

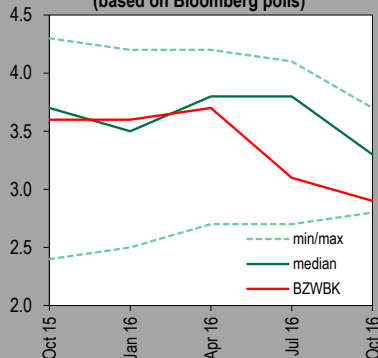
MACROscope

Polish Economy and Financial Markets

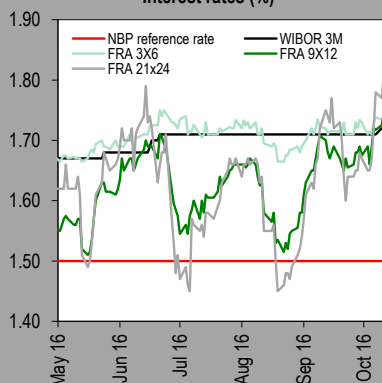
October 2016

Time for adjustments

Evolution of GDP forecasts for 3Q2016
(based on Bloomberg polls)



Interest rates (%)



In this issue:

Economic update	2
Monetary policy watch	4
Fiscal policy watch	5
Interest rate market	6
Foreign exchange market	7
Market monitor	8
Economic calendar	9
Economic data & forecasts	10

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Following the forecast change at the start of the summer holidays, we still maintain the view that the Polish economy will not grow faster than c3% in the following quarters. Actually, the recent economic data suggested, in our view, that GDP growth in Poland has probably slid below 3% y/y in the third quarter. Although we saw a number of forecasts readjustments for Poland by different institutions recently (see chart on the left), the GDP consensus forecast for Q3 (3.4% y/y, according to Bloomberg) is still too high, in our view. Private consumption will remain robust and is likely to gain strength in H2 (moreover, in Q4 it may get an additional boost from advance payments of subsidies for farmers, worth up to PLN10bn). Meanwhile, it seems that investment weakness persists, which is manifested, among others, through a dramatic slump in the construction output. Export growth has been decelerating in the recent months, and although the last surveys suggested a pick-up in export orders in September, foreign trade contribution to GDP growth may be smaller than in H1, we think.

Deflation started diminishing, though slowly, in September it rebounded to -0.5% y/y, from -0.8% in August. The upward trend should be maintained in the coming months and December may be (though it is not as certain as a few months ago) the first month with positive inflation rate, after 29 months of deflation in Poland. Still, it may take more than a year until inflation rate starts approaching the official inflation target. Recent disappointing macroeconomic data slightly reduced the Monetary Policy Council's optimism about the GDP growth outlook, but their general stance did not change too much. The central bankers signalled quite clearly they are not even thinking about interest rate cuts, as they believe that the slowdown in GDP and investments was temporary and deflation has no negative effects on the economy. We still see official rates flat till end-2017.

It appears that financial markets have completely lost faith in monetary easing in Poland. We would need to see very disappointing economic data to witness reviving expectations for interest rate cuts, especially if inflation rate is trending up. A weaker-than-expected Q3 GDP (mid-November) or/and a revision of GDP projection by the National Bank of Poland (start-November) might be an important signal for rates market. We still think that yield of the 10Y Polish benchmark of above 3% might be perceived as attractive in the world of ultra-low interest rates. On the FX market, we expect the zloty to depreciate in the final quarter of 2016.

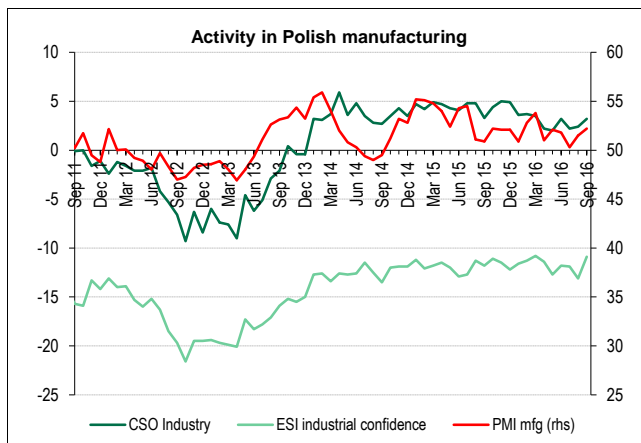
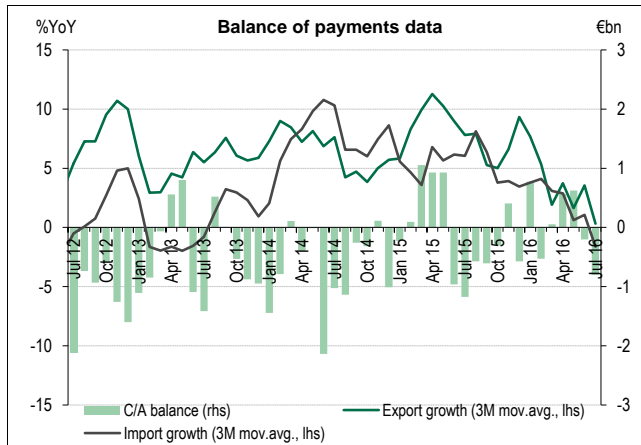
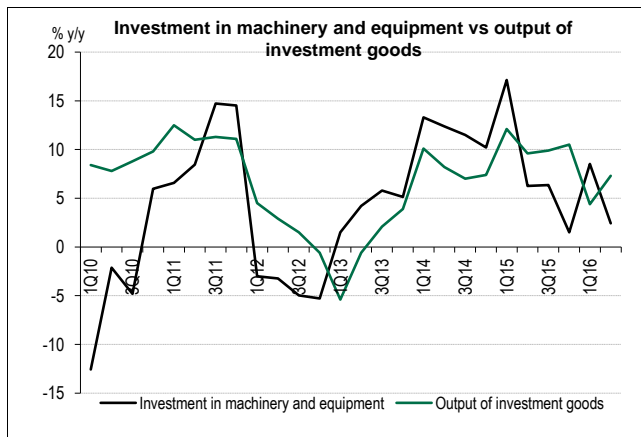
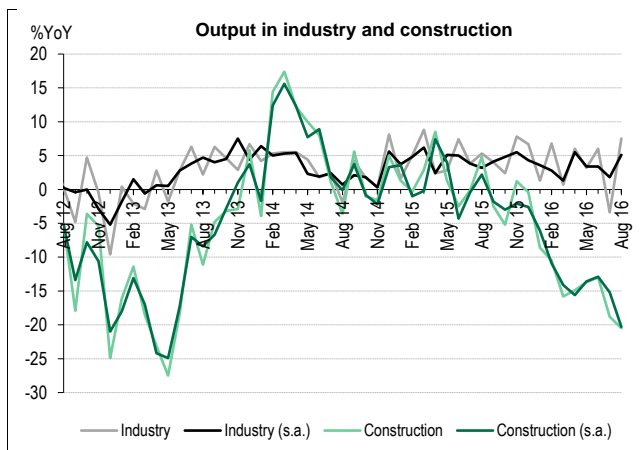
Last month we saw a couple of interesting reshuffles in the government and the central bank. The Finance Minister, Paweł Szalამacha, resigned, and deputy PM, Mateusz Morawiecki, assumed his responsibilities. Szalამacha was appointed NBP board member (no specified duties yet). At the same time, Marek Chrzanowski stepped down from the MPC and was appointed KNF Chairman (Polish Financial Supervision Authority). We do not think the changes will substantially affect the macroeconomic policy in the following quarters/years. The new Finance Minister, Morawiecki (who is also heading the Development Ministry), strongly emphasised a pledge to keep the fiscal deficit under control, below 3% of GDP. Also, a new MPC member (appointment within three months) is not likely to change the balance of power within the Council. As regards the KNF, Chrzanowski emphasised many times in the past the importance of stability of the financial sector.

