

Rates and FX Outlook

Polish Financial Market

March 2013

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Summary

- ▶ **Just as we expected, the MPC trimmed rates in February by 25bps, but again suggested the pause in the easing cycle is getting closer.** Furthermore, data on inflation showed continuation of deep decline, but economic activity indicators (January's industrial output and retail sales as well as Q4 GDP) proved better than market anticipated. Consequently, bearish flattener was recorded during the past month on Polish fixed income market. Yields of 2Y bonds surged by ca. 25bps as expectations for next rate cut in March clearly abated. Short end of the IRS curve also moved up, but at clearly smaller scale (by ca. 15bps). Potential for weakening of long-term bonds was limited by sudden plunge of yields of Bunds seen after results of Italian elections was published. Consequently, the 2-10 spread reached lowest since July 2012 (ca. 45bps). The Fitch's decision about upgrading outlook of Polish rating to positive had only temporary impact on the market. Since early February FRA market trimmed its expectations regarding the scale of NBP rate cuts from 75bps in 9 months and nearly 45bps in 3 months to 33bps and 18bps, respectively.
- ▶ **We expect the MPC to cut rates again in March by 25bps.** However, we think that after trimming rates to 3.50%, level last seen during the first wave of financial crisis, the Council will signal the pause in easing cycle more clearly than in the past two months. Such outcome of the Council's meeting may trigger weakening of Polish debt. In the coming weeks, the next macro data releases from Poland, showing still falling inflation and continuation of economic slowdown, would be supportive for the front end of the yield curve.
- ▶ **The domestic currency gained during the past month due to Polish macro data and decision of Fitch agency.** Furthermore, we see scope for very short term appreciation of the zloty to ca. 4.11-4.12 per euro after the MPC meeting (if the Council does suggest a pause in rate cuts). However, upcoming macro data will look rather bad and this should hit the zloty. Potential further deterioration of global market sentiment (amid possible continuing stalemate in Italian politics and implementation of automatic spending cuts in the US) and weaker domestic data refuelling expectations for rate cuts in Poland shall push the EURPLN up again. We expect the EURPLN at around 4.17 on average in March.

Short- and Medium-term Strategy: Interest rate market

	Change (bps)		Level	Expected trend	
	Last 3M	Last 1M	end-February	1M	3M
Reference rate	-0.75	-0.25	3.75	↘↘	↘↘
WIBOR 3M	-76	-22	3.73	↘	↘
2Y bond yield	11	26	3.45	→	→
5Y bond yield	6	22	3.61	→	→
10Y bond yield	-4	5	3.97	→	↗
2/10Y curve slope	-15	-20	52	→	→

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

PLN Rates Market: our view and risk factors

Money market: As predicted, WIBOR rates have continued subdued decline after another rate cut in February. We still expect that the MPC will trim official rates this month, supporting downward trend in WIBOR rates. As regards FRA contracts, we foresee some gradual increase, particularly in FRA6x9 and FRA9x12 provided that the MPC announces a pause in monetary easing cycle.

Short end: The short ends of the curves increased significantly as January's macro data (industrial output, retail sales) cooled expectations for a rate cut in March. Market behaviour will depend on the Council's rhetoric, but also on upcoming macro releases. While announcement of a pause will put some upward pressure on yields, we think that macro figures to be released in the following weeks will be supportive for the front end.

Long end: Decreasing expectations for rate cut in March after better macro data readings in February negatively affected the 5Y sector, while long-term bonds remain relatively stable. 10Y sector was supported by core markets developments (Bunds and Treasuries rallied due to uncertain situation in Italy), but also by Fitch's decision to upgrade Poland's credit outlook to positive. 5Y sectors (both bond and IRS) will remain more vulnerable to the MPC's decision and macro data. In case of 10Y sector, situation on core markets will be crucial. Further strengthening of Bunds (or even stabilisation) should provide some support in the short term.

Risk factors to our view: The MPC decision to keep interest rates unchanged or/and to end easing cycle might result in a quite nervous market reaction. However, only the former option together with keeping easing bias will mean that room for further monetary easing is still open, which at the end should be supportive for interest rate market, shifting investors focus on upcoming macro data. Situation on core markets is still crucial.

Short- and Medium-term Strategy: FX market

	Change (bps)		Level	Expected trend	
	Last 3M	Last 1M	end-February	1M	3M
EURPLN	1.2	-0.7	4.16	→	→
USDPLN	0.3	2.6	3.17	→	↘
CHFPLN	0.3	0.9	3.42	→	↘
GBPPLN	-4.9	-1.6	4.81	→	→
EURUSD	0.9	-3.2	1.31	→	→

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: Despite some deterioration in mood on global markets (after results of election in Italy) the zloty was relatively strong, declining towards the bottom limit of fluctuation channel between 4.10 and 4.20. This was due to better-than-expected macro data and change in rating outlook by Fitch. Our view has remained unchanged, with the above-mentioned range still valid. We keep our forecast of the EURPLN at around 4.17 on average.

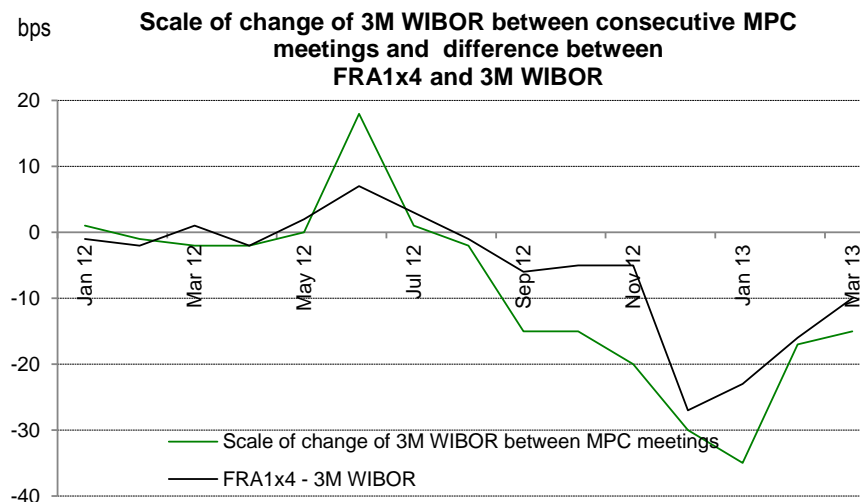
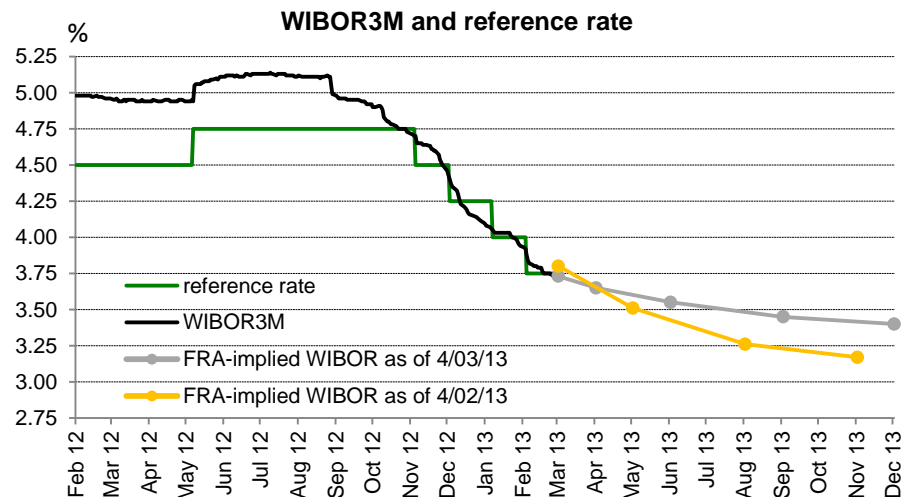
USD: The euro was under pressure of the Italian stalemate after the parliamentary election. The EURUSD fell significantly, testing 1.30 at the end of February. Consequently, the zloty weakened against the US dollar. Prolonged uncertainty in Italy might result in the EURUSD fluctuation near the current level. Therefore, range trading on the USDPLN is very likely in coming month. In three-months period we see EURUSD higher

CHF: The view of the EURCHF is unchanged. While we expect the CHFPLN to be traded in relatively narrow range in short term, we still see some room for zloty strengthening against the CHF in medium term.

Risk factors to our view: The behaviour of the market does not change significantly. Lack of the rate cut in March and announcement of neutral bias would support the zloty. In this case, the EURPLN might test 4.10.

