

Rates and FX Outlook

Polish Financial Market

September 2013

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Summary

- ▶ In line with our expectations Q2 2013 GDP growth confirmed that economy has bottomed out, after reaching the trough of economic cycle at the beginning of the year. What is more, however, the first set of economic statistics for July have proved that the second half of the year has started on a note even stronger than we previously expected - industrial output and retail sales data surprised on the upside, indicating the recovery is on the way. Together with surprisingly significant increase of 12M CPI inflation (to 1.1%YoY from 0.2% in the previous month, mostly due to one-off effects), this created a local macro perspective hawkish enough for the rise in market interest rates.
- ▶ At the same time, the correlation between the domestic interest rate market and the core markets increased substantially in August. Situation will not change significantly in September as external factors might overshadow the domestic events. FOMC meeting will be the most important (17-18 September), and earlier the market will try to guess whether the Fed will downscale the QE3 programme already this month. Probably the August's job growth will be the crucial US figure from this perspective. Later this month also election in Germany may add volatility to the market. As regards the domestic data, we predict another good (or at least in line with expectations) set of macro releases for August, though we have to admit that the scale of PMI increase was surprising for us as well. We decided to increase slightly the forecasts for GDP growth in upcoming quarters: ca. 1.5% in Q3 and ca. 2% in Q4. Domestically, a decision about changes in pension funds, which should be announced in the first half of September, will be also important.
- ▶ As regards the domestic monetary policy, after holiday break in August, the MPC will meet again in September. No changes in expectations here, the MPC will most likely keep rates at the historically low levels, with the reference rate at 2.50%. Recent macro data supported the latest MPC decision to end the easing cycle. What is more, comments of several MPC members, including the NBP Governor Marek Belka, have signalled that the Council is likely to keep official rates on hold for some time, at least till the year-end. Currently the market is pricing-in the first hike in 9 months' time, which is more or less in line with our expectations.
- ▶ The zloty has remained under pressure in August due to worries over QE3 tapering and uncertainty over Syria. These risk factors remain unchanged and should offset the positive macro scenario for the local economy. Therefore, in short term we expect the EURPLN in the horizontal trend, while in medium term we foresee the zloty to return to gradual appreciation trend. We foresee EURPLN below 4.20 in Nov-Dec 2013 period.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-August	1M	3M
Reference rate	-0.50	0.00	2.50	→	→
WIBOR 3M	-9	1	2.72	→	↗
2Y bond yield	40	32	3.11	→	↗
5Y bond yield	72	43	3.82	→	↗
10Y bond yield	87	36	4.44	→	↗
2/10Y curve slope	47	4	133	→	→

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: WIBOR rates remained relatively stable in August. WIBOR curve has steepened as 1M and 3M anchored at current level, while longer rates increased due to rate hike expectations. This situation will not change significantly in one month period, but in 3 month horizon we expect a gradual increase in WIBOR as upcoming macro data will show further improvement in economic activity.

Short end: The front ends of curves have remained more vulnerable to releases of domestic macro data than to external factors. After a sharp increase in August we foresee range trading, with yields/IRS rates staying at elevated level. What is more, offer of 2Y benchmarks on regular auction this month might add some volatility to the market in short term.

Long end: The mid and long end of curves are more sensitive to the situation on core markets. After significant increase in August we expect some stabilisation at elevated level, which should be also supported by another good set of local macro data on the one hand and a lack of supply on long-end of the curve on the other.

Risk factors to our view: Risk factors remain unchanged, with Fed's decision about start and scale of the QE tapering and geopolitical uncertainty playing the main role. If Fed announces a huge scale of reducing QE program, market could overreact, showing more sharper yields/rates increase than now we predict.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-August	1M	3M
EURPLN	-0.6	0.5	4.27	→	↘
USDPLN	-2.3	0.9	3.22	→	↘
CHFPLN	0.2	0.5	3.46	→	↘
GBPPLN	-0.6	2.7	4.99	→	→
EURUSD	1.7	-0.3	1.32	→	↗

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: In August the zloty suffered from a sharp sell-off on emerging markets due to fears that Fed will start tapering in September and because of rising geo-political risks (mainly regarding Syria). In September we still expect market to remain highly volatile, but there is a chance for consolidation near current level. More visible economic revival and further narrowing in C/A gap should result in zloty strengthening in 3 month horizon.

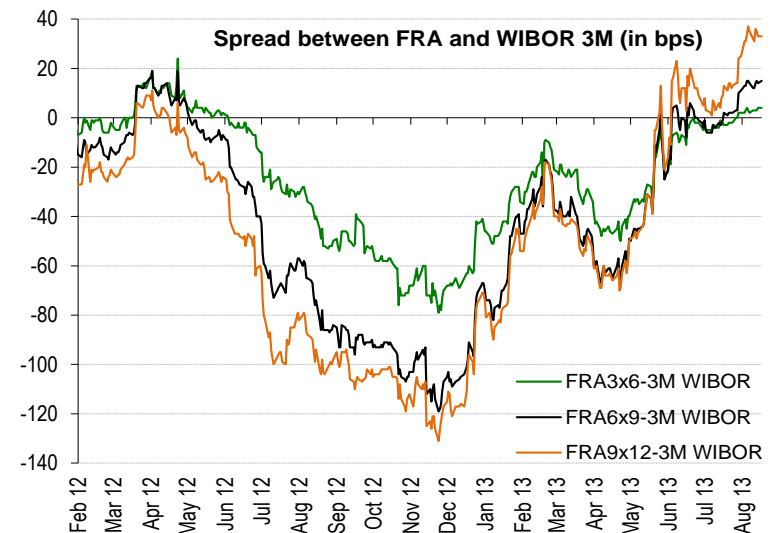
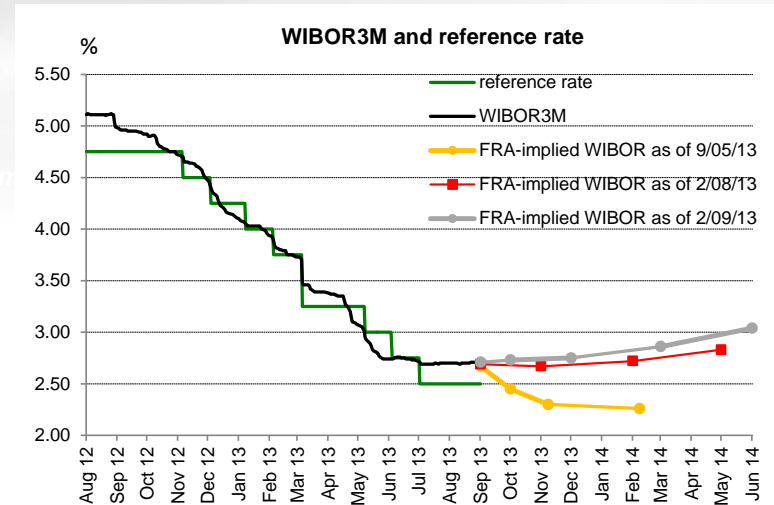
USD: Rising risk that Fed will start tapering in September together with possibility of imminent intervention in Syria shifted capital inflows towards safety assets, including the US dollar. But euro trimmed part of losses against the US dollar due to improved macro data for the euro zone. We expect EURUSD to stay in horizontal trend. Consequently, we predict the USDPLN to oscillate at current level.

CHF: Situation on EURCHF will not change significantly. Generally, CHFPLN will strongly depend on investors' mood on international markets, more vulnerable to upcoming macro data. While we foresee range trading near the elevated level in one month period, in medium term we foresee the zloty to strengthen against the CHF.

Risk factors to our view: Risk factors for the zloty are the same as for the interest rate market. Increasing risk of Fed's action already in September and the USA-led military intervention in Syria might result in risk-off mode and consequently, bring another wave of significant zloty depreciation.