Financial market on October 12, 2016:

NBP deposit rate	0.50	WIBOR 3M	1.72	EURPLN	4.2825
NBP reference rate	1.50	Yield on 2-year T-bond	1.76	USDPLN	3.8851
NBP lombard rate	2.50	Yield on 10-year T-bond	3.04	CHFPLN	3.9240

This report is based on information available until 12.10.2016.

Economic update



Source: Markit, Eurostat, CSO, European Commission, BZ WBK.

GDP forecasts readjust down

▪ Weak July's data from the economy and on GDP growth in 2Q2016 caused a downward readjustment of forecasts for the Polish economy. Even though the GDP consensus forecast for 3Q (3.4% y/y, according to Bloomberg) is still too high in our view, we do not expect a major economic slowdown in 3Q and 4Q. Our forecast for these two periods sits at 2.9% y/y. Available data, including these from August, suggested that consumption is strong and the outlook for exports is not as bad as one could have guessed based on the July's data. Only investment shows no signs of rebound.

Good data on industry in August

▪ Industrial output rose in August by 7.5% y/y, clearly above forecasts. Let us remind that improvement versus disastrous July (-3.4% y/y) was caused partly by the calendar effect (in July, there were two working days less than a year before, in August 1 day more). However, even when we take this effect into account, August showed an improvement in industry. According to the Statistics Office, industrial output after seasonal adjustment rose by 5.1% y/y in August (versus average growth in H1 at 3.3% y/y). In industrial manufacturing, output climbed by 9.4% y/y, which is the best result since March 2015. Output of investment goods rose by as much as 14.0% y/y in August. However, the total result for July and August is rather disappointing (rise by 1% y/y) and suggest no rebound in investment in machinery and equipment in 3Q (this measure saw a rise by a mere 2.4% y/y in 2Q).

Very weak export in July

▪ Weak results of industry in July weighed on the foreign trade. In annual terms, exports contracted 4.8% and this was the worst result since 2009. Imports fell by 7.3% y/y, but one should notice high base effect – in July 2015 imports reached nearly €15mn so the contraction on annual terms should not surprise. On the other hand, there was a low base for exports (sales of mobile phones plummeted a year ago due to the government's action aimed at curbing tax evasion).

Business climate indicators suggest no worsening

▪ Outlook for the industry for the upcoming months improved, as PMI index for manufacturing in Poland and Germany rebounded in September. PMI for the Polish manufacturing surprised to the upside, growing in September to 52.2pts from 51.5pts in August. The rebound was driven mainly by output and new orders (particularly export ones) that were rising at the fastest pace since March. Employment grew for the 38th month in a row but at the slowest pace for two years.

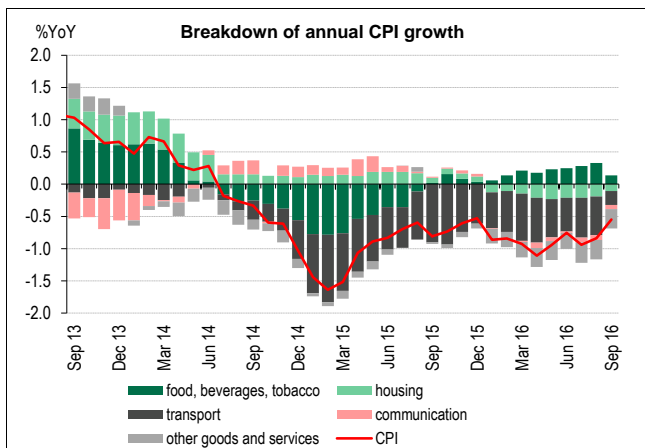
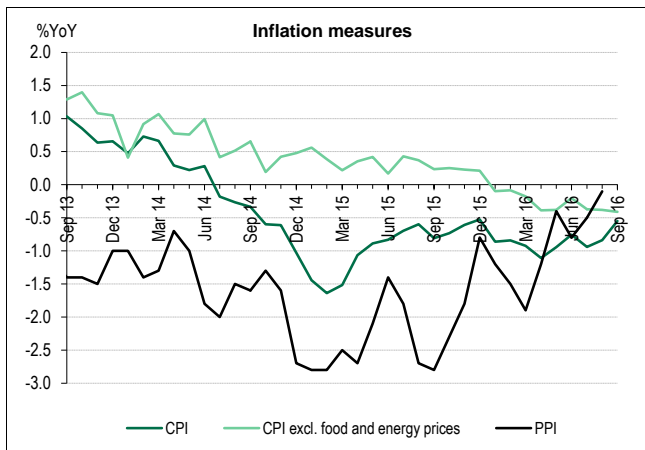
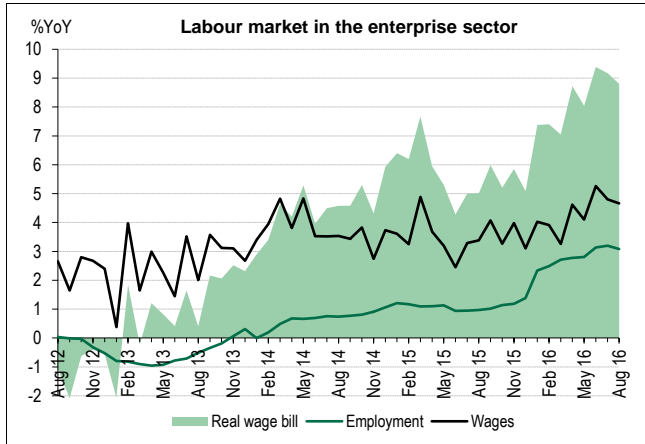
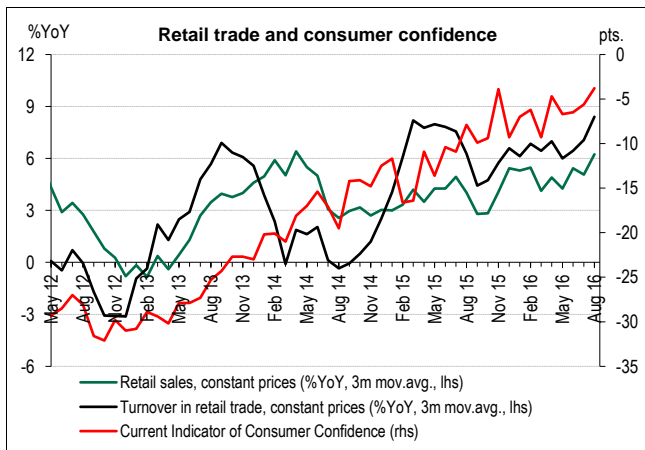
Construction suggesting no rebound in investment

▪ Construction and assembly output disappointed again as it plummeted 20.5% y/y. The pace of contraction is the biggest since mid-2013 and, according to our estimates, the value of construction output (after seasonal adjustment) has returned to the levels seen in early 2007. Sharp fall was recorded in all construction sectors. In our view, this is a very bad signal for 3Q construction investment.

