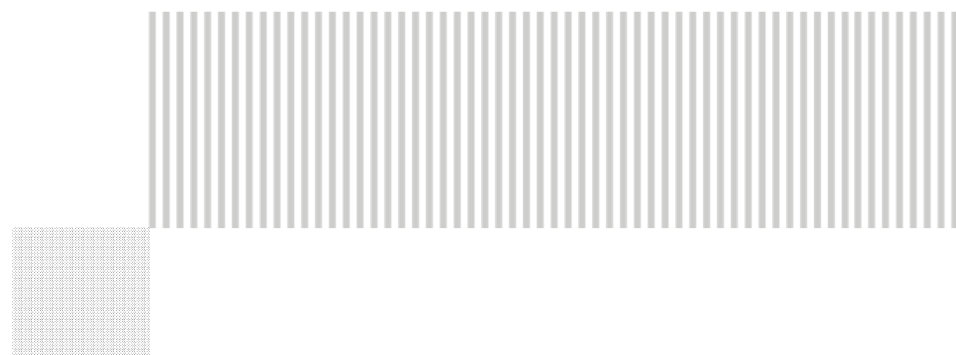




RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

February 2014



Bank Zachodni WBK

 Grupa Santander

Table of contents

Summary	3
Short- and Medium-term Strategy	4
Domestic Money Market	6
Domestic IRS and T-Bond Market	7
Demand Corner	8
Supply Corner	9
International Money Market and IRS	10
International Bond Market	11
Foreign Exchange Market	12
FX Technical Analysis Corner	13
Economic and Market Forecasts	15
Economic Calendar and Events	17
Annex	18

Summary

- The recent data have confirmed that economic recovery in Poland has been gaining momentum. According to the flash estimate, GDP growth in 2013 reached 1.6%, which implies quite a substantial acceleration of growth in 4Q (up to 2.8%YoY from 1.9%YoY in 3Q). We expect the economic growth keep speeding up in forthcoming quarters, so the average growth for 2014 should be around 3.5% (change of forecast from 3.1%), more than doubling the previous year. Moreover, the growth will be more evenly-distributed, with not only exports but also domestic demand regaining its strength.
- Increasing risk aversion on global markets turned all eyes on the central banks' actions. Some EM central banks (India, Turkey, Brazil, the South Africa) decided to hike official rates in reaction to the sharp depreciation of their currencies. Others (Romania, Croatia) decided to intervene on the market. We don't expect an immediate response of the Polish authorities to the zloty's weakening, which does not exclude some NBP's FX activity should market volatility proves excessive. The recent verbal intervention of the NBP board member suggests the bank is closely monitoring the situation and is ready to act if necessary. The recent weakening of the zloty is not fundamentally justified, therefore once the contagion stops spreading and the initial EM rout is over, investors will start differentiating between markets again. Then, country-specific factors should support the zloty again: accelerating economic growth, quickly shrinking current account deficit (implying decreasing reliance on foreign capital inflow), the improving stability of public finances and an approaching interest rate hike.
- A globally-driven sell-off negatively affected the Polish bond market. The large exposure to foreign investors in local debt market (especially after transferring OFE's funds to ZUS) remains the biggest risk factor for valuation of the Polish assets. Improvement in risk sentiment should curb some losses. What is more, lower T-bonds supply (at the end of January the 2014 borrowing needs completed in over 50%) will be also a supportive factor for the domestic curve. However, in medium term we still foresee upward trend of yields as a result of continued economic improvement, implying inflationary pressure and monetary tightening.
- The MPC is unlikely to make any notable adjustments in monetary policy until the March meeting when it will receive the new NBP projections that may be crucial for the forward guidance and the expected interest rate path. One should notice that expectations for a rate hike in 2H 2014 have intensified recently due to improving economic conditions and the currency sell-off. We still expect the MPC to start tightening monetary policy in the autumn, ending up the year with the reference rate at 3.00%.
- As expected, Fed decided to reduce its asset purchases program in January by another US\$10bn. As long as the upward path of the economic growth is not questioned, the FOMC is expected to follow the path of gradual tapering month by month. On the other hand weak money supply and inflation data in eurozone renewed expectations for further actions by the ECB. Our baseline scenario does not include any additional easing actions by the EBC, though some non-conventional measures may eventually be announced.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-January	1M	3M
Reference rate	0	0	2.50	→	→
WIBOR 3M	5	0	2.71	→	→
2Y bond yield	38	21	3.21	↘	→
5Y bond yield	59	49	4.10	↘	→
10Y bond yield	53	38	4.69	↘	→
2/10Y curve slope	15	17	149	→	→

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 expect WIBOR (1M-12M) rates to remain stable until March's MPC meeting, when new projections will be released. As some Council's members suggested, in March the MPC may send a signal about the direction for monetary policy. Still, FRA rates will be more vulnerable to upcoming macro data and situation on the debt market. We expect the market expectations for rate hikes in 2H 2014 (our scenario) to strengthen further.

Short end: The front end of curves rose sharply (reaching this year's peak) due to panic sell-off across EM countries. In the short run we expect rates to rebound slightly as compared with the end of January. However, volatility on the market may remain elevated.

Long end: Mid and long end of curve are more sensitive to changes in global investors' mood with the biggest losses in 5Y sector. Increasing role of foreign investors on domestic debt market after transferring OFE's bond holdings to ZUS, makes the Polish bond market more sensitive to changes in global moods. The three-month scenario of a big yield increase at the long-end (and curve steepening), which we bet on last month, has materialised already in January. Currently, we assuming some stabilisation of global market sentiment and a decrease in Polish rates/yields. Our year-end targets remain unchanged.

Risk factors to our view: Given large uncertainty surrounding the direction in which EM situation evolves, we find it to be the biggest risk factor currently. Further intensification of risk aversion may bring another wave of yields/rates increase along the curves. Any panic moves among the EM central banks will add volatility to the market.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-January	1M	3M
EURPLN	1.4	2.2	4.24	↘	↘
USDPLN	2.6	3.9	3.13	↘	↘
CHFPLN	2.3	2.4	3.46	↘	↘↘
GBPPLN	5.3	3.3	5.15	→	↘↘
EURUSD	-1.1	-1.7	1.35	→	→

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: The zloty depreciated significantly due to the emerging market currencies sell-off. We still think the zloty has potential to appreciate due to the solid economic fundamentals (accelerating GDP growth, shrinking C/A deficit, possible interest rate hikes), though taking into account current market situation we decided to slightly adjust our Q1-14 forecast (upward revision from 4.14 to 4.18).

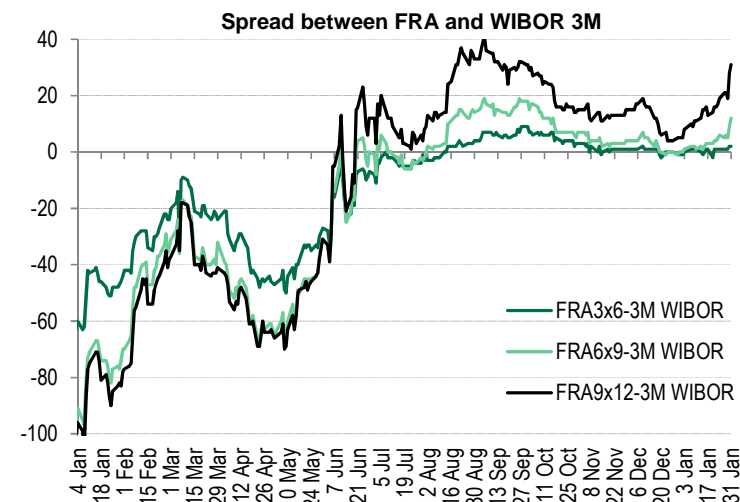
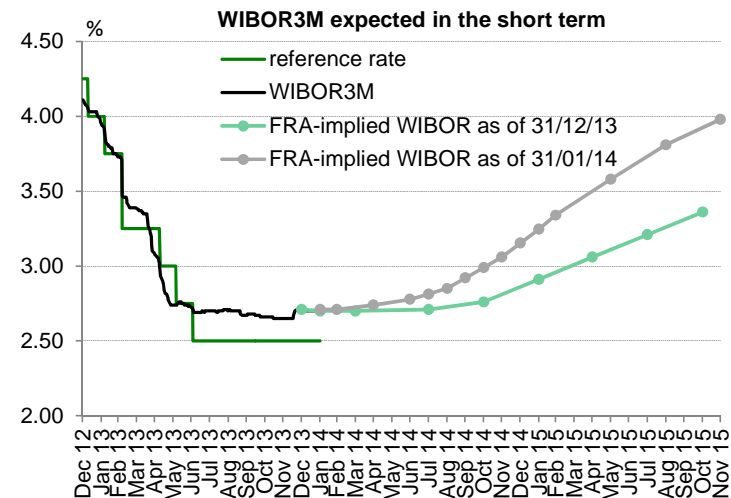
USD: Fed has continued its QE3 tapering, supporting the US dollar. While this might continue to positively affect the greenback, the improving macro data from the euro zone shall provide a medium term support for the European currency. Overall, we expect EURUSD to stay in horizontal trend, which implies USDPLN to continue its gradual decline in medium term (with probably higher volatility in a short-run).

CHF: Recent sell-off among emerging markets currencies shifted capital inflows to safe haven assets, including the Swiss franc. EURCHF should increase gradually if the euro zone risk environment continues to improve. As a result zloty should strengthen against CHF after it has recently peaked to the levels observed in August 2013.

Risk factors to our view: Worries around developing economies and their vulnerability to FOMC slowly withdrawing its monetary stimulus may persist for some time. Further escalation of EM sell-off could negatively affect the Polish currency as well.

