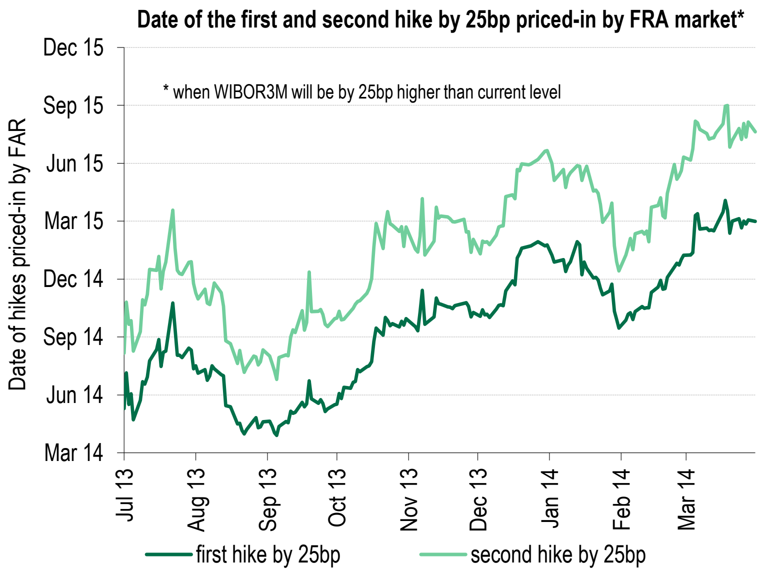
USD: The US dollar lost some momentum after the post-FOMC rally. A lack of trust in ECB action makes the EURUSD difficult to decline more significantly. We expect the ECB to keep monetary conditions unchanged and as a consequence EURUSD may increase towards next resistance level 1.388, but this increase should be short-lived due to expected strong data from the US economy. Consequently, we foresee range trading of USDPLN and we expect it to decline gradually in medium term.

CHF: Status quo on the EURCHF – in the short run we foresee it to remain stable and to increase gradually in the medium to long horizon. Thus, we predict range trading of CHFPLN in upcoming weeks, and than to decrease slightly in medium terms.

Risk factors to our view: The main risk factors are the ECB's decision and geopolitical risk in EM (Ukraine, election in many EM countries). ECB's decision to ease further monetary conditions in euro zone may affect strongly the zloty, mainly the USDPLN rate.

Domestic Money Market: Longer period of stable rates

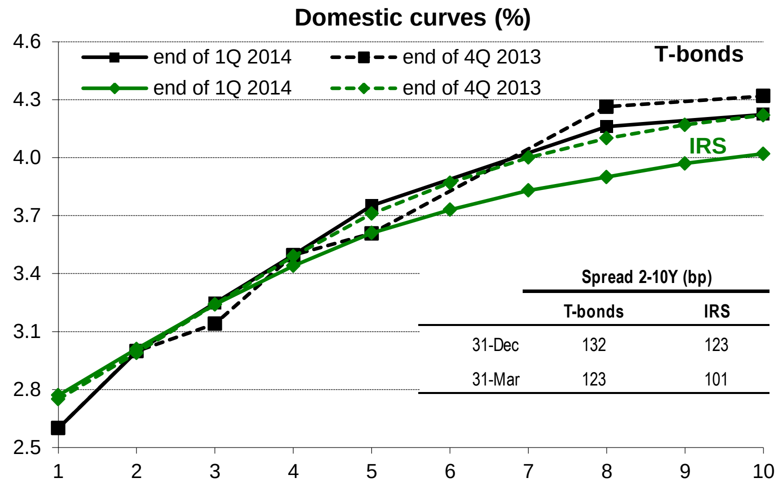
- In March, the key event on the money market was the MPC's meeting. Unexpectedly, the Council decided to extent the period of stable NBP's rates at least until the end of 3Q. While WIBOR rates remained unchanged (excluding 12M, which increased by 1bp), FRAs adjusted to a new market circumstance by declining quite substantially, especially for longer tenors. Investors have revised their expectations regarding monetary policy outlook, and the market is currently pricing-in the first rate hike in 1Q 2015 (spread between FRA12x15 and WIBOR3M is oscillating near 30bp).
- Changes in the MPC's rhetoric and comments of the Council's members suggest that the period of stable interest rates may be even longer than presented in the official forward guidance. That's why we have changed our expected interest rates scenario. Currently, we are expecting the first rate hike in 1Q 2015. Consequently, we foresee WIBOR 3M to increase moderately to ca. 2.80% till year-end. It is roughly in line with market expectations – investors are pricing-in increase in WIBOR3M by ca 13bp in 9 months horizon.
- FRA rates should remain more sensitive to upcoming macro data. We believe that March's macro data readings will confirm that economy is gaining steam, without inflationary pressure. In our opinion March's CPI data (our forecast is below market consensus) might cause gradual decline in FRA rates for longer terms.

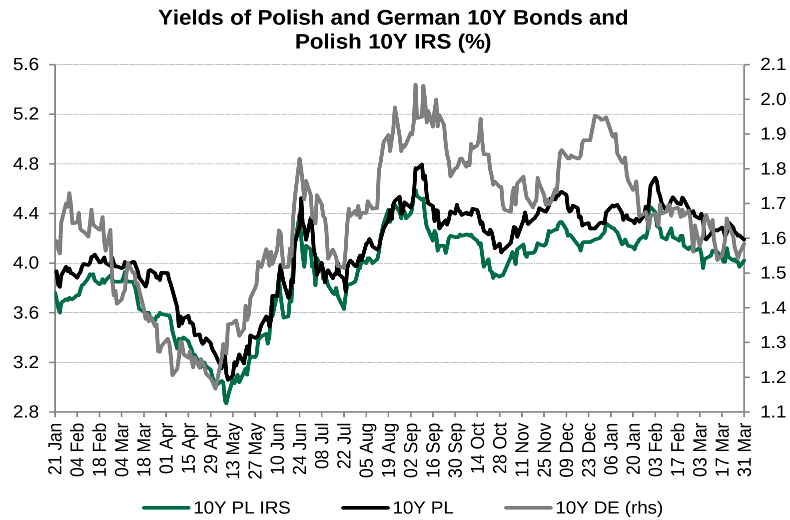


Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: Local factors and global mood stabilisation favour Polish debt

- In March T-bonds and IRS were quite immune to changes in global investors' mood. Uncertain situation in Ukraine and more hawkish (than expected) Fed's statement added volatility to the market, but weakening was only short-lived. Domestic debt market benefited from global mood improvement and the MPC's decision to extend its forward guidance by one quarter, or even longer as suggested by the Council's members.
- The front end of curves remain well anchored around 3%, while the mid and long end decline quite substantially. Consequently, bullish flattener was developing on both T-bond and IRS markets as 2-10Y spread narrowed to 123bp (from 135bp) for T-bonds and to 101bp (from 105bp) for IRS. What is more the 10Y spread to Bund remains in a tight range between 260–280bp, oscillating closer to the bottom of the range.
- Stabilization of core markets combined with dovish signals from the MPC provide market participants with enough comfort to anchor short-term T-bonds and IRS rates near current levels. What is more, upcoming CPI data (our March's forecast is below market consensus) favour not only the front end, but also mid of curves (5Y sectors are very sensitive to monetary policy outlook).
- We see the long-end of curves as most vulnerable to any risk factors (Ukraine) or upcoming macro data from US and euro zone economies, which may influence central banks' decisions. While in short term we foresee range trading, in medium to long term we uphold our view of gradual yields' increase.