Retail sales growing at the fastest pace for two years

▪ In August, retail sales in constant prices surged 7.8% y/y (vs 4.4% y/y in July) growing at the fastest pace for two years and well above forecasts. Improvement vs July was driven mainly by two categories – sales of autos (+17.6% y/y) that picked up after +1.9% y/y and returned to the trend seen earlier in the year and "others" that turned positive (+0.9% y/y) for the first time since October 2014.

Economic update



Source: CSO, NBP, Eurostat, BZ WBK.

500+ in trade data?

Can we see the effects of '500+' programme in the August data? The annual sales growth may suggest such a conclusion. However, please bear in mind that retail sales growth in August 2015 was extremely weak (the worst August since 2009), so this year's reading was boosted by the low base effect. Moreover, the structure of growth acceleration is quite puzzling, as the only categories that experienced a significant change of trend were fuels (strong increases since May) and 'others' (up by over 9 pp. in August). However, we cannot rule out that a large part of 500+ means was streamed into the services sector during the summer vacation period.

A considerable rebound was recorded also in retail trade – to 10.1% y/y as compared to 6.4% y/y on average in 1H2016. Improvement was visible in clothing and footwear as well as in computer and telecommunication devices. In our view, such a breakdown of acceleration may suggest an impact of 500+, but we wait for a confirmation of this trend in data for the upcoming months and in retail sales statistics. Anyway, decent retail trade data for August suggest that private consumption growth should accelerate in 3Q16.

Surprising decline in employment in August

Employment in corporate sector rose in August by 3.1% y/y versus 3.2% y/y in July. In monthly terms, employment fell by 1 thousand, which was a big disappointment to us. We have been warning about possible deceleration of job creation for quite some time, pointing to depleting reservoirs of available workforce. Another factor suggesting a slowdown in employment growth was a slump in investments since the start of the year. Detailed data on employment in the corporate sector showed, however, that the surprising decline in August was caused by one segment only, communication and information. Employment in this sector fell by 5k, while the situation in other sectors was stable or slightly positive. In our view, this proves that the August's result was only a one-off.

Wages in the corporate sector rose 4.7% y/y in August. It is worth to notice that the annual growth decelerated despite the positive effect of the number of working days (negative in July) supporting our thesis that wages growth in June-July was distorted by the bonus payments in some sectors. We expect the wages to continue growing faster than 4% y/y in the months to come. Real wage bill rose 8.8% y/y.

Lowest deflation this year

CPI inflation rose to -0.5% y/y in September, in line with the flash estimate and versus -0.8% y/y in August, and was the highest this year. Rise in inflation was mainly due to changes in the transport prices, which saw a combination of two effects – low base from September 2015 and strong rise in fuel prices in September 2016. Transport added as much as 0.4 percentage points to CPI in September, i.e. was responsible for the whole rise in this measure. However, despite the rise in annual CPI, there were some new factors limiting the total price growth: 1) introduction of free drugs for the elderly, which lowered prices of pharmaceutical products by 1.7% m/m (prices in health category declined by 0.9% m/m), 2) introduction of free schoolbooks for further classes of elementary schools, which lowered school books prices by 15.7% (prices in culture and recreation fell by 1.4% m/m), 3) decline of vegetable prices by 2.1% m/m, which dragged the whole food category down (-0.2% m/m).

In our view, headline CPI will be on the rise in the months to come. It cannot be excluded that deflation will end in December, but the new factors generating a downside pressure on inflation increase the risk that it will be delayed by one month. In January 2017, strong statistical effects and increases in some household maintenance items (water supply, electricity) will push CPI significantly up.

Monetary policy watch

Excerpts from the MPC's official statement after its October meeting

In Poland, stable economic growth continues. Incoming data indicate that GDP growth in 2015 Q3 was probably close to that observed in the previous quarter. Steadily increasing consumer demand remains the main driver of economic growth. Consumer demand is supported by gradual improvement in the labour market, favourable household sentiment and the child benefit payments under the "Family 500 plus" programme. Data on construction and assembly output indicate that declining investment is still containing economic activity. The decrease in investment is related to temporarily lower absorption of EU funds after expiration of the previous EU financial framework, as well as uncertainty in the enterprise sector.

Annual growth in prices of consumer goods and services remains negative, yet deflation is gradually subsiding. Weakening deflationary trends are also visible in producer price developments. The increase in price growth results from dissipating effects of the earlier sharp fall in global commodity prices, and also the gradual acceleration in wage growth in Poland. Price growth is contained by low inflation abroad and negative output gap in the domestic economy. At the same time, inflation expectations remain low.

In the Council's opinion, the scale of deflation will continue to decrease in the coming months. Higher price growth will be supported by stable GDP growth, amid accelerating wage growth and higher child benefits. In the coming quarters, investment growth should also rise, supported by good financial standing of enterprises, growing capacity utilisation of firms and a gradual increase in absorption of EU funds. The sources of uncertainty for expected economic activity and price developments are risks of a deterioration in global economy and a fall in commodity prices.

The Council confirms its assessment that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance

Comments of Marek Chrzanowski on financial sector

30.05.2016, PAP: This change (vesting the KNF in NBP) would solve communication problems between these two institutions, improve the decision-making process and well as anchor responsibility of taken decisions. (...) The idea to vest KNF in the NBP is optimal as it does not distort works of the institution, which would be able to keep its structure unchanged.

25.04.2016, Reuters: For me, it is very important how interest rates affect results of financial institutions – commercial banks, cooperative banks, credit unions or non-credit institutions (...) As long as we do not observe really disturbing trends in the real sector, we should focus on securing financial sector stability with our policies (...) moreover, financial sector stability is an important argument against interest rate cut. It might turn out that costs of this change would be higher for the economy than keeping rates unchanged. Surely, we will not allow destabilization of banking sector in the upcoming quarters..

Comment of Paweł Szalamacha

30.09.2016, Polish Radio 3: During last few months and last few weeks I was intensively working on the budget. Now I would like to take a rest. (...) As regards the KNF, you have to read requirements in the KNF act: I do not meet them. I have spoken to PM Szydło. I have resigned, the PM accepted my resignation and we were talking about the future but with no final decisions.

Nothing interesting is happening

▪ The Monetary Policy Council kept interest rates unchanged in October, with the main reference rate still at 1.5%. The post-meeting statement was very similar to the September one, and the NBP Governor Adam Glapiński started the press conference by saying that "nothing interesting is happening."

