RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

December 2013

Bank Zachodni WBK
Grupa Santander

Table of contents

Summary

- Decline of inflation again became one of the most vivid topics around the world for both developed economies and CEE countries. Amid uncomfortably low level of inflation, the ECB unexpectedly cut official rates by 25bp at its November's meeting. The National Bank of Hungary (NBH) has continued its easing cycle, trimming official rates to 3.20% (the lowest level in history). At the same time the Czech National Bank (CNB) delivered a startlingly huge step by starting an intervention against CZK and establishing a floor for EURCZK at 27.00. As regards Poland, the MPC has extended its forward guidance by declaring stable rates at least until the end of the first half of 2014. Such a decision was supported by the newest inflation projection, which showed CPI below the inflation target of 2.5% in the predicted horizon. During the last meetings this year we think that ECB, CNB and Poland's MPC will keep interest rates unchanged, upholding their dovish rhetoric as long as inflation outlook is fairly benign. Only in case of Hungary we expect another rate cut, to new all-time low at 3%. This month both the ECB and the Fed will present updated economic projections, which may be important hints for the market, especially in the case of the latter, as investors are afraid the FOMC may decide to start reducing the pace of asset purchases already this month. Our base-case scenario presumes that decision about start of QE3 tapering will be delayed until 1Q2014.
- Recent macroeconomic data clearly suggested a further improvement in economic activity in Poland. The 3Q GDP breakdown points to a stronger-than-expected rebound in domestic demand (especially on the investment side), while net exports have continued to be the driving force. Good results of 3Q and promising start of 4Q convinced us to upgrade GDP growth forecasts for Poland to nearly 2.5% in the final quarter of this year, 1.5% on average in 2013 and above-3% in 2014. We still think that monetary policy tightening in Poland will start in 2014, however lower than earlier expected path of inflation, prolonging period of ultra-loose monetary policy abroad, and expected change in the MPC imply that the moment of first rate hike may be delayed until autumn 2014.
- In November bond market was under pressure of global factors. Higher risk that Fed might start tapering this year (after October's minutes) caused yields increase on mid and long end of the curve. At the same time the front end of the curve stayed relatively resistant to swings in global mood. Consequently, the curve remained relatively steep, similarly as on global markets. In the last month of this year we expect the front end to oscillate near current level. The mid and long end will be under pressure as global markets are afraid of the potential FOMC's tapering as early as in December.
- The zloty was relatively stable against the euro and lost against the US dollar in the past month. Still, domestic currency will remain under pressure of global moods. However, we maintain our scenario of the gradual strengthening of the zloty, expecting EURPLN at 4.18 on average in December.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-November	1M	3M
Reference rate	0	0	**2.50**	→	→
WIBOR 3M	-5	-1	**2.65**	→	→
2Y bond yield	-29	-1	**2.82**	→	↗
5Y bond yield	-8	24	**3.74**	↗	↗
10Y bond yield	7	34	**4.51**	↗	↗
2/10Y curve slope	36	35	**169**	→	→

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: In November 3M WIBOR rate slightly declined due to extension of forward guidance by the MPC for 1H 2014, while other rates remained flat. Low inflation rate and still dovish rhetoric of the MPC should anchor 3M rate near current level in coming months despite gradual rebound in economic activity. However, we do not exclude longer-term WIBOR rates to increase gradually at the beginning on 2014.

Short end: In November, as in the previous month, front ends of curves were relatively resistant to changes in global moods. We expect some range trading till year-end due to low inflationary pressure and moderate economic recovery. However, more visible signals of GDP acceleration might result in gradual increase on front end in 3M horizon.

Long end: Renewed risk that Fed might start tapering in December put upward pressure on mid and long-end of curves. Global tendency will be still the most important factor for domestic 5Y and 10Y bonds with a moderate pressure for higher yields. Yield curves should remain steep, with 2-10Y spread oscillating near current level.

Risk factors to our view: As compared with previous month, risk factors remain unchanged. Future Fed and ECB decisions are key factors for the domestic bond market. Stronger macro data from the US might cause upward pressure on domestic yields. Implementation of changes to pension fund system might also negatively affect investors' mood on domestic market.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-November	1M	3M
EURPLN	-1.5	0.6	**4.20**	→	→
USDPLN	-4.2	1.1	**3.08**	→	→
CHFPLN	-1.6	0.6	**3.41**	→	→
GBPPLN	0.9	3.0	**5.03**	→	→
EURUSD	2.8	-0.5	**1.36**	→	→

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: We continue to have a stable view on the EUR. Higher than expected HICP release for the euro zone and further signals of economic revival reduced the odds that the ECB would decide on further monetary easing. Therefore we foresee EURUSD to stay relatively stable in coming months. Consequently, we predict range trading on EURPLN, with a moderate strenghtenign of the zloty.

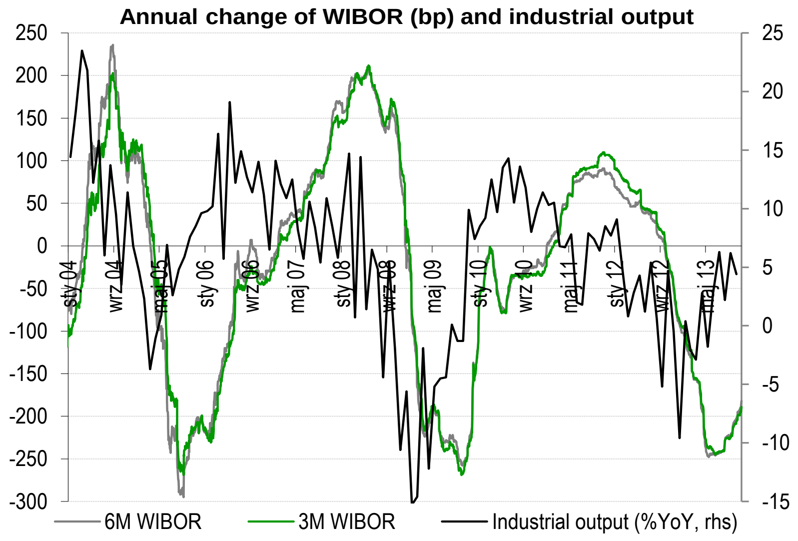
USD: In our opinion, Fed will delay start of QE3 tapering until early 2014, which might put negative pressure on the US dollar. However, USD weakening might be limited as economic data continue to surprise on the upside. As a consequence, we foresee USDPLN to be traded in horizontal trend.

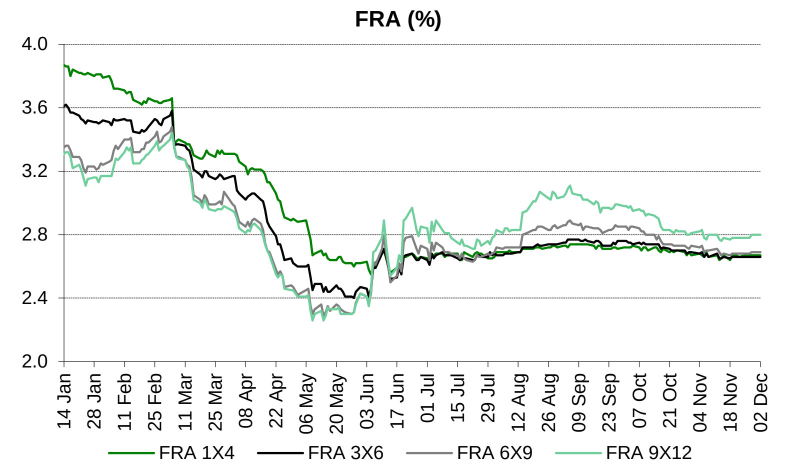
CHF: Situation on EURCHF chart did not change significantly in the past month. The exchange rate will stabilise around 1.23 on average in coming month. As a result, we predict CHFPLN to stay relatively stable in short and medium-term horizon.

Risk factors to our view: Still the biggest risk to the zloty is global central banks' decision. Earlier start of tapering by Fed might translate into risk-averse mood. OFE's bill might also negatively influence the zloty.

Domestic Money Market: CPI outlook limits rates increase

- MPC's forward guidance (extended in November) still has a strong impact on the money market rates, keeping longer WIBOR rates stable since the end of September. During the past month only 3M WIBOR dropped by 1bp to 2.65% (all-time low).
- Chart beside shows WIBOR's correlation with Polish industrial output. We think the market may be clashed between rhetoric of the MPC and upcoming macro data confirming an economic rebound. We would like to recall that the Council has promised unchanged rates at least until mid-2014 (and according to some members even longer). The market surely remembers that this MPC is sensitive to current macro data and thus if next data surprise to the upside – just like they did recently – they may influence the market expectations.
- Thus, we expect WIBOR rates to remain more or less stable in coming months as long as inflation outlook is fairly benign and economic growth is moderate. However, FRA rates might be more volatile. Stronger signals of economic revival might quicly translate into higher rates.