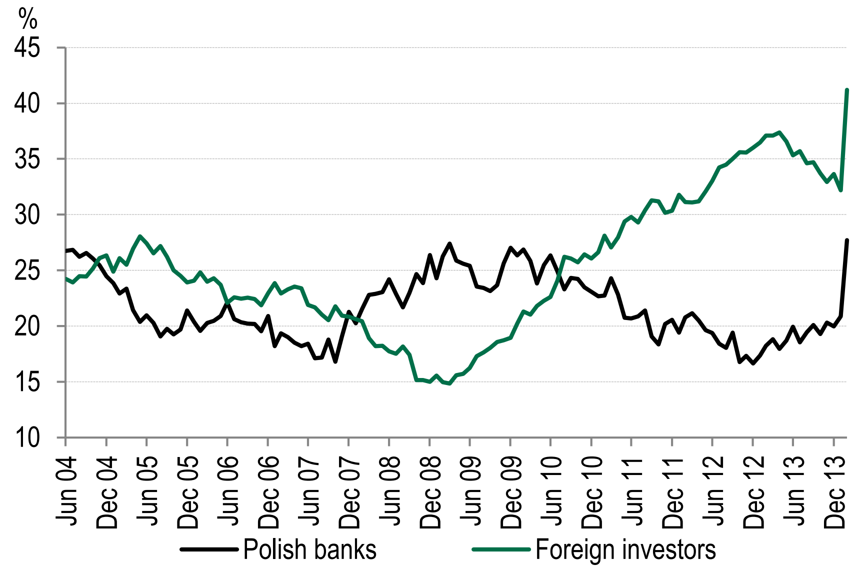


Sources: Reuters, CB, BZ WBK

Demand Corner: Foreigners hold over 40% of Polish bonds

- Data on holders of Polish zloty-denominated, marketable bonds at the end of February released by the Ministry of Finance showed the impact of pension reform for the first time. OFE transferred bonds worth nearly PLN130bn to the state pension fund (ZUS). Consequently, at the end of February, foreigners held over 40% of bonds outstanding vs. 32% in January. The increase was also partly fuelled by monthly bond buying (nearly PLN2.5bn).
- There are 17 bond series in which foreign investors hold at least 40% of debt outstanding, and this represents 87% of foreign-owned bond portfolio. Within this group there are 11 series where foreigners hold over 50% of bonds outstanding and this makes 62% of their total portfolio. 81% of foreigners' holdings and 33% of Polish marketable debt is now in hands of nonbank financial institutions including, e.g., mutual funds, insurance companies, hedge funds.
- This shows that after the pension reform, Polish debt market relies strongly on the foreign investors' moods.
- For the second consecutive month, Polish banks bought bonds worth roughly PLN6bn. The nominal value of debt held by banks is at all-time-high (nearly PLN127bn) and the share in total Polish, PLN, marketable debt surged to c.28% (also record high) from 21% in January.

Shares of Polish banks and foreign investors in Polish marketable bonds

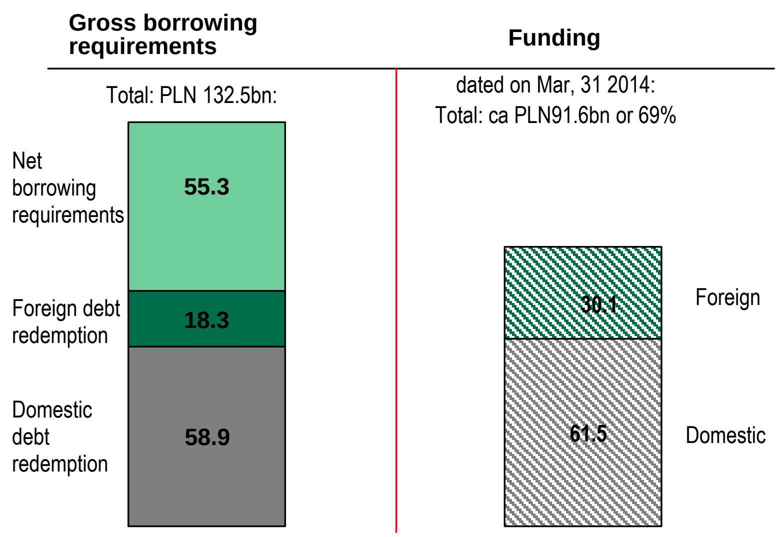


Sources: MF, BZ WBK

Supply Corner: Moderate supply in 2Q, with large offer in April

- Poland's Ministry of Finance successfully ended the first quarter of 2014. It financed nearly 70% of full-year borrowing needs at the end of March and currently holds over PLN30bn in PLN and FX liquidity cushion.
- The 2Q 2014 T-bonds issuance plan is moderate. The Ministry of Finance will offer T-bonds worth of PLN20-30bn vs ca PLN38bn T-bonds sold in total in 1Q 2014. In line with expectations the April's offer, up to PLN15bn in two auctions (see table), will be quite large as Poland faces nearly PLN22bn in payments (from PS0414 redemption and interest from April's series of PS and WS due April, 25). One should notice that offering of PS1016 results from market demand as investors want „more of a series that was knocked down by Poland's pension reform" and their liquidity decreased significantly.
- All in all we expect solid demand for the bonds offered this month, in particular taking into account liquidity situation. Consequently, the Ministry should secure ca 90% of borrowing needs at the end of June.
- As regards other financing, Poland's special-purpose bank BGK will issue up to PLN2bn in road bonds on the domestic market in May or June. BGK may also go for its own financing, possibly issuing up to EUR0.5bn papers in a public or private placement.

Gross borrowing requirements and its funding in 2014



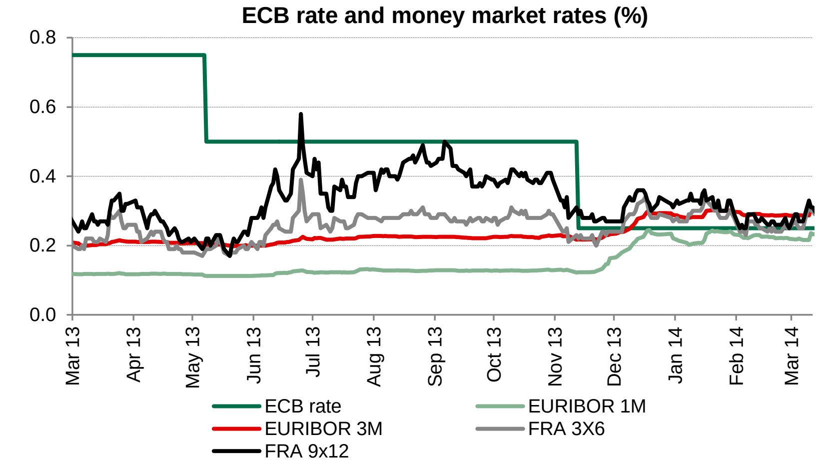
Auctions schedule for April 2014

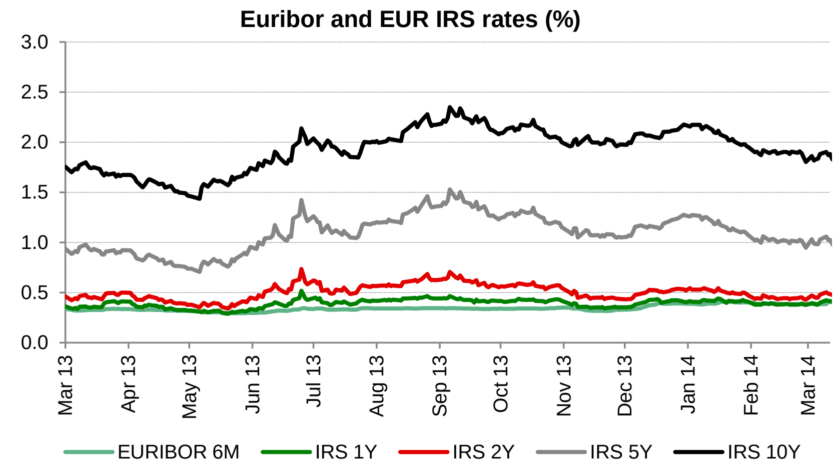
Auction date	Settlement date	T-bonds	Expected supply
3 Apr 2014	7 Apr 2014	DS1023 / WZ0119	PLN3.0-5.0bn
23 Apr 2014	25 Apr 2014	OK0716 / PS1016 / PS0718	PLN5.0-10.0bn

Sources: MF, BZ WBK

International Money Market and IRS: Is ECB ready to act to fight against deflationary risks?