Domestic Money Market: Further WIBOR rates decline limited

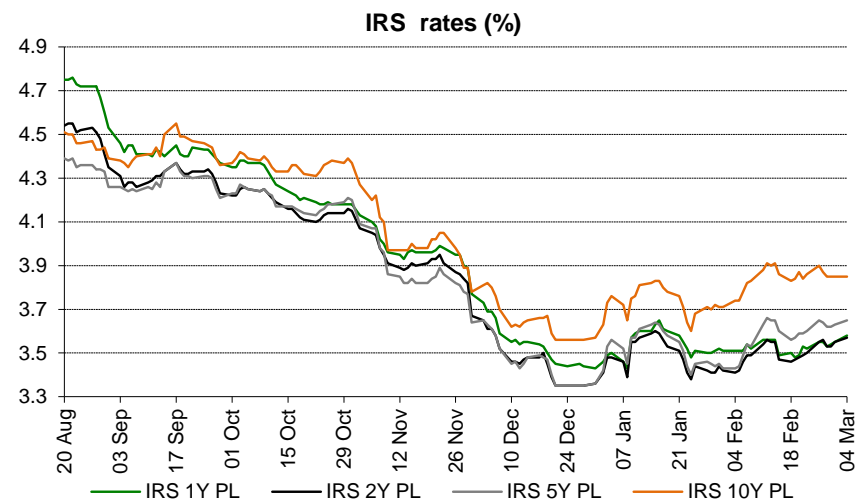
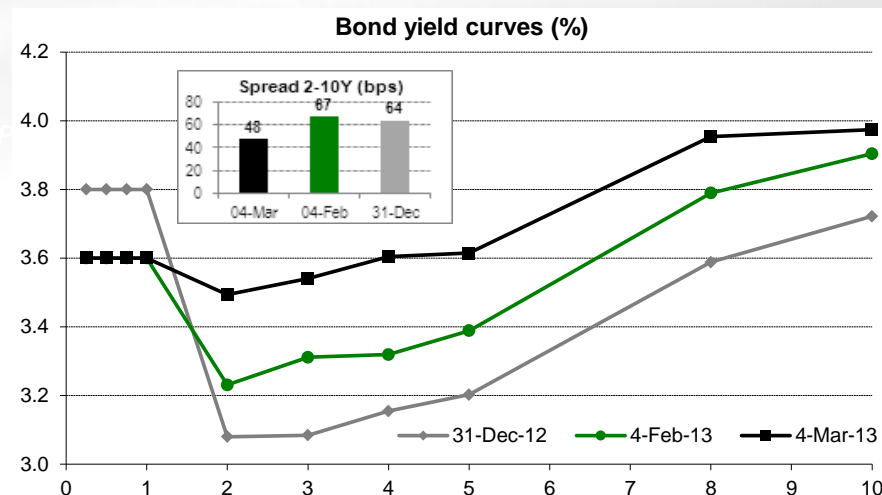
- ▶ WIBOR rates have continued their gradual downward move in February. One should notice that rates (excluding 1M) reached all-time lows.
- ▶ Situation on FRA contracts were more varied. Due to more hawkish statement and better readings from real economy, FRA rates increased (by 17-19bps in comparison with the end of January), showing that currently market participants are pricing-in rate cuts by less than 50bps in 9 months horizon.
- ▶ The outcome of the March's MPC meeting will be crucial for market perspectives. Further rate reduction this month will cause WIBOR rates decline, but the scope of change will be limited. On the other hand, suggestion of a „wait and see” mode and a pause in easing cycle might result in faster increase in FRA rates (for longer terms, i.e. 6x9, 9x12).



Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: The MPC's outcome crucial

- Bond and IRS markets have been recently influenced by macro data releases, the MPC members' comments as well situation on core markets. Investors' interest in Polish assets has remained relatively strong, but they demanded higher yields. Stronger than expected macro figures (industrial output, retail sales) resulted in curves flattening.
- The situation on the front end of curves is strongly dependent on GDP prospects rather than on inflation outlook, as it is quite clear that 12M CPI will continue downward trend in the next few months.
- This month the most crucial for the interest rate market (bonds, IRS) will be the MPC's outcome. A suggestion of pause or end in monetary easing might put a moderate upward pressure on the yield curve. However, at the same time, inflation will fall again (to near the bottom limit of NBP's target) and real economy data should be rather weak, which will be supportive factors for bonds. Overall, we see range trading in IRS: 3.50-3.70% for 2Y, 3.60-3.80% for 5Y and 3.80-3.95% for 10Y.

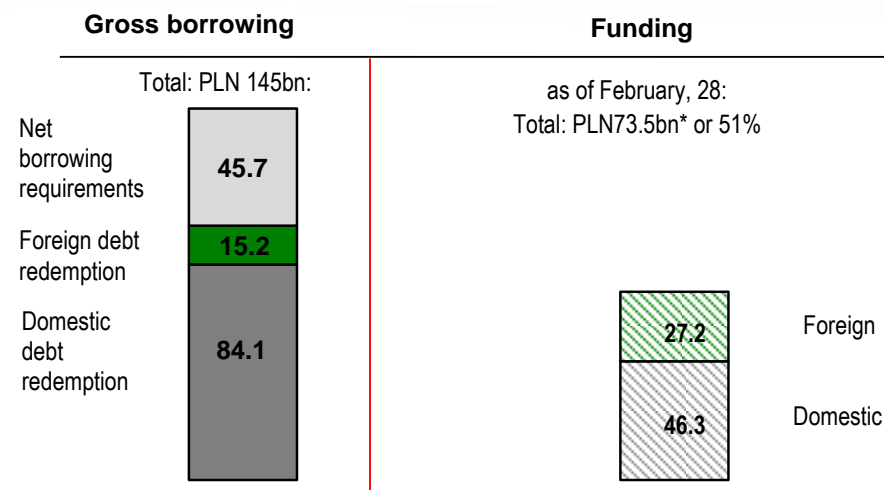


Sources: Reuters, BZ WBK

Supply Corner: Slightly lower supply in March

- ▶ Debt market can take a deep breath after two months of heavy issuance. Due to completion rate at 51% of this year's borrowing requirements, the Ministry of Finance is in a comfortable situation and could lower Treasury Securities offer.
- ▶ As we expected, in March bonds will be offered at switch tender. Investors will be able to switch from PS0413, OK0713 and DS1013 to long-term bonds DS1023 and WS0429 and floaters WZ0124. Additionally, one regular auction the Ministry might sell OK0715, WZ0117 and PS0418 worth PLN2-6bn, depending on market conditions.
- ▶ The March's offer of Treasury Securities, similarly as in previous months is flexible, dependent not only on market situation but also on investors' demand. We expect debt supply to attract sufficient demand, especially as non-residents' interest is still solid.

Gross borrowing requirements in 2012

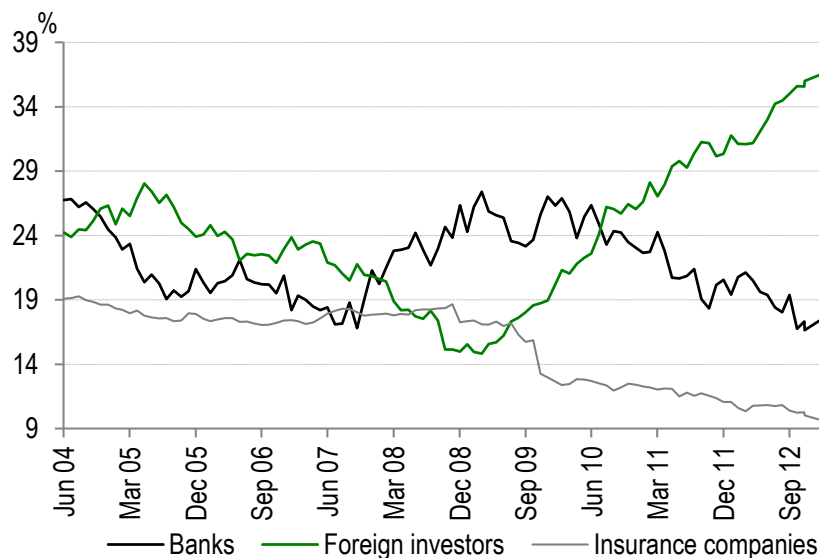


Sources: MF, BZ WBK

Demand Corner: Foreign investors careful with new benchmarks

- ▶ Data from the Ministry of Finance showed that at the end of January 2013 foreign investors held Polish zloty-denominated marketable bonds worth PLN195.6bn. After the biggest monthly nominal increase since June 2012 the 9th consecutive record of foreigners' holdings of Polish debt was established.
- ▶ Interestingly, the new 2Y and 5Y benchmarks offered recently by the Ministry (OK0715 and PS0418) did not meet high demand from foreign investors. At the end of January they held only ca. 9% of total issue of both series.
- ▶ In January domestic banks increased their holdings by most since September'12 while insurance companies continued to cut their exposure to Polish debt and their share in total value reached all-time low for a second month in a row (9.71%).