Domestic Money Market: Further normalisation, FRA rates higher

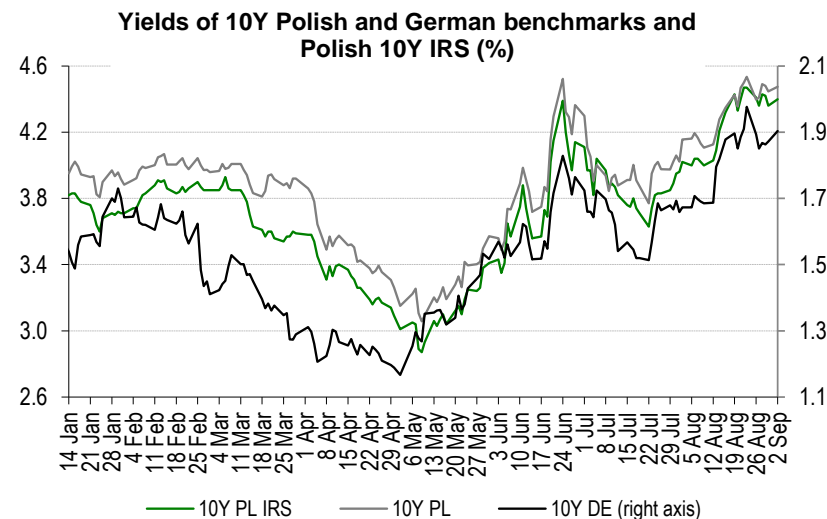
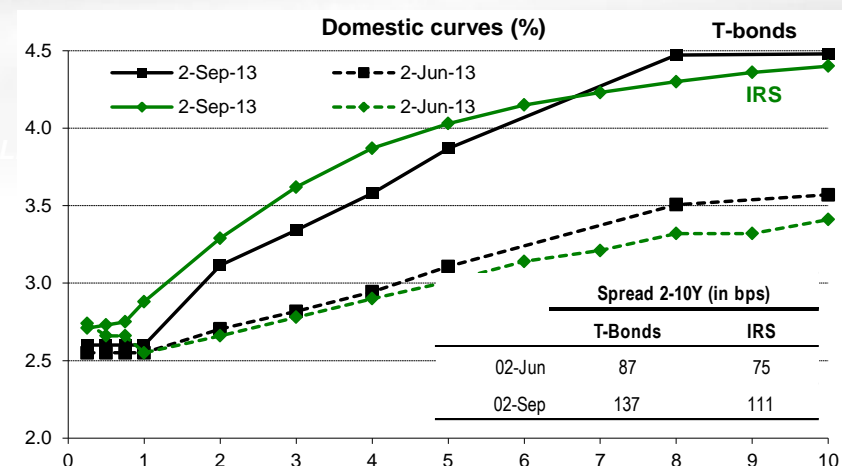
- ▶ As expected, in August WIBOR rates remained relatively stable. However, after the better-than-expected macroeconomic data, confirming rebound in economic growth and sharp increase in CPI inflation, WIBOR curve has become steeper. Spread between 1M and 12M rates widened to 16bp at the end of August, up from 11bp at the end of July.
- ▶ FRA market has remained more vulnerable to releases of macroeconomic data. Signals of economic improvement, but also increase in yields and IRS rates pushed FRA rates up, in particular on longer tenors. Currently, FRA curve shows that the first rate hike might take place in 9 month horizon.
- ▶ We foresee further normalisation on the money market. In our opinion WIBOR 1M and 3M should anchor near current levels as the MPC is likely to keep official rates on hold for some time. However, the longer WIBOR rates might start gradually rising as further signals of recovery in Poland's economy are able to confirm rate hikes expectations in medium term. We uphold our stance that the first hike might take place around mid-2014, more or less in line with market predictions.



Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: External factors still crucial

- ▶ August was more unstable than we had previously expected. Concerns about Fed tapering and then fears over US military strike on Syria sparked risk aversion, sending yields and IRS rates to levels reached after June's FOMC meeting. What is more, the better-than-expected domestic macro data also resulted in higher yields and IRS rates. In monthly terms yield curve shifted up by 32-43bp, while IRS curve jumped by 25-46bp. The scale of monthly increase has fulfilled the scenario we presented last month for 3M horizon.
- ▶ In September the focus will be on Fed and any new signals regarding the conflict in Syria. Increasing possibility that Fed will start scaling down asset purchases in September may push the rates up (especially in 5Y and 10Y sectors).
- ▶ Domestic macro data for August, which will be released later this month, will not give any relief to the market. We expect another good (or at least in line with forecasts) set of data, confirming revival of Poland's economy. What is more, offer of 2Y/5Y benchmarks might add some volatility to the market in the short term.



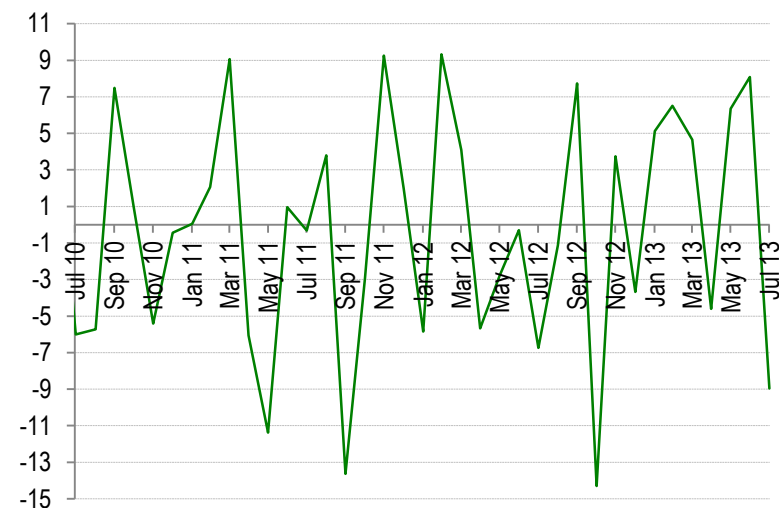
Sources: Reuters, CB, BZ WBK

Demand Corner: Foreigners stable, banks sell bonds

- ▶ The nominal value of bonds held by foreigners at the end of July increased only marginally vs. PLN202.1bn seen in June (by PLN345m). After OK0713 matured in July (foreign investors held PLN2.1bn of this bond at the end of June), non-residents purchased, among others, PS0718 (PLN1.1bn) and DS1021 (PLN1.2bn).
- ▶ In more detailed breakdown of foreigners' holdings, foreign banks were sellers (-PLN2.8bn) while nonfinancial institutions were buyers (+PLN2.4bn).
- ▶ Holdings of domestic investors were much more volatile. Banks reduced engagement by nearly PLN9bn (including PLN3bn of matured OK0713) – most since October 2012. Biggest selling was recorded in case of PS1016 (PLN1.7bn) and PS0416 (PLN1.1bn). On the other hand, banks shifted somewhat from OK0713 to the new 2Y benchmark OK0116 (purchase of ca. PLN1bn).
- ▶ Interestingly, despite uncertainty regarding the private pension funds (OFE), they bought debt worth PLN2.5bn – biggest monthly increase since April 2012. The value of portfolio was highest since October 2012.

PLN m

Monthly change of bond holdings of domestic banks (in PLNbn)

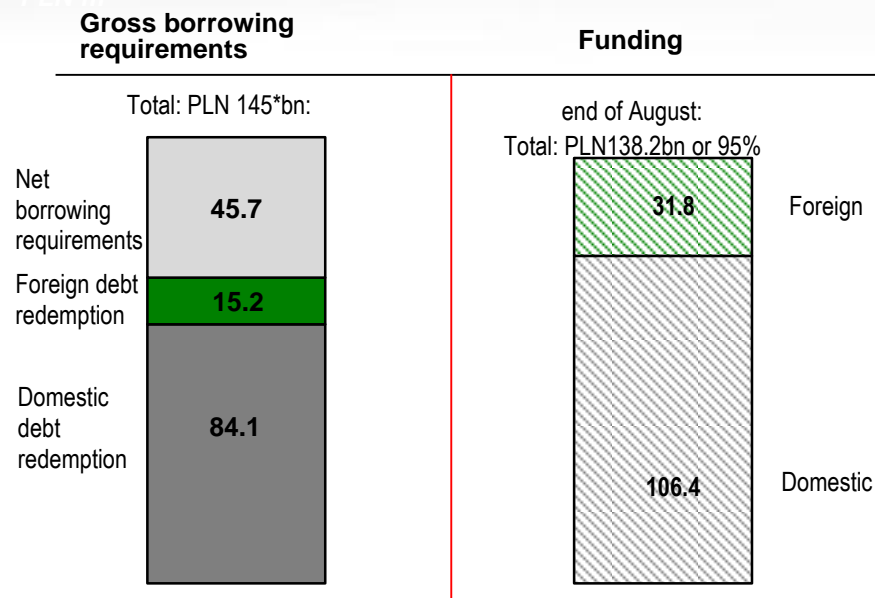


Sources: MF, BZ WBK

Supply Corner: More active time on primary market

- Despite very fragile investors' mood Poland's Ministry of Finance successfully launched 2Y T-bonds OK0116, selling more than planned (PLN5.7bn vs. PLN3.0-5.0bn) at 2.961% - lower yield than on the secondary market. Redemption of OK0713 and coupon payments (in total ca. PLN10bn), but also lack of short-term papers in offer supported bids. However, demand side consisted mostly of foreign investors.
- At the end of August Poland has covered nearly 95% of this year target or 86% after budget amendment.
- In line with quarterly issuance plan, in September the Ministry of Finance offers OK016/PS0718 worth PLN4-8bn on a regular auction. What is more, the Ministry will also organize one switching auction, on which it plans to buy papers maturing in late 2013 and early 2014 (DS1013 and OK0114). We do not expect any problems with launching the offer. If market uncertainty prolongs, we expect the supply to concentrate mainly on 2Y T-bonds.