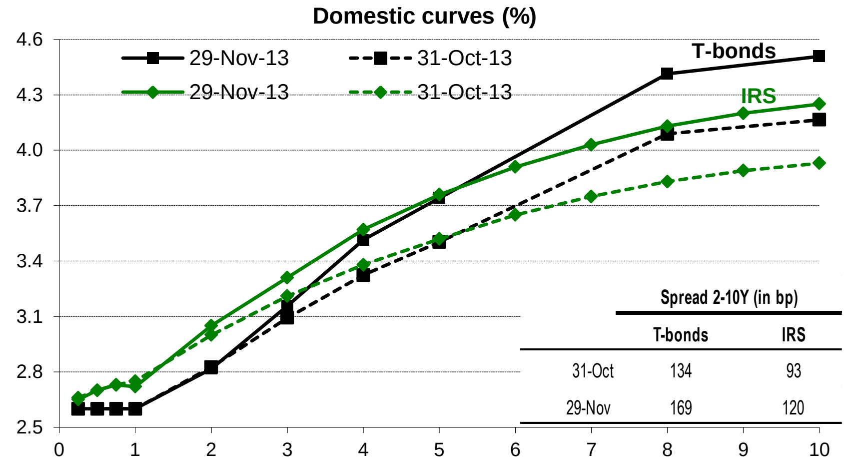


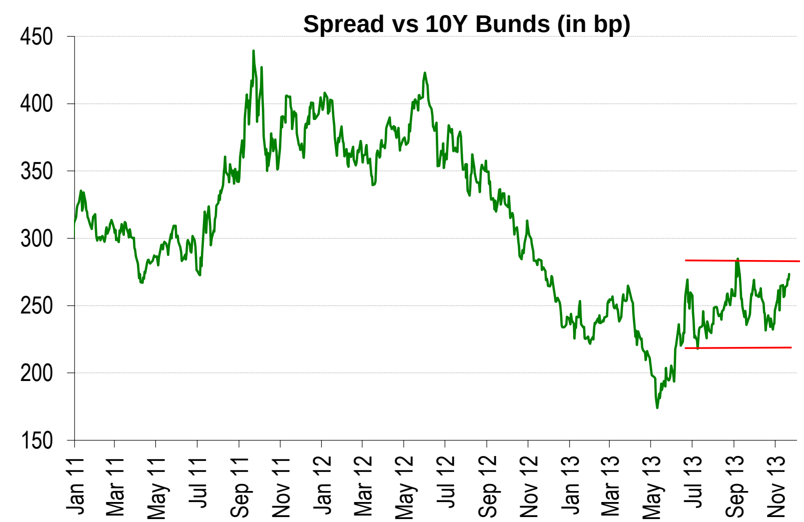


Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: Global environment put upward pressure on long term papers

- In November yields of bonds and IRS rates, mainly on the mid and long-end of curves, increased quite considerably. This development was mainly due to deterioration of investors' moods on the global market (increase of yields of Bunds and of the US Treasuries due to hawkish FOMC's minutes). The cabinet reshuffle, including the change of finance minister, did not affect yields of Polish bonds.
- Bearish steepener was developing on the interest rate market last month. 2-10Y spread for IRS surged from ca 100bp to nearly 120bp, while for bonds this indicator increased sharply to ca 170bp from 140bp. What is more, domestic bonds clearly underperformed peripheral debt (Italian, Spanish or even Portuguese). Yield spread between Polish 10Y Bond and its German counterpart is close to the upper band of range trading observed since June/July 2013 (see chart).
- We still believe that front ends of curves are well anchored near current levels, supported by subdued CPI outlook and the MPC's comments. The mid and long ends will be under pressure as global markets are afraid of a potential FOMC's tapering as early as in December. Lack of such decision should bring some rebound after significant weakening. Scenario of yields increase in mid-term is still valid.





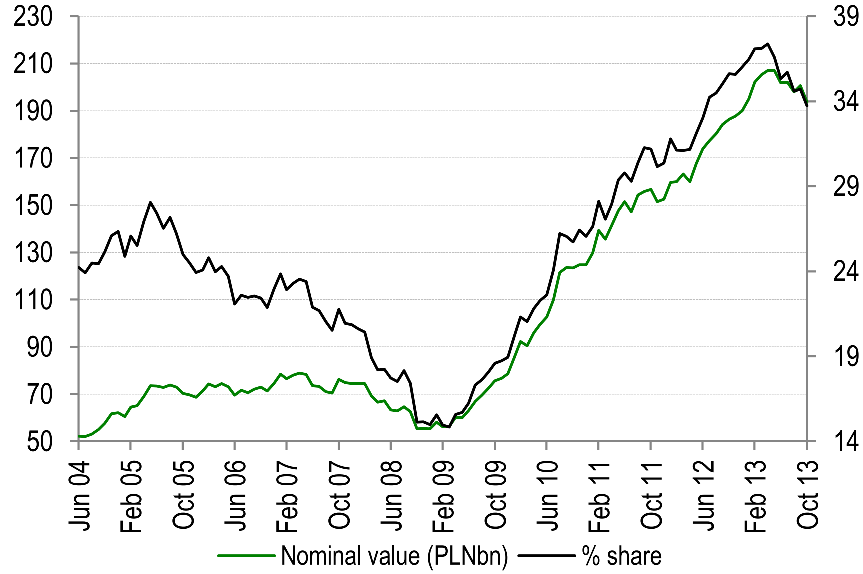
Sources: Reuters, CB, BZ WBK

Bank Zachodni WBK
Grupa Santander

Demand Corner: Foreigners continue to reduce holdings

- At the end of October foreigners held PLN-denominated debt worth PLN193.6bn, the lowest amount since December 2012. Drop of non-residents' portfolio has continued, October's outflow (PLN6.9bn, including nearly PLN5bn reduction by foreign banks and PLN2bn by non-bank financial sector) was the second biggest (after decline by PLN7.3bn in Oct 2008) since comparable data are available (Jun 2004). Share of foreigners in PLN-denominated marketable debt declined to 33.7%, the lowest level since Jun 2012.
- Most significant shifts took place in case of OK and PS series. Non-residents sold OK bonds with face value of almost PLN9.5bn (PLN3.8bn of OK0114 and PLN2.6bn of 2Y benchmark OK0116). On the other hand, PLN9bn was invested in PS series (PLN4.6bn in PS0415, PLN3.6bn in PS0416).
- Domestic banks also reduced their holdings in October (-PLN5.4bn) while pension funds were net buyers (PLN3.8bn, the most considerable increase in a year, seventh month in a row of rising exposure).

Holdings of Polish zloty-denominated, marketable bonds by foreign investors

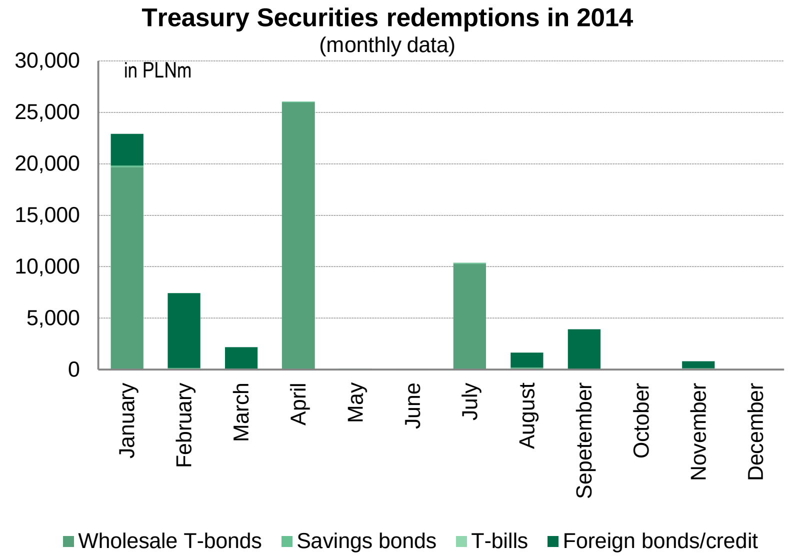


Sources: MF, BZ WBK

Bank Zachodni WBK
Grupa Santander

Supply Corner: The 2014 pre-financing well above 10%

- Despite mixed environment, the Poland's Ministry of Finance has successfully started the 2014 pre-financing process. In November the ministry sold T-bonds through both regular and switch tenders worth PLN13.6bn in total. This sum accounts for around 10% of borrowing needs assumed for next year. What is more, the ministry has accumulated quite significant foreign currency resources to finance FX needs in the first months of 2014.
- Deputy minister of finance Wojciech Kowalczyk said that Poland will conduct no foreign bond issues until the end of the year. The ministry considers the issue in US dollar in 1Q 2014 at the earliest.
- There is one switch auction scheduled on the domestic market this month.
- We believe that the ministry will start the 2014 well-secured. In our opinion the next year's pre-financing will reach nearly 20% of the 2014 gross borrowing target, however, the final number will depend on market sentiment and on funding conditions.