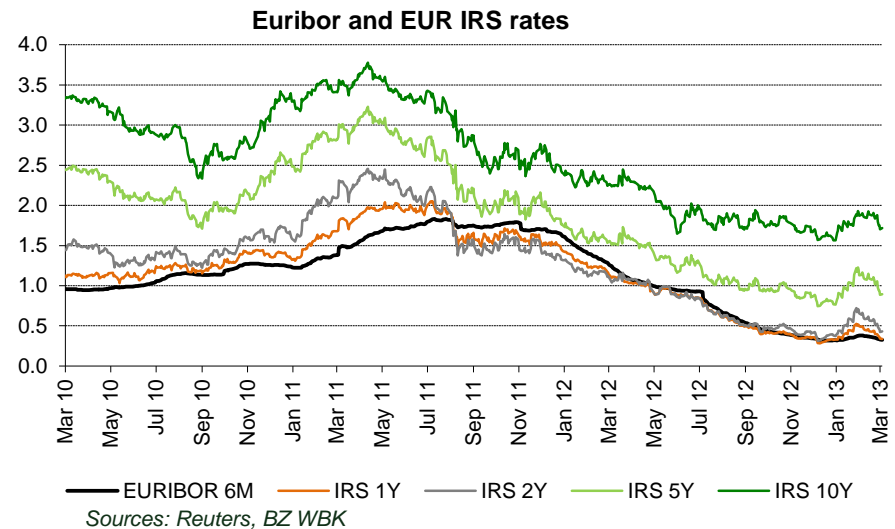
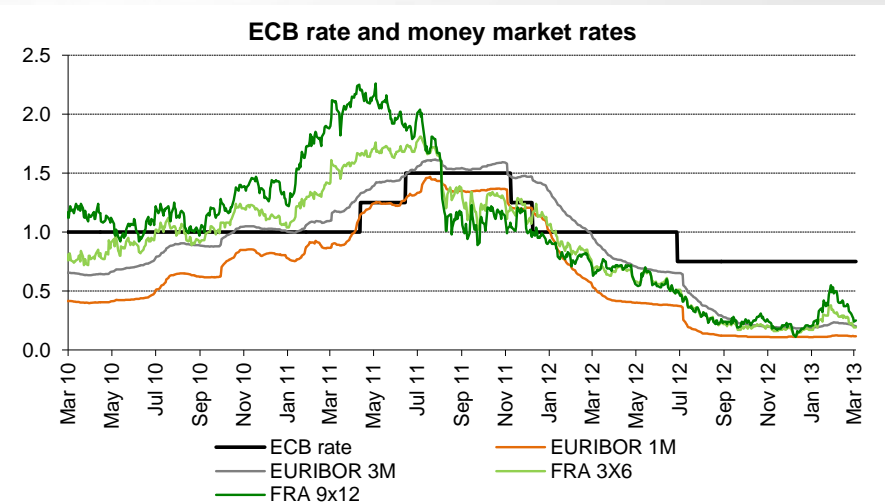
Shares of Polish banks, insurance companies and foreign investors in Polish marketable bonds



Sources: MF, BZ WBK

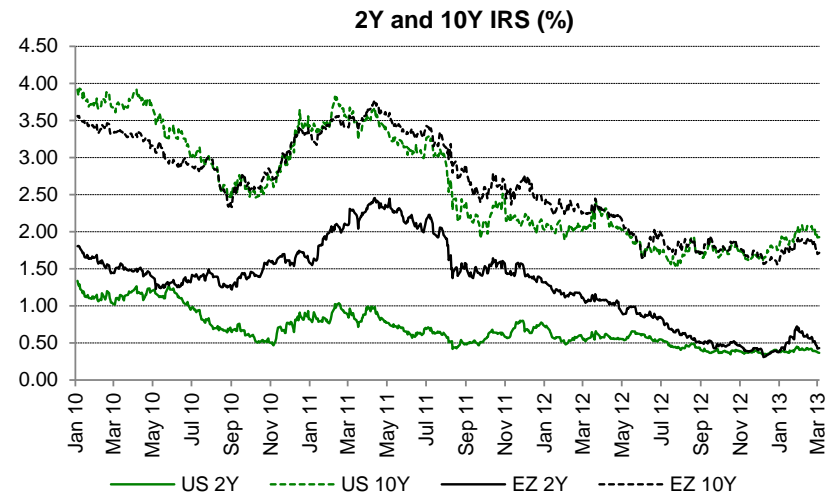
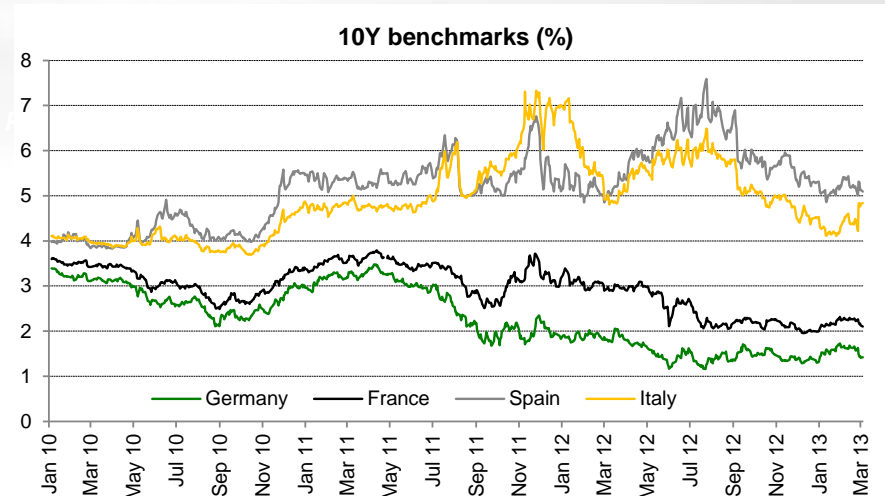
International Money Market and IRS: ECB to stay on hold

- ▶ The euro zone macro outlook has remained still fragile. Last data from real economy slightly disappointed, which renewed rate cut expectations. Consequently, both FRA and IRS rates have declined significantly after sharp increase in January.
- ▶ We think that the euro zone has the worst behind already, so further policy easing by the ECB will be justified only if macroeconomic scenario deteriorates significantly.
- ▶ Due to uncertain political situation in Italy, excess liquidity should remain abundant, thus upward pressure on EUR money market rates, but also front end of the IRS curve will be low. What is more, some verbal commitment to keep rates at the lowest level will be also supportive.
- ▶ On the other hand longer IRS rates (5Y+) will be more vulnerable to economic growth prospects. Therefore, still cautious outlook should stabilise 10Y rate near current level. However, we think that medium-term trend is still upward. After some range trading this month we expect FRA and IRS to continue their gradual increase.



International Bond Market: Italy still in the spotlight

- ▶ Sentiment on the core debt market was mixed in February and vulnerable to news flow from Italy. As the official results of the Italian parliamentary election revealed a political stalemate, a global risk-off sentiment was triggered. Consequently, Bunds and the US Treasuries have rallied, ending the month with yields at the lowest level since the beginning of the year.
- ▶ Situation will not change significantly this month. Italy will stay in the spotlight, particularly due to increasing risk of new elections. Therefore, investors should prepare for more uncertainty, which might result in further IT-DE spread widening.
- ▶ We expect the ECB to keep interest rates unchanged. But Draghi's rhetoric and the new macro forecasts for euro zone might affect debt market in short-run.