- In March EURIBOR rates increased gradually by 1-3bp across the curve. However, ECB commentary and low inflation have encouraged a fall back in euro zone rate expectations. On the other hand since the March's FOMC meeting, markets have steadily priced in more significant Fed rate hikes next year. However, the US money market rates remained stable in March.
- Both EUR and USD IRS markets were sensitive to changes in monetary policy outlook and macro data. More dovish ECB's rhetoric with mixed data from real economy caused decline in EUR IRS by 2-6bp in monthly terms, while front end of the curve increased by 2bp. On the other hand more hawkish Fed's outcome and better than expected macro data in the US resulted in USD IRS rising by 6-20bp across the curve. On both market flattening strategy dominate, following situation on debt market.
- The expectations for monetary policy actions on both sides of the Atlantic are falling apart. While the FOMC is expected to start hiking interest rates next year, the ECB might be forced to fight against deflationary risk by taking pre-emptive policy action. In our opinion, ECB will disappoint market, keeping monetary conditions unchanged. However, we think that ECB will maintain its dovish rhetoric to keep the money market rates at low level.

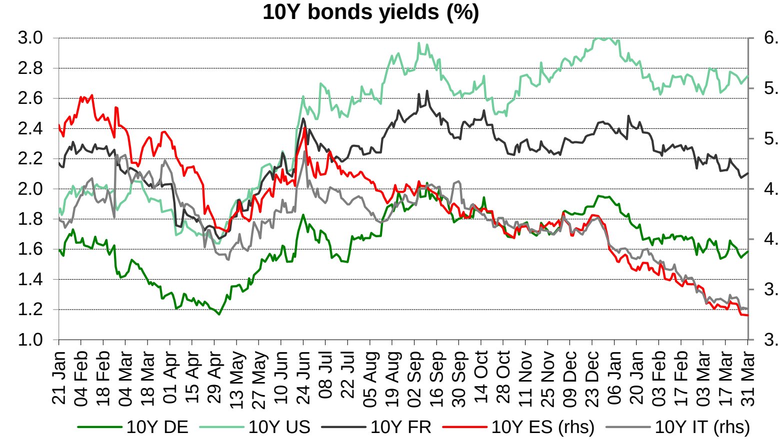


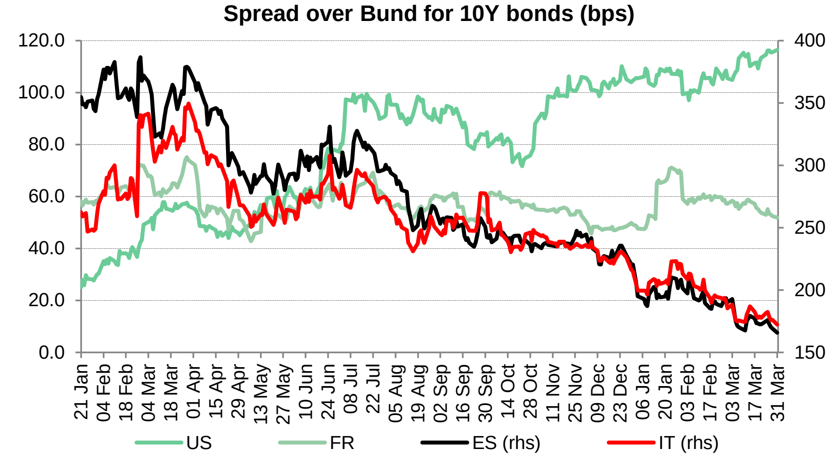


Sources: Thomson Reuters, ECB, Fed, BZ WBK

International Bond Market: Peripheral debt market is stronger and stronger

- The beginning of March shifted another wave of capital towards safe assets due to still high uncertainty over Ukraine. However, diverging expectations of monetary policy on both sides of the Atlantic resulted in a bit different direction of changes in yields on core markets. While yields of US Treasury returned to upward trend due to more hawkish than expected Fed's comments on interest rates, yields of Bunds continued gradual decline due to expectations that ECB may deliver further monetary easing in April. As a consequence the spreads between US Treasury yields and their German counterparts have risen.
- Despite persisting high risk aversion peripheral bond markets in the euro area have continued to perform strongly. What is more, the peripheral euro zone countries had no problems with selling debt at auction with yields below the levels on secondary market.
- This month ECB meeting (3 April) and the US macro data are the key events for core market, but also peripheral ones. We do not expect the European monetary authority to change the main monetary parameters, however some investors expect such a move on the back of recent "dovish" statements by the Bundesbank head. Therefore no action from ECB could disappoint markets and may result in profit taking. On the other hand strong US macro data should support upward trend in yields.



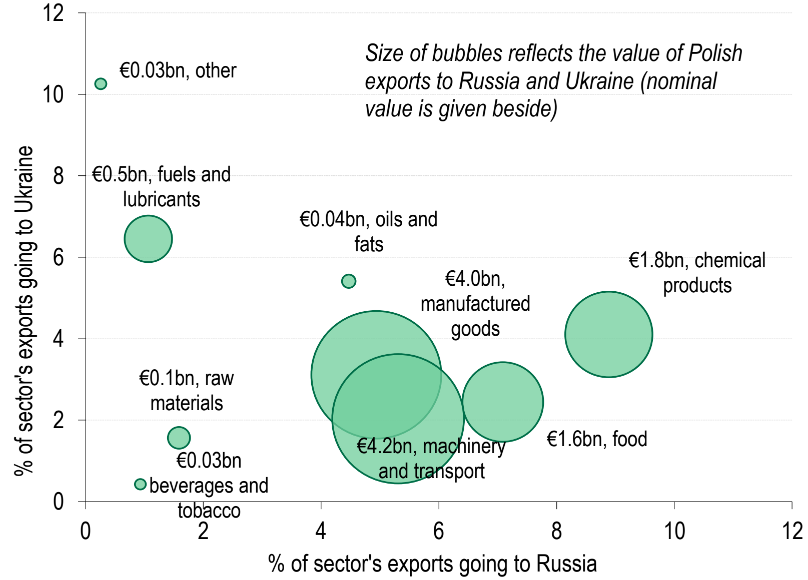


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: Zloty benefits from mood improvement, but Ukraine still crucial

- EUR/PLN was quite volatile in March. Broader glance on the market shows that recent six weeks for EUR/PLN are alike to mid-January/mid-February period. After three weeks of an upward move recorded at that time (driven by risk aversion in the emerging markets), next two weeks saw a drop from 4.26 to 4.14. We suppose that last decline (from 4.25 to 4.16) was partly due to euro weakness in the global market.
- Despite some positive news from Ukraine (the IMF loan), we think it is too prematurely to erase this issue from the list of risk factors given high activity of Russian army beyond the Ukraine's border. We had also changed expectations regarding the start of interest rate hikes in Poland. Note, however, that Poland's direct exposure to Ukraine is limited, so the economy should not suffer much, assuming the conflict with Russia does not kill the recovery in Western Europe.
- Although there are chances of EUR/PLN falling to 4.14, we do not expect that such move – if materializes – could be persistent given the situation beyond our eastern border. Additionally, the March ECB decision may be crucial. If the central bank again shows its readiness to act only verbally, then the euro may recover at least part of losses suffered in recent weeks. Given the factors above, we now expect slower zloty appreciation in H1. The year-end target remains untouched, as we believe the geopolitical risks will be offset by strong economic fundamentals.