Rate hike may take place in... 2018

▪ Glapiński reiterated that interest rates should remain on hold in the coming quarters. He reiterated that, if nothing bad happens, the next policy decision will be an interest rate hike. Interestingly, while at the previous press conference he did not exclude a possibility of a hike in 2017 (which was hard to believe, actually), this time he suggested that monetary tightening might take place as late as 2018. The main reason for this adjustment in view (if this was intentional) was, most likely, a weaker GDP growth outlook. Glapiński admitted that economic growth in 2016 is slightly lower than expected, but he believes that in 2017 it will be 'excellent.' At the same time, inflation should be trending up (end of deflation in 2016). The biggest central bank's concern is the investment outlook, but according to Glapiński it is 'certain' that investments will rebound, the only question being whether it will be end-2016 or early 2017. Well, we agree that the base-case scenario for 2017 should assume the positive growth of fixed investments, but it is still far from certain.

▪ Overall, the message from the statement and the press conference were similar as in September – the MPC is not even thinking about monetary policy easing. We would need to see very disappointing economic data (GDP slightly below 3% y/y probably not enough) to see reviving expectations for interest rate cuts, especially if inflation rate will be trending up. Still, it has to be noted that the inflation pick up is (again!) slower than previously expected.

MPC member Chrzanowski resigns...

▪ It has been a long story. At the start of September, Marek Chrzanowski resigned from the position of a member of the Monetary Policy Council and an adequate motion was sent to the Senate, which had appointed Chrzanowski for MPC. Interestingly, after a few weeks he withdrew his resignation and... after another week passed or so, Chrzanowski resigned again for personal reasons and Poland's Senate dismissed him.

▪ According to the head of the Senate's Office, Jakub Kowalski, the final choice of the new MPC member could take place at the turn of November/December. In our view, this change in the MPC's line will not influence the Polish monetary policy.

... and moves to KNF (Polish FSA)

▪ Marek Chrzanowski was appointed by Prime Minister Beata Szydło as the head of the KNF (Polish Financial Supervision Authority). Chrzanowski will start his term on October 13, after the term of Andrzej Jakubiak ends.

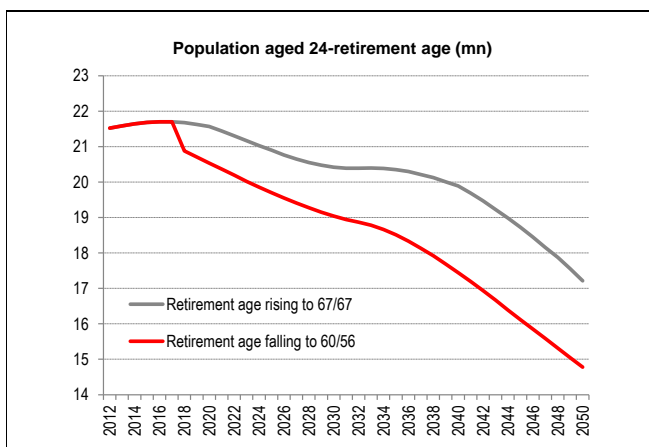
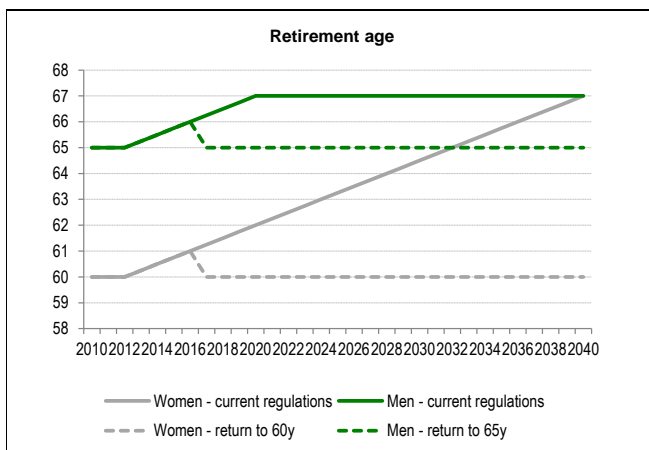
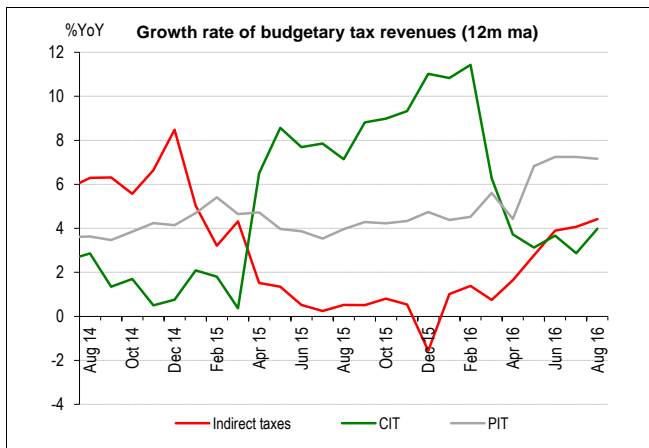
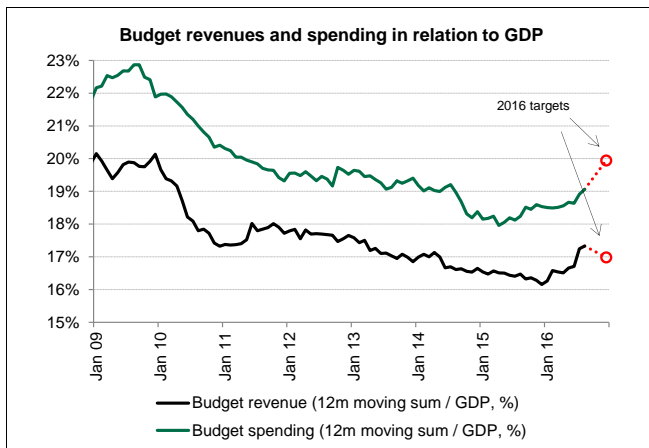
▪ Taking into account the recent comments made by politicians as well as the Governor of the National Bank of Poland, it is quite clear that the Polish FSA will be under supervision of the central bank. However, it is uncertain if this is to be full integration or rather a reporting line of Polish FSA Head to the NBP Governor.

▪ One important role of the new KNF head will be cooperation with other institutions in the Financial Stability Committee on new regulatory measures for banks with CHF-loans exposure, as pre-announced by Glapiński a few months ago.

Ex-Finance Minister in the NBP Board

▪ Paweł Szalamacha joined the board of the central bank will no assigned duties, as for now.

Fiscal policy watch



Source: Ministry of Finance, Eurostat, BZ WBK.

Fiscal deficit in 2016 well below 3% of GDP?

- After eight months of this year, the central budget deficit reached PLN14.9bn, i.e. only 27% of the annual plan. Pace of income growth is accelerating and we see good chances that full-year revenues will be higher than planned by at least PLN5bn, despite lower-than-expected inflows from bank tax and zero revenue from trade tax. Tax revenue growth after eight months reached 7.4% y/y (10.1% y/y in August alone). At the same time, spending execution is well below the tentative schedule. If such situation continues, the budget deficit could be lower than planned even by c. PLN10bn.

- The government approved draft amendment to the 2016 budget, assuming a change in the budget of European funds, related to advance payments of subsidies for farmers – c. PLN9bn should be disbursed already this year, instead of 2017. In our view, a shift of payment date should not affect the General Government balance according to ESA2010.