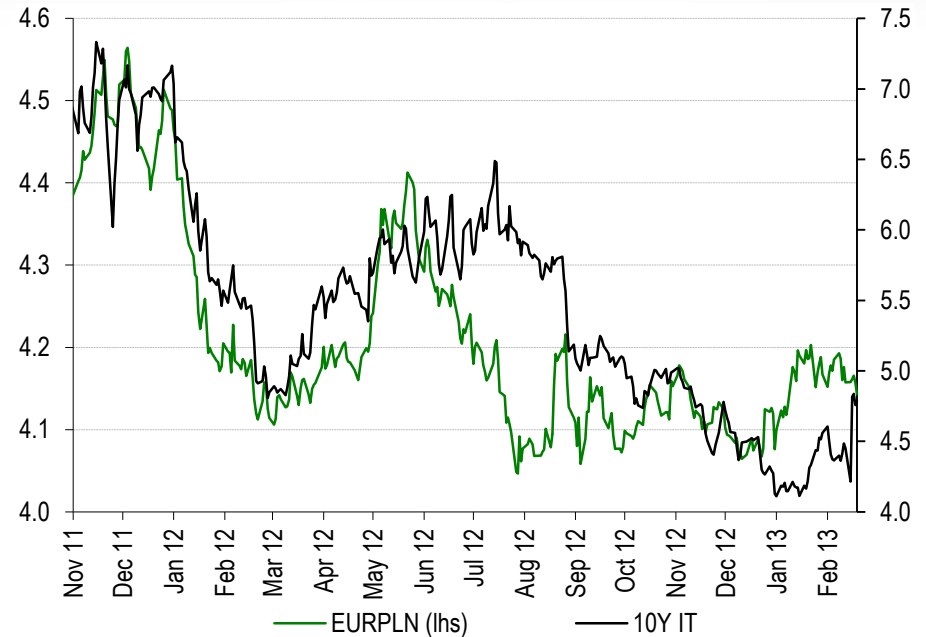


Sources: Reuters, BZ WBK

Foreign Exchange Market: Little room for stronger zloty

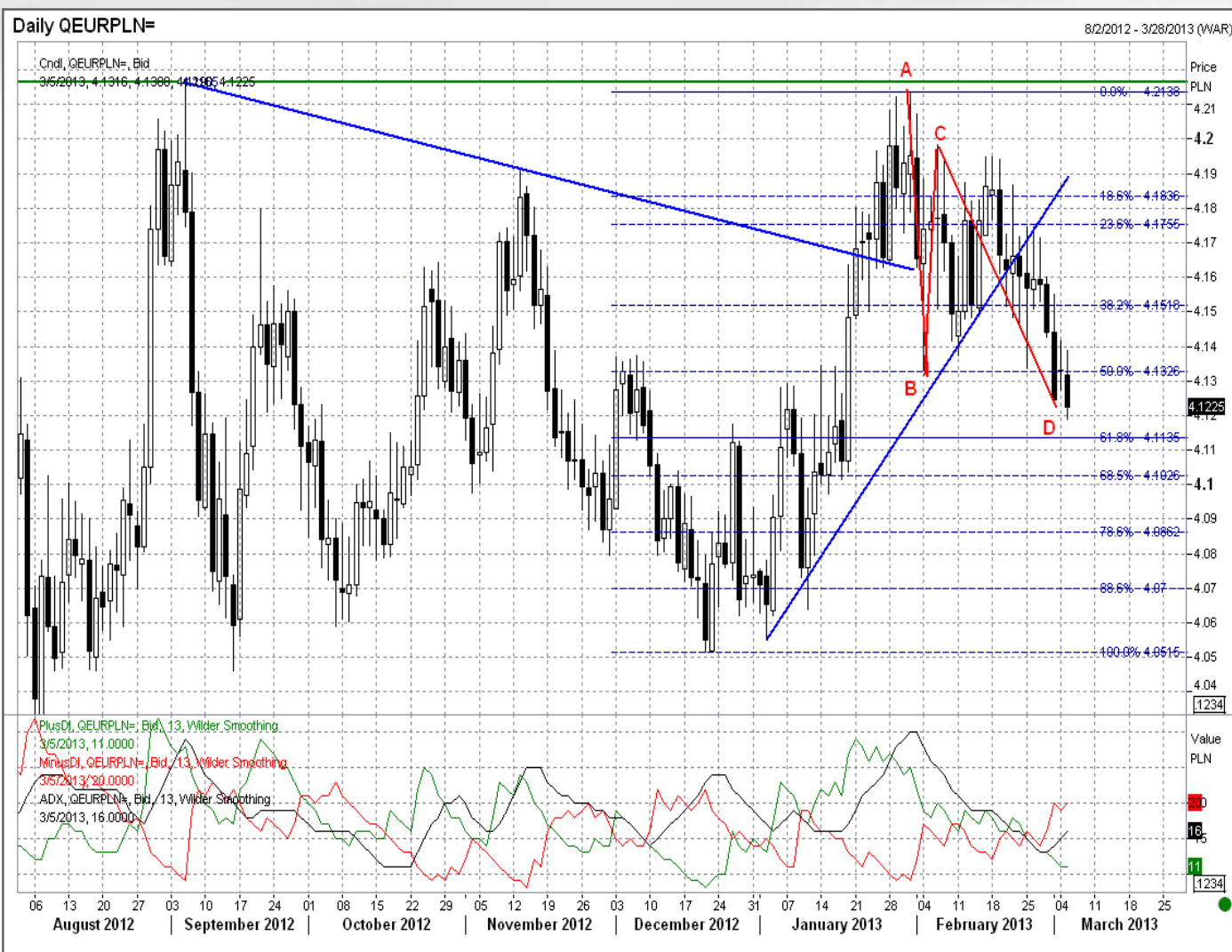
- ▶ The zloty gained slightly versus the euro during the past month. Some better than market expected domestic data cooled investors' expectations for more rate cuts. Additionally, Fitch's decision to change rating outlook supported the zloty
- ▶ We expect the MPC to cut rates by 25bps in March. However, a signal to switch to „wait-and-see” mode should provide some short term support for the zloty.
- ▶ Still, the following Polish macro data are likely to show further disinflation and continuation of economic slowdown. This might keep expectations for rate cuts alive.
- ▶ Additionally, the room for appreciation of the domestic currency is limited by some deterioration of global market sentiment after Italian elections and activation of spending cuts in the US.
- ▶ Overall, we expect continuation of range trading between 4.1-4.2 and average EURPLN at 4.17 in March.

EURPLN and yield of 10Y Italian bonds



Sources: Reuters, BZ WBK

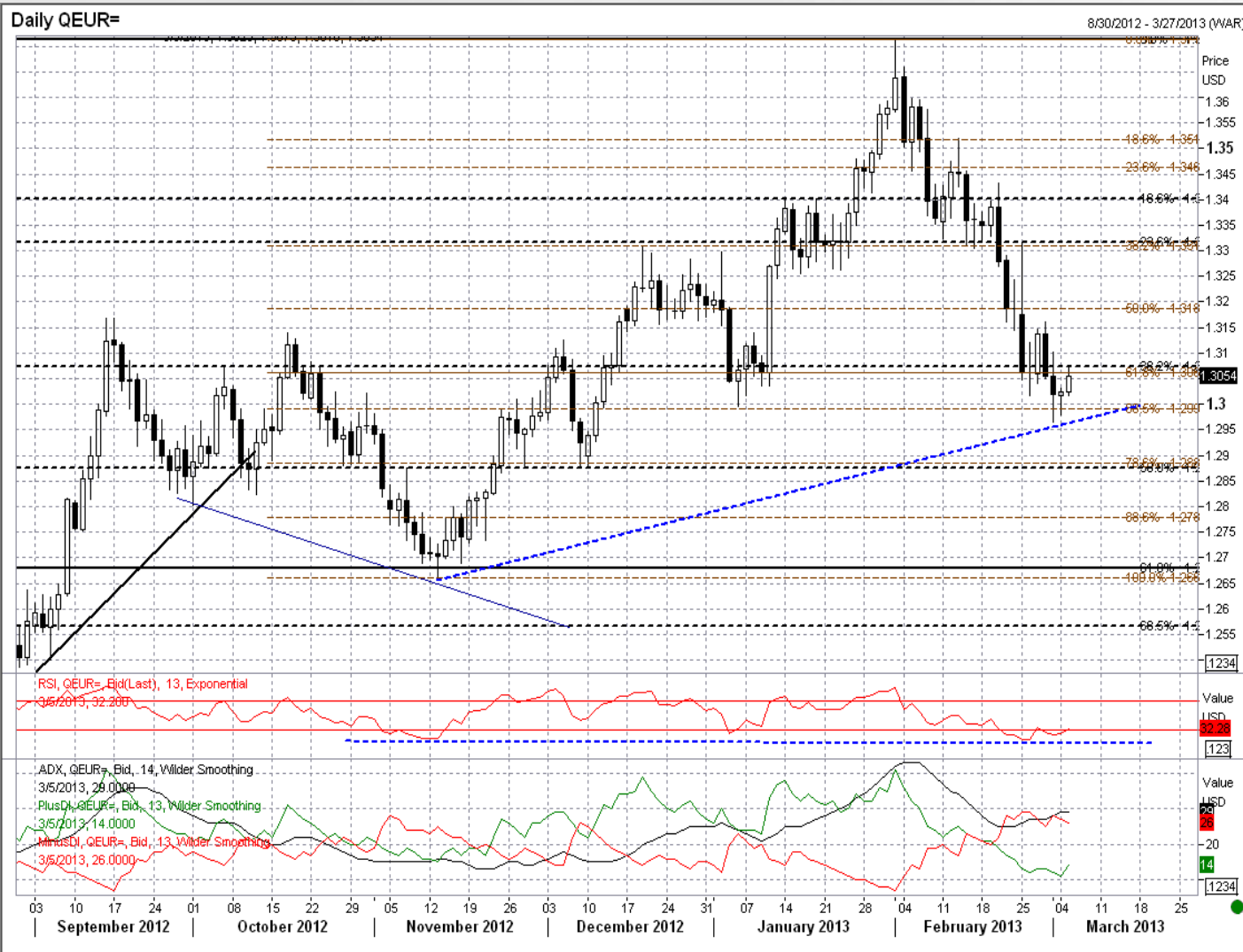
FX Technical Analysis Corner: Will EURPLN test 4,11-4,12?