Exposure of Polish exports to Russia and Ukraine in particular sectors



Sources: BZ WBK, Reuters, CSO

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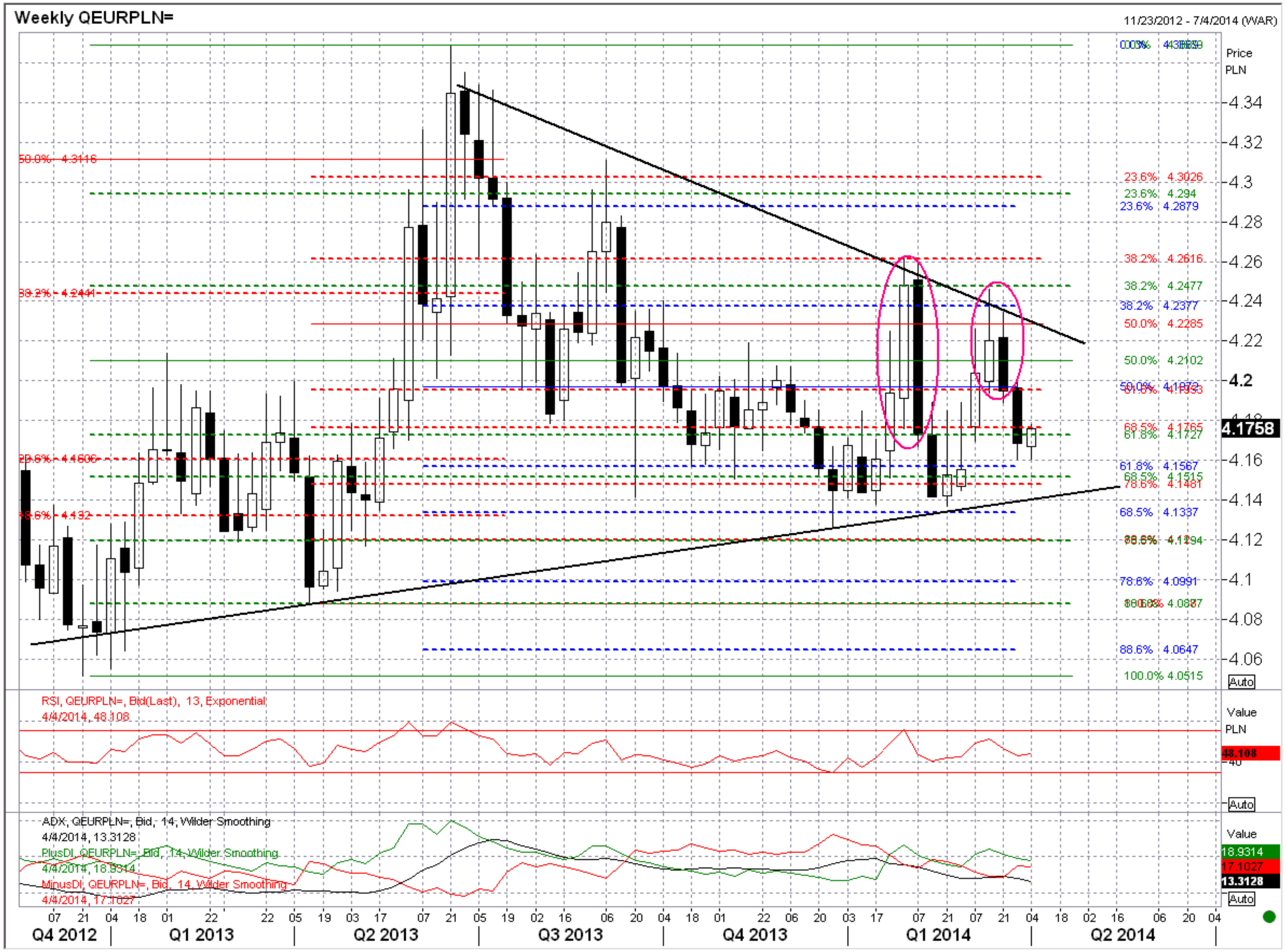
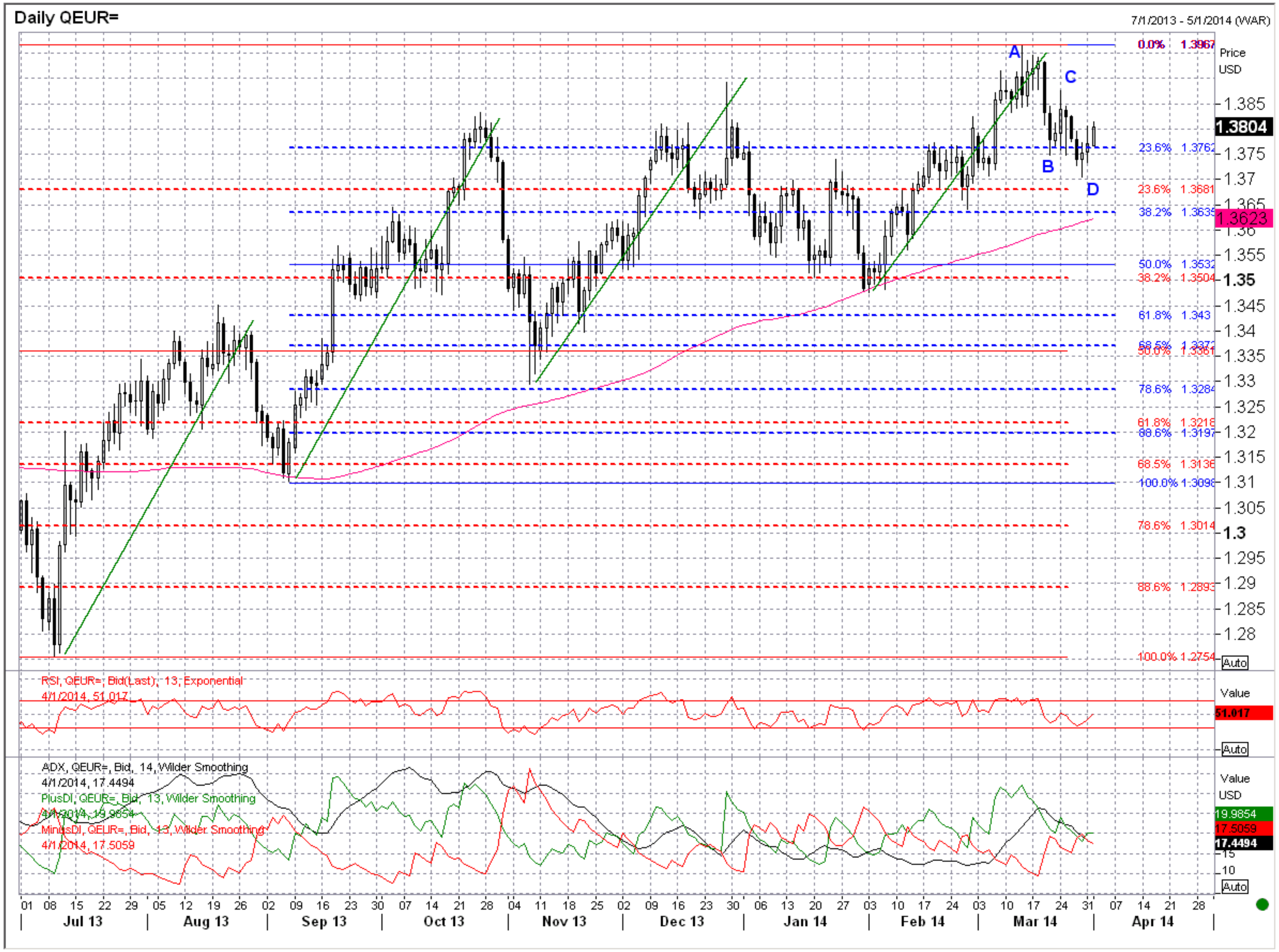
FX Technical Analysis Corner: Down, and up again?



- EUR/PLN stayed within 4.12-4.25 range indicated last month.
- Interesting pattern is observed on the weekly chart. First, similarly to February, also in March we had a bearish engulfing. Secondly, notice that last 7 weeks are very similar to mid-January/mid-February period – after 3 weeks of an upward move of EUR/PLN recorded at that time, next two weeks saw a move down from 4.26 to 4.14.
- The exchange rate may be now starting a move towards 4.24-4.26

Sources: BZ WBK, Reuters

FX Technical Analysis Corner: Room for higher EUR/USD



- Technical analysis suggests EUR/USD may resume upward impulse in April.
- AB/CD is equal to 1.272, strong Fibo ratio and this suggest the downward correction has finished. Additionally, there is a 23.6% Fibo support nearby.
- Notice also, that so far recent correction retraced 50% of the last upward move, and this is the minimum ratio that was recorded in case of past upward waves. So the move down does not need to be continued to fit the pattern.