Domestic Money Market: FRA pricing-in earlier rate hikes

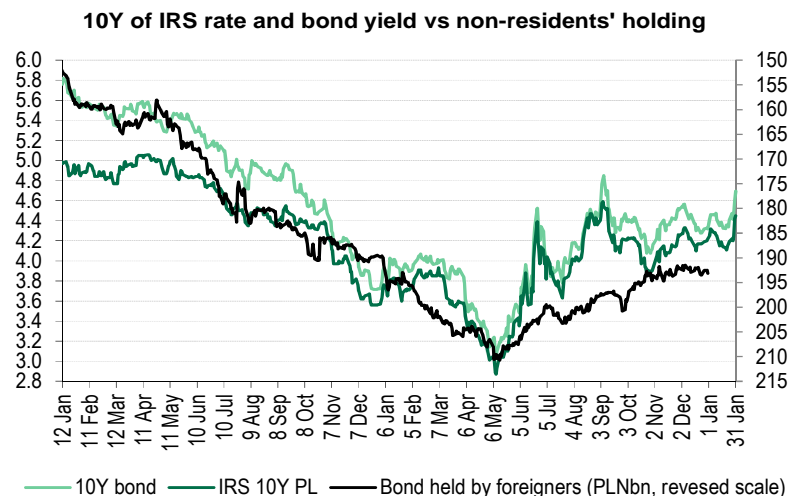
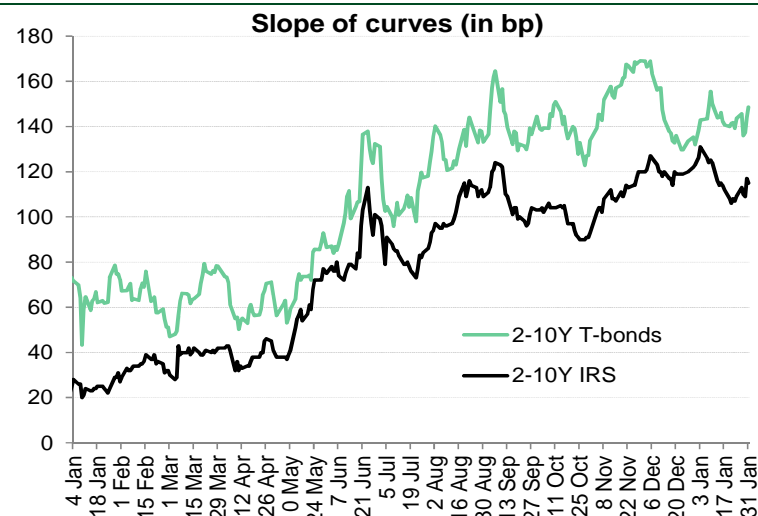
- In January WIBOR rates remained stable. They were supported by comments of the MPC members, who pointed out that the Council would keep its forward guidance unchanged, but March's projection will determine the direction of further interest rate path. Also inflation data and outlook stabilised rates near current levels.
- At the same time FRA rates were more vulnerable to macro data releases and situation on domestic debt market. Significant increase in both IRS rates and T-bonds yields and improving macro data resulted in FRA rates growth. Consequently, spread between FRA and WIBOR3M widened substantially, particularly for 9x12 tenor. It reached the level of 35 bp, first time since end-August 2013, showing that investors again started pricing-in monetary tightening in 9 months' time, which is our baseline scenario.
- We expect that in February the MPC will keep not only current forward guidance, but also its rhetoric unchanged, waiting for an update of macro projections, which will be released in March. What is more our below-consensus forecast of 12M CPI should be also supportive for money market rates. While FRA rates should remain more sensitive to changes in investors' mood and imply high expectations for rate hikes in the medium-run, this month's data releases should not give an impulse to further increase. Some decrease after recent jump is possible.



Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: More than ever exposed to global trends

- The first month of the new year was very volatile. Polish assets, after some rebound in mid-January (supported by strong demand on auctions), suffered from a strong sell-off of emerging markets' currencies, including the zloty, due to high global risk aversion. What is more, upcoming changes in pension funds added volatility on the debt market. Stop-losses in the last day of January (the day of OFE's portfolio valuation before transferring to ZUS) pushed yield of 10Y T-bond to 4.70%, while 10Y IRS rate climbed to 4.45%.
- Bearish steepener was developing on the T-bond market last month. 2-10Y spread surged from ca. 130bp to nearly 150bp. At the same time bearish flattener dominated on the IRS market. 2-10Y spread narrowed to 115 bp, down from 123 bp at the end of December. However, both yield of 5Y T-bonds and IRS rate increased by the most (by 54 bp and by 43 bp, respectively).
- At the start of this month OFE, the biggest domestic investor, disappeared from the debt market. As the role of foreign investors on the Polish debt market rose, domestic bonds will be more than ever exposed to global trends. An improvement in risk sentiment should curb losses along the curves.
- Limited offer of T-bonds should be a supportive factor for bonds. February's auctions will be a real test as regards foreign investors' demand for Polish papers, which currently show higher yields (and lower liquidity).

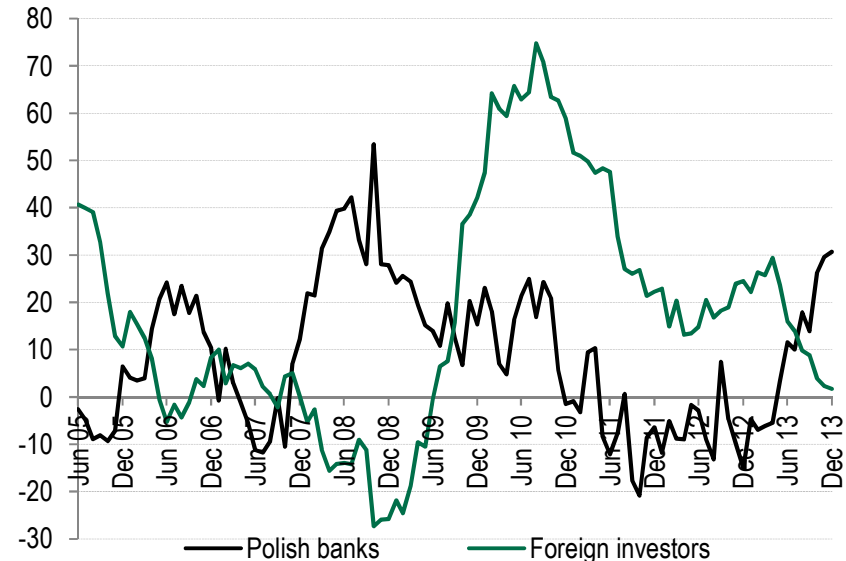


Sources: Reuters, CB, BZ WBK

Demand Corner: Buying in December, selling in January

- In December, foreigners increased their holdings of PLN marketable bonds by PLN1.1bn, to PLN193.2bn. The series of two consecutive months of outflow was terminated, but monthly increase was the smallest since July 2013. During the whole 2013, foreign investors increased their holdings of Polish bonds by PLN3.3bn, but the level at the end of 2013 was ca. PLN14bn below peak from April (PLN207.1bn).
- In December, Polish banks sold bonds worth PLN3.8bn. Despite a purchase of OK0116 (PLN3.5bn), banks were net sellers on the short end of the curve. Pension funds also reduced holdings by PLN2.5bn (first outflow after 8 months of purchases). Substantial selling was recorded by the mutual funds (by PLN4.2bn), the biggest monthly reduction since October 2008.
- Although non-residents purchased T-bonds on regular auctions in January, we think that they have shortened positions in Polish assets (including debt) during an intensification of risk aversion in the second half of the month. Additionally, some pressure to reduce holdings may result from implementation of OFE's reform. As liquidity on the Polish debt market will decline substantially, it shall be reflected in decrease of Poland's weight in global debt indices.

Annual percentage change of Polish marketable, PLN bonds holdings

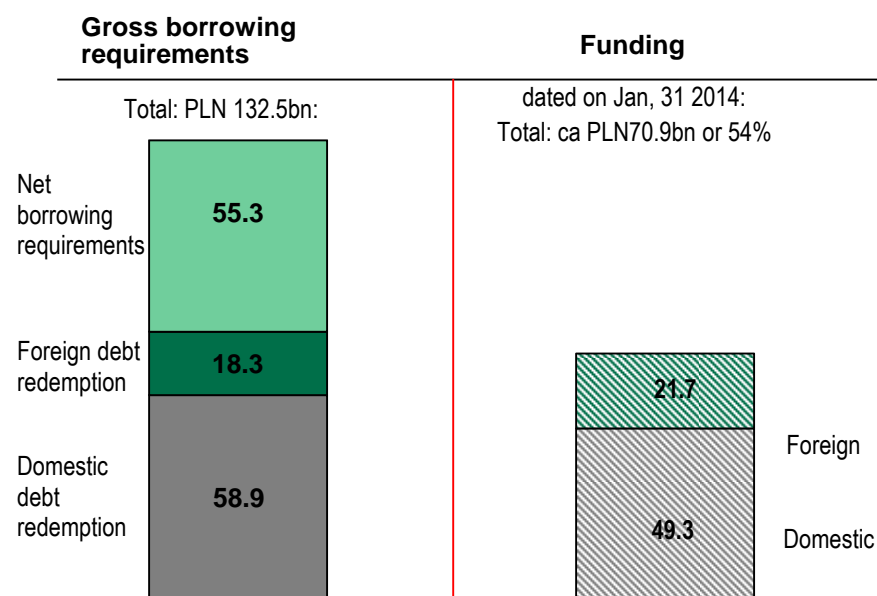


Sources: MF, BZ WBK

Supply Corner: Borrowing needs covered in 50%+

- In January Poland's Ministry of Finance successfully launched T-bonds on both foreign and domestic markets. Poland tapped both the euro and the US dollar markets, selling 10Y benchmarks worth €2.0bn and \$2.0bn. Thanks to robust demand the Ministry has financed 65% of its FX borrowing needs and will finance almost 90% when planned loans from international financial institutions are counted in.
- Solid demand was also recorded on domestic auctions. The Ministry sold T-bonds worth PLN18.1bn in total (up from PLN17.4bn in the same period of previous year), with demand at PLN31.2bn. Very high demand at auctions allowed the Ministry to sell bonds at prices close or better than on the secondary market. All in all Poland covered more than half of the borrowing needs at the end of January (in our view ca. 54%).
- There are two regular auctions scheduled on the domestic market this month. The Ministry delayed the announcement of February's offer due to high volatility on the financial markets and the operation of bond transfer from OFE to social security fund (ZUS). It is likely the supply will be well diversified, depending on market conditions and liquidity situation (we do not exclude the issue of 5Y benchmark PS0718 or other off-the-run papers).