- EURPLN broke support at 4.16 and almost reached next indicated level at 4.12.
- Ratios of lengths of recent moves of the EURPLN (marked red) are quite close to Fibonacci ratios (AB is nearly equal to CD).
- The exchange rate may test 61.8% Fibonacci retracement at ca. 4.11, but in March the EURPLN is rather likely to retreat from local lows.

Sources: Reuters, BZ WBK

FX Technical Analysis Corner: EURUSD slightly up?



Sources: Reuters, BZ WBK

- ▶ The EURUSD failed to reach 1.38 and after breaking vital supports at 1.33 and 1.30 it reached nearly 1.295.
- ▶ The exchange rate managed to pull back above lowest level since early January.
- ▶ There is a divergence with RSI (EURUSD reached recently fresh local low, while RSI did not); additionally, the RSI is below level from mid November 2012, while EURUSD is not.
- ▶ If the exchange rate falls below local low, then may head towards 1.29 in coming weeks.

Macroeconomic Forecasts

Poland		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
GDP	PLNbn	1,416.6	1,523.2	1,595.9	1,634.9	370.7	388.3	392.1	444.8	379.4	396.1	400.7	458.8
GDP	%YoY	3.9	4.3	2.0	1.2	3.6	2.3	1.4	1.1	0.5	1.0	1.3	1.9
Domestic demand	%YoY	4.6	3.4	0.1	-0.2	2.5	-0.4	-0.7	-0.7	-0.9	-0.5	0.0	0.5
Private consumption	%YoY	3.2	2.5	0.5	1.1	1.7	1.2	0.1	-1.0	1.2	0.9	1.0	1.4
Fixed investments	%YoY	-0.4	9.0	0.6	-2.0	6.0	1.3	-1.5	-0.3	-4.0	-4.0	-2.0	-0.2
Unemployment rate ^a	%	12.4	12.5	13.4	14.0	13.3	12.3	12.4	13.4	14.6	13.7	13.5	14.0
Current account balance	EURm	-18,129	-17,977	-13,521	-8,624	-4,515	-2,203	-3,367	-3,436	-3,385	-1,099	-1,815	-2,324
Current account balance	% GDP	-5.1	-4.9	-3.5	-2.2	-5.1	-4.6	-4.1	-3.5	-3.2	-2.9	-2.5	-2.2
General government balance	% GDP	-7.9	-5.0	-3.5	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	1.6	4.1	4.0	3.9	2.9	1.6	1.2	1.6	2.1
CPI ^a	%YoY	3.1	4.6	2.4	2.2	3.9	4.3	3.8	2.4	1.6	1.1	1.8	2.2
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.5	2.5	2.5	2.1	1.7	1.5	1.3	1.6	1.9

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

^a at the end of period

Interest Rate and FX Forecasts

Poland		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Reference rate ^a	%	3.50	4.50	4.25	3.50	4.50	4.75	4.75	4.25	3.50	3.50	3.50	3.50
WIBOR 3M	%	3.94	4.54	4.91	3.69	4.97	5.04	5.06	4.57	3.84	3.61	3.63	3.66
Yield on 2-year T-bonds	%	4.72	4.81	4.30	3.53	4.66	4.71	4.22	3.61	3.37	3.53	3.58	3.65
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.75	5.02	4.93	4.43	3.75	3.55	3.75	3.80	3.89
Yield on 10-year T-bonds	%	5.74	5.98	5.02	4.09	5.58	5.38	4.91	4.22	3.96	4.02	4.12	4.27
2-year IRS	%	4.73	4.98	4.52	3.53	4.83	4.91	4.47	3.85	3.49	3.56	3.53	3.56
5-year IRS	%	5.25	5.24	4.47	3.66	4.82	4.86	4.37	3.84	3.56	3.67	3.67	3.72
10-year IRS	%	5.40	5.33	4.56	3.97	4.88	4.88	4.47	4.01	3.80	3.88	4.02	4.18
EUR/PLN	PLN	3.99	4.12	4.19	4.14	4.23	4.26	4.14	4.11	4.16	4.16	4.15	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.10	3.23	3.32	3.31	3.17	3.14	3.13	3.10	3.03
CHF/PLN	PLN	2.90	3.34	3.47	3.35	3.50	3.55	3.44	3.40	3.39	3.37	3.35	3.31
GBP/PLN	PLN	4.66	4.75	5.16	4.86	5.07	5.26	5.22	5.09	4.88	4.83	4.87	4.85

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

^a at the end of period

Economic Calendar and Events

Date		Event:	Note:
6-Mar	PL	MPC Meeting – interest rate decision	We expect the MPC to cut rates by 25bps
	DE	Auction of 5Y bonds	Offer: €4bn
7-Mar	EZ	ECB Meeting – interest rate decision	Rates on hold
	PL	Switch tender	Bond to be repurchased: PS0413, OK0713, DS1013, to be offered: DS1023, WZ0124, WS0429
	SP	Auction of 2Y, 5Y and 10Y bonds	Offer: €4.0-5.0bn
13-Mar	DE	Auction of 2Y bonds	Offer: €5bn
14-Mar	PL	CPI for February	Our forecast: 1.6%YoY (slightly above consensus at 1.5%)
17-18-Mar	EU	European Council Meeting	
18-Mar	PL	Employment and wages for February	We expect further employment decline by 0.8%YoY and some rebound in wages growth (to 3.4%YoY)
	PL	Core inflation for January and February	We expect core CPI after excluding food and energy prices to decline to 1.4%YoY in February. Our forecast is above market consensus (at 1.2%)
19-Mar	PL	Industrial output and PPI for February	Our forecast of industrial output: -3.3%YoY (below market consensus). We predict PPI at -0.4%YoY
20-Mar	PL	Auction of bonds: OK0715, WZ0117, PS0418	Offer: PLN2.0-6.0bn
	DE	Auction of 10Y bonds	Offer: €4bn
26-Mar	HU	NBH Meeting - interest rate decision	-
28-Mar	CZ	CNB Meeting – interest rate decision	
-	PL	Retail sales for February	Our forecast: +1%YoY (slightly above market median at 0.7%)
4-Apr	EU	ECB Meeting – interest rate decision	
10-Apr	PL	MPC 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