- Nevertheless, we do not rule out that the government decides to move other expenditures from 2017 to 2016, to smooth the fiscal deficit path. On the one hand, fiscal deficit this year could be much lower than 3% of GDP. Apart from lower central budget deficit it would result from low investments in local governments (possible surplus in this sector). On the other hand, assumption of higher local governments' spending next year implies that the deficit of the public sector may exceed 3% of GDP in 2017, even if the central budget is executed in line with the plan. From the economic point of view, it would have little importance (total deficit in two subsequent years roughly the same). But breaching 3% GDP level threshold could be important from a reputational point of view. Therefore, smoothing the deficit path is possible and due to shift of spending the actual budget execution this year may not be very different from the initial plan.

Parliament to work on retirement age cut

- The PiS leader Jarosław Kaczyński declared that the bill reducing the retirement age would be "for sure" passed before the year-end (to be effective not earlier than 4Q17).

- The public consultations regarding the planned changes in the pension system have just ended and the Sejm will proceed work on the President Duda's draft proposal, assuming lowering retirement age back to 60 for women and 65 for men. It remains to be seen if the parliament modifies the proposal. As we wrote in the [comment released in July](#), the proposal without modifications would be negative for the economy on many levels, including (1) high fiscal costs; (2) a lower active population (we are nearing the point where a lack of available workforce could become a major bottleneck for economic growth in Poland); and (3) lower future pensions (given the shorter period of economic activity and longer time on retirement).

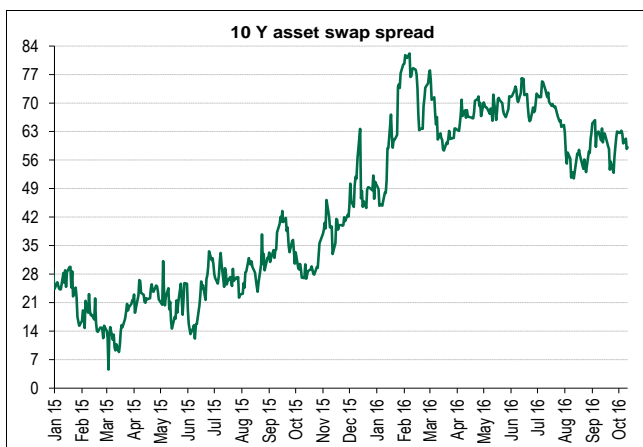
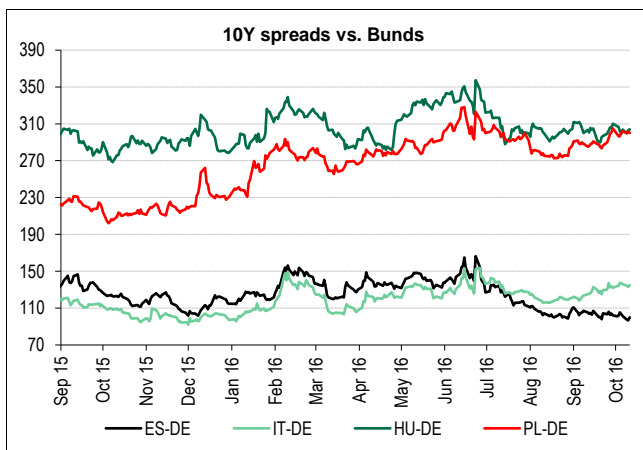
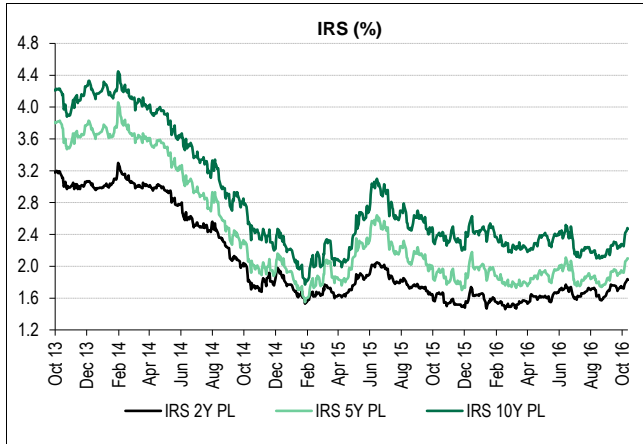
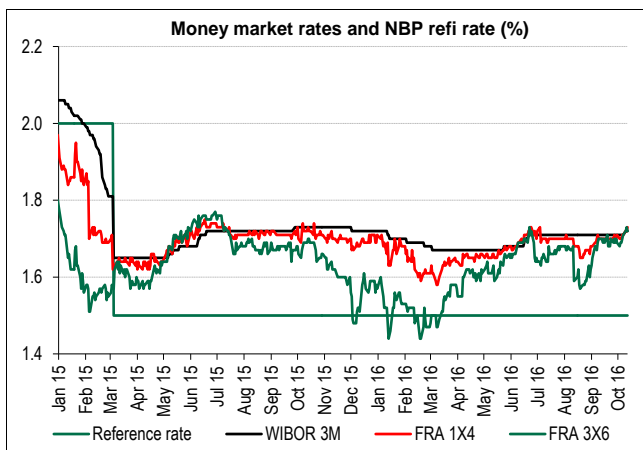
... and CHF loans solution

- Additionally, on October 19, the parliament will start working on the FX loans issue. There are three proposals in the Polish parliament: (1) President Andrzej Duda's proposal, (2) a bill submitted by PO, (3) a bill submitted by Kukiz'15.

- PO's proposal is similar to the one they proposed before election and assumes conversion based on bank-client agreement with loss split 50:50. Kukiz'15 proposed the most extreme solution, as it assumes conversion of FX loans to PLN at the conversion rate from the loan origination, potentially deadly for the banking system.

- One can suppose that the proposal submitted by the President Duda is the most likely to be approved. However, the shape of the final solution is uncertain until the parliament makes decision.

Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

Polish and global factors push rates up

Poland's interest rate market was very volatile in early October, similarly to September. Both IRS rates and T-bond yields rose significantly, following global trends. This resulted mainly from investors' concerns that ECB could be tapering its QE programme. The upward trend of yields/rates strengthened after quite strong US macro data, which increased probability of rate hike by Fed till year-end (slightly above 63%) and the outcome from Poland's MPC. As a result the yield of 10Y benchmark increased well above 3% and 10Y IRS rate rose above 2.40%, both for the first time since the end of June. However, the disappointed US September's job report helped the core market to rebound and as a result also Poland's assets strengthened a bit. Still, the 10Y benchmark yield remained around 3%.

Early October, the belly and the long end of the curves suffered the most from global mood deterioration, while the front end was more or less stable. As a result, both IRS and yields curves steepened visibly with the 2-10Y spread rising to nearly 130bp for T-bonds and above 60bp for IRS. Meantime, risk premium for Poland's assets has remained quite high with the spread over Bunds for the 10Y sector oscillating around 300bp.