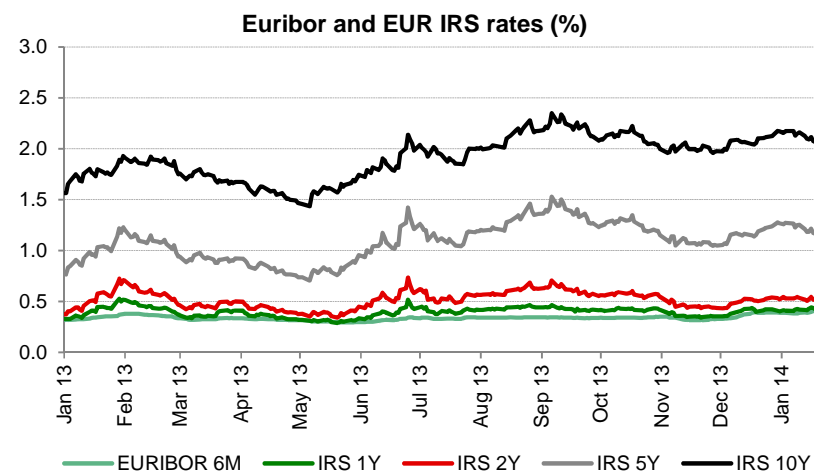
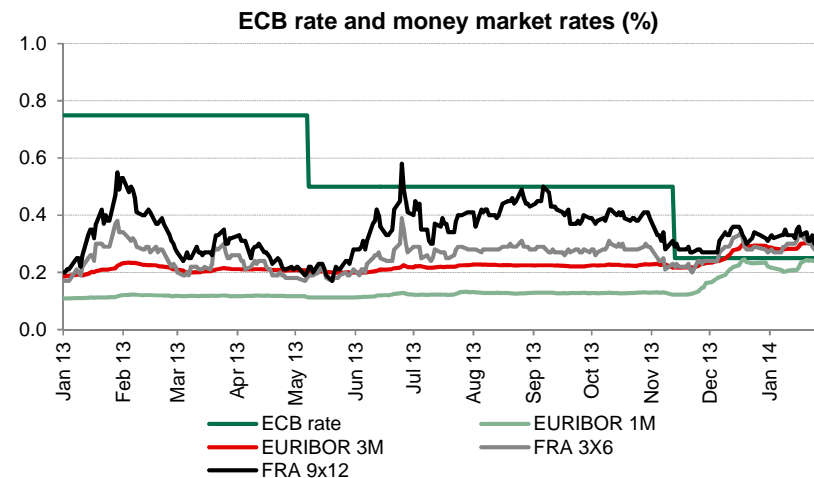
Gross borrowing requirements and its funding in 2014



Sources: MF, BZ WBK

International Money Market and IRS: Pressure for further easing by the ECB, Fed has continued tapering

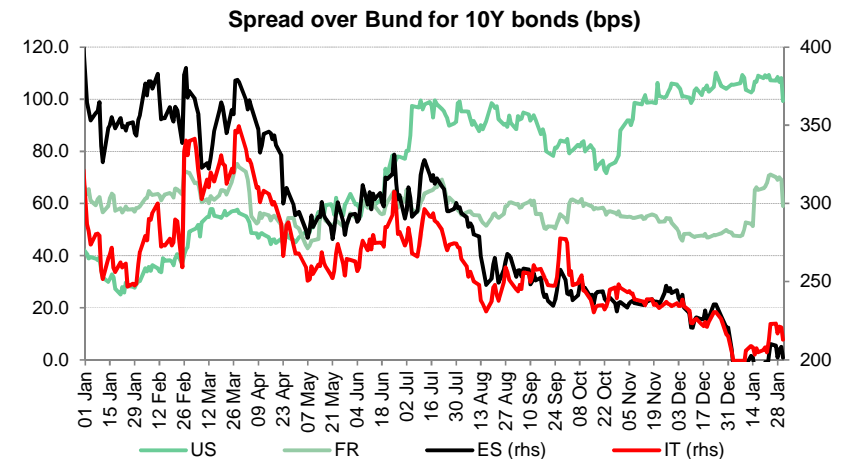
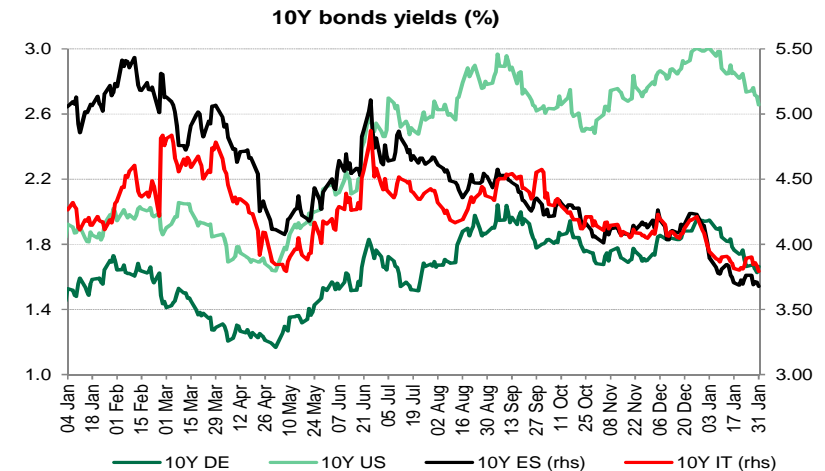
- In January EUR money market rates stayed at low level due to the ECB's dovish comments and its readiness to act "if needed". Also in case of USD, short-term rates stayed at low level despite FOMC's an unanimous decision to taper QE3 program by another \$10bn, continuing with the "measured reduction" initiated in December.
- As regards IRS markets both EUR and USD rates were more volatile, depending on data flow and market sentiment. The main driver for rates was the risk aversion triggered by the situation in EMs. Consequently, curves shifted down by 10-25 bp for EUR IRS and by 2-25 bp for USD IRS. One should notice that 10Y sector performed better than others in both cases.
- Lower inflation in the euro zone has strengthened the case for further ECB easing as soon as this month. However, we do not expect the bank to announce any relevant monetary policy changes this month, not only because in March the ECB will update its macro forecasts, but also because the recently announced macro data seem to reduce slightly further the risk of a continued decline in this area's inflation. As regards Fed, we expect continuation of (data dependent) scaling back asset purchases. Once the markets stabilise, the upward pressure on IRS should return.



Sources: Thomson Reuters, ECB, Fed, BZ WBK

International Bond Market: Yields again trade with a positive correlation to risk appetite

- Bond yields in the US and Germany have come down in January due to high global risk aversion. Consequently, yields on core market again were traded with positive correlation to risk appetite. Reaction to FOMC's decision to continue its December's strategy of tapering by \$10bn per month was very limited as the decision mostly was already priced-in by the market. Valuations of both UST and Bunds were at the strongest levels since November and August, respectively.
- Peripheral debt markets also performed well. T-bonds' supply on primary markets attracted solid demand, which allowed to tap bonds with yields at the lowest level since 2009. However, sharp sell-off on EM's currencies caused some profit taking, but yields stayed below the level observed at the end of last year.
- Global mood is still fragile. The question is whether the sell-off in EM assets will be over soon or whether there is more in store. Although yields are expected to rise in the medium term, we expect downward pressure in the short term. One of factors keeping downward pressure on yields in the short term is the expectation that the ECB will ease monetary conditions soon. However, clear signals of stabilisation will result in the selling pressure on both USTs and Bunds even if smooth and gradual.