Gross borrowing requirements' financing in 2013

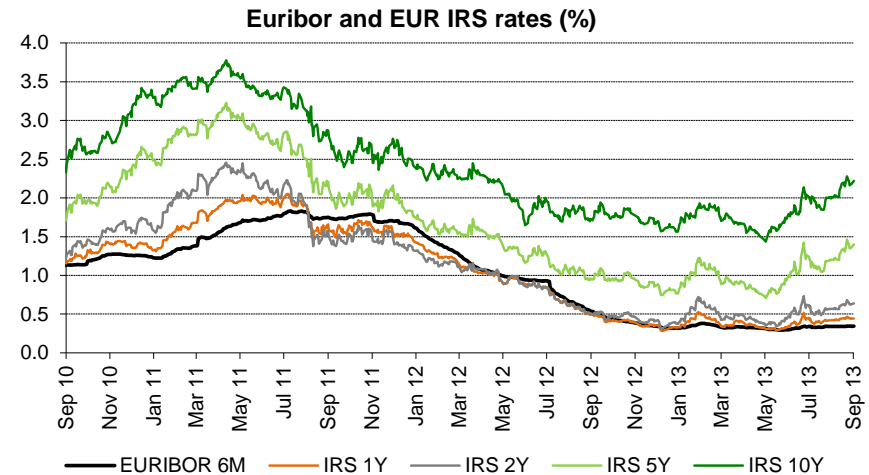
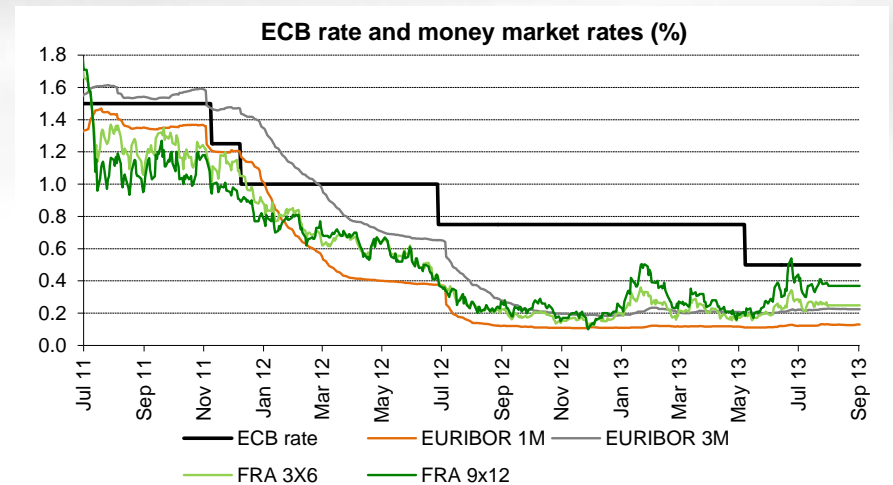


**/ subject to the amendment to the Budget Act 2013*

Sources: MF, BZ WBK

International Money Market and IRS: Gradual increase continues

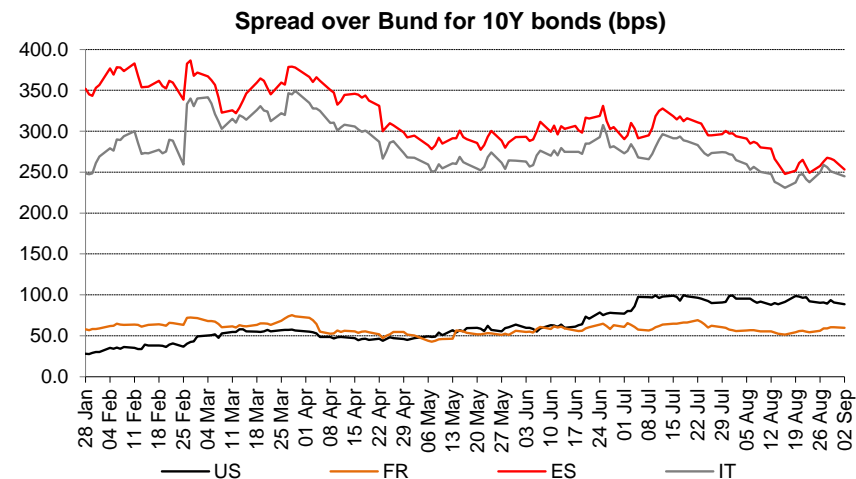
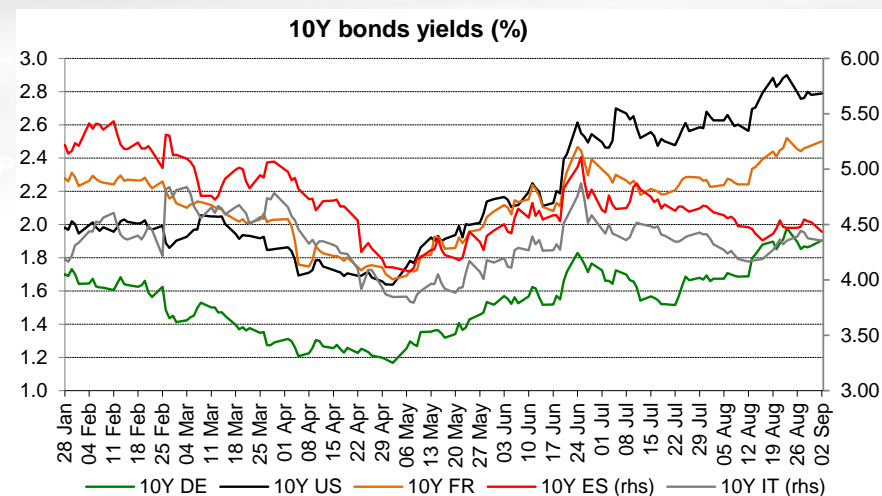
- Money market rates slightly increased in August as a result of the Fed's planned stimulus withdrawal. However, more visible pick-up was observed in case of IRS. EUR IRS curve shifted up by 2-16bp with the highest growth on mid and long end of the curve. US IRS posted an upward move in a similar scale (5-15bp).
- We expect that the ECB will keep official rates unchanged. We expect that Mr Draghi will highlight that expected economic revival in 2H 2013 is more likely to materialise thanks to recent improvement in both data from real economy and confidence indicators. However, rhetoric should remain dovish, confirming readiness to act if it needs. Taking into account that repayment of 3Y LTRO has slowed and excess liquidity has stabilised, we expect EURIBOR rates to stay near current levels. One should notice that the market is pricing the first hike in late 2015.
- Improved macroeconomic outlook for the euro zone should be more visible in IRS rates. We expect upward trend to continue in coming weeks.



Sources: Thomson Reuters, ECB, BZ WBK

International Bond Market: Fed is on track to start tapering

- ▶ The debate regarding the start of Fed's tapering has focused market attention throughout August. Neither the much-awaited FOMC minutes nor Jackson Hole conference did much to help to dispel doubts. Therefore, stronger readings of macro data have pushed yields higher, with 10Y testing 3% (UST) and 2% (Bunds). The uncertainty related to Syria reinforces safe haven bids, giving support to core fixed income on the long end of the curves as well.
- ▶ Yields of peripheral debt were more sensitive to improved economic data (mainly PMI) than to the increase in core rates. As a consequence, Spain has tightened by 40bp vs Bunds in August. Italian spread vs Bund narrowed only 20bp as uncertain political situation still persists.
- ▶ While tapering is inevitable, timing and scale remains uncertain and data-dependent. Therefore, final data of August's labour market in the US will be crucial, as it could determine whether the Fed will start the downscaling of the QE in September. FOMC is likely to announce tapering, which might cause yields to return to upward move. However, prolonged uncertainty regarding Syria might fuel the flight to safety assets.