On the money market, in September and early October the FRA market was nervous and fragile, strongly depending on the situation on the IRS market. At the same time, WIBORs have remained unchanged. Currently, the FRA curve is relatively flat (with FRA3x6 at 1.71%, and FRA18x21 at 1.74), which means that neither rate cuts nor hikes are priced in.

Issuance plan for 4Q16 in line with expectations

The Finance Ministry announced its plans to issue bonds for PLN14-28bn in 4Q16 at 3-4 standard auctions and 1-2 switch auctions. Unexpectedly, the ministry also announced that in the last quarter of this year it may consider tapping bonds on the international market and/or receiving funds from loans from International Financial Institutions (IFI) up to €0.9bn.

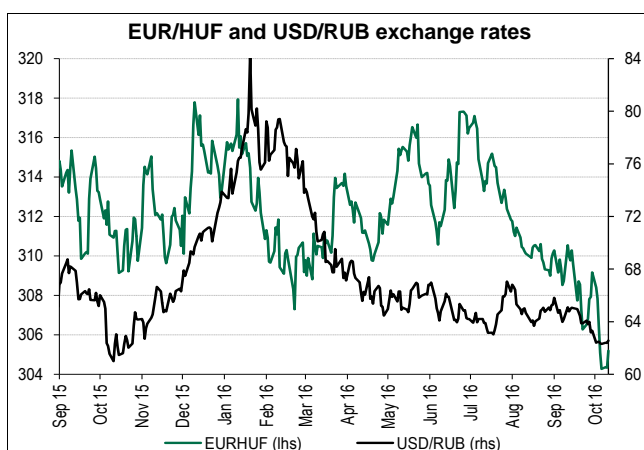
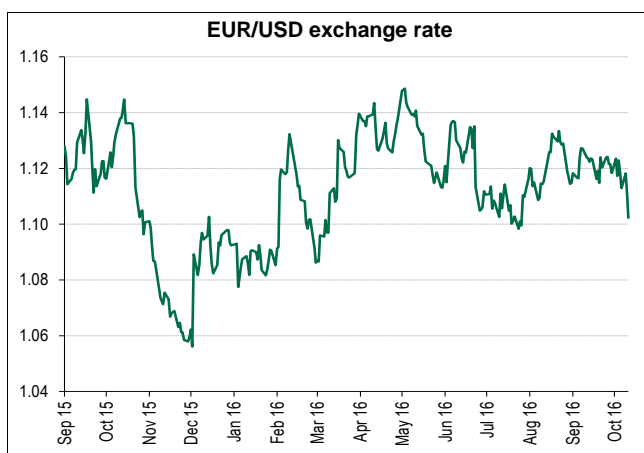
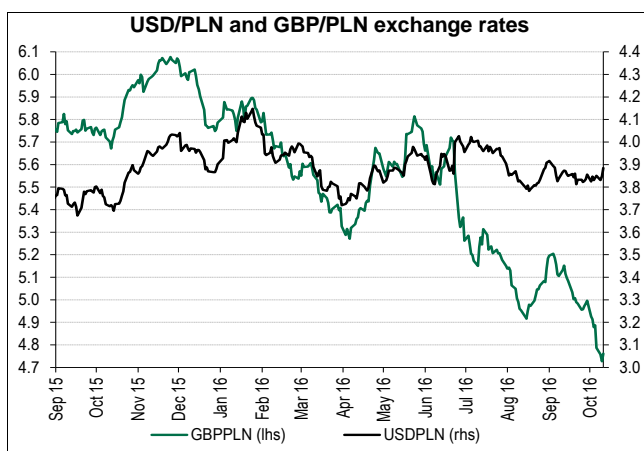
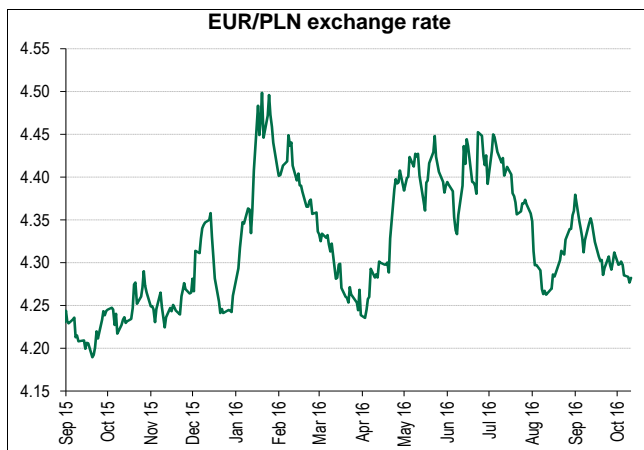
The first bond auction in October was favourable for the Polish Ministry of Finance. The ministry tapped OK1018 and DS0727 bonds worth PLN6.8 in total on both regular and top-up auctions. We estimate that after the yesterday's auction 94% of this year's borrowing needs are covered. In our view, the upcoming auction should also attract healthy demand from both domestic and foreign investors. Moreover, the liquidity situation in the market should be supportive as this month flows from both redemptions (PS1016) and coupon payments (DS series) will amount to PLN21.1bn in total.

Polish assets still sensitive to global trends

In our view, the situation on the money market is not going to change significantly in upcoming weeks as we expect the data for September to be relatively strong. However, a new wave of market expectations for a possible monetary policy easing may emerge in mid-November, after 3Q GDP data show GDP growth below 3% y/y.

As regards bond yields and IRS rates, we expect them to stay in the horizontal trend, as there is not much space neither for increase nor for decrease. In the world of ultra-low interest rate, the current level of the Polish 10Y benchmark yield might seem attractive, in particular taking into account that the 10Y real yield is higher compared to the other CEE peers. Domestic data releases in October should be mixed, showing a gradual inflation pickup and economic activity consistent with the GDP growth slightly below 3% y/y. At the same time, the global sentiment is not very supportive (fears over a 'hard Brexit,' talks on tapering the QE programme by the ECB), and next data from the USA may keep expectations for the Fed interest rate hikes this year, pushing up yields in core debt markets. The latter factors may justify a gradual rise in yield of the 10Y benchmark and further steepening of the curves in the medium run.

Foreign exchange market



Sources: Reuters, Bloomberg, Markit, BZ WBK.

Zloty's appreciation could stop

▪ In contrast to what we had expected, EUR/PLN corrected from the local peak at 4.36 and is near 4.28 in mid-October where it rebounded from c4.26. The main factors supporting the zloty in September were the information that Moody's has not changed the Polish rating and outlook, as well as the dovish tone from the FOMC in September.

▪ Despite the last month's zloty performance, we remain negative as regards the remainder of the year and we think EUR/PLN will not break 4.27 and will be on the rise in the weeks to come.

▪ First of all, the most recent Polish macro data raised the risk that 3Q16E GDP growth could be below 3% due to deep investment contraction and exports weakness. Currently, the Bloomberg consensus for Polish 3Q GDP growth is at 3.4% y/y and the lowest forecast is at 2.8% y/y (ours 2.9%), so if the aforementioned risk materializes (flash GDP data is due in mid-November), then the zloty could suffer.