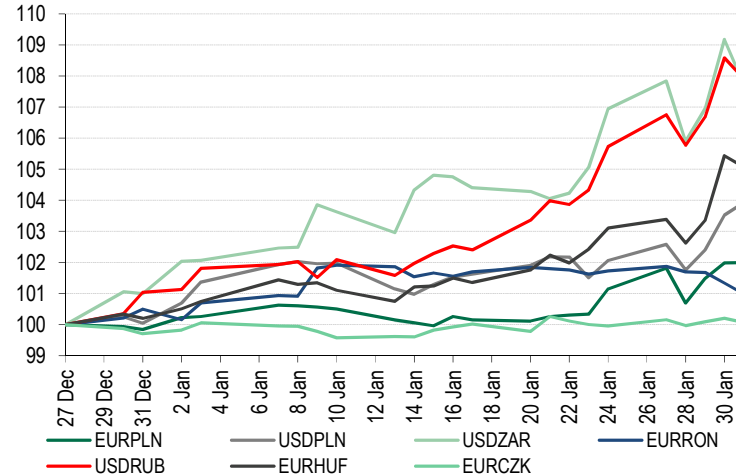


Sources: Thomson Reuters, BZ WBK

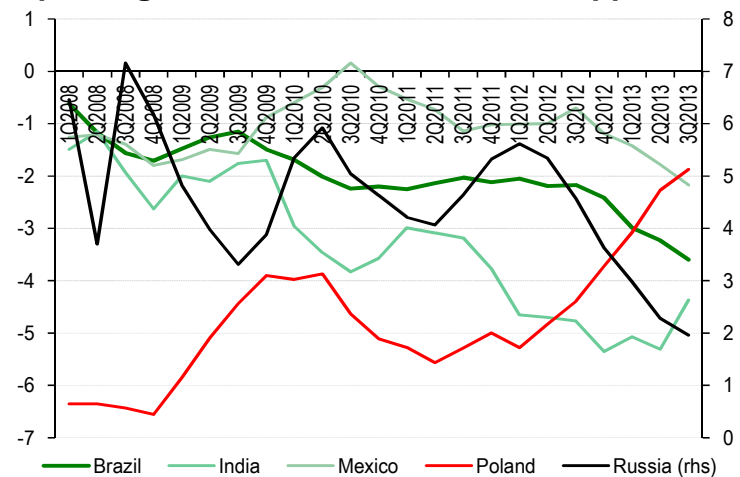
Foreign Exchange Market: Sharp depreciation of the zloty

- EURPLN surged strongly due to the sharp sell-off of EM currencies. The weaker-than-expected local economic data (December's manufacturing PMI, industrial output and retail sales) also contributed to the currency depreciation to some extent. Still, the scale of the weakening of the Polish currency was smaller than the depreciation of the LatAm currencies. It seems this better performance stems from the relatively good economic fundamentals.
- The investor sentiment on emerging markets will be the key driver for the Polish currency in the near term. Worries over vulnerability of developing economies to the QE3 tapering may persist for some time.
- However, once the contagion stops spreading, investors will start differentiating between markets again. Then, country-specific factors should support the zloty again: accelerating economic growth, a quickly shrinking C/A deficit, the improving stability of public finances and an approaching interest rate hike. The latter seems even more likely if the turmoil in emerging markets prevents the currency from excessive appreciation. Meanwhile, the quick improvement in economic activity in Germany, coupled with the weaker zloty exchange rate at the start of the year, should benefit the Polish export sector, underpinning our scenario of an accelerating economy. All this supports our view that the zloty will strengthen later this year.

Zloty and EM currencies (27.12.2013 = 100)

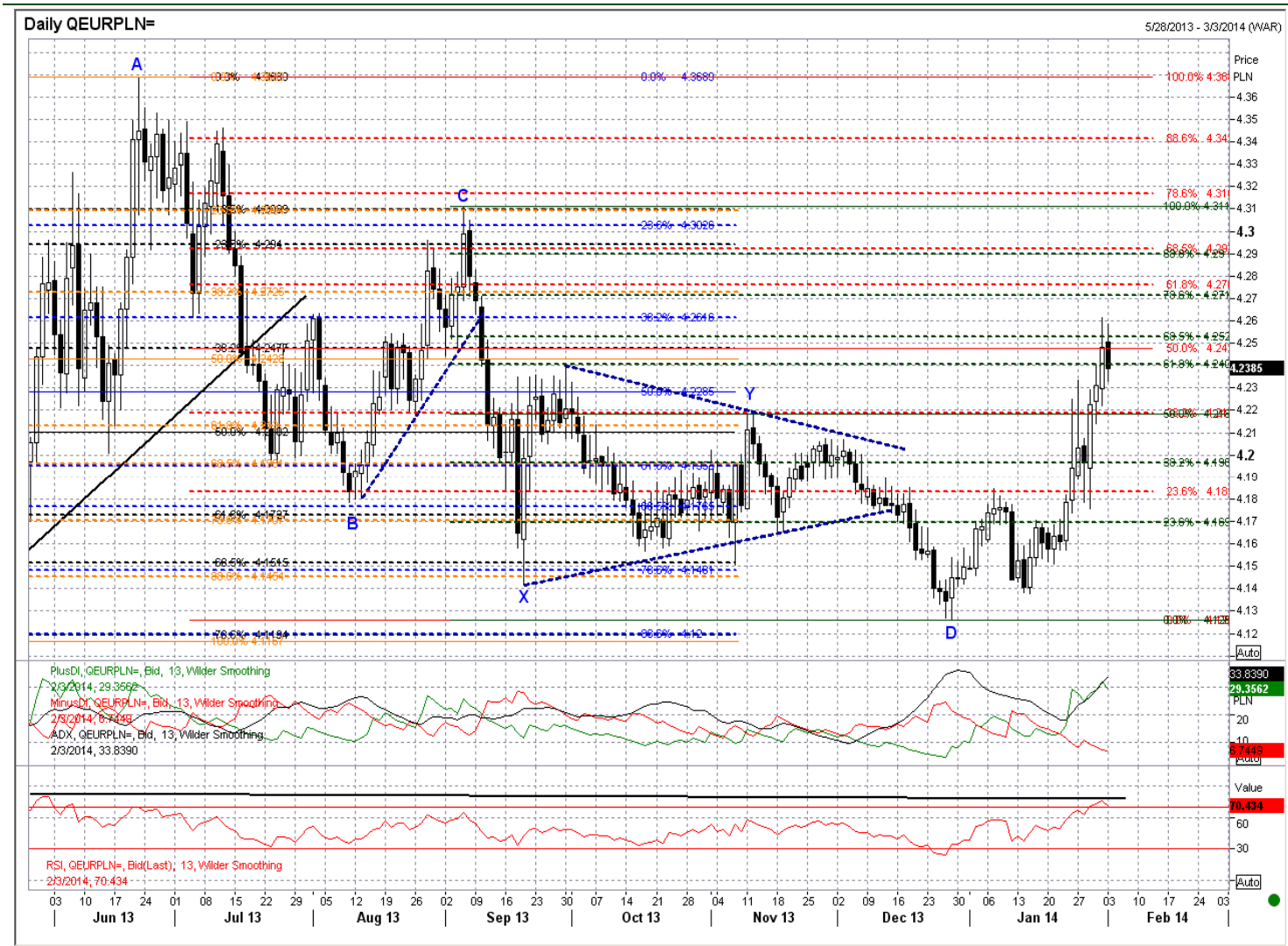


Improving C/A balance as % of GDP supports the zloty



Sources: BZ WBK, Reuters, CSO

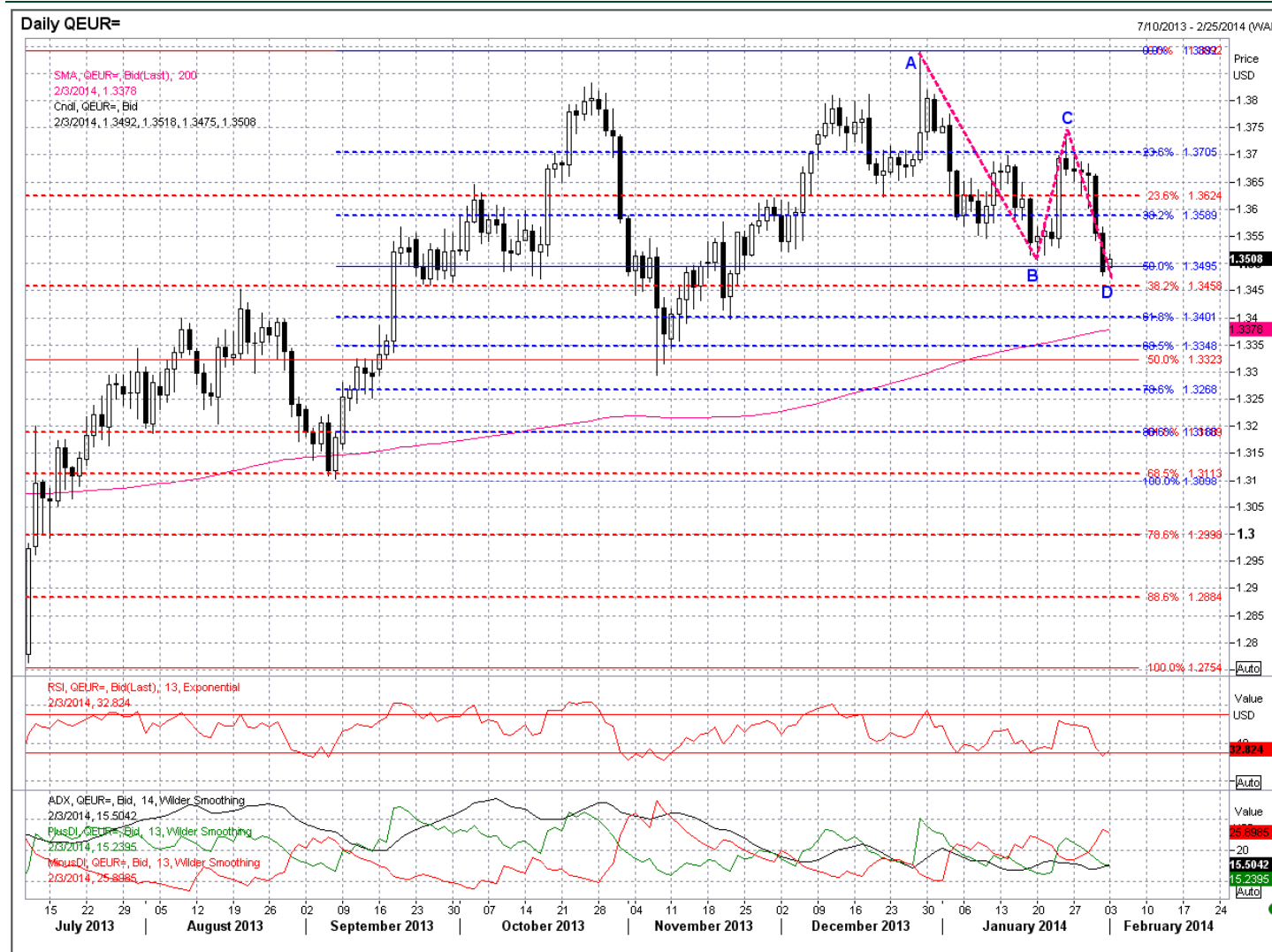
FX Technical Analysis Corner: Testing first resistance



- ▶ EURPLN broke resistance indicated last month and surged to the highest level since Sep 2013.
- ▶ Currently the exchange rate is testing resistance at 4.247, first two attempts to break it proved unsuccessful.
- ▶ We have a divergence between RSI and EURPLN (oscillator reached highest level since May 2013, while the exchange rate has not). Additionally, if the recent EURPLN correction deepens slightly, RSI may give a sell signal. Support is at 4.18.