Sources: Reuters, BZ WBK

Macroeconomic Forecasts

Poland		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1,523.2	1,595.2	1,631.8	1,705.6	377.9	395.7	404.3	453.9	391.4	413.2	421.8	477.0
GDP	%YoY	4.5	1.9	1.6	3.5	0.5	0.8	1.9	2.7	3.1	3.5	3.6	3.8
Domestic demand	%YoY	3.6	-0.2	-0.1	3.0	-0.9	-1.7	0.5	1.2	1.7	3.5	3.0	3.7
Private consumption	%YoY	2.6	0.8	0.8	2.4	0.0	0.2	1.0	2.1	2.2	2.3	2.5	2.6
Fixed investments	%YoY	8.5	-0.8	-0.4	4.6	-2.1	-3.2	0.6	1.3	1.5	2.0	5.0	7.0
Unemployment rate [a]	%	12.5	13.4	13.4	12.6	14.3	13.2	13.0	13.4	13.7	12.5	12.3	12.6
Current account balance	EURm	-18,519	-14,191	-4,984	-2,926	-2,313	486	-2,086	-1,071	-1,280	-61	-855	-730
Current account balance	% GDP	-5.0	-3.7	-1.3	-0.7	-3.1	-2.3	-1.9	-1.3	-1.0	-1.1	-0.8	-0.7
General government balance	% GDP	-5.0	-3.9	-4.4	4.4	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.0	1.3	0.5	1.1	0.7	0.6	1.0	0.8	1.6
CPI [a]	%YoY	4.6	2.4	0.7	1.9	1.0	0.2	1.0	0.7	0.6	1.2	1.1	1.9
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.1	1.2	1.0	1.4	1.2	0.8	1.2	0.9	1.4

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; [a] at the end of period * without changes in pension system

Interest Rate and FX Forecasts

Poland		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Reference rate [a]	%	4.50	4.25	2.50	2.50	3.25	2.75	2.50	2.50	2.50	2.50	2.50	2.50
WIBOR 3M	%	4.54	4.91	3.02	2.74	3.77	2.96	2.70	2.66	2.71	2.72	2.74	2.78
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.09	3.29	2.77	2.98	2.88	3.01	3.05	3.13	3.18
Yield on 5-year T-bonds	%	5.44	4.53	3.46	3.80	3.49	3.09	3.63	3.64	3.71	3.76	3.83	3.88
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.43	3.95	3.58	4.26	4.36	4.38	4.30	4.45	4.60
2-year IRS	%	4.98	4.52	3.10	3.24	3.43	2.81	3.14	3.04	3.07	3.15	3.32	3.42
5-year IRS	%	5.24	4.47	3.51	3.88	3.52	3.08	3.76	3.68	3.70	3.80	3.97	4.07
10-year IRS	%	5.33	4.56	3.86	4.21	3.76	3.41	4.13	4.14	4.16	4.06	4.23	4.40
EUR/PLN	PLN	4.12	4.19	4.20	4.09	4.16	4.20	4.25	4.19	4.19	4.14	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.97	3.15	3.22	3.21	3.08	3.06	3.02	2.93	2.87
CHF/PLN	PLN	3.34	3.47	3.41	3.28	3.38	3.41	3.44	3.40	3.42	3.37	3.22	3.11
GBP/PLN	PLN	4.75	5.16	4.94	4.94	4.88	4.94	4.97	4.98	5.06	5.00	4.87	4.84

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

Economic Calendar and Events

Date		Event:	Note:
3-Apr	**PL**	**Auction of DS1023 and WZ0119**	**Offer: PLN3.0-5.0bn**
	EZ	ECB Meeting – interest rate decision	**-**
9-Apr	**PL**	**MPC Meeting – interest rate decision**	**-**
6-Apr	HU	Parliamentary elections	-
15-Apr	**PL**	**CPI for March**	**Our forecast: 0.6%YoY, below market consensus at 0.7%YoY**
16-Apr	**PL**	**CPI excluding food and energy prices for March**	**Our forecast and market consensus are at 0.9%YoY**
	PL	**Employment and wages for March**	**We expect employment to increase by 0.4%YoY and wages growth at 3.6%YoY. Our forecasts of wages growth is below market consensus**
17-Apr	**PL**	**Industrial output and PPI for March**	**Our forecast of industrial output is 5.9%YoY (below market consensus). We predict PPI at -0.9%YoY**
23-Apr	**PL**	**Auction of OK0716 / PS1016 / PS0718**	**Offer: PLN5.0-10.0**
29-Apr	HU	NBH meeting	-
TBA	**PL**	**Retail sales for March**	**Our forecast is 4.7%YoY. It is slightly below market consensus at 5.5%YoY**
7-May	**PL**	**MPC Meeting – interest rate decision**	**-**
	CZ	CZK Meeting – interest rate decision	-
8-May	EZ	ECB Meeting – interest rate decision	**-**

Annex

1. Domestic markets 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

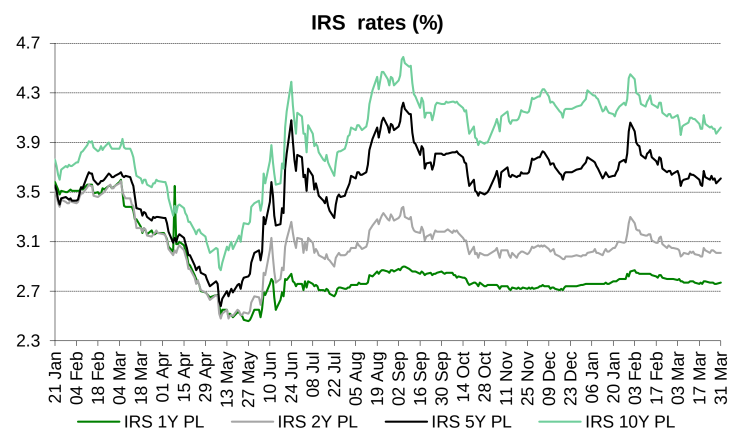
1. Domestic markets performance

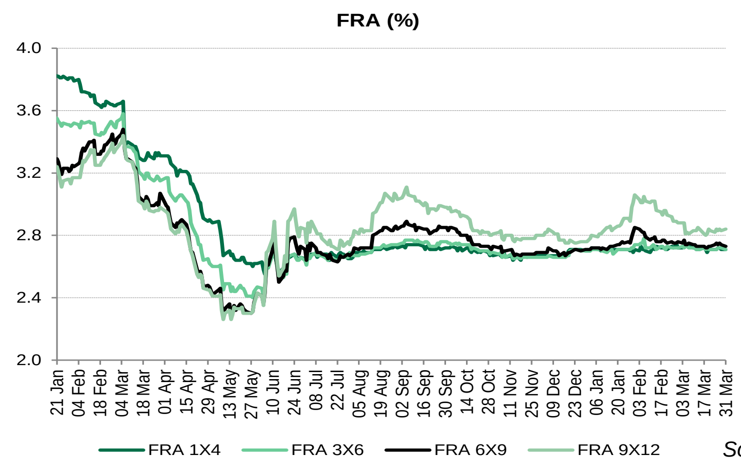
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of March	2.50	2.42	2.61	2.71	2.74	2.79	2.43	2.43	2.43	2.48	2.71	2.71	2.73	2.84
Last 1M change (bp)	0	-7	0	0	0	1	2	2	0	-4	-1	-1	-3	-4
Last 3M change (bp)	0	2	0	0	2	4	5	5	3	0	1	1	2	8
Last 1Y change (bp)	-75	-88	-78	-68	-65	-60	-79	-69	-59	-45	-60	-44	-34	-14

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of March	3.00	3.75	4.22	3.01	3.61	4.02	-1	14	20
Last 1M change (bp)	-2	-12	-14	-4	-4	-8	2	-8	-6
Last 3M change (bp)	0	-6	-10	2	-10	-20	-2	4	11
Last 1Y change (bp)	-14	34	30	-16	31	43	2	3	-13





Sources: Reuters, BZ WBK

2. Polish bonds: supply recap

Total issuance in 2014 by instruments (in PLNm, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bonds auction	18,143	8,821	6,573	13,000	9,000	5,000	5,000	5,000	5,000	5,000	3,000	2300	85,837
T-bills auction													0
Retail bonds	256	475	190	170	170	170	170	180	170	175	185	176	2,487
Foreign bonds/credits	16,724	1,150					5450			3200			26,524
Prefinancing and financial resources at the end of 2013	25,000												25,000
Total	**60,123**	**10,445**	**6,763**	**13,170**	**9,170**	**5,170**	**10,620**	**5,180**	**5,170**	**8,375**	**3,185**	**2476**	**139,847**
Redemption	16,497	5,613	2,230	16,035	116	60	10,323	1,793	2,796	83	816	91	56,452
Net inflows	**43,626**	**4,832**	**4,533**	**-2,865**	**9,054**	**5,110**	**297**	**3,387**	**2,374**	**8,292**	**2,369**	**2,385**	**83,395**
Rolling over T-bonds			4,807										**4,807**
Buy-back of T-bills/ FX-denominated bonds													**0**
Total	**43,626**	**4,832**	**9,340**	**-2,865**	**9,054**	**5,110**	**297**	**3,387**	**2,374**	**8,292**	**2,369**	**2,385**	**88,202**
Coupon payments from domestic debt	*1,546*			*5,596*			*1,327*		*1,298*	*7,507*			*17,275*

Note: Our forecasts – shaded area

Sources: MF, BZ WBK

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2. Polish bonds: supply recap (cont.)