▪ An additional factor is a continued uncertainty related to the pace of the FX mortgage loans conversion. The parliament will start discussion in October. There are three projects: (1) President's Duda assuming banks will give part of the FX spreads earned back to the consumers; (2) Civic Platform calling for a 50/50 share of the conversion costs incurred by the consumer and the bank and (3) prepared by Kukiz'15 who want FX mortgages to be converted into PLN with banks taking 100% of losses. The first readings in the parliament will give a hint on the way of thinking of the Polish deputies on this issue. If the proceedings on the bill by Kukiz'15 is continued, this would not be a positive signal to the market.

▪ Finally, our technical analysis also suggests this could be a good time for EUR/PLN to rebound from the local low.

EUR/USD still awaiting trigger

▪ In line with what we had suggested last month, EUR/USD stayed within the 1.112-1.135 range in the weeks after we released the last report. The outcome of the FOMC meeting proved rather dovish but the concerns about the German banking sector supported the safe assets, including the dollar.

▪ Note that the EUR/USD volatility has declined after the Brexit vote and now the market is waiting for another factor that could trigger significant and persistent trend. We do not expect FOMC to hike rates in November but the tone of the statement should be hawkish if they still want to raise rates this year. US Presidential elections may also add volatility particularly if Trump wins. All in all, we see rather limited room for higher EUR/USD in the remainder of the year.

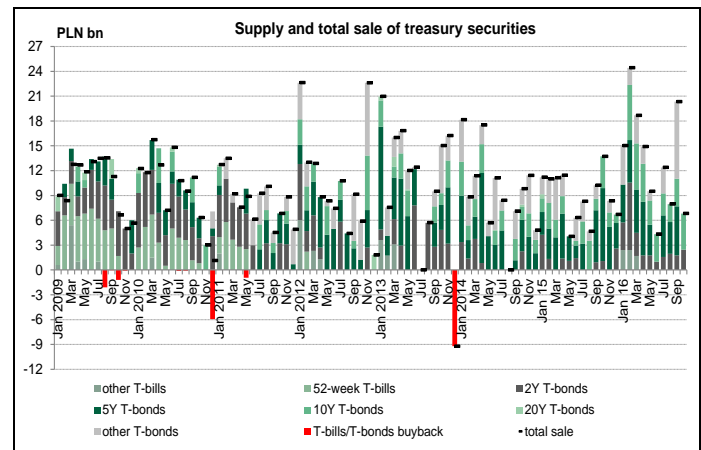
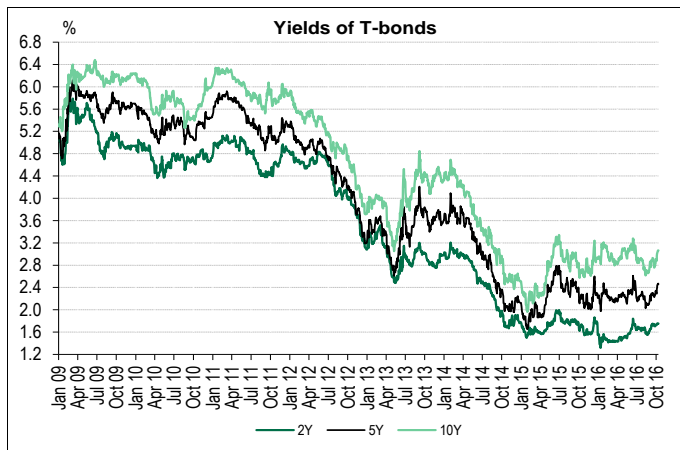
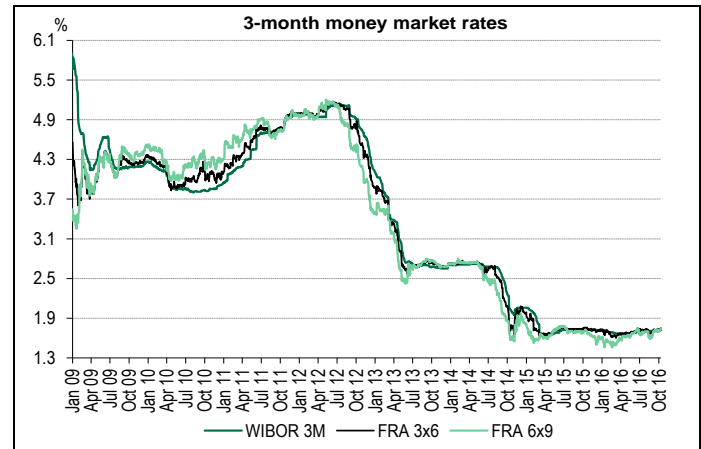
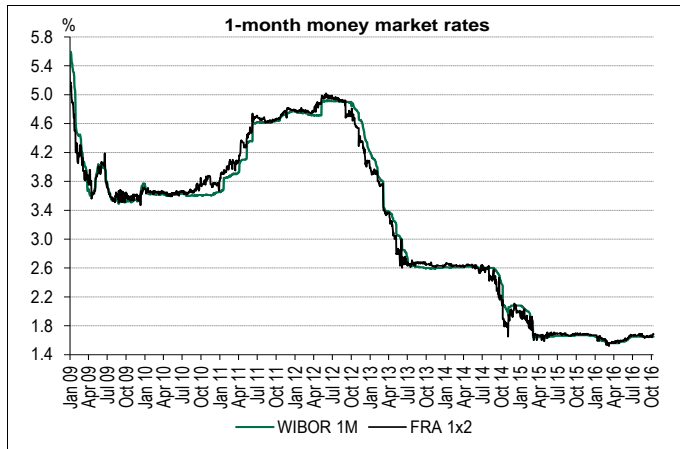
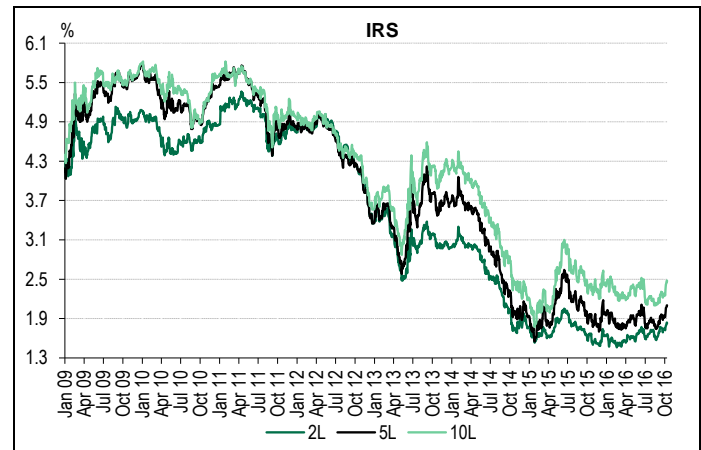
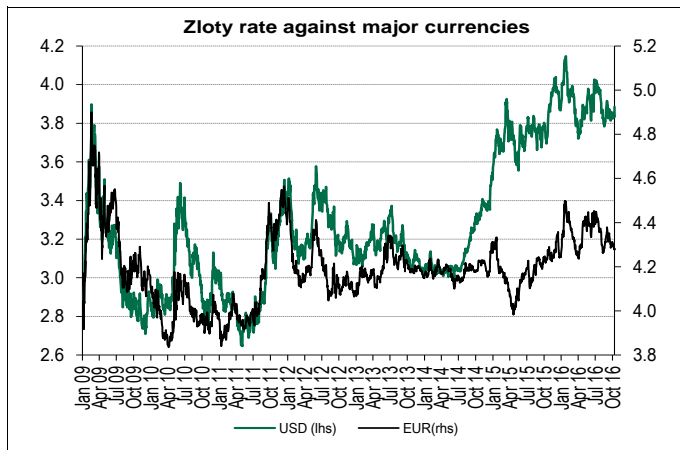
Forint and ruble strongest this year

▪ The central bank of Hungary (MNB) left the main reference rate at 0.90%. However, the bank limited the size of the deposit facility to HUF900bn from HUF1.6trn meaning that some extra cash should be injected into the market. Such a decision was surprising and was interpreted as a dovish signal from the CB that weighed on the forint. However, its impact was only short-lived and did not prevent EUR/HUF from reaching its fresh 2016 low at c303. The exchange rate broke out of the horizontal trend observed since 2Q15 and we think it could continue to fall even towards 295.