Sources: BZ WBK, Reuters

FX Technical Analysis Corner: Still close to first support



- ▶ No major changes occurred on the market since the last month, the exchange is still close to first support at 1.35.
- ▶ There is also 1.345 nearby (38.2% Fiboratio). This area of support prevents further fall of the exchange rate.
- ▶ Additionally, AB/CD~1.50 and RSI buy signal (first since November 2013) support a scenario of some rebound.
- ▶ Next two resistance levels are at 1.365 and 1.374.

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	1,628.6	1,703.2	377.9	395.7	404.3	450.7	392.8	413.8	422.7	473.9
GDP	%YoY	4.5	1.9	1.6	3.5	0.5	0.8	1.9	2.8	3.2	3.6	3.6	3.7
Domestic demand	%YoY	3.6	-0.2	-0.2	3.0	-0.9	-1.7	0.5	1.1	1.5	3.4	3.1	3.8
Private consumption	%YoY	2.6	0.8	0.8	2.4	0.0	0.2	1.0	1.9	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	13.0	14.3	13.2	13.0	13.4	14.1	12.9	12.7	13.0
Current account balance	EURm	-18,519	-14,191	-6,179	-3,423	-2,313	486	-2,072	-2,280	-526	-22	-845	-2,031
Current account balance	% GDP	-5.0	-3.7	-1.6	-0.8	-3.1	-2.3	-1.9	-1.6	-1.1	-1.2	-0.9	-0.8
General government balance	% GDP	-5.0	-3.9	-4.4	4.4	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.2	1.3	0.5	1.1	0.7	0.9	1.2	1.0	1.8
CPI ^a	%YoY	4.6	2.4	0.7	2.0	1.0	0.2	1.0	0.7	0.9	1.4	1.3	2.0
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.6	1.2	1.0	1.4	1.2	1.5	1.6	1.4	1.8

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	3.00	3.25	2.75	2.50	2.50	2.50	2.50	2.75	3.00
WIBOR 3M	%	4.54	4.91	3.02	2.88	3.77	2.96	2.70	2.66	2.71	2.74	2.92	3.17
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.31	3.29	2.77	2.98	2.88	3.10	3.18	3.37	3.58
Yield on 5-year T-bonds	%	5.44	4.53	3.46	4.05	3.49	3.09	3.63	3.64	3.89	4.07	4.09	4.13
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.69	3.95	3.58	4.26	4.36	4.56	4.65	4.72	4.82
2-year IRS	%	4.98	4.52	3.10	3.49	3.43	2.81	3.14	3.04	3.21	3.37	3.60	3.80
5-year IRS	%	5.24	4.47	3.51	4.16	3.52	3.08	3.76	3.68	3.94	4.15	4.23	4.32
10-year IRS	%	5.33	4.56	3.86	4.50	3.76	3.41	4.13	4.14	4.34	4.43	4.55	4.70
EUR/PLN	PLN	4.12	4.19	4.20	4.07	4.16	4.20	4.25	4.19	4.18	4.09	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.98	3.15	3.22	3.21	3.08	3.07	3.00	2.95	2.87
CHF/PLN	PLN	3.34	3.47	3.41	3.24	3.38	3.41	3.44	3.40	3.39	3.27	3.21	3.11
GBP/PLN	PLN	4.75	5.16	4.94	4.89	4.88	4.94	4.97	4.98	5.05	4.86	4.83	4.82

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

Economic Calendar and Events

Date		Event:	Note:
5-Feb	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged
6-Feb	PL	Auction of T-bonds	-
	EZ	ECB Meeting – interest rate decision	-
	CZ	CNB Meeting – rates decision	-
13-Feb	PL	Auction of T-bonds	-
14-Feb	PL	CPI for January	Our forecast: 0.7%YoY, below market consensus at 0.9%YoY
	PL	GDP for 4Q 2013	Our forecast at 2.8%YoY, slightly below market consensus at 2.9%YoY
18-Feb	PL	Employment and wages for January	We expect employment to increase by 1.2%YoY and wages growth at 3.1%YoY
	HU	MPC Meeting – interest rate decision	-
19-Feb	PL	Industrial output and PPI for January	Our forecast of industrial output is 3.1%YoY (below market consensus). We predict PPI at 0%YoY
TBA	PL	Retail sales for January	Our forecast is 3.1%YoY. It is well below market consensus at 4.7%YoY
5-Mar	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged. NBP will release new CPI and GDP projections
6-Mar	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. OFE overhaul
7. Central bank watch

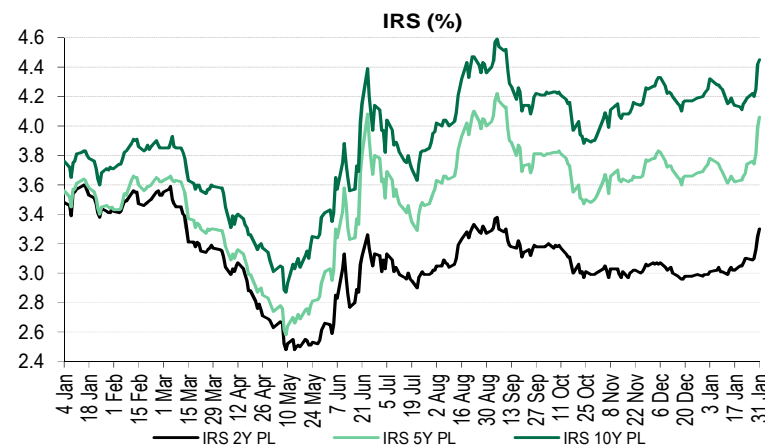
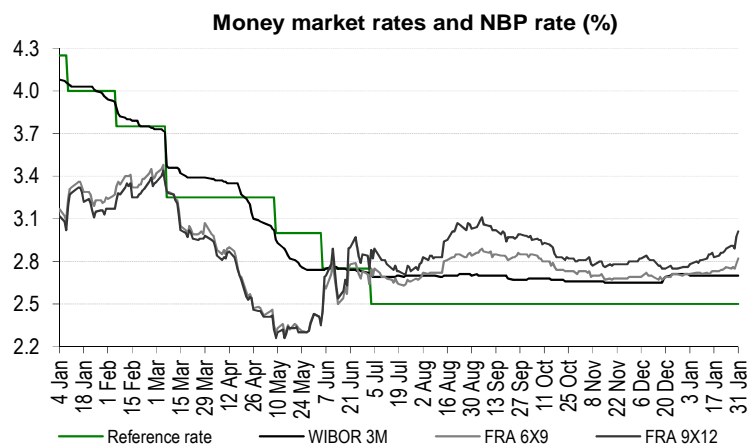
1. Domestic markets performance

Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of January	2.50	2.34	2.61	2.71	2.73	2.76	2.40	2.41	2.43	2.58	2.71	2.74	2.85	3.06
Last 1M change (bp)	0	-6	0	0	1	1	2	3	3	10	1	4	14	30
Last 3M change (bp)	0	-32	1	5	3	1	-1	2	2	8	4	5	12	25
Last 1Y change (bp)	-150	-158	-142	-124	-118	-105	-130	-116	-97	-67	-110	-77	-40	-11

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of January	3.21	4.10	4.69	3.30	4.06	4.45	-9	4	24
Last 1M change (bp)	21	49	38	31	35	23	-10	14	15
Last 3M change (bp)	38	59	53	30	54	52	8	5	1
Last 1Y change (bp)	2	70	78	-14	61	74	16	9	4



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	5,000	5,000	13,000	9,000	5,000	5,000	5,000	5,000	5,000	3,000	2300	80,443
T-bills auction													0
Retail bonds	150	170	190	170	170	170	170	180	170	175	185	176	2,076
Foreign bonds/credits	16,724						5450			3200			25,374
Prefinancing and financial resources at the end of 2013	25,000												25,000
Total	60,017	5,170	5,190	13,170	9,170	5,170	10,620	5,180	5,170	8,375	3,185	2476	132,893
Redemption	16,497	5,613	2,230	20,147	116	60	11,612	1,793	2,514	83	816	91	61,571
Net inflows	43,520	-443	2,960	-6,977	9,054	5,110	-992	3,387	2,656	8,292	2,369	2,385	71,322
Rolling over T-bonds													0
Buy-back of T-bills/ FX-denominated bonds													0
Total	43,520	-443	2,960	-6,977	9,054	5,110	-992	3,387	2,656	8,292	2,369	2,385	71,322
Coupon payments from domestic debt	1,546			6,917			1,552		1,497	9,062			20,575

Note: Our forecasts – shaded area

Sources: MF, BZ WBK

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	20,080		66	20,147		20,147
May			116	116		116
June			60	60		60
July	10,287		89	10,376	1,236	11,612
August			198	198	1,594	1,793
September			76	76	2,438	2,514
October			83	83		83
November			171	171	645	816
December			91	91		91
Total 2014	44,027		1,395	45,422	16,149	61,571
Total 2015	90,137		1,357	91,494	15,559	107,054
Total 2016	91,095		927	92,022	17,262	109,284
Total 2017	71,444		795	72,239	12,566	84,805
Total 2018	86,581		849	87,430	14,396	101,826
Total 2019+	194,739		3,136	197,875	135,784	333,659