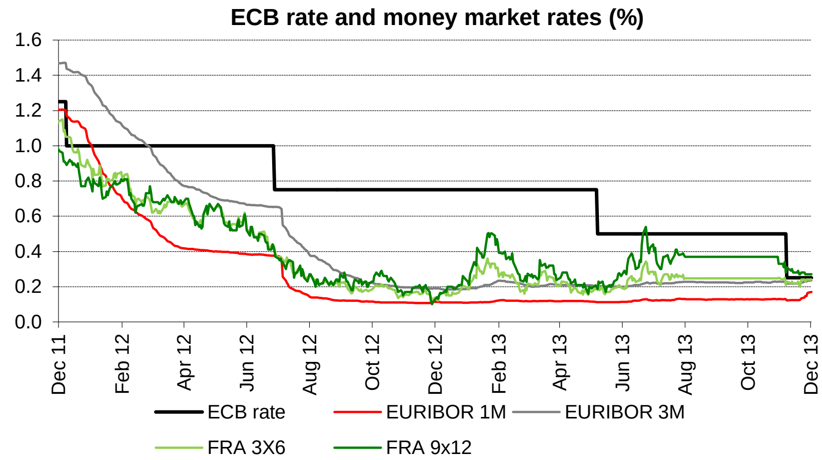
Auctions schedule for December 2013

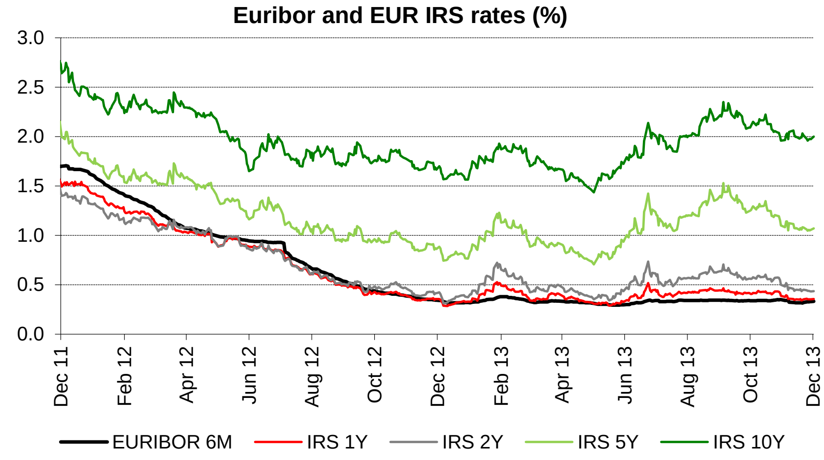
Auction date	Settlement date	Buy-back T-bonds	Bonds to be offered
5 Dec 2013	9 Dec 2013	OK0114, PS0414	PS0416 and WZ0119

Sources: MF, BZ WBK

International Money Market and IRS: ECB remains still supportive

- Unexpectedly, in November the ECB cut refi rate by 25bp to 0.25% due to declining underlying price pressure in the euro area. Positive impact of the refi rate cut on EURIBOR proved to be very limited. The end of November brought money market rates growth as expectations that the ECB would continue easing cycle cooled down after a bit higher than expected preliminary reading of HICP for November. What is more financial institutions have continued to repay part of their LTROs at a faster pace than in 3Q.
- At the same time euro zone IRS declined slightly, just like German bonds.
- At the December's meeting the ECB will have an updated CPI and GDP projections available and it seems that outlook for inflation may have a vital impact on market expectations of next central bank decisions. The ECB is not expected to introduce further easing in its monetary policy.
- There are some worries on the market that the FOMC may decide to taper QE3 in December, but this is not our baseline scenario (we find 1Q14 more likely).



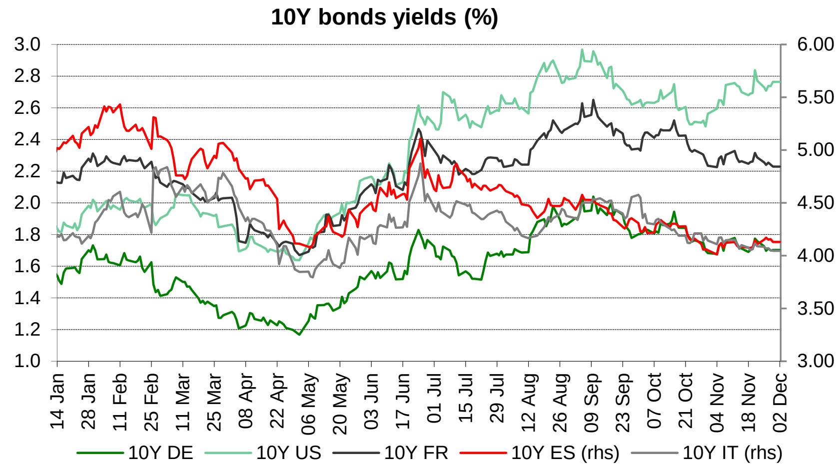


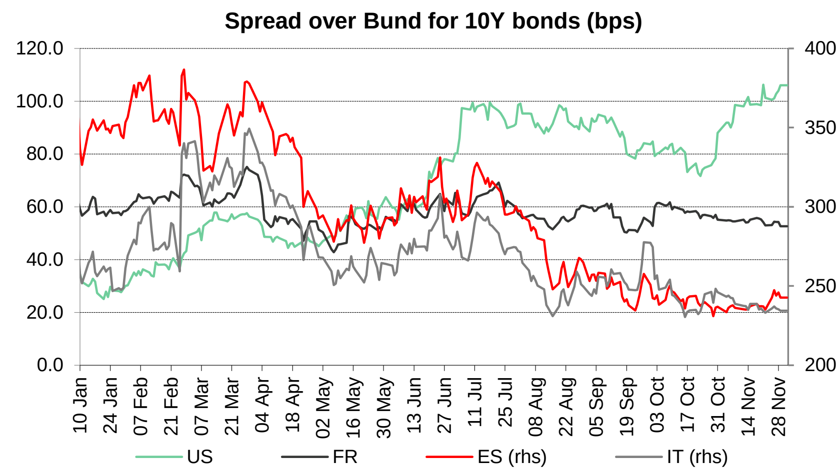
Sources: Thomson Reuters, ECB, Fed, BZ WBK

Bank Zachodni WBK
Grupa Santander

International Bond Market: Core market yields diverge

- In November yields diverged in the core markets. This was due to different outcomes from central banks as Fed considered tapering, while ECB further eased monetary policy due to strong decline of CPI inflation in September. As a consequence, the US Treasuries underperformed Bunds. Spread in 10Y sector widened to 106bp (the highest level since mid-2006) and then stabilised near 100bp.
- The clear easing bias of the ECB, combined with the progress on structural reforms being accomplished by peripheral countries and the improving growth prospects were the main factors supporting the peripheral debt in November. However, yields rose modestly in the second part of the month as the FOMC minutes from October's meeting clearly showed that the Fed is quite keen on starting tapering sooner rather than later. As in previous months Italy outperformed Spain.
- Investors will focus on central banks meeting. We believe that ECB's rhetoric will remain dovish, supporting the bond market. The most crucial will be Fed's meeting and its newest economic forecasts, which might determine the timing of tapering. If FOMC decides to postpone decision, we expect core yields to decline. However, higher yields still remain our baseline scenario in mid-term.