Schedule Treasury Securities redemption by instruments (in PLNm)

	Bonds	Bills	Retail bonds	Total domestic redemption	Foreign Bonds/Credits	Total redemptions
January	13,660		155	**13,815**	2,681	**16,497**
February			171	**171**	5,442	**5,613**
March			117	**117**	2,113	**2,230**
April	15,968		66	**16,035**		**16,035**
May			116	**116**		**116**
June			60	**60**		**60**
July	8,998		89	**9,087**	1,236	**10,323**
August			198	**198**	1,594	**1,793**
September			359	**359**	2,438	**2,796**
October			83	**83**		**83**
November			171	**171**	645	**816**
December			91	**91**		**91**
Total 2014	38,627		1,677	**40,304**	16,149	**56,452**
Total 2015	83,354		1,710	**85,064**	14,789	**99,853**
Total 2016	77,971		1,273	**79,245**	17,262	**96,506**
Total 2017	58,543		917	**59,460**	12,566	**72,026**
Total 2018	60,971		911	**61,882**	14,396	**76,278**
Total 2019+	148,099		3,233	**151,332**	135,784	**287,116**

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of February 2014, in PLNm)

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2014	0	0	0	0	0	0	0	0	0
Q2 2014	11,396	3,309	2,876	151	652	84	74	1,022	19,564
Q3 2014	5,290	1,997	1,206	5	626	143	11	806	10,084
Q4 2014	0	0	0	0	0	57	7	13	77
Total 2014	**16,686**	**5,306**	**4,082**	**156**	**1,278**	**284**	**92**	**1,842**	**29,725**
	56%	**18%**	**14%**	**1%**	**4%**	**1%**	**0%**	**6%**	**100%**
Total 2015	34,038	27,353	8,126	311	7,488	247	280	5,582	83,425
	41%	33%	10%	0%	9%	0%	0%	7%	100%
Total 2016	34,794	17,043	6,902	467	9,898	118	100	5,940	75,262
	46%	23%	9%	1%	13%	0%	0%	8%	100%
Total 2017	23,973	15,918	6,634	425	7,778	49	129	3,637	58,543
	41%	27%	11%	1%	13%	0%	0%	6%	100%
Total 2018	17,027	26,013	2,976	257	7,689	70	253	4,000	58,285
	29%	45%	5%	0%	13%	0%	0%	7%	100%
Total 2019+	62,170	35,243	23,889	1,050	11,513	236	496	8,982	143,580
	43%	25%	17%	1%	8%	0%	0%	6%	100%

Sources: MF, BZ WBK

3. Polish bonds: demand recap

Holders of marketable PLN bonds

	Nominal value (PLN, bn)				Nominal value (PLN, bn)			% change in February			Share in TOTAL (%) in February
	End Feb'14	End Jan'14	End Sep'13	End Jun'13	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	269,2	392,6	377,3	369,4	341,8	352,9	361,4	-31,43	-21,53	-21,51	58.8 (-9.0pp)
Commercial banks	126,9	120,9	116,2	113,9	102,0	102,1	110,9	4,98	7,05	27,64	27.7 (6.8pp)
Insurance companies	52,6	52,4	52,8	53,1	54,7	57,0	54,3	0,41	0,89	3,19	11.5 (2.4pp)
Pension funds	2,7	132,4	122,7	117,7	116,7	120,3	120,7	-97,99	-97,92	-97,65	0.6 (-22.3pp)
Mutual funds	45,6	46,3	46,1	46,5	32,5	33,0	31,3	-1,40	-10,50	8,31	10.0 (2.0pp)
Others	41,4	40,6	39,5	38,3	35,9	40,5	44,3	-2,0	0,3	-10,2	9.0 (2.0pp)
Foreign investors*	188,7	186,3	200,6	201,8	184,2	174,0	163,2	1,30	-1,76	-6,66	41.2 (9.0pp)
Banks	28,9	30,4	32,1	32,3	27,8	22,6	24,3	-4,99	2,36	-14,47	6.3 (1.1pp)
Non-bank fin. sector	152,5	148,6	159,7	160,1	147,5	143,1	131,7	2,59	-2,35	-4,65	33.3 (7.6pp)
Non-financial sector	4,2	4,1	5,2	5,3	5,6	5,2	4,4	2,24	-3,74	-15,04	0.9 (0.2pp)
TOTAL	457,9	578,9	577,9	571,2	526,0	526,9	524,7	-20,90	-31,23	-16,01	100

**Total for Foreign investors does not match sum of values presented for sub-categories due to omission of irrelevantly small group of investors.* *Sources: MF, BZ WBK*

4. Euro zone bonds: supply recap

Euro zone's issuance plans and completion in 2014 (€ bn)

	Total redemptions	Deficit	Borrowing needs	Expected bond supply	% of completion (YtD*)
Austria	23.4	4.3	27.7	24.7	14.9
Belgium	21.8	9.8	31.6	30.0	49.0
Finland	6.9	4.8	11.7	11.7	40.0
France	105.0	70.2	175.2	174.0	34.6
Germany	144.0	-	144	144.0	26.7
Greece	*16.8*	*5.6*	-	-	-
Ireland	6.9	7.7	14.6	14.6	47.5
Italy	187.8	27.6	235.4	235.4	30.7
Netherlands	32.0	15.9	47.9	45.9	42.5
Portugal	11.4	7.4	18.8	7.2	-
Spain	68.2	36.7	141.3	141.3	33.4
Total	**624.2**	**189.9**	848.2	**828.8**	**32.5**

Sources: Eurostat, BZ WBK

**/ YtD (year calendar) data for 2014*

5. Poland vs. other countries

Main macroeconomic indicators (European Commission's forecasts)

	GDP (%)		Inflation (HICP, %)		C/A balance (% of GDP)		Fiscal Balance (% of GDP)		Public Debt (% of GDP)	
	2013F	2014E	2013F	2014E	2013F	2014E	2013F	2014E	2013F	2014E
Poland	**1.6**	**2.9**	**0.8**	**1.4**	**-1.6**	**-1.4**	**-4.4**	**5.0**	**57.8**	**50.3**
Czech Republic	-1.2	1.8	1.4	1.0	-2.4	-1.5	-2.7	-2.8	46.1	47.2
Hungary	1.1	2.1	1.7	1.2	2.9	2.7	-2.4	-3.0	77.8	79.1
EU	0.1	1.5	1.5	1.2	1.7	1.7	-3.5	-2.7	89.4	89.7
Euro area	-0.4	1.2	1.4	1.0	2.7	2.7	-3.1	-2.6	95.5	95.9
Germany	0.4	1.8	1.6	1.4	7.0	6.7	-0.1	0.0	79.6	77.3

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2013	end of Mar	2013	end of Mar	2013	end of Mar	2013	end of Mar	2013	end of Mar
Poland	**2.50**	**2.50**	**2.71**	**2.71**	**4.32**	**4.22**	**238**	**264**	**79**	**71**
Czech Republic	0.05	0.05	0.05	0.04	2.53	2.21	58	63	60	58
Hungary	3.00	2.60	2.99	2.67	5.71	5.64	377	406	256	234
Euro area	0.25	0.25	0.29	0.31						
Germany					1.94	1.58			26	23