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of December 2013, in PLNm)

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2014	8,345	874	1,687	257	595	105	16	1,840	13,718
Q2 2014	11,694	3,106	2,824	698	669	87	71	988	20,138
Q3 2014	5,602	2,026	904	161	743	137	12	800	10,385
Q4 2014	0	0	0	0	0	57	7	13	77
Total 2014	25,641	6,005	5,415	1,117	2,007	387	105	3,640	44,317
	58%	14%	12%	3%	5%	1%	0%	8%	100%
Total 2015	35,013	26,943	8,707	6,935	6,356	227	276	5,752	90,208
	39%	30%	10%	8%	7%	0%	0%	6%	100%
Total 2016	29,946	18,662	5,158	23,605	8,164	81	200	5,353	91,170
	33%	20%	6%	26%	9%	0%	0%	6%	100%
Total 2017	24,446	10,994	6,739	17,283	7,895	46	370	3,670	71,444
	34%	15%	9%	24%	11%	0%	1%	5%	100%
Total 2018	15,366	23,442	2,484	28,548	6,907	68	157	4,022	80,994
	19%	29%	3%	35%	9%	0%	0%	5%	100%
Total 2019+	62,730	28,640	23,465	48,286	15,420	192	203	8,636	187,571
	33%	15%	13%	26%	8%	0%	0%	5%	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 December			Share in TOTAL (%) in December
	End Dec'13	End Nov'13	End Jun'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	381.2	391.4	369.4	337.5	341.8	352.9	361.4	-2.62	-0.61	12.95	66.4 (-0.7pp)
Commercial banks	114.7	118.5	113.9	87.8	102.0	102.1	110.9	-3.24	-1.28	30.69	20.0 (-0.3pp)
Insurance companies	52.0	52.1	53.1	52.8	54.7	57.0	54.3	-0.34	-1.61	-1.57	9.0 (0.1pp)
Pension funds	125.8	128.2	117.7	117.4	116.7	120.3	120.7	-1.92	2.50	7.16	21.9 (-0.1)
Mutual funds	46.7	51.0	46.5	41.7	32.5	33.0	31.3	-8.33	1.32	12.03	8.1 (-0.6pp)
Others	42.0	41.5	38.3	37.8	35.9	40.5	44.3	1.2	6.4	11.0	7.3 (0.2pp)
Foreign investors*	193.2	192.1	201.8	189.9	184.2	174.0	163.2	0.56	-2.93	2.33	33.6 (0.7pp)
Banks	28.2	28.2	32.3	28.4	27.8	22.6	24.3	3.91	-1.23	1.40	4.9 (0.1pp)
Non-bank fin. sector	156.2	156.2	160.1	153.1	147.5	143.1	131.7	-0.97	-2.12	3.14	27.2 (0.4pp)
Non-financial sector	4.3	4.3	5.3	5.2	5.6	5.2	4.4	-19.74	-25.15	-16.65	0.8
TOTAL	574.3	583.5	571.2	527.4	526.0	526.9	524.7	-1.57	1.03	8.91	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	4.9
Belgium	21.8	9.8	31.6	30.0	16.7
Finland	6.9	4.8	11.7	11.7	40.0
France	105.0	70.2	175.2	174.0	12.2
Germany	144.0	-	144	144.0	8.7
Greece	16.8	5.6	-	-	-
Ireland	6.9	7.7	14.6	14.6	37.5
Italy	187.8	27.6	235.4	235.4	9.4
Netherlands	32.0	15.9	47.9	45.9	9.8
Portugal	11.4	7.4	18.8	7.2	-
Spain	68.2	36.7	141.3	141.3	16.6
Total	624.2	189.9	848.2	828.8	12.1

*/ YtD (year calendar) data for 2014

Sources: Eurostat, BZ WBK

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	1.3	2.5	1.0	2.0	-1.5	-1.3	-4.8	4.6	58.2	51.0
Czech Republic	-1.0	1.8	1.4	0.5	-1.6	-1.1	-2.9	-3.0	49.0	50.6
Hungary	0.7	1.8	2.1	2.2	3.0	2.7	-2.9	-3.0	80.7	79.9
EU	0.0	1.4	1.7	1.6	1.6	1.7	-3.5	-2.7	89.7	90.2
Euro area	-0.4	1.1	1.5	1.5	2.7	2.9	-3.1	-2.5	95.5	95.9
Germany	0.5	1.7	1.7	1.7	7.0	6.6	0.0	0.1	79.6	77.1

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2013	end of Jan	2013	end of Jan	2013	end of Jan	2013	end of Jan	2013	end of Jan
Poland	2.50	2.50	2.71	2.70	4.32	4.69	238	302	79	83
Czech Republic	0.05	0.05	0.05	0.05	2.53	2.32	58	66	60	59
Hungary	3.00	2.85	2.99	2.83	5.71	6.30	377	464	256	266
Euro area	0.25	0.25	0.29	0.30						
Germany					1.94	1.66			26	25

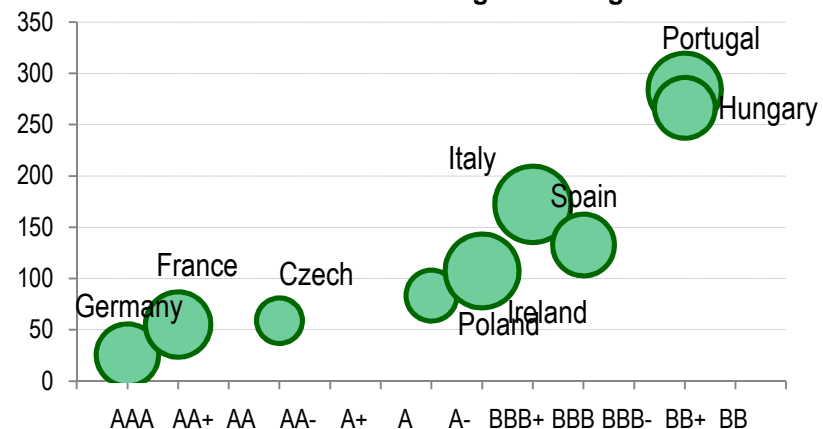
Sources: EC – Autumn 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

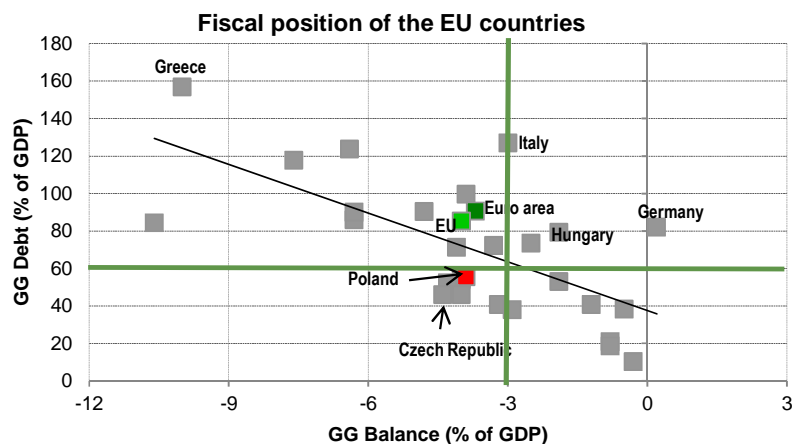
Sovereign ratings

	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	negative	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