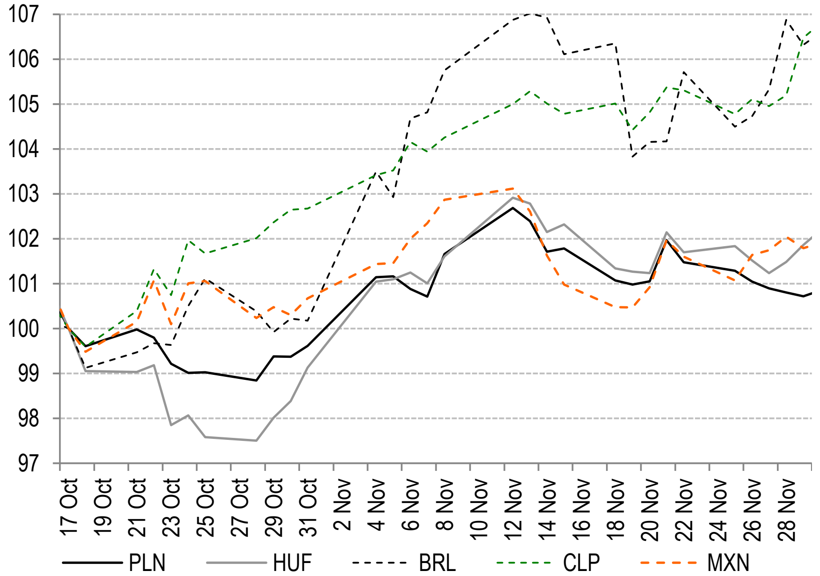


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: Range trading narrowing

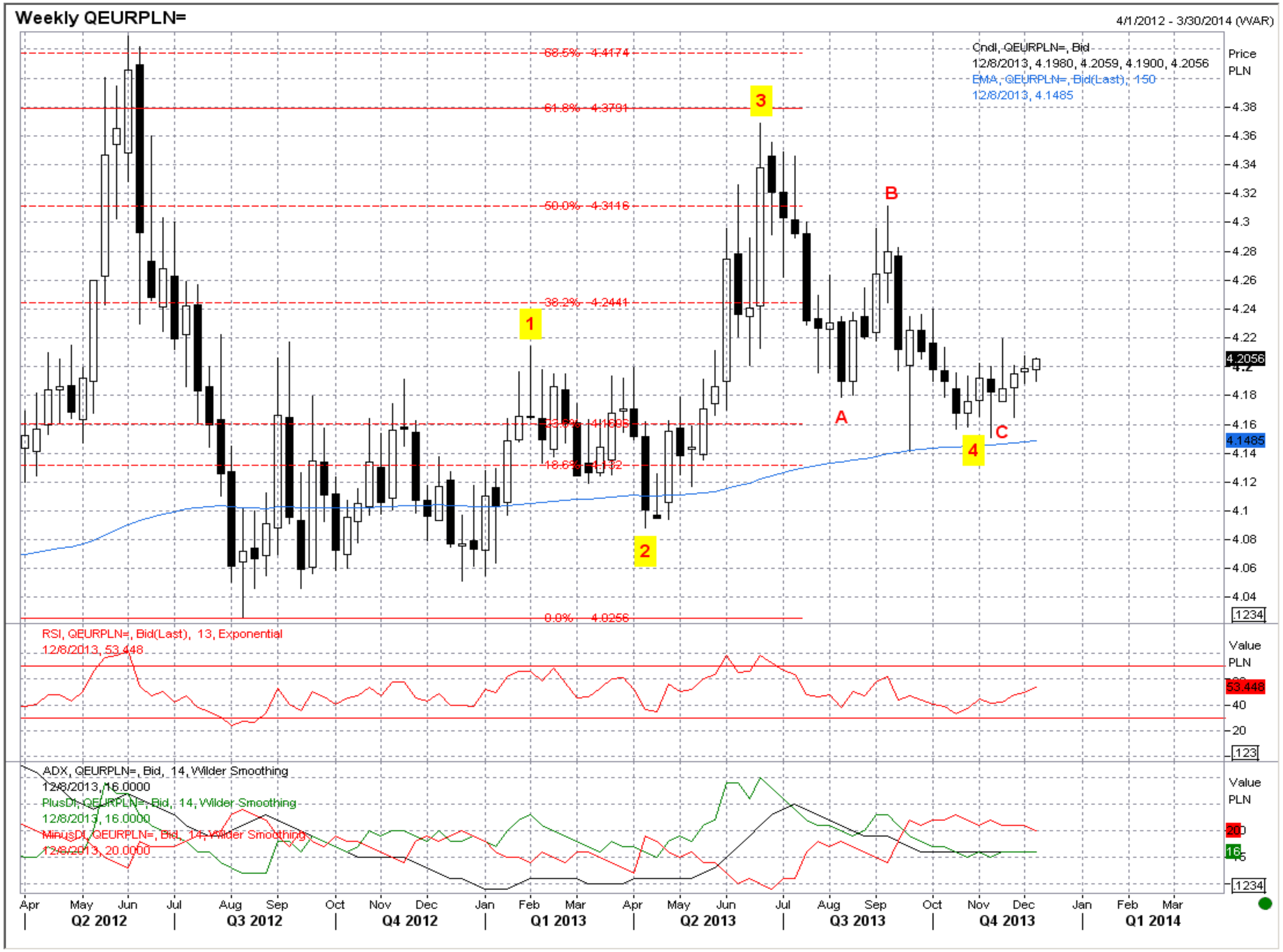
- In November, the zloty lost against the main currencies, with the highest depreciation vs GBP (by 3%MoM) and USD (by 1.1%MoM). Domestic currency is losing gradually vs. EUR and USD since mid-October when (temporary) agreement on the budget and debt ceiling was reached in the US. It is worth to notice that since mid-October also other emerging market currencies weakened – Brazilian real, Chilean and Mexican pesos. Additionally, since late October we observe an upward move of Polish bond yields and this may suggest that those assets – including the zloty – are under negative pressure of expectations for upcoming QE3 tapering.
- These expectations may be significantly influenced by the US data. Currently, when compared to surprisingly strong October reading, market expects clearly less impressive positive change of nonfarm payrolls. Some investors seem to take into account that QE3 may be tapered already in December, thus US data might be the main driver of EURPLN.
- We expect average EURPLN at 4.18 in December. Still, it is worth to notice that for this exchange rate and also for USDPLN, recent weeks brought some narrowing of range trading and this suggests that higher volatility may be recorded soon .

Currencies vs. the dollar (17 October 2013 = 100)



Sources: Reuters, BZ WBK

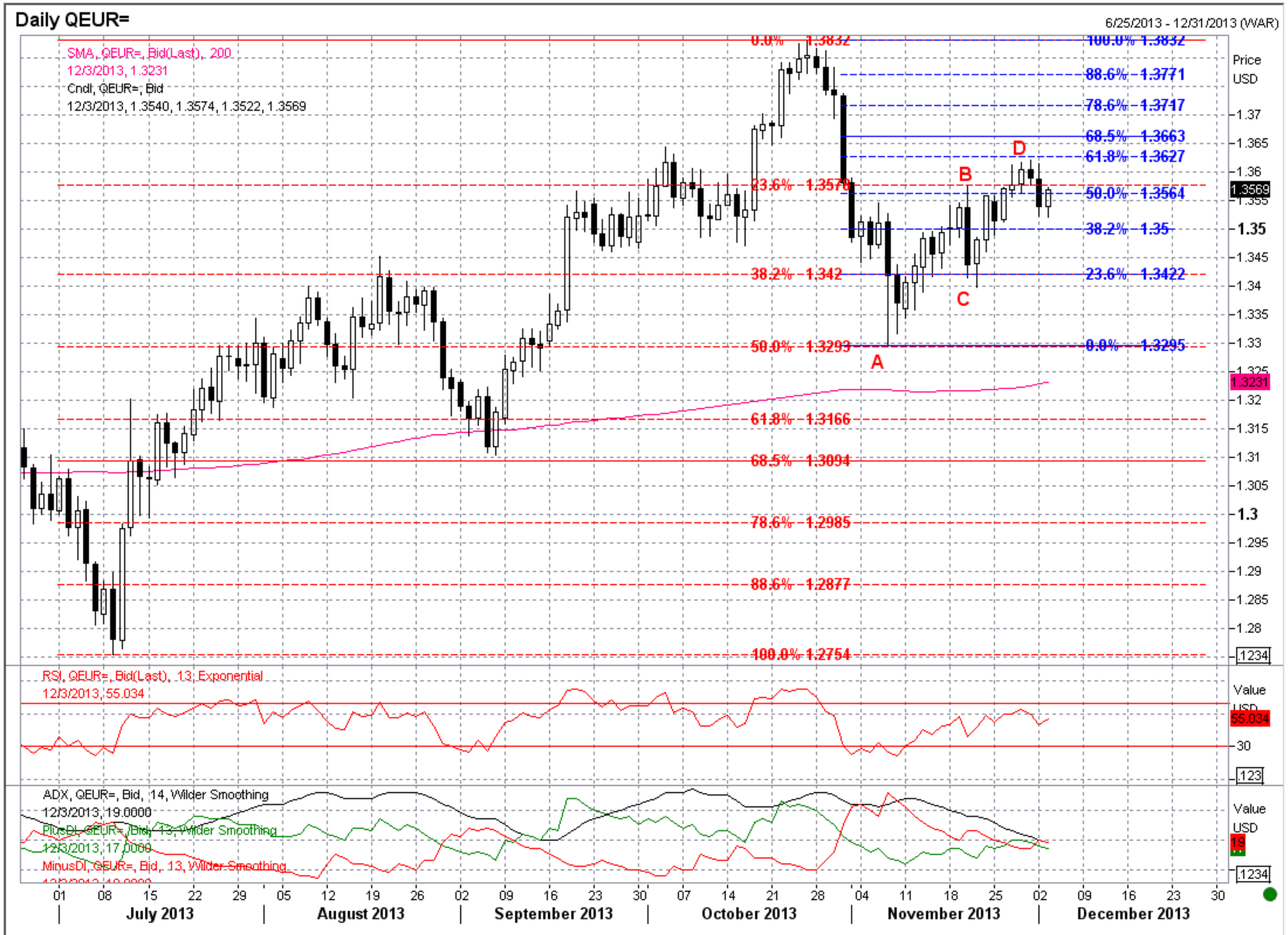
FX Technical Analysis Corner: Bigger move ahead?



- EURPLN continued the range trading between strong support at c.4.14 and resistance at 38.2% Fibo retracement.
- Assuming that now 4th wave has ended, then we could see higher EURPLN in coming months as the 5th wave should begin and take the exchange rate above c.4.37. After 5th wave is complete, then another bigger correction would begin.

Sources: Reuters, BZ WBK

FX Technical Analysis Corner: Close to strong resistance



- EURUSD tested the support at 38.2% Fibo retracement (on daily chart this was exactly 50% of upward move from 1.275 to 1.382).
- Now it approached resistance at 61.8% Fibo retracement, additionally AB/CD~ 1.272, vital Fibo ratio. These facts constrain potential for further increase.
- Resistance is at 1.363, support at 1.342.