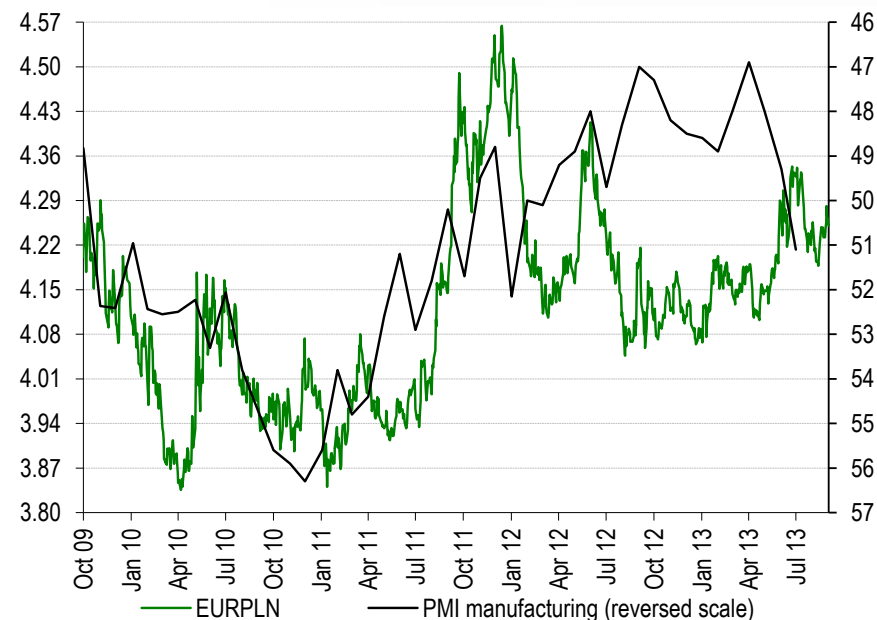


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: FOMC and Syria crucial for the zloty

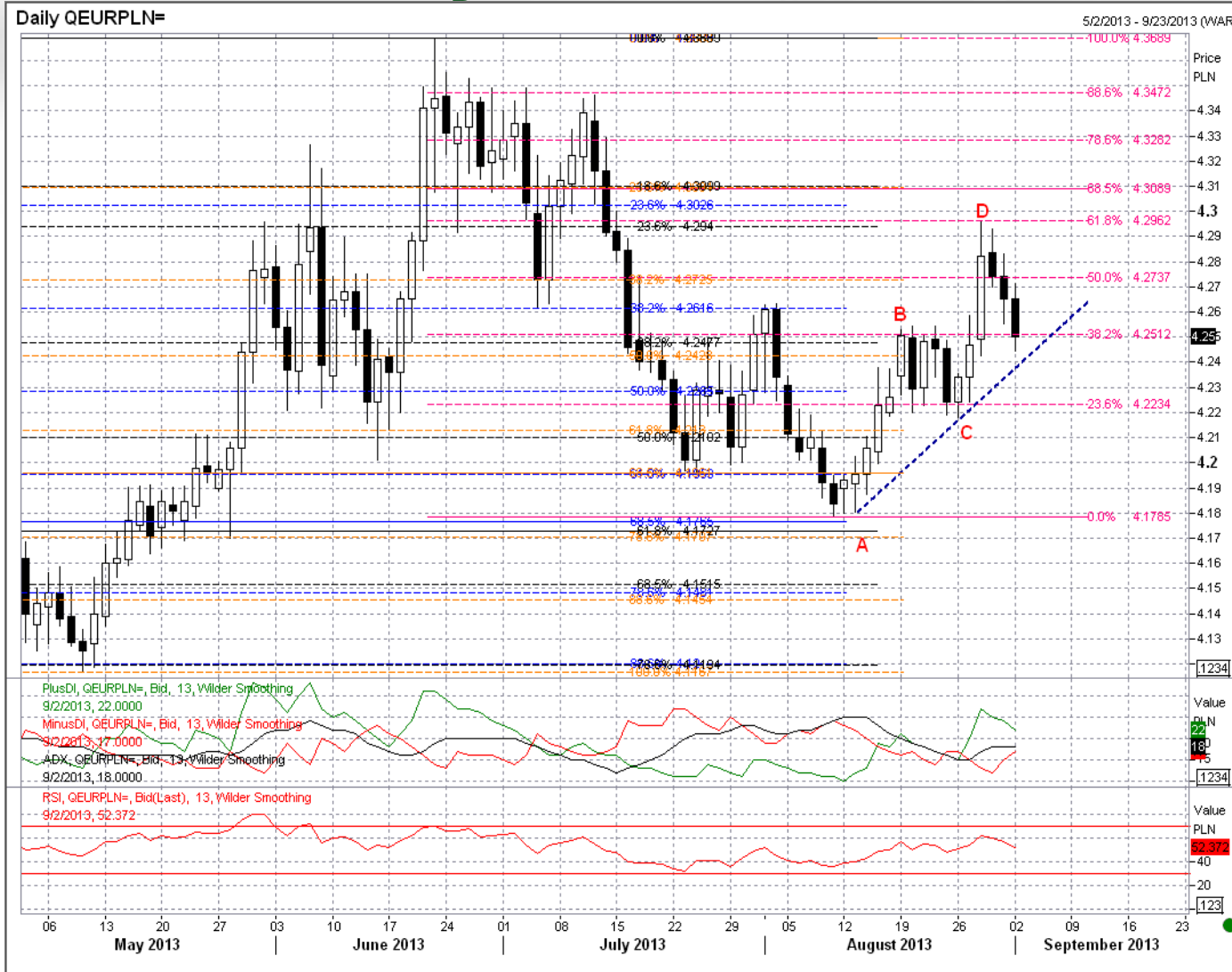
- ▶ In early August EURPLN tested the support at 4.20 as the domestic currency continued to benefit from decent European macro data. In mid-August worries over QE3 tapering hit the zloty and together with uncertainty over Syria pushed EURPLN up to nearly 4.30.
- ▶ Last month we suggested that level of 4.20, which prevented the exchange rate from rising too much since Sep 2012 till Jun 2013, may now prove a strong support for EURPLN. Indeed, this level seems to have worked in August.
- ▶ We anticipate EURPLN to remain at current, slightly elevated level until decision on Syria is taken and of course the decision of the FOMC. Market interpretation of the decision on QE3 may be the most important for the zloty in coming weeks/months. If any tapering is announced, it does not have to initiate strong weakening of the domestic currency if only, for example, it proves smaller than feared.
- ▶ We expect that after September the zloty will resume appreciation trend given more signals showing revival of the European economy (EURPLN below 4.20 in Nov-Dec 2013).