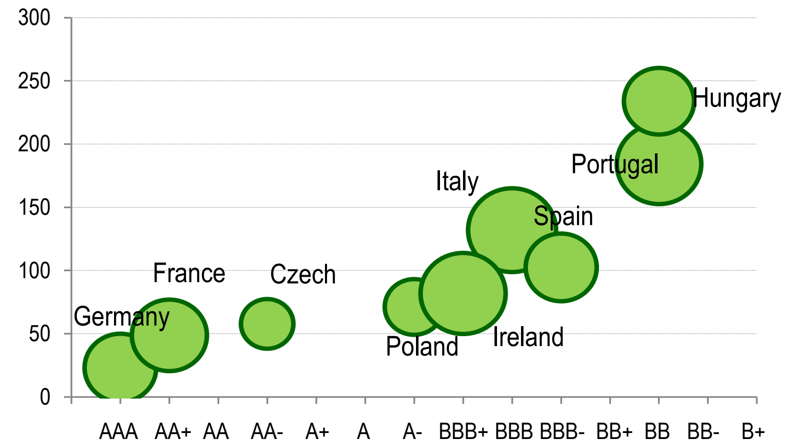
Sources: EC – Winter 2014, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

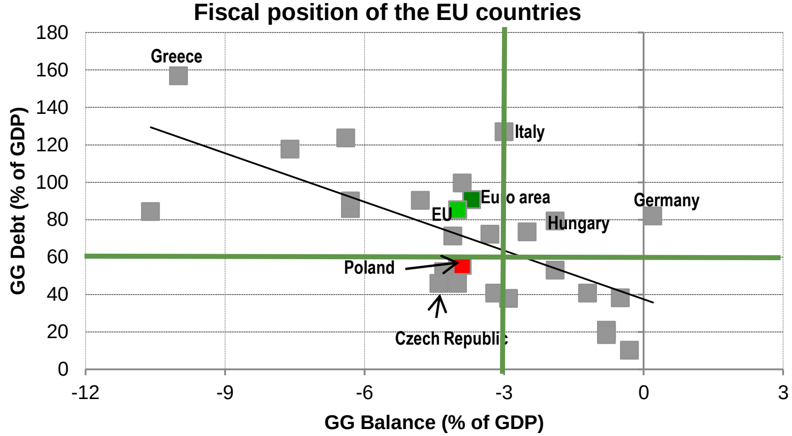
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	stable	Caa3	stable	B-	stable
Ireland	BBB+	positive	Baa3	positive	BBB+	stable
Italy	BBB	negative	Baa2	stable	BBB+	negative
Portugal	BB	negative	Ba3	stable	BB+	negative
Spain	BBB-	stable	Baa3	stable	BBB	stable

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

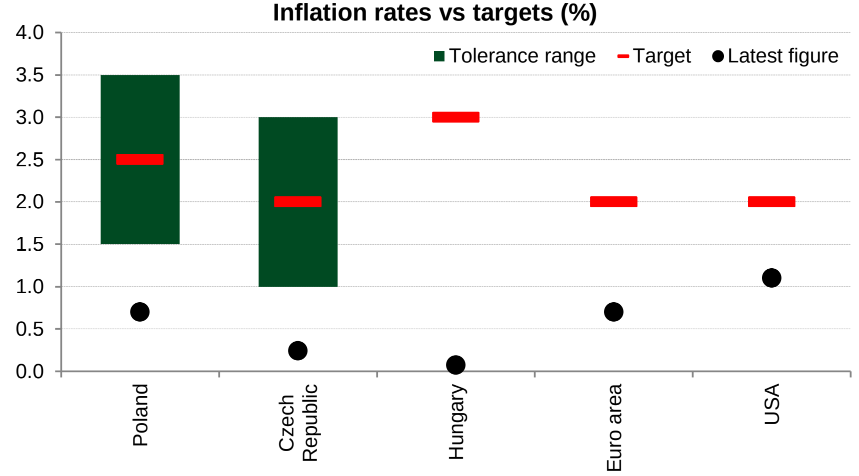


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

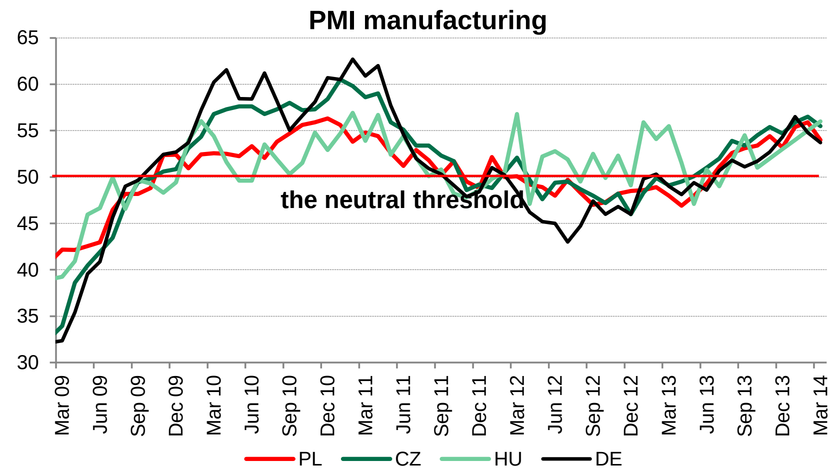


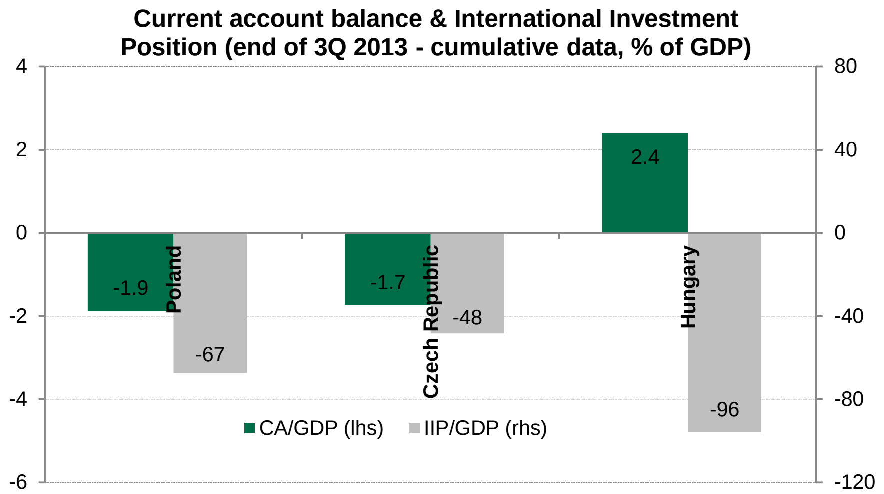
Inflation rates vs targets (%)

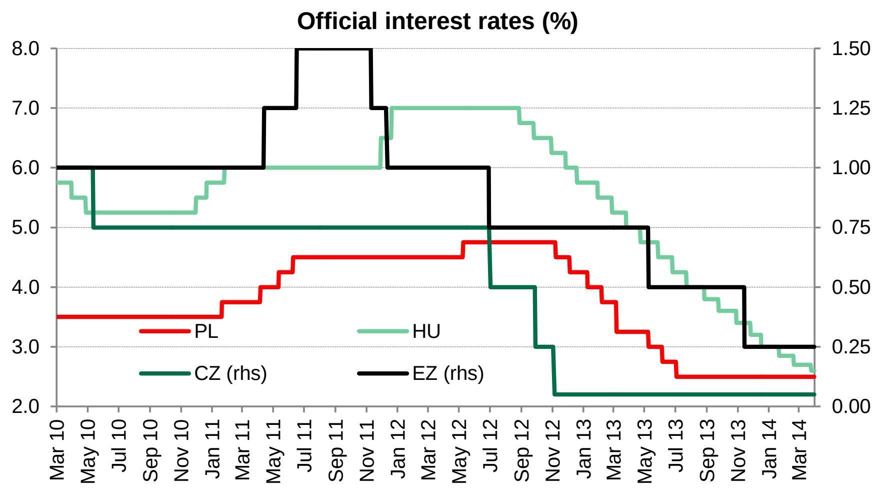


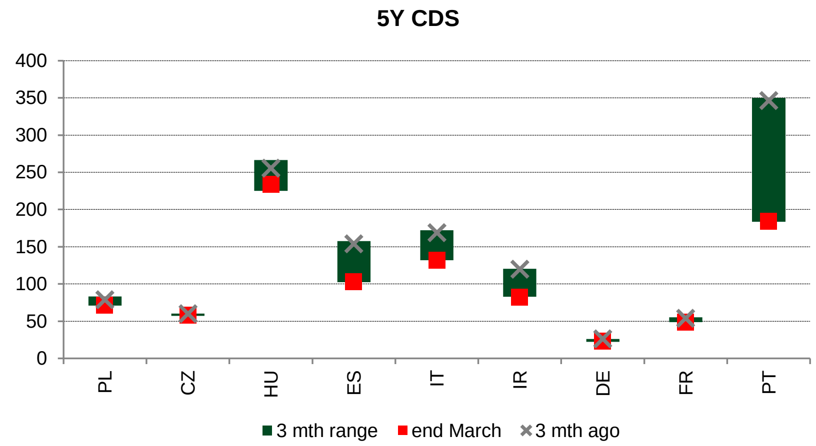
Source: rating agencies, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)