Sources: Reuters, BZ WBK

Bank Zachodni WBK
Grupa Santander

Macroeconomic Forecasts

Poland		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1,523.2	1,595.2	1,632.6	1,707.6	377.9	395.7	404.3	454.7	393.3	414.2	423.1	477.1
GDP	%YoY	4.5	1.9	1.5	3.1	0.5	0.8	1.9	2.4	2.7	3.1	3.2	3.2
Domestic demand	%YoY	3.6	-0.2	-0.3	2.2	-0.9	-1.7	0.5	0.5	1.0	1.9	2.3	3.4
Private consumption	%YoY	2.6	0.8	0.6	1.8	0.0	0.2	1.0	1.2	1.5	1.7	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-0.5	3.7	-2.1	-3.2	0.6	1.0	1.0	2.0	3.0	6.0
Unemployment rate [a]	%	12.5	13.4	13.5	13.0	14.3	13.2	13.0	13.5	14.1	13.7	12.9	13.0
Current account balance	EURm	-18,519	-14,191	-5,663	-1,795	-2,313	362	-2,306	-1,406	-203	956	-1,116	-1,432
Current account balance	% GDP	-5.0	-3.7	-1.5	-0.4	-3.1	-2.3	-2.0	-1.5	-0.9	-0.7	-0.4	-0.4
General government balance	% GDP	-5.0	-3.9	-4.8	-3.5*	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.8	1.3	0.5	1.1	0.9	1.5	1.8	1.6	2.2
CPI [a]	%YoY	4.6	2.4	1.0	2.2	1.0	0.2	1.0	1.0	1.5	2.0	1.9	2.2
CPI excluding food and energy prices	%YoY	2.4	2.2	1.3	2.1	1.2	1.0	1.4	1.6	2.1	2.2	2.1	2.1

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	3.04	2.78	3.82	3.09	2.62	2.61	2.65	2.65	2.73	3.07
Yield on 2-year T-bonds	%	4.81	4.30	2.97	3.22	3.29	2.77	2.98	2.85	2.88	3.07	3.35	3.58
Yield on 5-year T-bonds	%	5.44	4.53	3.47	3.89	3.49	3.09	3.63	3.67	3.75	3.82	3.95	4.03
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.67	3.95	3.58	4.26	4.39	4.57	4.60	4.70	4.82
2-year IRS	%	4.98	4.52	3.11	3.42	3.43	2.81	3.14	3.05	3.05	3.25	3.58	3.80
5-year IRS	%	5.24	4.47	3.52	4.00	3.52	3.08	3.76	3.71	3.80	3.90	4.08	4.22
10-year IRS	%	5.33	4.56	3.86	4.48	3.76	3.41	4.13	4.15	4.32	4.38	4.53	4.70
EUR/PLN	PLN	4.12	4.19	4.20	4.06	4.16	4.20	4.25	4.19	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.97	3.15	3.22	3.21	3.09	3.05	3.00	2.95	2.89
CHF/PLN	PLN	3.34	3.47	3.41	3.23	3.38	3.41	3.44	3.40	3.32	3.26	3.21	3.11
GBP/PLN	PLN	4.75	5.16	4.94	4.82	4.88	4.94	4.97	4.98	4.90	4.83	4.81	4.75

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

Economic Calendar and Events

Date		Event:	Note:
4-Dec	**PL**	**MPC Meeting – interest rate decision**	**We expect the MPC to keep interest rates unchanged**
	DE	Auction of 5Y benchmark	Offer: €4bn
5-Dec	**PL**	**Switch auction**	**Bonds to be bought-back: OK0114 and PS0414**
	EZ	ECB Meeting – interest rate decision	-
	GB	BoE Meeting – interest rate decision	-
	SP	Bond auction	-
11-Dec	DE	Auction of 2Y benchmark	Offer: €5bn
13-Dec	**PL**	**CPI for November**	**Our forecast: 0.8%YoY (slightly below consensus)**
16-Dec	**PL**	**Core inflation for November**	**We predict core CPI after excluding food and energy prices at 1.5%YoY**
17-Dec	**PL**	**Employment and wages for November**	**We expect employment to increase by 0.1%YoY and wages growth at 2.7%YoY (below market consensus)**
	CZ	CNB Meeting – interest rate decision	-
	HU	MPC Meeting – interest rate decision	-
18-Dec	**PL**	**Industrial output and PPI for November**	**Our forecast of industrial output (0.4%YoY) is well below market expectations. We predict PPI at -1.3%YoY**
	US	FOMC meeting – interest rate decision	-
TBA	**PL**	**Retail sales for November**	**Our forecast at 3.7%YoY is above market consensus**
8-Jan	**PL**	**MPC Meeting – interest rate decision**	**We expect the MPC to keep interest rates unchanged**
9-Jan	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

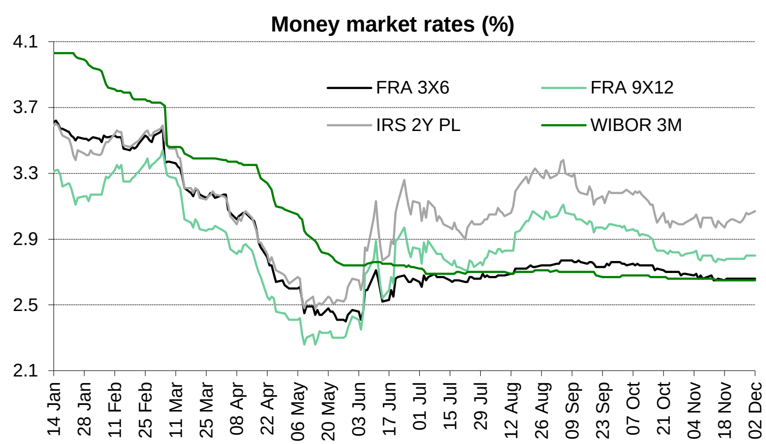
1. Domestic markets performance

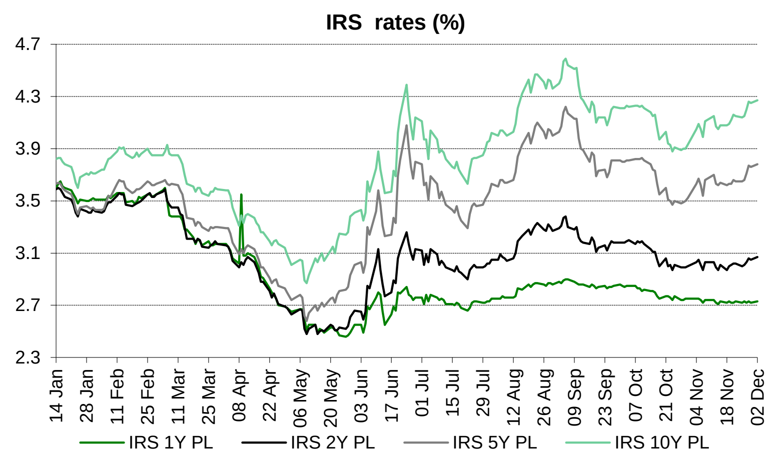
Money market rates (%)

	Reference rate (%)	Polonia (%)	WIBOR (%)				OIS (%)				FRA (%)			
			1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of November	**2.50**	**2.44**	**2.60**	**2.65**	**2.70**	**2.75**	**2.40**	**2.40**	**2.40**	**2.46**	**2.67**	**2.66**	**2.69**	**2.80**
Last 1M change (bp)	0	51	1	-1	0	0	3	2	0	-3	0	-2	-3	0
Last 3M change (bp)	0	-4	-2	-6	-3	-2	1	-5	-5	-13	-5	-8	-14	-22
Last 1Y change (bp)	-200	-210	-195	-189	-182	-174	-181	-166	-141	-123	-165	-128	-91	-66

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of November	**2.82**	**3.74**	**4.51**	**3.05**	**3.76**	**4.25**	**-23**	**-2**	**26**
Last 1M change (bp)	-2	31	40	6	27	35	-8	4	5
Last 3M change (bp)	-26	-3	11	-22	-22	-11	-3	19	22
Last 1Y change (bp)	-73	3	38	-81	-5	30	8	8	8





Sources: Reuters, BZ WBK

2. Polish bonds: supply recap

Total issuance in 2013 by instruments (in PLNm, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bonds auction	17,358	10,391	8,081	16,817	12,003	4,607		5,695	5,707	15,028	7,964		103,651
T-bills auction	3,603	1,747	3,084										8,434
Retail bonds	150	154	154	154	154	154	154	113	154	150	128	150	1,769
Foreign bonds/credits	4,140	1,301					4,330		4,225				13,996
Prefinancing and financial resources at the end of 2012	24,400												24,400
Total	**49,651**	**13,593**	**11,319**	**16,971**	**12,157**	**4,761**	**4,484**	**5,808**	**10,086**	**15,178**	**8,092**	**150**	**152,250**
Redemption	11,686	13,854	2,791	16,157	2,340	1,859	7,269	3,191	1,122	19,582	924	146	82,920
Net inflows	**37,965**	**-261**	**8,528**	**814**	**9,817**	**2,902**	**-2,785**	**2,617**	**8,963**	**-4,404**	**7,169**	**4**	**69,329**
Rolling over T-bonds			4,827			7,801			3,784		5,637		**22,049**
Buy-back of T-bills/ FX-denominated bonds										2115	309		**2,424**
Total	**37,965**	**-261**	**13,355**	**814**	**9,817**	**10,703**	**-2,785**	**2,617**	**12,748**	**-2,289**	**13,115**	**4**	**93,803**
Coupon payments	*2,492*			*7,322*			*1,955*		*1,497*	*9,836*			*22,951*