EURPLN and Polish PMI for manufacturing



Sources: Reuters, BZ WBK

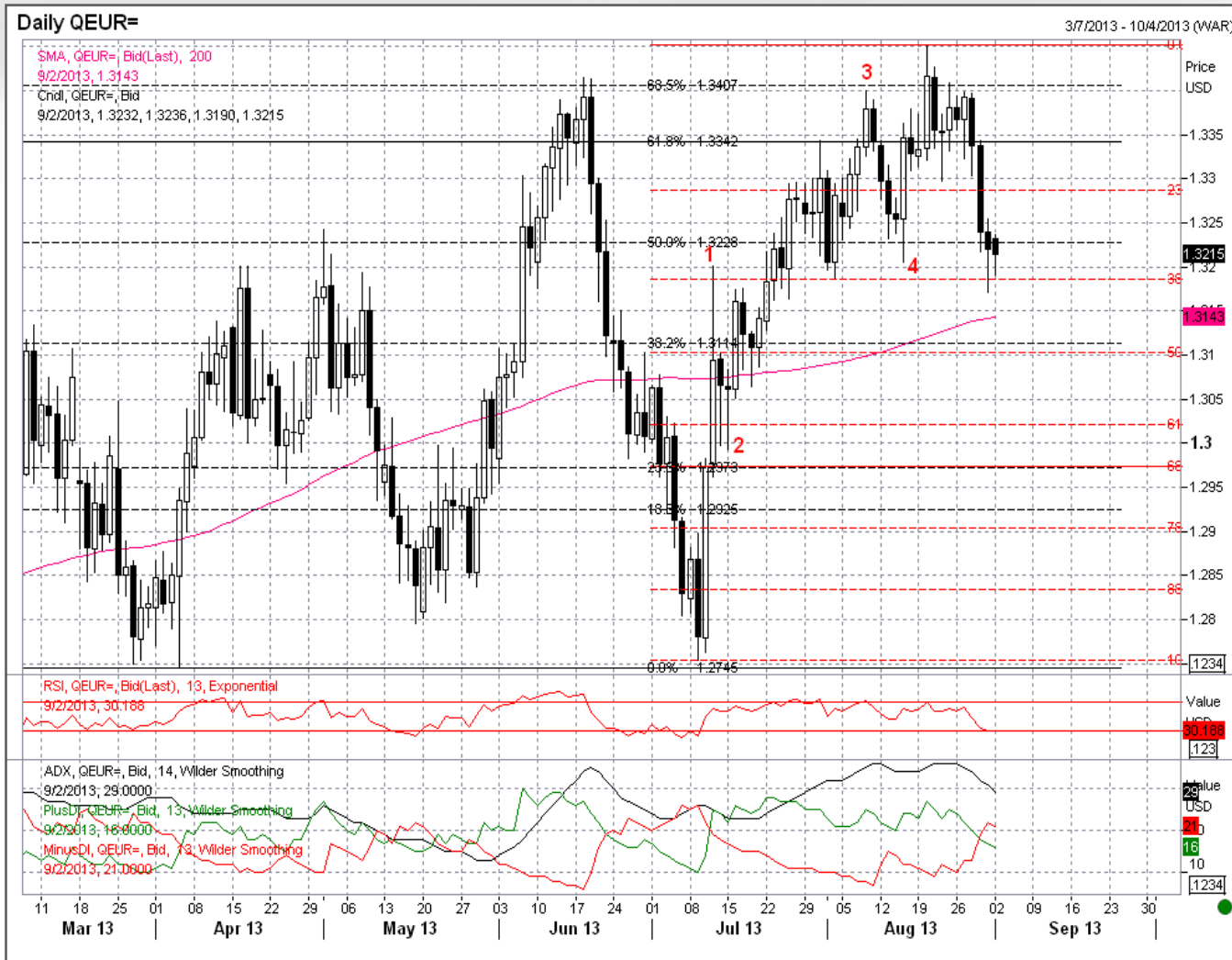
FX Technical Analysis Corner: EURPLN touched strong resistance



- ▶ EURPLN tested 4.20 but did not manage to stay below this crucial support for longer.
- ▶ Recent upward move halted at nearly exactly 61.8% of retracement of downward wave from ca. 4.37 to 4.18.
- ▶ Additionally, AB~CD and we have some divergence with RSI (oscillator broke the peak from July while EURPLN did not). These factors make the level at nearly 4.30 quite strong resistance.
- ▶ Support levels are at 4.25 and 4.22.

Sources: Reuters, BZ WBK

FX Technical Analysis Corner: EURUSD close to support level



- ▶ EURUSD tested local peak from mid July at ca. 1.34, but without success. The exchange rate plunged then and now is testing 38.2% Fibonacci retracement at just below 1.32. There is also a 200-day MA running close to this level.
- ▶ The exchange rate is close to beginning of the 4th wave of upward move recorded since mid-July to late August. In line with Elliot's theory, corrections often end at this level.
- ▶ Next support at 1.31 (50% retracement).

Sources: Reuters, BZ WBK

Macroeconomic Forecasts

Poland		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1,523.2	1,595.3	1,632.8	1,704.6	377.8	395.5	404.2	455.3	393.7	414.6	422.0	474.3
GDP	%YoY	4.5	1.9	1.2	2.7	0.5	0.8	1.4	2.0	2.3	2.8	2.8	2.8
Domestic demand	%YoY	3.6	-0.2	-0.9	1.8	-0.9	-1.9	-0.5	-0.5	0.6	1.5	2.2	2.9
Private consumption	%YoY	2.6	0.8	0.6	1.8	0.0	0.2	0.9	1.2	1.5	1.7	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-2.0	2.8	-2.0	-3.8	-2.0	-1.0	-2.0	1.0	4.0	5.0
Unemployment rate ^a	%	12.5	13.4	13.7	13.2	14.3	13.2	13.1	13.7	14.3	13.9	13.3	13.2
Current account balance	EURm	-17,977	-13,332	-2,277	1,234	-2,055	1,453	-829	-846	12	2,067	-30	-815
Current account balance	% GDP	-4.9	-3.5	-0.6	0.3	-2.8	-1.9	-1.2	-0.6	-0.1	0.1	0.3	0.3
General government balance	% GDP	-5.0	-3.9	-4.2	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	1.2	2.1	1.3	0.5	1.2	1.6	2.1	2.4	2.0	2.0
CPI ^a	%YoY	4.6	2.4	1.7	2.0	1.0	0.2	1.5	1.7	2.1	2.6	2.0	2.0
CPI excluding food and energy prices	%YoY	2.4	2.2	1.3	2.0	1.2	1.0	1.5	1.7	2.1	2.2	1.8	1.9

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates;

^a at the end of period

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	3.25	3.25	2.75	2.50	2.50	2.50	2.75	3.00	3.25
WIBOR 3M	%	4.54	4.91	3.05	3.09	3.77	2.96	2.71	2.74	2.78	2.97	3.18	3.42
Yield on 2-year T-bonds	%	4.81	4.30	3.05	3.47	3.29	2.77	2.98	3.15	3.19	3.33	3.57	3.78
Yield on 5-year T-bonds	%	5.44	4.53	3.52	4.03	3.49	3.09	3.63	3.88	3.90	3.93	4.05	4.23
Yield on 10-year T-bonds	%	5.98	5.02	4.07	4.68	3.95	3.58	4.24	4.52	4.52	4.60	4.72	4.88
2-year IRS	%	4.98	4.52	3.19	3.63	3.43	2.81	3.16	3.35	3.39	3.50	3.72	3.90
5-year IRS	%	5.24	4.47	3.61	4.15	3.52	3.08	3.80	4.04	4.05	4.08	4.17	4.30
10-year IRS	%	5.33	4.56	3.95	4.50	3.76	3.41	4.16	4.47	4.47	4.48	4.50	4.57
EUR/PLN	PLN	4.12	4.19	4.20	4.06	4.16	4.20	4.26	4.20	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.17	2.97	3.15	3.22	3.22	3.12	3.04	3.00	2.95	2.89
CHF/PLN	PLN	3.34	3.47	3.41	3.28	3.38	3.41	3.45	3.39	3.34	3.29	3.26	3.22
GBP/PLN	PLN	4.75	5.16	4.94	4.81	4.88	4.94	4.96	4.98	4.87	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-Sep	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged
	DE	Auction of 5Y benchmark	Offer: €5bn
5-Sep	PL	Auction of OK0116/PS0718	Offer: PLN4.0-8.0bn
	EZ	ECB Meeting – interest rate decision	-
	ES	Auction of medium and long term bonds	-
11-Sep	DE	Auction of 10Y benchmark	Offer: €5bn
12-Sep	IT	Auction of medium and long-term bonds	-
13-Sep	PL	CPI for August	Our forecast: 1.1%YoY (in line with consensus)
16-Sep	PL	Core inflation for August	We predict core CPI after excluding food and energy prices at 1.4%YoY, in line with market consensus
17-Sep	PL	Employment and wages for August	We expect employment to fall by 0.6%YoY and wages growth at 2.9%YoY
18-Sep	PL	Industrial output and PPI for August	Our forecast of industrial output (0.5%YoY) is one of the lowest on the market, after strong PMI reading there is indeed a risk of higher IP.
	US	FOMC Meeting – interest rate decision	-
	DE	Auction of 2Y benchmark	Offer: €5bn
22-Sep	DE	German election	
24-Sep	HU	NBH Meeting - interest rate decision	-
25-Sep	PL	Switch tender: buy-back DS1013 and OK0114	
26-Sep	CZ	CNB Meeting - interest rate decision	-
TBA	PL	Retail sales for August	Our forecast at 2.5%YoY is slightly below market consensus at 2.9%YoY
2-Oct	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged
	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