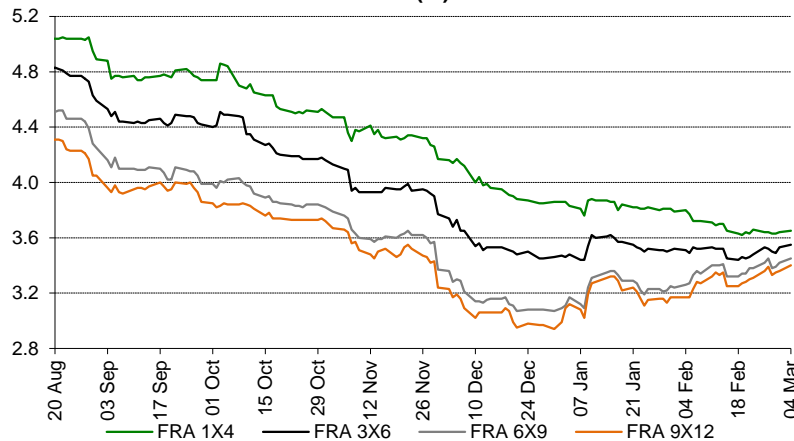
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of February	3.75	3.7	3.80	3.73	3.67	3.60	3.60	3.50	3.38	3.29	3.63	3.49	3.39	3.35
Last 1M change (bp)	-25	-22	-23	-22	-24	-21	-10	-7	-2	4	-18	-2	14	18
Last 3M change (bp)	-75	-78	-74	-79	-83	-87	-51	-43	-40	-34	-64	-43	-17	-7
Last 1Y change (bp)	-75	-87	-94	-123	-131	-138	-64	-72	-84	-96	-133	-146	-146	-140

Bond and IRS market (%)

	T-bills	BONDS				IRS			Spread BONDS / IRS (bps)		
	52-week	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y	
End of February	3.60	3.45	3.61	3.97	3.53	3.62	3.85	-8	-1	12	
Last 1M change (bps)	6	26	22	5	9	17	14	17	5	-9	
Last 3M change (bps)	-50	-1	-8	-12	-31	-16	-4	30	8	-8	
Last 1Y change (bps)	-85	-120	-133	-154	-129	-115	-99	9	-18	-55	

FRA (%)



Yields of Polish benchmarks (%)



Sources: 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	6,000	9,500	6,150	5,000	5,500	1,000	5,500	11,000	3,100		80,499
T-bills auction	3,603	1,747	3,083										8,433
Retail bonds	150	154	154	154	154	154	154	113	154	154	114	157	1,766
Foreign bonds/credits	4,140	1,301		2,500	2,000	1,800					2,000		13,741
Prefinancing and financial resources at the end of 2012	39,150												39,150
Total	64,401	13,593	9,238	12,154	8,304	6,954	5,654	1,113	5,654	11,154	5,214	157	143,590
Redemption	11,686	13,854	2,791	22,261	4,024	1,894	13,497	3217.5	561	24,213	408	183	98,589
Net inflows	52,715	-261	6,447	-10,107	4,280	5,060	-7,843	-2,105	5,093	-13,059	4,806	-26	45,000
Rolling over T-bonds													0
Buy-back of T-bills/bonds													0
Total	52,715	-261	6,447	-10,107	4,280	5,060	-7,843	-2,105	5,093	-13,059	4,806	-26	45,000
<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	1,592	93	11,686		11,686
February		2,190	148	2,338	11,516	13,854
March		2,329	212	2,541	250	2,791
April	20,521		140	20,661	1,600	22,261
May		3,603	172	3,775	250	422
June		1,747	147	1,894		147
July	13,393		105	13,497		13,497
August		3,084	134	134		134
September			111	111	450	561
October	24,120		94	24,213		24,213
November			158	158	250	408
December			183	183		183
Total 2013	68,035	10,762	1,698	81,191	14,316	95,507
Total 2014	61,666		1,248	90,276	18,320	105,102
Total 2015	78,880		677	59,586	16,618	77,034
Total 2016	59,378		485	79,365	17,620	93,694
Total 2017	67,278		91	59,469	11,766	76,340
Total 2018+	183,657		3,288	213,794	146,214	348,760

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesales bonds redemption by holders (data at the end of January 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	26	0	1	27
Q2 2013	7,788	4,274	2,167	2,202	829	59	299	2,926	20,545
Q3 2013	9,125	766	1,145	687	197	143	16	1,353	13,431
Q4 2013	8,785	1,409	7,177	4,005	835	117	64	1,772	24,165
Total 2013	25,698	6,449	10,489	6,894	1,862	344	379	6,052	58,167
	44%	11%	18%	12%	3%	1%	1%	10%	100%
Total 2014	36,947	8,619	4,957	4,233	2,898	412	120	3,770	61,956
	60%	14%	8%	7%	5%	1%	0%	6%	100%
Total 2015	26,139	22,008	7,760	11,919	6,590	224	583	5,024	80,247
	33%	27%	10%	15%	8%	0%	1%	6%	100%
Total 2016	19,149	9,361	3,620	19,771	6,907	55	74	3,735	62,673
	31%	15%	6%	32%	11%	0%	0%	6%	100%
Total 2017	25,888	11,365	5,684	14,159	6,750	57	83	3,292	67,278
	38%	17%	8%	21%	10%	0%	0%	5%	100%
Total 2018+	61,172	35,084	19,391	56,595	16,347	198	385	7,886	197,059
	31%	18%	10%	29%	8%	0%	0%	4%	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 Nov
	End Jan	End Dec	End 3Q 2012	End 2Q 2012	End 2011	End 2010	End 2009	MoM	3-mth	YoY	
Domestic investors	339.8	337.5	341.8	352.9	349.8	354.2	336.2	0.68	2.21	-0.83	63.5 (-0.5pp)
Commercial banks	92.9	87.8	102.0	102.1	103.3	110.4	112.1	5.85	5.92	-4.68	17.4 (0.7pp)
Insurance companies	51.9	52.8	54.7	57.0	55.5	59.5	53.8	-1.69	-3.02	-6.56	9.7 (-0.3pp)
Pension funds	113.6	117.4	116.7	120.3	122.2	117.0	111.0	-3.24	-5.82	-6.92	21.2 (-1.0pp)
Mutual funds	41.4	41.7	32.5	33.0	31.7	30.2	26.8	-0.90	14.09	39.85	7.7 (-0.2pp)
Others	40.0	37.8	35.9	40.5	37.1	37.0	32.5	5.9	3.1	5.3	7.5 (+0.3pp)
Foreign investors*	195.0	189.9	184.2	174.0	152.5	124.8	78.6	2.70	4.66	22.18	36.5 (+0.5pp)
Banks	30.4	28.4	27.8	22.6	16.2	21.9	17.4	7.06	11.19	47.73	5.7 (+0.3pp)
Non-bank fin. sector	156.2	153.1	147.5	143.1	129.3	96.8	58.0	2.03	4.00	18.14	29.2 (+0.2)
Non-financial sector	4.8	5.2	5.6	5.2	4.5	4.2	2.3	-7.31	-11.34	16.19	0.9 (-0.1pp)
TOTAL	534.8	527.4	526.0	526.9	502.3	478.9	414.7	1.40	0.86	6.48	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	10.0
Belgium	30.3	8.8	40.0	37.0	24.0
Finland	6.8	5.6	12.4	12.4	7.0
France	105.5	61.6	171.1	170.0	22.0
Germany	157.0	17.1	174.1	174.1	19.0
Greece	9.7	11.6	21.3	0.0	-
Ireland	5.1	12.5	17.6	10.0	25.0
Italy	154.7	25.5	180.2	180.2	25.0
Netherlands	31.5	15.2	46.7	50.0	16.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	25.0
Total	584.3	220.0	832.2	772.3	22.0

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)	
	2012F	2013E	2012F	2013E	2012F	2013E	2012F	2013E	2012F	2013E
Poland	2.0	1.2	3.7	1.8	-3.6	-2.7	-3.5	-3.4	55.8	57.0
Czech Republic	-1.1	0.0	3.5	2.1	-2.9	-2.7	-5.2	-3.1	45.5	48.0
Hungary	-1.7	-0.1	5.7	3.6	2.3	3.3	-2.4	-3.4	78.6	78.7
EU	-0.3	0.1	2.6	2.0	0.7	1.4	-3.5	-2.8	87.2	89.9
Euro area	-0.6	-0.3	2.5	1.8	1.5	2.2	-3.8	-3.4	93.1	95.1
Germany	0.7	0.5	2.1	1.8	6.3	6.0	0.1	-0.2	81.6	80.7

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bps)		CDS 5Y	
	2012	2013	2012	end of February	2012	end of February	2012	end of February	2012	end of February
Poland	4.25	3.50	4.11	3.73	3.72	3.97	241	252	80	96
Czech Republic	0.05	0.05	0.18	0.17	1.86	2.04	54	59	63	59
Hungary	5.75	5.00	5.75	5.21	6.23	6.37	492	492	269	313
Euro area	0.75	0.75	0.19	0.21						
Germany					1.32	1.45			39	39