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	10,001		351	**11,297**	0	**11,686**
February	0	3,799	182	**3,981**	11,516	**13,854**
March	0	1,997	129	**2,125**	250	**2,791**
April	16,025		132	**16,157**	0	**16,157**
May	0	2,223	117	**2,339**	0	**2,340**
June	0	1,747	112	**1,859**	0	**1,859**
July	7,051		218	**7,269**	0	**7,269**
August		1,997	248	**2,245**		**3,218**
September			176	**176**	450	**561**
October	19,582		265	**19,847**	950	**20,797**
November	0		208	**208**	716	**2,256**
December	0		146	**146**	0	**2,368**
Total 2013	53,604	11,762	2,283	**67,650**	15,891	**87,095**
Total 2014	55,952		1,698	**57,650**	14,825	**72,475**
Total 2015	90,137		628	**90,765**	17,448	**108,213**
Total 2016	59,378		485	**59,863**	14,329	**74,192**
Total 2017	71,444		91	**71,535**	16,871	**88,406**
Total 2018+	265,947		3,288	**269,235**	134,966	**404,201**

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

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

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2013	0	0	0	0	0	0	0	0	0
Q2 2013	0	0	0	0	0	0	0	0	0
Q3 2013	0	0	0	0	0	0	0	0	0
Q4 2013	0	0	0	0	0	43	1	1	45
Total 2013	**0**	**0**	**0**	**0**	**0**	**43**	**1**	**1**	**45**
	0%	**0%**	**0%**	**0%**	**0%**	**96%**	**1%**	**3%**	**100%**
Total 2014	26,717	13,819	7,270	5,302	2,936	397	105	5,028	61,573
	43%	22%	12%	9%	5%	1%	0%	8%	100%
Total 2015	35,061	24,496	8,075	9,000	7,926	227	296	5,128	90,208
	39%	27%	9%	10%	9%	0%	0%	6%	100%
Total 2016	29,445	15,294	4,578	22,262	8,921	73	391	4,965	85,928
	34%	18%	5%	26%	10%	0%	0%	6%	100%
Total 2017	24,875	11,331	5,921	17,235	8,038	47	196	3,801	71,444
	35%	16%	8%	24%	11%	0%	0%	5%	100%
Total 2018+	77,510	45,806	25,618	72,694	21,737	239	373	13,519	257,496
	30%	18%	10%	28%	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 October			Share in TOTAL (%) in October
	End Oct'13	End Sep'13	End Jun'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	380,6	377,3	369,4	337,5	341,8	352,9	361,4	0,88	1,42	12,98	66.3 (1.0pp)
Commercial banks	110,7	116,2	113,9	87,8	102,0	102,1	110,9	-4,67	5,54	26,29	19.3 (-0.8pp)
Insurance companies	51,5	52,8	53,1	52,8	54,7	57,0	54,3	-2,57	-4,31	-3,85	9.0 (-0.2pp)
Pension funds	126,5	122,7	117,7	117,4	116,7	120,3	120,7	3,09	5,31	4,90	22.0 (0.8pp)
Mutual funds	49,6	46,1	46,5	41,7	32,5	33,0	31,3	7,41	4,74	36,72	8.6 (0.6pp)
Others	42,4	39,5	38,3	37,8	35,9	40,5	44,3	7,3	11,8	9,1	7.4 (0.5pp)
Foreign investors*	193,6	200,6	201,8	189,9	184,2	174,0	163,2	-3,46	-4,21	3,91	33.7 (-1.0pp)
Banks	27,2	32,1	32,3	28,4	27,8	22,6	24,3	-15,37	-8,44	-0,73	4.7 (-0.8pp)
Non-bank fin. sector	157,7	159,7	160,1	153,1	147,5	143,1	131,7	-1,28	-2,97	4,99	27.5 (-0.2pp)
Non-financial sector	5,4	5,2	5,3	5,2	5,6	5,2	4,4	3,00	-6,64	-1,09	0.9
TOTAL	574,2	577,9	571,2	527,4	526,0	526,9	524,7	-0,63	4,55	9,75	100

**Total for Foreign investors does not match sum of values presented for sub-categories due to omission of irrelevant group of investors.*

Sources: MF, BZ WBK

4. Euro zone bonds: supply recap

Euro zone's issuance plans and completion in 2013 (€ bn)

	Total redemptions	Deficit	Borrowing needs	Expected bond supply	% of completion (YtD*)
Austria	15.9	6.3	22.2	22.2	93.0
Belgium	30.3	8.8	40.0	37.0	105.0
Finland	6.8	5.6	12.4	12.4	112.0
France	105.5	61.6	171.1	170.0	111.0
Germany	157.0	17.1	174.1	174.1	95.0
Greece	9.7	11.6	21.3	0.0	-
Ireland	5.1	12.5	17.6	10.0	75.0
Italy	154.7	25.5	180.2	180.2	111.0
Netherlands	31.5	15.2	46.7	50.0	104.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	98.0
Total	**584.3**	**220.0**	**832.2**	**772.3**	**105.0**

Sources: Eurostat, BZ WBK

**/ YtD (year calendar) data for 2013*

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	
	2012	2013	2012	end of Nov	2012	end of Nov	2012	end of Nov	2012	end of nov
Poland	**4.25**	**2.50**	**4.11**	**2.65**	**3.72**	**4.51**	**241**	**281**	**80**	**84**
Czech Republic	0.05	0.05	0.18	0.06	1.86	2.24	54	54	63	60
Hungary	5.75	3.00	5.75	3.19	6.23	6.17	492	447	269	275
Euro area	0.75	0.25	0.19	0.23						
Germany					1.32	1.70			39	21

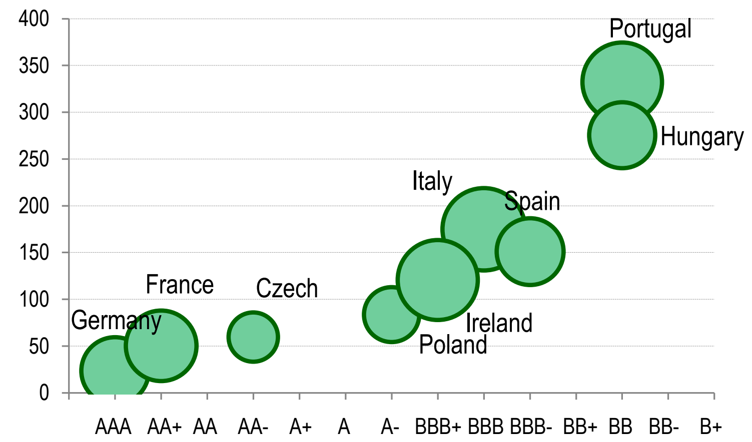
Sources: EC – Autum 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

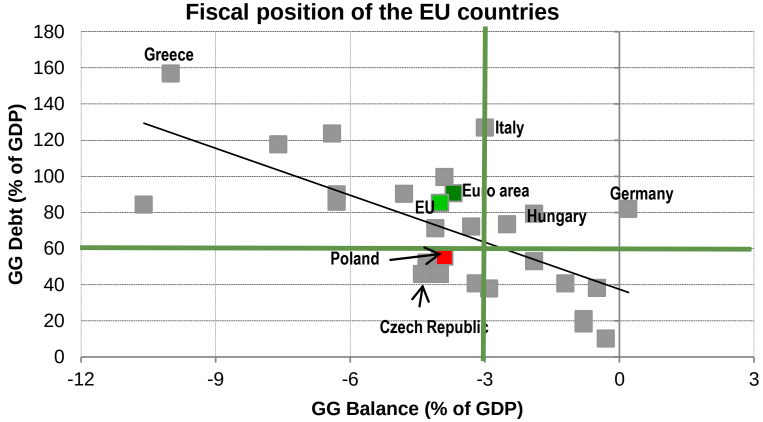
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	negative
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+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