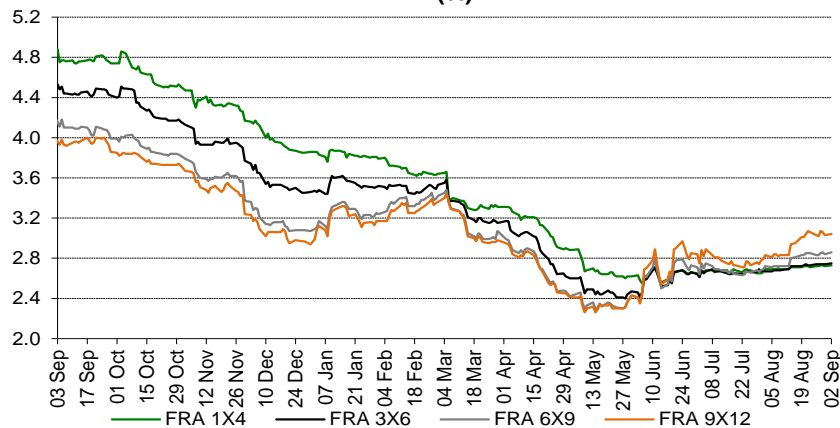
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of August	2.50	2.49	2.61	2.70	2.73	2.77	3.22	3.12	3.02	2.93	3.85	3.89	2.79	2.82
Last 1M change (bp)	0	2	-2	0	2	3	81	69	59	49	45	44	11	9
Last 3M change (bp)	-50	-42	-40	-4	7	12	55	59	62	56	385	389	33	31
Last 1Y change (bp)	-225	-229	-229	-229	-228	-225	-143	-134	-122	-110	385	389	-181	-183

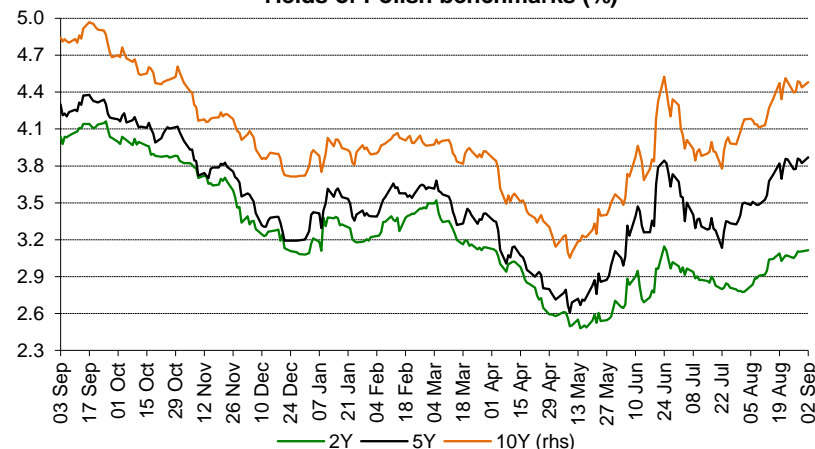
Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of August	3.11	3.82	4.44	3.27	4.00	4.36	-16	-18	8
Last 1M change (bp)	32	43	36	25	46	41	7	-3	-5
Last 3M change (bp)	40	72	87	61	99	95	-21	-27	-8
Last 1Y change (bp)	-96	-53	-42	-108	-26	-3	12	-27	-39

FRA (%)



Yields of Polish benchmarks (%)



Sources: Thomson Reuters, NBP, 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	6,000	9,000	1,500		91,452
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					4330		4290				14,061
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	10,444	9,150	1,628	150	140,116
Redemption	11,686	13,854	2,791	16,157	2,340	1,859	7,269	3,191	1,122	24,061	2,256	2,368	90,954
Net inflows	37,965	-261	8,528	814	9,817	2,902	-2,785	2,617	9,322	-14,911	-628	-2,218	49,162
Rolling over T-bonds			4,827				7,801						12,628
Buy-back of T-bills/bonds													0
Total	37,965	-261	13,355	814	9,817	10,703	-2,785	2,617	9,322	-14,911	-628	-2,218	61,790
<i>Coupon payments</i>	2,492			7,322			1,955		1,497	9,685			22,951

Note: Our forecasts – shaded area

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	93	351	11,686	0	11,686
February	0	148	182	2,338	11,516	13,854
March	0	212	129	2,541	250	2,791
April	16,025	132	132	16,157	0	16,157
May	0	117	117	2,340	0	2,340
June	0	112	112	1,859	0	1,859
July	7,051	218	218	7,269	0	7,269
August		3,084	248	3,218		3,218
September			176	111	450	561
October	22,845		265	23,110		23,110
November	0		208	208	250	458
December	0		146	146		146
Total 2013	68,794	11,762	2,283	82,840	15,891	98,731
Total 2014	61,666		1,698	63,364	14,825	78,189
Total 2015	90,137		628	90,765	17,448	108,213
Total 2016	74,874		485	75,359	14,329	89,688
Total 2017	71,444		91	71,535	16,871	88,406
Total 2018+	238,653		3,288	241,941	134,966	376,908

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of July 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	1	0	0	0	33	0	6	39
Q4 2013	9,366	2,840	6,380	1,334	1,654	112	85	1,120	22,890
Total 2013	9,366	2,840	6,380	1,334	1,654	144	85	1,125	22,929
	41%	12%	28%	6%	7%	1%	0%	5%	100%
Total 2014	35,679	11,356	5,181	2,391	3,194	399	105	3,651	61,956
	58%	18%	8%	4%	5%	1%	0%	6%	100%
Total 2015	30,257	25,243	9,710	9,170	10,119	223	354	5,131	90,208
	34%	28%	11%	10%	11%	0%	0%	6%	100%
Total 2016	25,218	11,460	3,544	22,251	6,340	60	88	3,623	72,583
	35%	16%	5%	31%	9%	0%	0%	5%	100%
Total 2017	25,280	11,126	5,668	17,695	8,153	45	90	3,386	71,444
	35%	16%	8%	25%	11%	0%	0%	5%	100%
Total 2018+	76,312	42,911	23,295	67,275	17,857	231	496	11,336	239,713
	32%	18%	10%	28%	7%	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 July			Share in TOTAL (%) in July
	End Jul'13	End Jun'13	End Apr'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	364,1	369,4	346,9	337,5	341,8	352,9	361,4	-1,46	2,20	6,82	64.3 (-0.4pp)
Commercial banks	104,9	113,9	99,5	87,8	102,0	102,1	110,9	-7,87	5,51	10,02	18.5 (-1.4pp)
Insurance companies	53,8	53,1	51,5	52,8	54,7	57,0	54,3	1,28	4,49	-3,53	9.5 (+0.2pp)
Pension funds	120,1	117,7	115,1	117,4	116,7	120,3	120,7	2,09	4,33	-0,39	21.2 (+0.6pp)
Mutual funds	47,3	46,5	43,9	41,7	32,5	33,0	31,3	1,76	7,89	43,91	8.4 (+0.2pp)
Others	37,9	38,3	37,0	37,8	35,9	40,5	44,3	-1,0	2,5	4,7	6.7
Foreign investors*	202,1	201,8	207,1	189,9	184,2	174,0	163,2	0,17	-2,39	13,95	35.7 (+0.4pp)
Banks	29,7	32,3	38,4	28,4	27,8	22,6	24,3	-8,29	-22,78	2,77	5.2 (-0.4pp)
Non-bank fin. sector	162,5	160,1	159,9	153,1	147,5	143,1	131,7	1,52	1,65	16,33	28.7 (+0.7pp)
Non-financial sector	5,8	5,3	5,2	5,2	5,6	5,2	4,4	9,31	11,71	-3,66	1.0 (+0.1pp)
TOTAL	566,2	571,2	554,0	527,4	526,0	526,9	524,7	-0,88	4,94	9,26	100

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

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	57.0
Belgium	30.3	8.8	40.0	37.0	80.0
Finland	6.8	5.6	12.4	12.4	47.0
France	105.5	61.6	171.1	170.0	80.0
Germany	157.0	17.1	174.1	174.1	64.0
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	81.0
Netherlands	31.5	15.2	46.7	50.0	81.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	74.0
Total	584.3	220.0	832.2	772.3	75.0

*/ YtD (year calendar) data for 2013

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	1.1	2.2	1.4	2.0	-2.5	-2.4	-3.9	-4.1	57.5	58.9
Czech Republic	-0.4	1.6	1.9	1.2	-2.4	-2.5	-2.9	-3.0	48.3	50.1
Hungary	0.2	1.4	2.6	3.1	2.5	2.6	-3.0	-3.3	79.7	78.9
EU	-0.1	1.4	1.8	1.7	1.6	1.9	-3.4	-3.2	89.8	90.6
Euro area	-0.6	-0.3	1.6	1.5	2.5	2.7	-2.9	-2.8	95.5	96.0
Germany	0.4	1.8	1.8	1.6	6.3	6.1	-0.2	0.0	81.1	78.6

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2012	2013	2012	end of Aug	2012	end of Aug	2012	end of Aug	2012	end of Aug
Poland	4.25	2.50	4.11	2.70	3.72	4.44	241	258	80	94
Czech Republic	0.05	0.05	0.18	0.13	1.86	2.57	54	70	63	65
Hungary	5.75	3.50	5.75	3.76	6.23	6.68	492	481	269	327
Euro area	0.75	0.50	0.19	0.22						
Germany					1.32	1.87			39	29