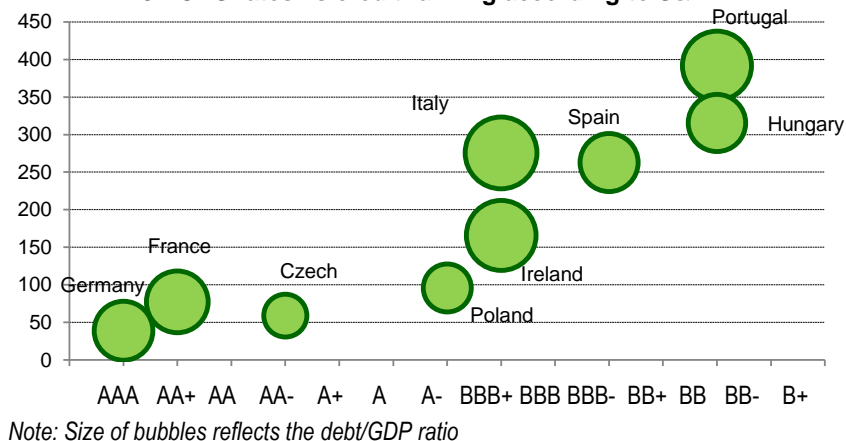
Sources: EC – Winter 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

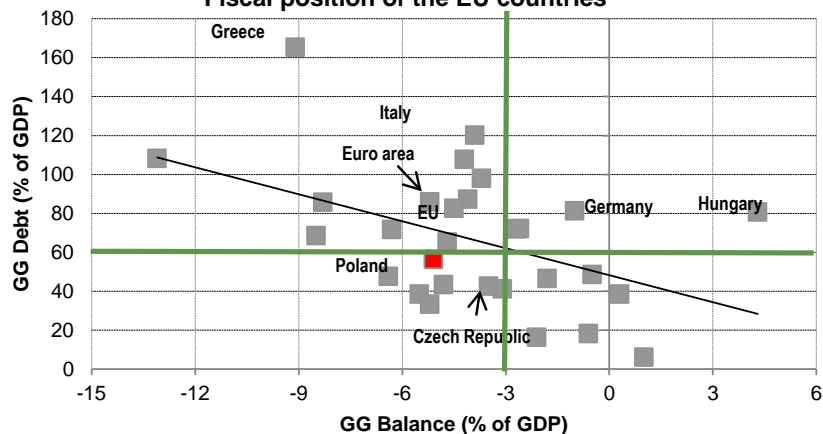
Sovereign ratings

	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	positive
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	AAA	negative
UK	AAA	negative	Aa1	negative	AAA	negative
Greece	B-	stable	C	---	CCC	stable
Ireland	BBB+	negative	Ba1	negative	BBB+	stable
Italy	BBB+	negative	Baa2	negative	A-	negative
Portugal	BB	negative	Ba3	negative	BB+	negative
Spain	BBB-	negative	Baa3	negative	BBB	negative

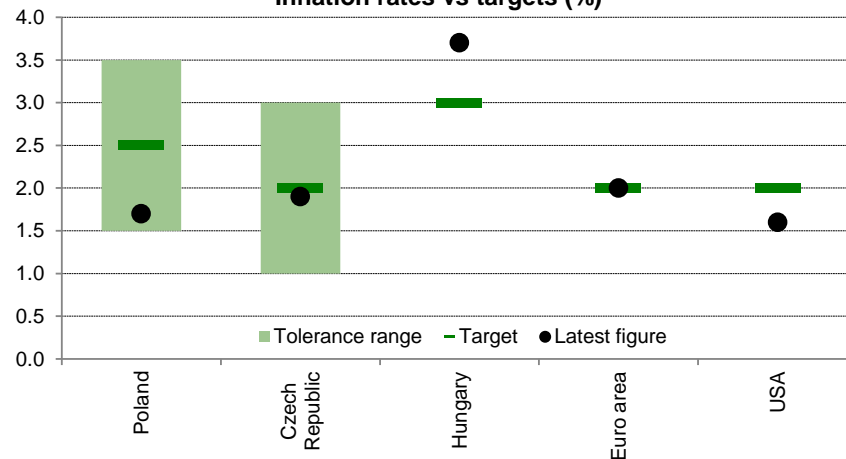
5Y CDS rates vs credit ranking according to S&P



Fiscal position of the EU countries

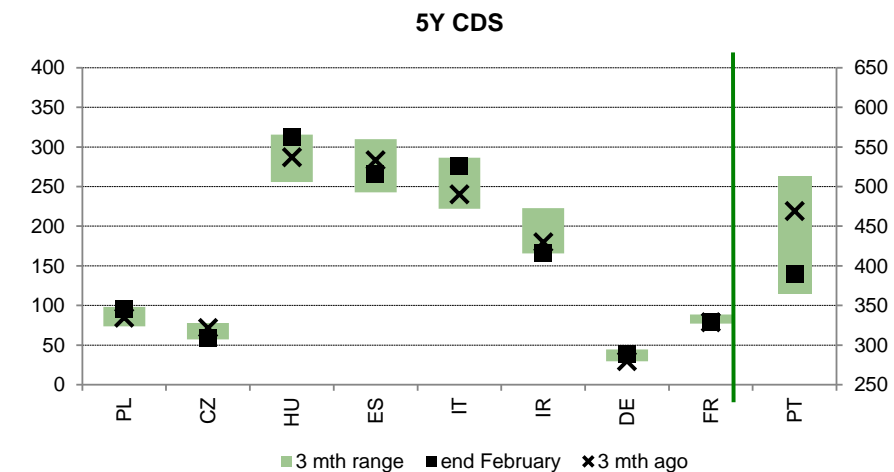
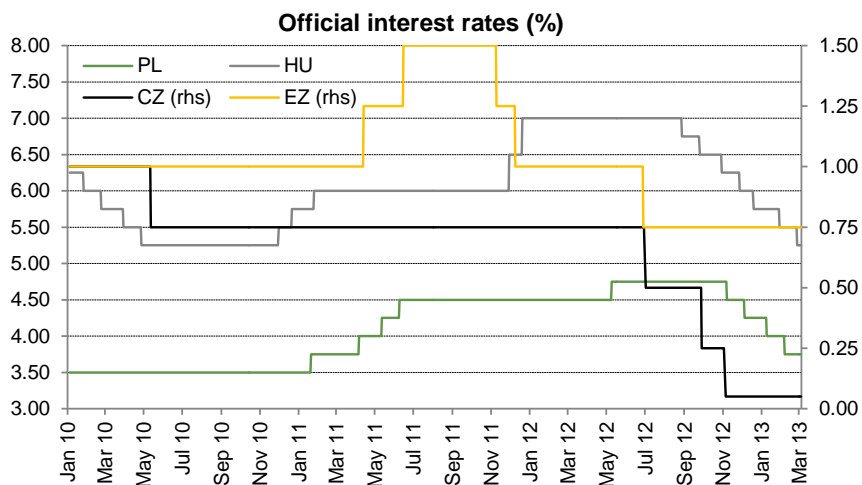
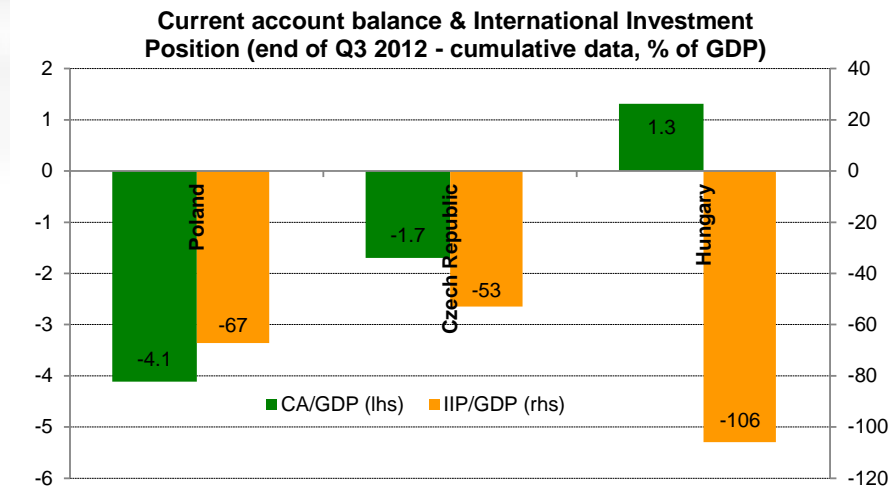
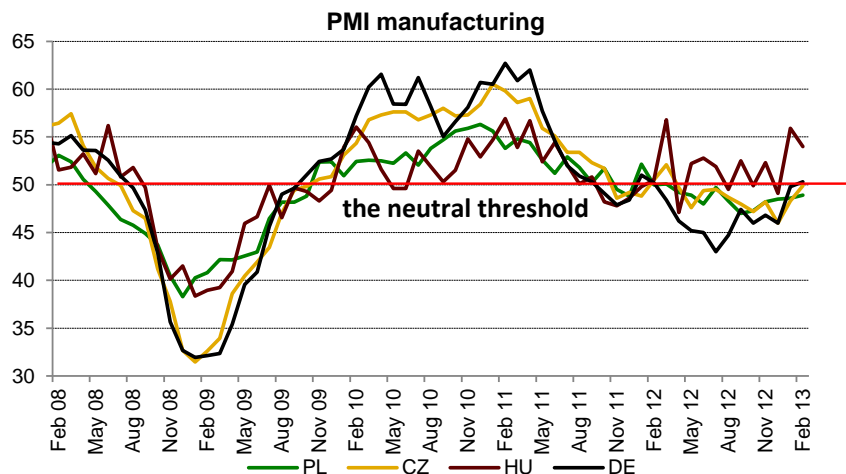