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

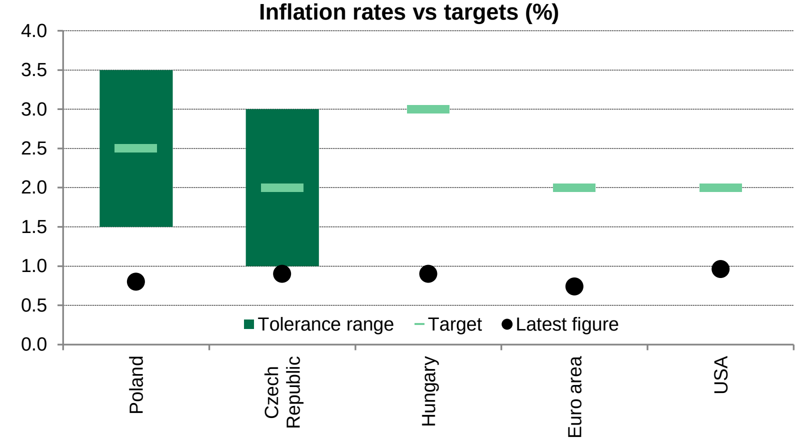


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

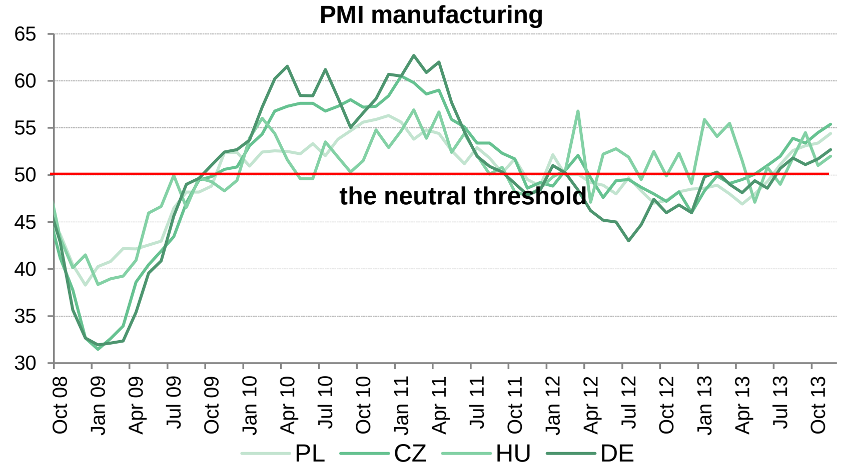


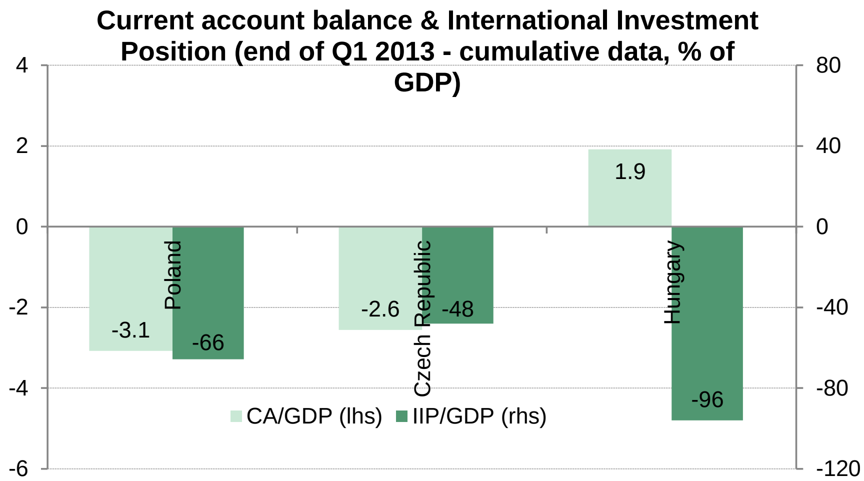
Inflation rates vs targets (%)

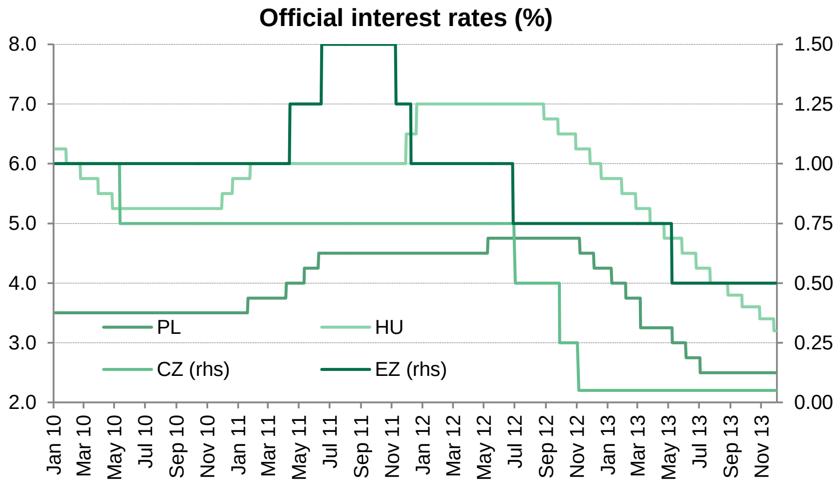


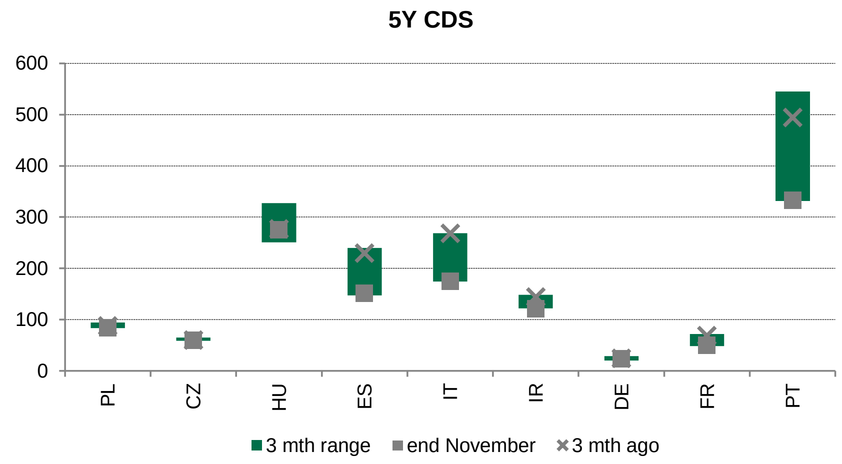
Source: rating agencies, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)



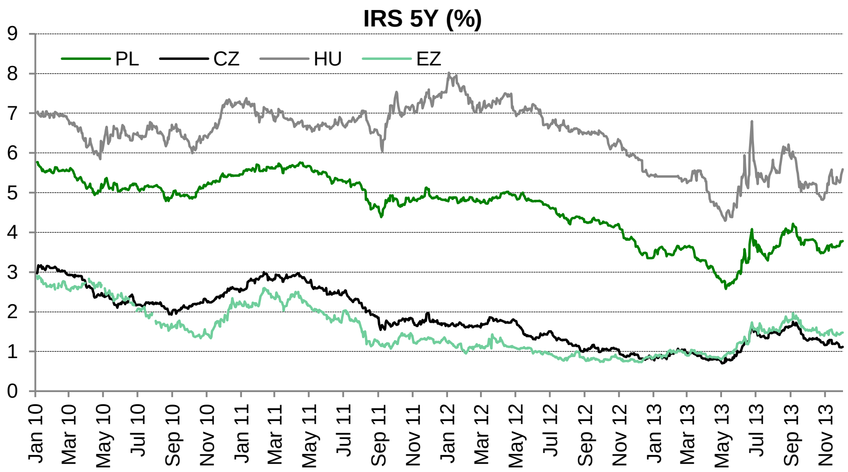


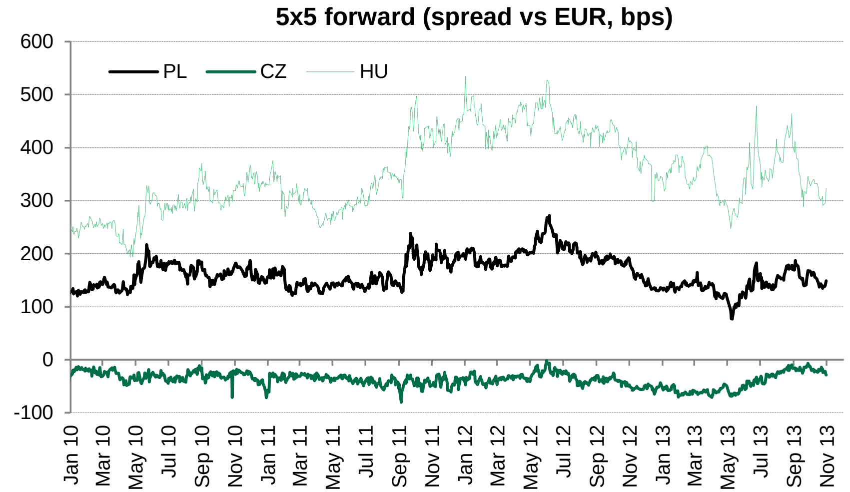


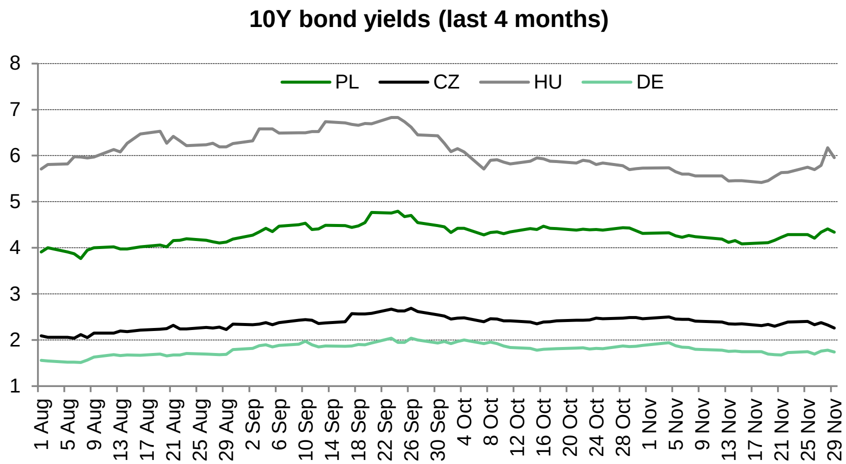


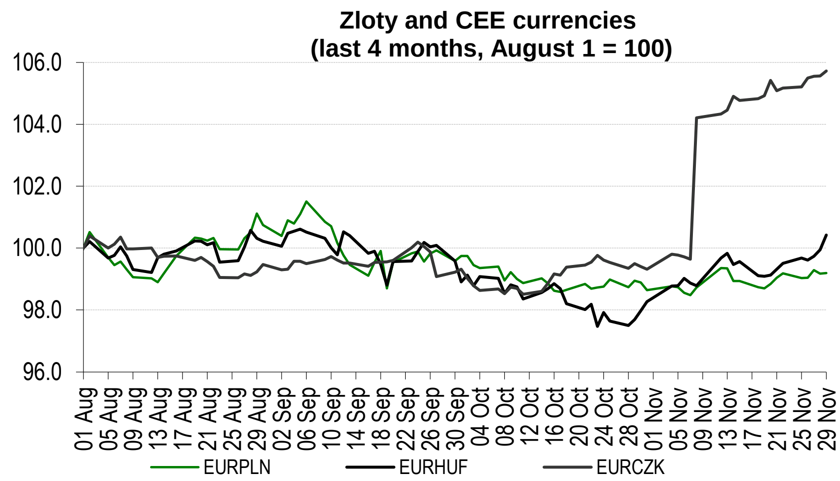
Source: Markit, Eurostat, central banks, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)