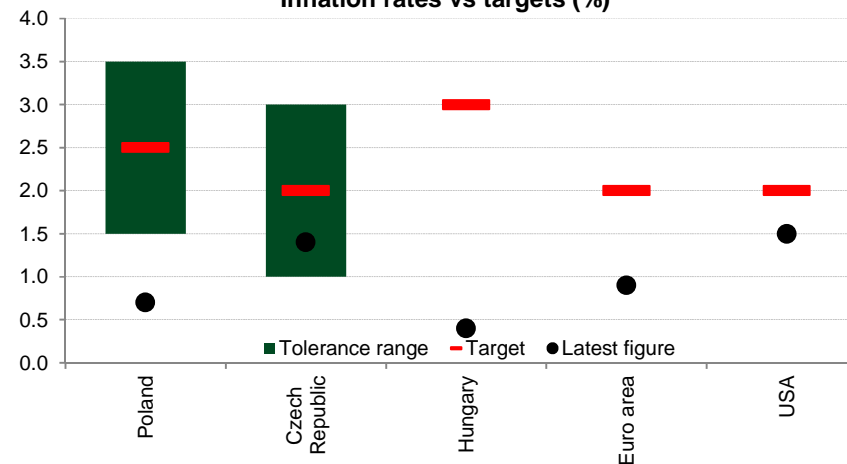


Note: Size of bubbles reflects the debt/GDP ratio

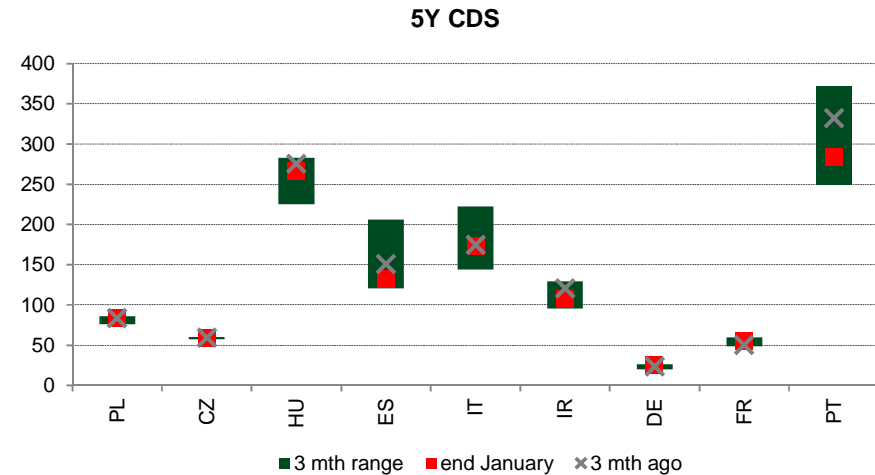
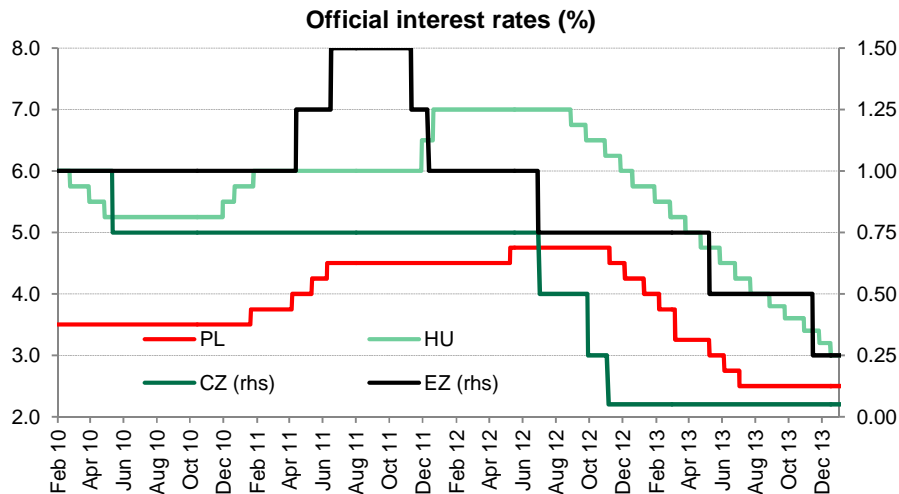
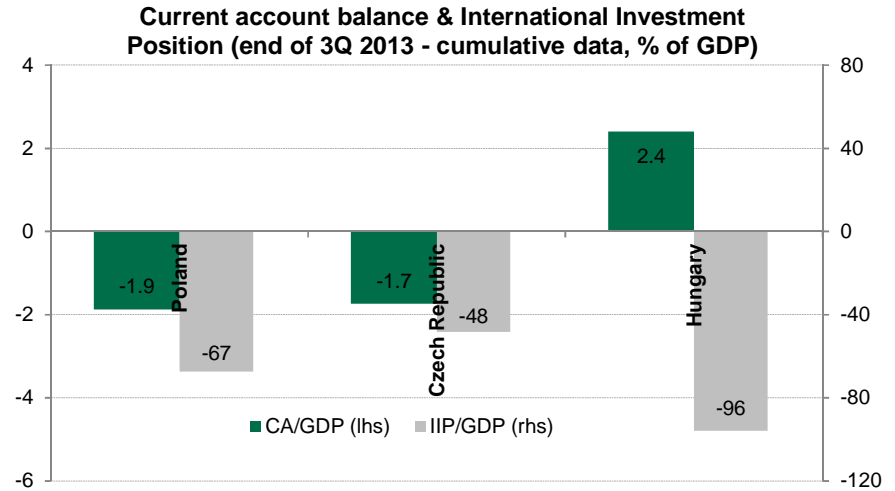
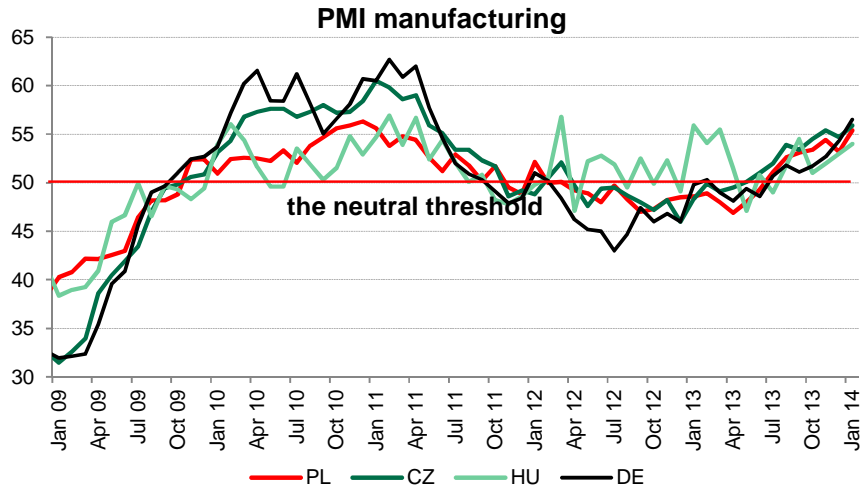


Source: rating agencies, Reuters, BZ WBK, EC

Inflation rates vs targets (%)

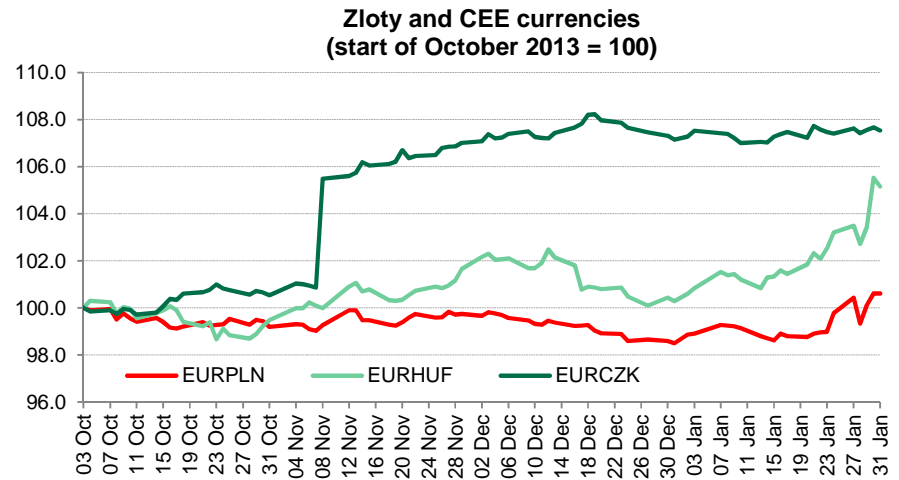
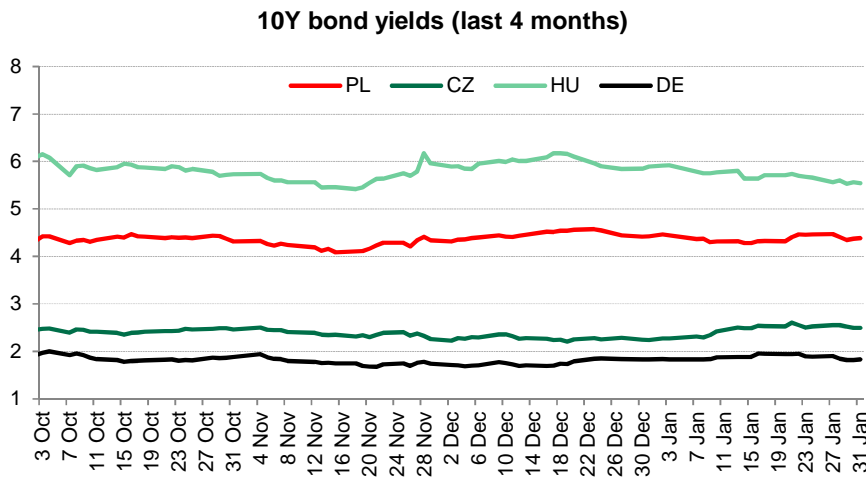
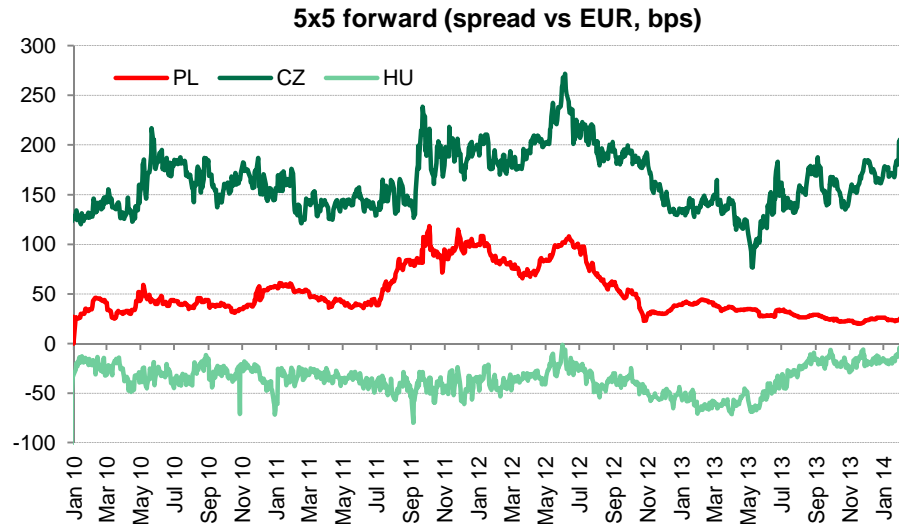
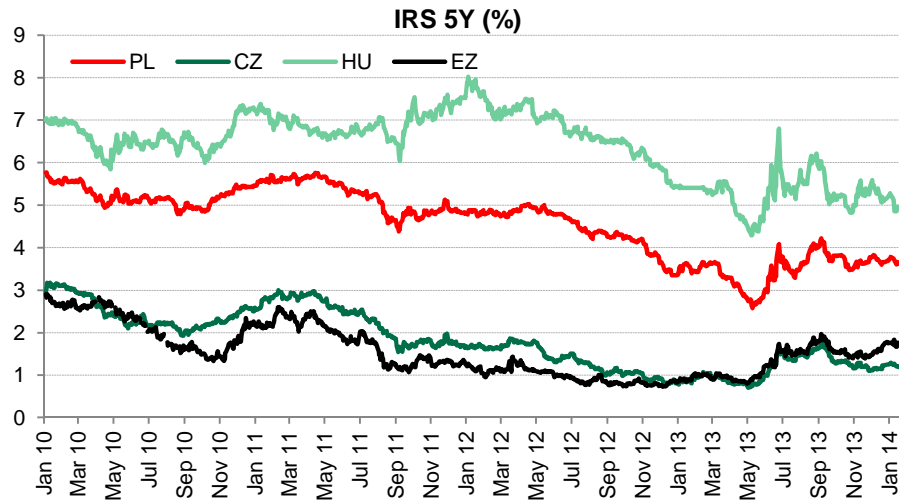