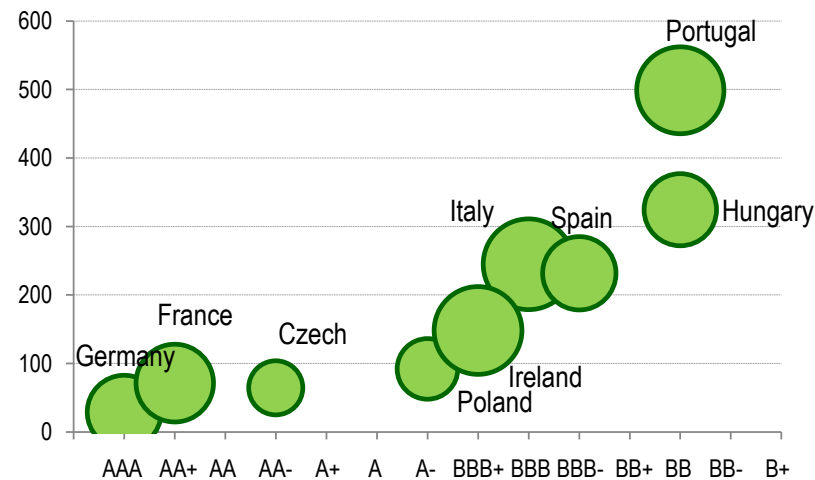
Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

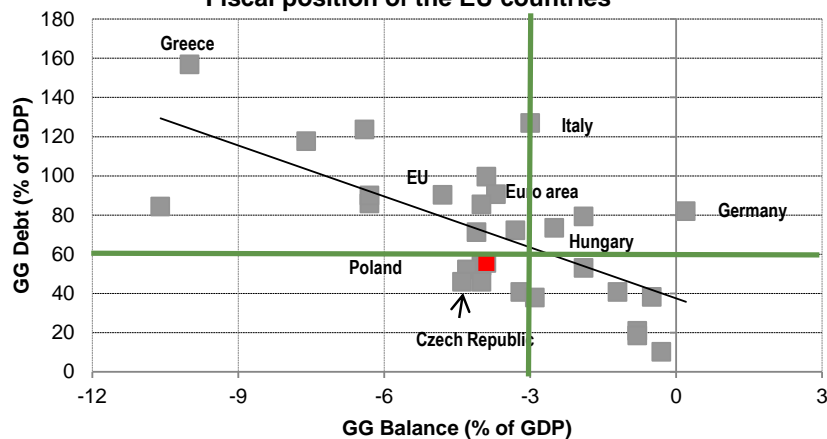
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	negative
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA+	negative	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative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

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

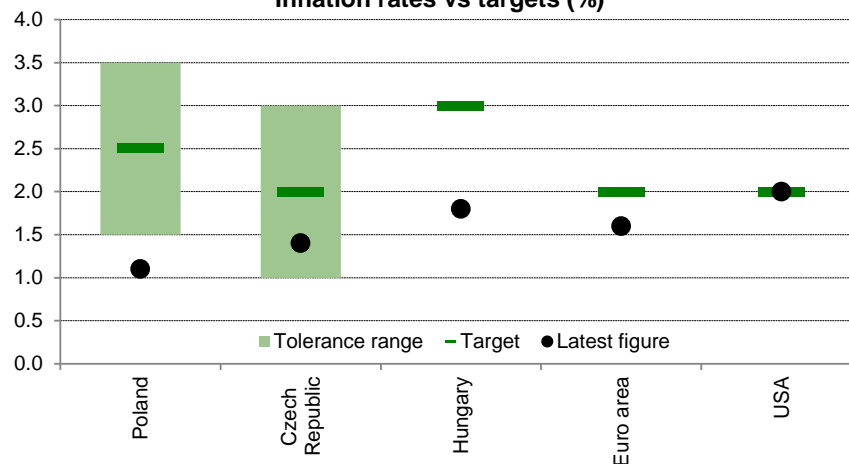


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

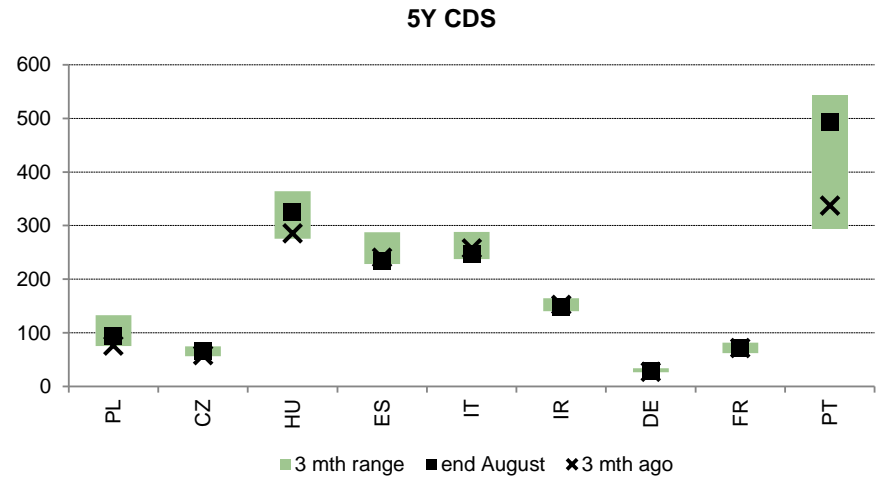
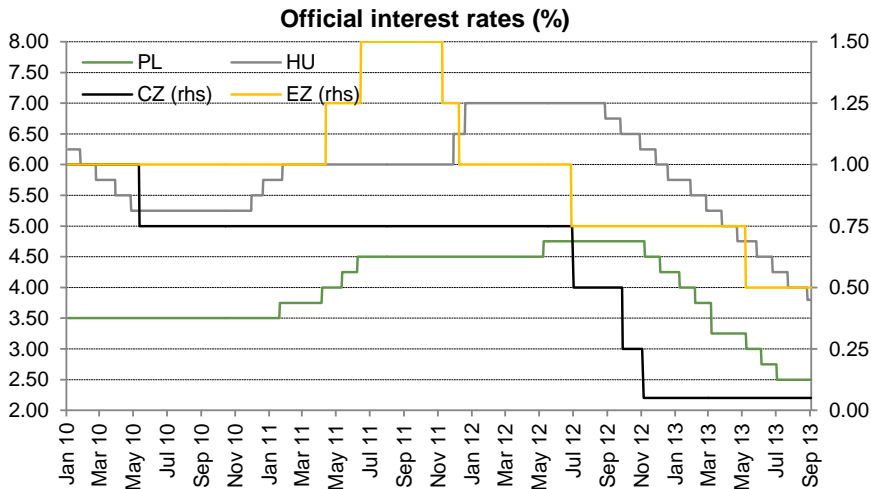
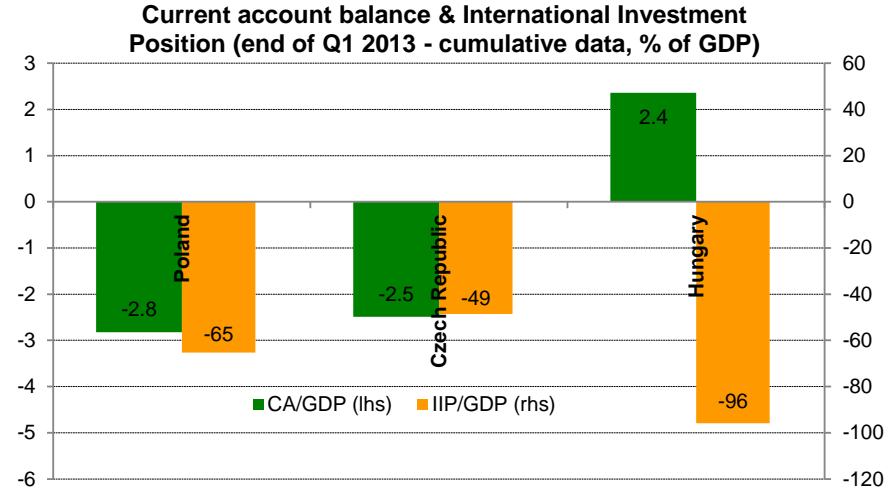
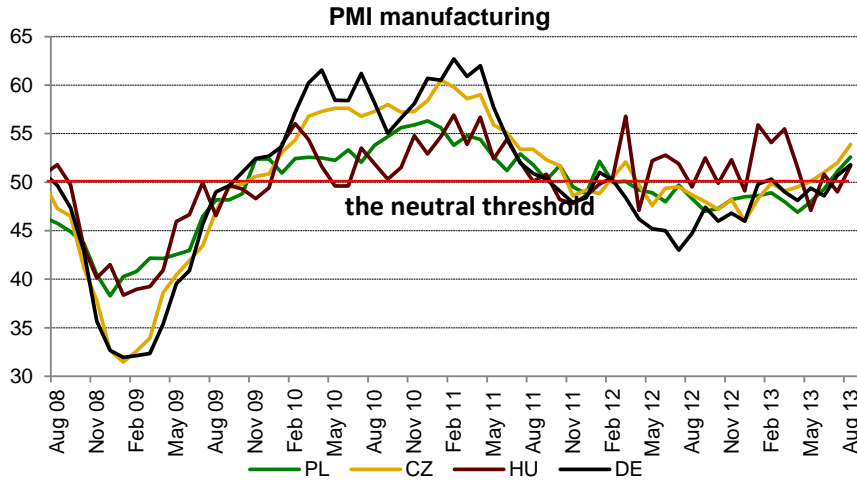