Inflation rates vs targets (%)



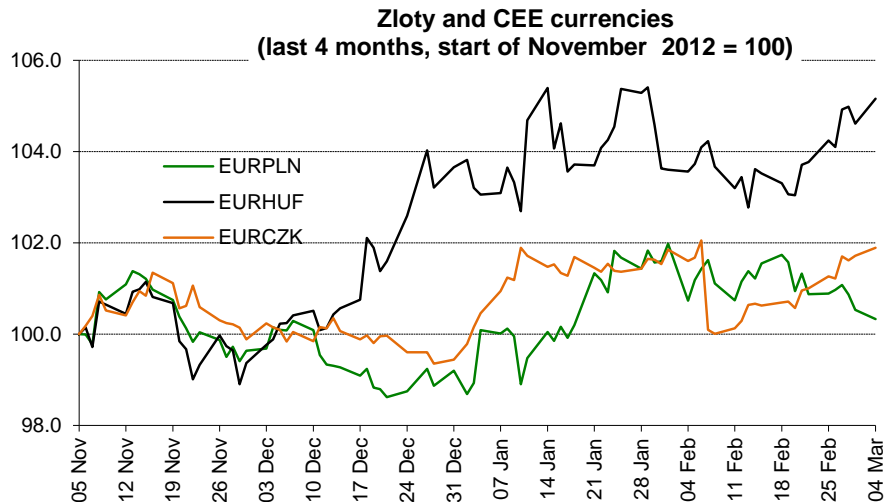
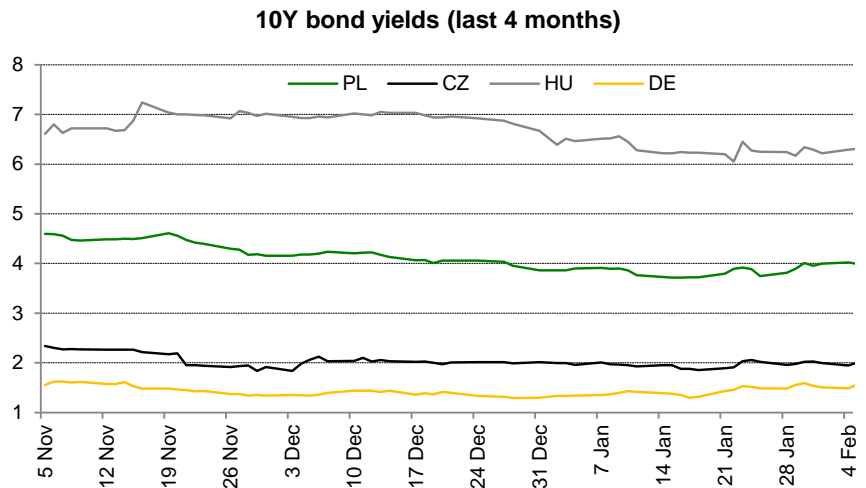
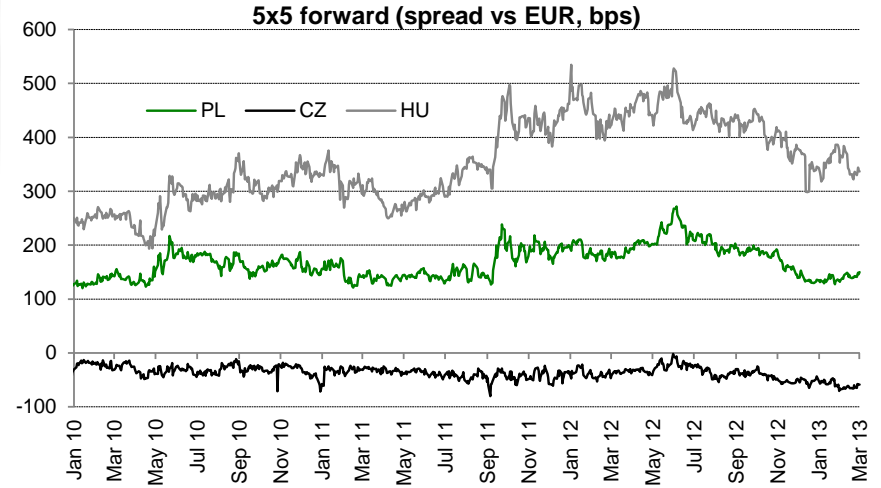
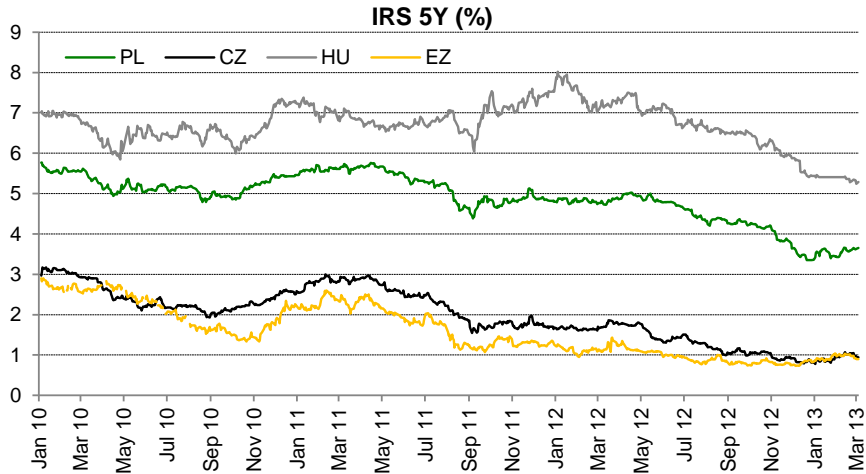
Source: rating agencies, Reuters, BZ WBK, EC

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 (bps)			Risks/Events
					1M	3M	6M	
Euro zone	Forecast	0.75	0.75	0.75				We do not expect any changes in ECB monetary policy despite increasing expectations on rate cut in coming months. New macro forecasts will be in the spotlight.
	Market implied »				0	-2	-2	
UK	Forecast	0.50	0.50	0.50				The BoE will keep its policy unchanged. However, we do not exclude that the BoE might ease policy further, shifting from the purchase of Gilts towards credit easing and other 'unconventional' measures.
	Market implied »				-3	-7	-10	
US	Forecast	0-0.25	0-0.25	0.25				Interest rates will remain on hold, but any news about possible Fed's exit will strongly affect the UST market.
	Market implied »				0	1	2	
Poland	Forecast	3.75	4.25	3.50				We think that rate reduction (by 25 bps) in March may be a close call. We expect that the Council might signal a pause in the easing cycle more clearly than in past two months. Focus on the new projection of GDP and inflation
	Market implied »				-9	-20	-31	
Czech Republic	Forecast	0.05	0.05	0.05				Rates on hold. The CNB might intervene directly against the CZK to support the Czech economy.
	Market implied »				32	29	29	
Hungary	Forecast	5.25	5.75	5.00				The nomination of the new governor of Hungary's central bank (Matolcsy) was in line with expectations. It is likely that the new leadership introduces some 'unorthodoxy' measures into monetary policy.
	Market implied »				-23	-60	-88	

This analysis is based on information available until 4th March 2013 and has been prepared by:

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