5. Poland vs other countries (cont.)



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

5. Poland vs other countries (cont.)



Source: Reuters, BZ WBK

6. OFE overhaul

Structure of OFE's investment portfolios (end-December 2013)

Fund	Assets (PLNbn)	Asset allocation (%)							
		Bonds*	change MoM (pp)	Equities	change MoM (pp)	Deposits	change MoM (pp)	Other	change MoM (pp)
ING	72.2	43.7%	-1.0	42.4%	-2.4	9.5%	3.2	4.4%	0.2
Aviva	66.7	48.1%	0.9	41.6%	-1.6	7.4%	1.1	2.9%	-0.4
PZU	40.1	48.8%	2.0	41.4%	-3.4	4.4%	1.0	5.4%	0.3
Amplico	24.0	49.6%	0.9	43.4%	-1.8	5.0%	3.0	2.0%	-2.2
AXA	18.6	51.4%	1.4	39.2%	-1.2	4.2%	-0.1	5.1%	-0.1
Generali	15.0	53.2%	1.2	41.0%	0.0	2.3%	-1.1	3.5%	-0.1
Nordea	13.5	52.1%	2.1	41.4%	-1.1	0.8%	-0.5	5.7%	-0.4
PKO BP	13.2	53.3%	2.1	42.7%	-0.7	2.9%	-1.0	1.1%	-0.3
AEGON	12.6	46.4%	2.8	40.7%	-1.9	8.1%	-0.5	4.9%	-0.4
Allianz	9.1	50.7%	2.7	41.2%	-1.5	0.7%	-1.0	7.4%	-0.1
Pocztylion	5.7	51.3%	1.9	43.8%	-0.5	0.4%	-2.2	4.5%	0.8
Pekao	4.5	50.2%	2.0	45.9%	1.4	0.7%	-3.4	3.3%	0.0
Warta	4.0	52.1%	1.4	41.4%	-1.8	3.6%	0.4	2.9%	0.0
Total	299.3	48.3%	0.9	41.8%	-1.9	5.9%	1.1	4.0%	-0.2

* State treasuries, road bonds and state-guaranteed bonds

Source: BZ WBK Brokerage

6. OFE overhaul (cont.)

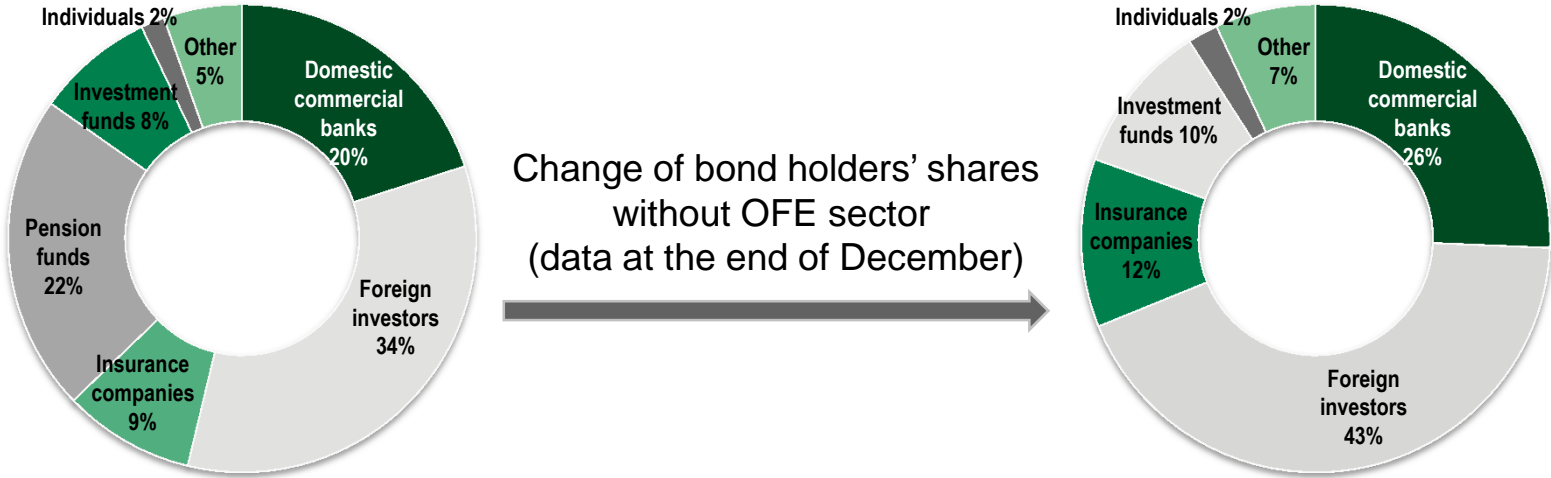
OFE's holding - the biggest nominal value plus current 2Y, 5Y and 10Y benchmarks (end-December 2013)

	OK0116	IZ0816	PS1016	WZ0117	PS0417	WZ0118	PS0418	PS0718	DS1019	DS1020	WZ0121	DS1021	IZ0823	DS1023
Nominal value held by OFE (PLNm)	2,653	8,790	7,021	8,158	5,555	7,731	13,557	7,260	7,077	5,355	6,457	5,361	10,627	3,767
Share held by OFE in series outstanding	10%	56%	30%	33%	28%	29%	42%	34%	27%	23%	23%	23%	73%	16%
Share held by foreign investors in series outstanding	32%	31%	25%	21%	33%	3%	26%	28%	41%	48%	16%	41%	14%	36%
Share held by biggest holder	32%	17%	15.0%	16%	10%	15%	2%	2%	12%	7%	15%	13%	8%	2%
Share held by biggest foreign holder	32%	3%	4%	16%	4%	2%	2%	2%	2%	3%	15%	3%	2%	1%
Without OFE sector														
Share held by foreign investors in series outstanding	35%	72%	35%	31%	46%	4%	45%	42%	57%	62%	21%	54%	51%	42%
Share held by biggest holder	36%*	6%	6%	24%	6%	3%	4%	3%	3%	3%	20%	3%	6%	1%
Share held by biggest foreign holder	36%*	6%	6%	24%	6%	3%	4%	3%	3%	3%	20%	3%	6%	1%

Source: MF, Bloomberg, BZ WBK. OK0116, PS0718 and DS1023 are 2Y, 5Y and 10Y benchmarks added for comparison

*percentage for individual holders exceeds share for total foreign investors group because last individual holding data is available for November, when the amount held by one entity was larger than end-December holdings of whole foreigners group.

6. OFE overhaul (cont.)



Sources: MF, BZ WBK

7. Central bank watch

		Last	2013	2014F	Expected changes (bp)			Risks/Events
					1M	3M	6M	
Euro zone	Forecast	0.25	0.25	0.25				After lower than expected inflation data for the euro zone, expectation that the ECB will continue easing monetary conditions intensified. But we do not expect any significant decisions to be taken this month.
	Market implied »				-5	-6	-7	
UK	Forecast	0.50	0.50	0.75				There are some expectations of possible modifications to forward guidance. We think it is likely that the BoE will wait until the Inflation Report (19 February) to outline any alterations to forward guidance.
	Market implied »				2	4	9	
US	Forecast	0-25	0-25	0.25				January's FOMC meeting ended with an unanimous decision to taper the QE3 by another \$10bn, continuing with the "measured reduction" initiated in December. We do not exclude that the Fed might delay scaling back its asset purchases if the EM tensions continue to fuel risk aversion flows.
	Market implied »				1	2	5	
Poland	Forecast	2.50	2.50	3.00				It is widely expected that the MPC will keep monetary conditions unchanged. We foresee March's meeting to be more interesting as the Council will know new inflation and GDP projections.
	Market implied »				0	3	14	
Czech Republic	Forecast	0.05	0.05	0.05				We do not expect any changes in monetary conditions. It is likely that the CNB will re-affirm its commitment to weaker currency and very low rates and stay here until significant inflation pressures materialize.
	Market implied »				35	32	34	
Hungary	Forecast	2.85	3.00	3.00				In January the NBH trimmed official rate by 15 bp to 2.85%, more than expected. The NBH's governor emphasized that the current path of monetary policy will continue, despite significant weakening of HUF.
	Market implied »				26	64	18	

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

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142, 00-061 Warszawa, fax +48 22 586 83 40
Email: ekonomia@bzwbk.pl Economic Service Web site: <http://skarb.bzwbk.pl/>

Maciej Reluga – Chief Economist

tel. +48 022 534 1888. Email: maciej.reluga@bzwbk.pl

Piotr Bielski +48 22 534 1887

Agnieszka Decewicz +48 22 534 1886

Marcin Luzziński +48 22 534 1885

Marcin Sulewski +48 22 534 1884

Disclaimer

•This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

•Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>