Inflation rates vs targets (%)



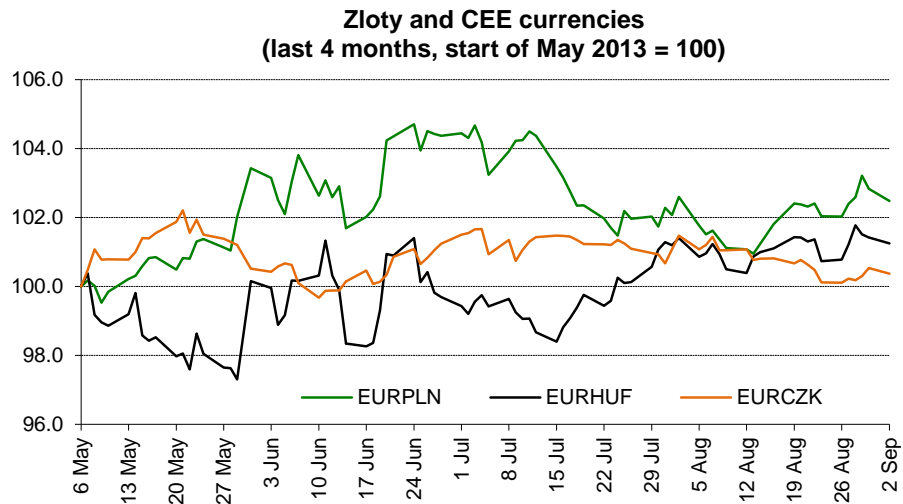
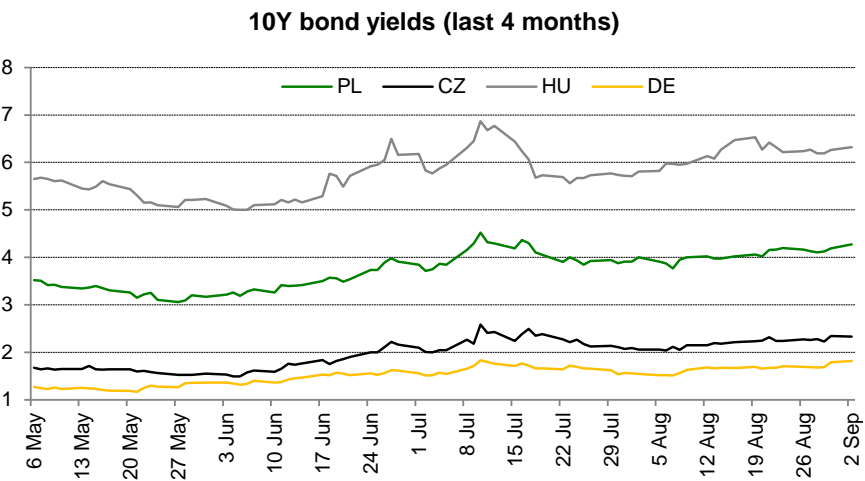
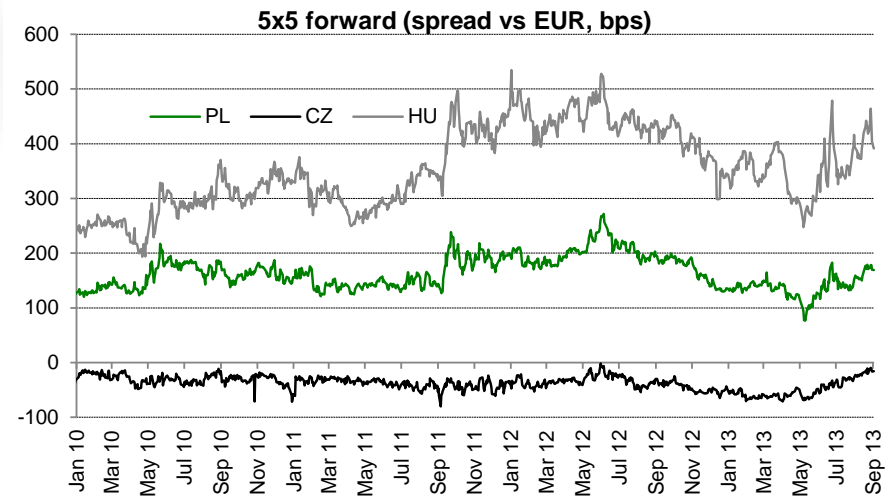
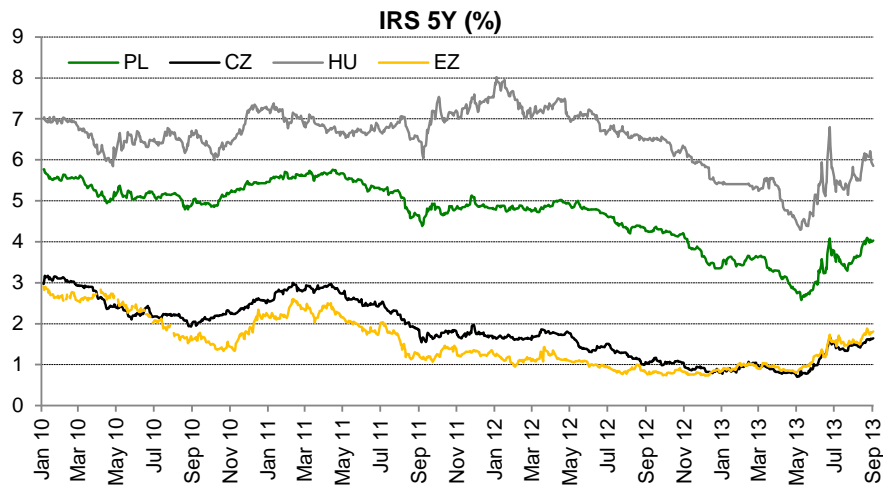
Source: rating agencies, Reuters, BZ WBK, EC

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. Central bank watch

		Last	2012	2013F	Expected changes (bp)			Risks/Events
					1M	3M	6M	
Euro zone	Forecast	0.50	0.75	0.50				We expect the ECB to keep official rates unchanged as new projections will show improving in the euro zone outlook in line with ECB forecast. The ECB will reaffirm verbally its forward guidance, confirming readiness to act if it needs.
	Market implied »				0	3	7	
UK	Forecast	0.50	0.50	0.50				We expect no action as the BoE introduced threshold guidance at the start of August . The Council will confirm possibility for further policy action if it deems this necessary.
	Market implied »				2	4	11	
US	Forecast	0-0.25	0-0.25	0.25				FOMC will keep official rates unchanged. Fed is likely to announce the start of QE tapering in September if August's labour market data show further improvement.
	Market implied »				0	1	4	
Poland	Forecast	2.50	4.25	2.50				In July the MPC strongly declared the end of easing cycle. Better than expected macro data, confirming slight rebound in economic activity and recent MPC's members statement support our view that official interest rates should remain stable (at least) till year-end.
	Market implied »				2	4	15	
Czech Republic	Forecast	0.05	0.05	0.05				Better than expected Q2 GDP data (for some time at least) should lower probability of CNB's intervention in the FX market.
	Market implied »				-8	-8	-8	
Hungary	Forecast	3.80	5.75	3.50				In line with expectations, the NBH trimmed official interest rates by 20bps, to a new record low. The step is no surprise as the NBH announced major monetary policy changes in July. We foresee monetary easing to continue in coming months.
	Market implied »				7	-8	-11	

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