Source: Reuters, BZ WBK

6. OFE overhaul

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

Fund	Assets (PLNbn)	Asset allocation (%)							
		Bonds*	change MoM (pp)	Equities	change MoM (pp)	Deposits	change MoM (pp)	Other	change MoM (pp)
ING	73.1	45.3%	-1.9	44.6%	2.4	5.8%	-0.1	4.3%	-0.5
Aviva	67.8	47.3%	-1.9	42.9%	2.0	6.1%	0.2	3.8%	-0.3
PZU	40.7	46.7%	1.2	44.4%	1.2	3.3%	-3.0	5.6%	0.6
Amplico	24.2	47.3%	-1.9	44.7%	2.9	6.7%	1.8	1.3%	-2.8
AXA	18.9	50.0%	-1.0	39.9%	1.5	4.9%	-0.4	5.2%	-0.1
Generali	15.2	51.4%	-1.9	40.8%	1.4	3.7%	0.1	4.2%	0.4
Nordea	13.7	50.1%	-1.7	41.9%	1.5	1.9%	0.6	6.2%	-0.4
PKO BP	13.4	51.1%	0.0	43.3%	1.6	4.3%	-1.6	1.3%	-0.1
AEGON	12.8	42.9%	-2.3	42.4%	1.9	7.2%	0.4	7.5%	-0.1
Allianz	9.2	47.7%	-3.2	42.4%	2.2	2.8%	1.8	7.1%	-0.8
Pocztylion	5.8	46.9%	-3.5	43.5%	2.5	6.9%	1.3	2.8%	-0.2
Pekao	4.6	47.7%	-0.4	45.1%	0.2	3.8%	-0.3	3.5%	0.5
Warta	4.1	50.5%	-1.5	42.4%	1.4	4.6%	0.7	2.4%	-0.6
Total	**303.4**	**47.3%**	**-1.4**	**43.3%**	**1.9**	**5.1%**	**-0.2**	**4.3%**	**-0.4**

* 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-October 2013)

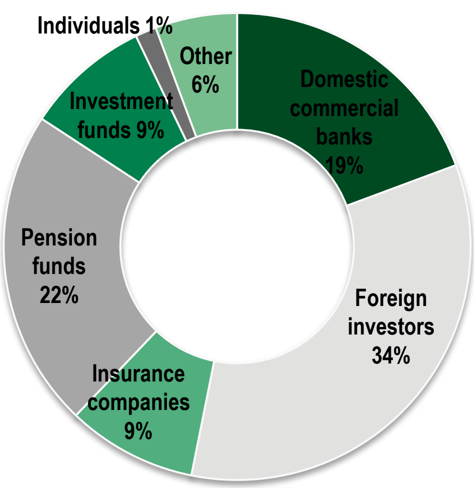
	OK0715	IZ0816	PS0416	PS1016	WZ0117	PS0417	WZ0118	PS0418	PS0718	DS1019	DS1020	WZ0121	IZ0823	DS1023
Nominal value held by OFE (PLNm)	575	8,397	5,336	6,789	8,376	5,493	8,191	13,135	6,354	7,368	5,463	7,014	10,292	1,993
Share held by OFE in series outstanding	5.1%	54.1%	22.4%	28.9%	33.6%	27.3%	30.4%	40.5%	37.8%	28.4%	23.4%	25.4%	71.3	9.7%
Share held by foreign investors in series outstanding	30.6%	34.7%	44.1%	20.8%	19.9%	38.3%	2.8%	26.3%	28.0%	40.8%	45.5%	16.4%	15.3%	41.0%
Share held by biggest holder	**25.4%**	**17.3%**	10.0%	15.0%	**16.3%**	10.1%	14.9%	2.2%	2.8%	12.2%	6.9%	**15.0%**	8.4%	2.4%
Share held by biggest foreign holder	**25.4%**	2.7%	4.4%	4.3%	**16.3%**	4.1%	2.5%	2.2%	2.8%	6.1%	2.2%	**15.0%**	1.6%	1.6%
Without OFE sector														
Share held by foreign investors in series outstanding	32.2%	**75.5%**	**56.9%**	29.3%	29.9%	**52.7%**	4.0%	44.2%	45.0%	**56.9%**	**59.3%**	22%	**53.2%**	45.4%
Share held by biggest holder	**26.7%**	5.8%	5.6%	6.0%	**24.6%**	5.6%	3.6%	3.7%	4.5%	8.6%	2.8%	**20.1%**	5.7%	1.7%
Share held by biggest foreign holder	**26.7%**	5.8%	5.6%	6.0%	**24.6%**	5.6%	3.6%	3.7%	4.5%	8.6%	2.8%	**20.1%**	5.7%	1.7%

Bank Zachodni WBK Grupa Santander

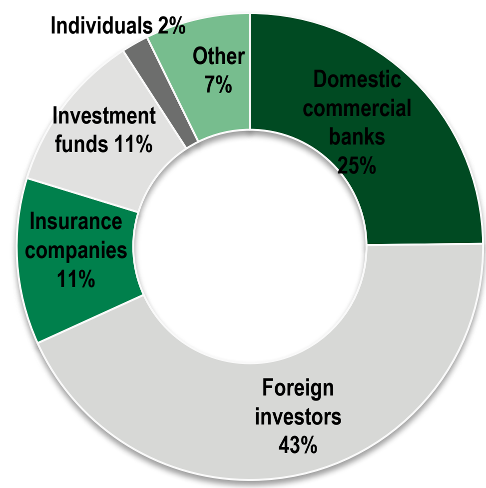
6. OFE overhaul (cont.)

Pension funds' T-bonds portfolio (in PLN m, end-October)

	OK	PS	DS	WS	WZ & IZ	Total
2013						
2014	1,417.4	3,884.3				5,301.7
2015	574.5	2,201.6	2,005.0		4,218.5	8,999.6
2016	1,739.7	12,125.3			8,396.7	22,261.7
2017		5,493.0	3,365.9		8,375.6	17,234.6
2018		19,488.8			8,190.7	27,679.5
2019			7,368.2		1,175.3	8,543.5
2020			5,462.9			5,462.9
2021			5,131.7		7,014.2	12,146.0
2022				1,198.5		1,198.5
2023			1,993.0		10,292.1	12,285.1
2024+				2,009.2	3,314.3	5,323.5
Total	3,731.7	43,193.0	25,326.8	3,207.7	50,977.5	126,436.7



Change of bond holders' shares without OFE sector (data at the end of October)



Sources: MF, BZ WBK

7. Central bank watch

		Last	2012	2013F	Expected changes (bp) 1M	3M	6M	Risks/Events
Euro zone	Forecast	0.25	0.75	0.25				We expect the ECB to keep interest rates unchanged as the euro zone inflation seems to have bottomed out. The meeting might be overshadowed by updated set of macro projections that will provide insight into the economic outlook.
	Market implied »				1	1	2	
UK	Forecast	0.50	0.50	0.50				No change in the monetary policy. General outlook of the UK economy did not change significantly since the previous meeting. Only information about unemployment rate surprised on the positive side.
	Market implied »				1	3	7	
US	Forecast	0-0.25	0-0.25	0-0.25				In line with expectations FOMC keeps official rates unchanged. Investors will focus on new macroeconomic projections, which might influence whether Fed starts QE3 tapering.
	Market implied »				0	1	3	
Poland	Forecast	2.50	4.25	2.50				In our view, interest rates will remain flat and there will be no breakthrough at the meeting. Recent macroeconomic data were quite in line with expectations, so "everything is clear" in Polish monetary policy so far.
	Market implied »				2	1	4	
Czech Republic	Forecast	0.05	0.05	0.05				The CNB has started intervening in the FX market due to worries about disinflation. What is more the CNB decided to keep the CZK at 27 against the euro until end-2014.
	Market implied »				29	24	25	
Hungary	Forecast	3.20	5.75	3.00				As expected, NBH trimmed the base rate by further 20bp to 3.20%. The fundamentals are quite supportive for easing, in particular low inflation rate. We still uphold our forecast of the base rate at 3% at the end of 2013.
	Market implied »				-20	-26	-13	

This analysis is based on information available until 2nd December 2013 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 Luziński	+48 22 534 1885
Marcin Sulewski	+48 22 534 1884

Disclaimer