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

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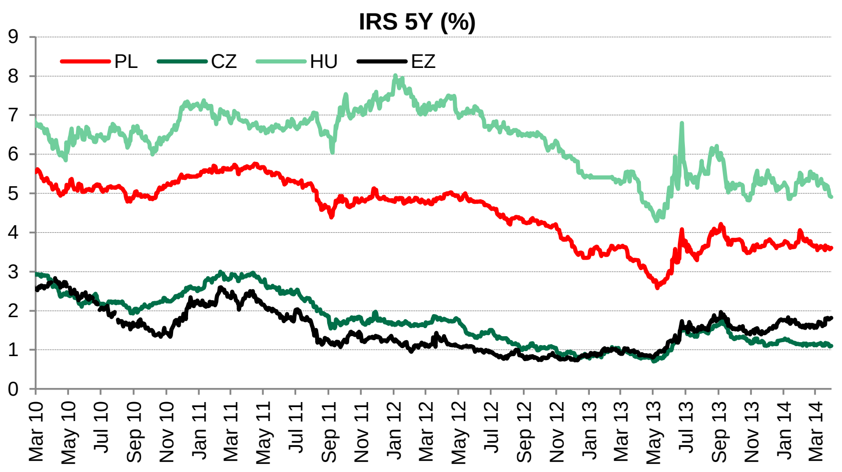
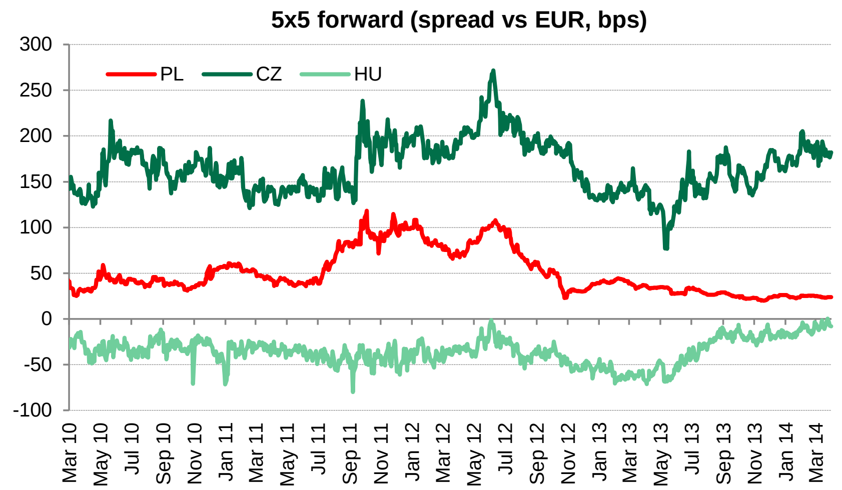
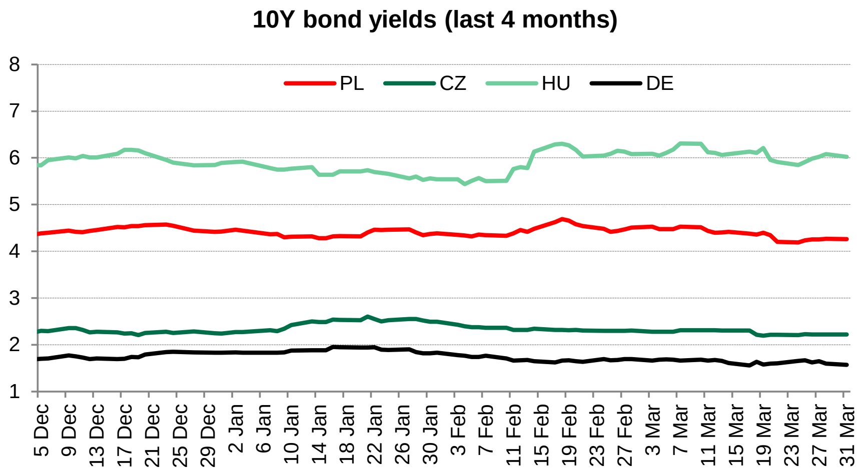
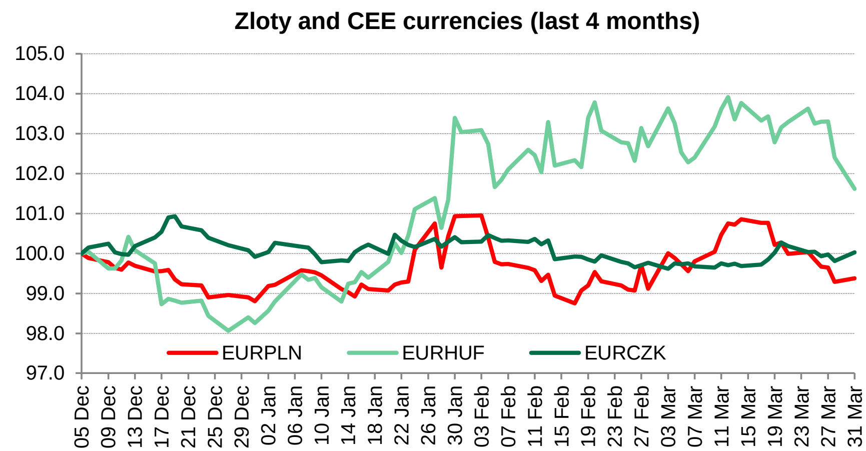
5. Poland vs other countries (cont.)









Source: Reuters, BZ WBK

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7. Central bank watch

		Last	2013	2014F	Expected changes (bp) 1M	3M	6M	Risks/Events
Euro zone	Forecast	0.25	0.25	0.25				The door remains wide open to further easing as deflation risk still persists. But, we think that ECB will keep monetary conditions unchanged, however we cannot rule out some "liquidity-oriented" measures to be implemented.
	Market implied »				-1	-2	-2	
UK	Forecast	0.50	0.50	0.75				We foresee BoE to keep its monetary policy unchanged. CPI inflation stayed at low level in February, reaching a fresh four-year low .
	Market implied »				1	3	12	
US	Forecast	0-.25	0-.25	0.25				March's Fed rhetoric was more hawkish than expected, pointing to a possible rate hike sooner than expected . Currently market is pricing-in the first hike in May 2015.
	Market implied »				1	2	5	
Poland	Forecast	2.50	2.50	3.00				We expect the MPC to uphold its monetary policy and rhetoric unchanged this month, after unexpected decision in March to extend its forward guidance at least till the end of 3Q 2014. We foresee the next decision of increasing forward guidance in July, when the NBP will release a new CPI and GDP projections.
	Market implied »				0	0	2	
Czech Republic	Forecast	0.05	0.05	0.05				CPI inflation stayed below the CNB's forecast (0.2% in February vs. the 0.4% expected by the Central Bank). The CNB rhetoric stayed unchanged, as it continues to use the EUR/CZK exchange rate as a non-standard monetary policy tool.
	Market implied »				34	36	38	
Hungary	Forecast	2.60	3.00	3.00				The new NBH's forecasts assume a lower CPI inflation path than previously expected and a roughly unchanged outlook for GDP growth. The March's statement suggests that the end of the rate easing cycle started in August 2012 is near, but we still do not exclude base rate reduction to 2.50% and than increase in H2 2014.
	Market implied »				-2	6	26	

This analysis is based on information available until 31st March 2014 and has been prepared by:

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