▪ USD/RUB also reached its new 2016 low (at c62) thanks to the rising Brent price and hawkish rhetoric of the Russian central bank. The CBR cut its main interest rate by 50bp to 10% but the statement was interpreted as rather hawkish. CBR's head said that no more cuts should be expected this year and that the easing cycle may be resumed in 1H17 and carried at a 25bp rate cut pace. Such a cautious approach is driven by the bank's central objective of reaching the 4% y/y inflation target at least at the end of 2017.

▪ The CBR expects Russian GDP to grow 0.5-1% in 2017 and 1.5-2% in 2018 and 2019. In both cases, this is below the market consensus (1.7% and 1.9%, respectively, according to Bloomberg).

Market monitor



Treasury bond auctions in 2015/2016 (PLN mn)

Month	First Auction				Second Auction				Switch Auction		
	Date	T-bonds	Offer	Offer	Date	T-bonds	Offer	Offer	Date	T-bonds	Offer
October '15	29.10	OK/PS/DS	5000-8000	8082.0					8.10	DS1015/OK0116	PS0421/DS0726
November	26.11	EUR20160201**	Up to €1bn	€730m					19.11	OK0116/PS0416	WZ0120/PS0421/DS0726
December									10.12	OK0116/PS0416	OK0717/PS0421/DS0726
January '16	7.01	PS0421	2500-4500	4555.0	28.01	OK1018/WZ0120/WZ0126	5000-8000	8074.0			
February	4.02	OK1018/DS0726	4500-7500	9011.2	18.02	WZ0120/PS0421	4000-6000	7210.0			
March	3.03	OK1018/DS0726	4000-7000	8387.5					24.03	PS0416/OK0716/PS1016	WZ0120/PS0721/WZ0126
April	7.04	OK1018/DS0726	3000-6000	6356.6	28.04	WZ0120/PS0721/WZ0126	5000-8000	8534.7			
May	5.05	OK1018/DS0726	2500-4500	4703.9	25.05	PS0721/IZ0823	2000-4000	4801.7			
June	9.06	OK1018/DS0726	3000-4000	4321.7					27.06	OK0716/IZ0816/PS1016	Cancelled
July	7.07	OK/DS/WS	3000-6000	4431.9	28.07	PS0721/WZ1122/WZ0126	5000-8000	7950.9			
August	18.08	OK/PS/DS	5000-8000	7949.4							
September	1.09	OK/DS/WZ	4000-7000	7593.5					22.09	PS1016/WZ0117/PS0417	PS0721/WZ0120/WZ0126
October	6.10	OK1018/DS0727	3000-6000	6806.5	21.10	To be announced	5000-10000				

* with supplementary auction, ** buy-back auction, *** demand/sale.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
10 October GE: Exports (Aug) CZ: CPI (Sep)	11 PL: CPI (Sep) GE: ZEW index (Oct) HU: CPI (Sep)	12 PL: Core inflation (Sep) EZ: Industrial output (Aug) US: FOMC minutes	13	14 PL: Balance of payments (Aug) PL: Money supply (Sep) US: Retail sales (Sep) US: Flash Michigan (Oct)
17 EZ: HICP (Sep) US: Industrial output (Sep)	18 PL: Wages and employment (Sep) US: CPI (Sep)	19 PL: Industrial output (Sep) PL: PPI (Sep) PL: Retail sales (Sep) US: House starts (Sep) US: Building permits (Sep) US: Fed Beige Book	20 PL: MPC minutes EZ: ECB decision US: Philly Fed index (Oct) US: Home sales (Oct)	21
24 GE: Flash PMI – manufacturing (Oct) EZ: Flash PMI – manufacturing (Oct)	25 GE: Ifo index (Oct) HU: Central bank decision US: Consumer confidence index (Oct)	26 US: New home sales (Sep)	27 US: Durable goods orders (Sep) US: Pending home sales (Sep)	28 US: Advance GDP (Q3) US: Michigan index (Oct)
31 PL: Flash CPI (Oct) EZ: Flash HICP (Oct) EZ: Flash GDP (Q3) US: Personal income (Sep) US: Consumer spending (Sep)	1 November PL – public holiday US: ISM – manufacturing (Oct)	2 PL: PMI – manufacturing (Sep) GE: PMI – manufacturing (Sep) EZ: PMI – manufacturing (Sep) US: ADP report (Sep) US: FOMC decision	3 CZ: Central bank decision US: ISM – services (Oct) US: Industrial orders (Sep)	4 GE: PMI – services (Oct) EZ: PMI – services (Oct) US: Non-farm payrolls (Oct) US: Unemployment rate (Oct)
7 GE: Industrial orders (Sep)	8 GE: Industrial output (Sep) GE: Exports (Sep) CZ: Industrial output (Sep) HU: CPI (Oct)	9 PL: MPC decision CZ: CPI (Oct)	10	11 PL – public holiday US: Flash Michigan (Nov)
14 PL: CPI (Oct) PL: Balance of payments (Sep) PL: Money supply (Oct) EZ: Industrial output (Sep)	15 PL, GE, EZ, HU, CZ: Flash GDP (Q3) PL: Core inflation (Oct) GE: ZEW index (Nov) US: Retail sales (Oct)	16 US: Industrial output (Oct)	17 EZ: HICP (Oct) US: House starts (Oct) US: Building permits (Oct) US: CPI (Oct) US: Philly Fed index (Nov)	18 PL: Wages and employment (Oct)

Source: CSO, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2016

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	21	-	10	21	-	2	21	-	8	20	-	8
MPC meeting	13-14	2-3	10-11	5-6	12-13	7-8	5-6	-	6-7	4-5	8-9	6-7
MPC minutes	28	18	17	21	27	23	-	25	22	20	24	22
Flash GDP*		12			13			12			15	
GDP*	-	29	-	-	31	-	-	30	-	-	30	-
CPI	15	12 ^a	15 ^b	11	12	13	11	12	12	11	14	12
Core inflation	18		16	12	13	14	12	16	13	12	15	13
PPI	21	17	17	19	19	17	19	18	19	19	21	19
Industrial output	21	17	17	19	19	17	19	18	19	19	21	19
Retail sales	21	17	17	19	19	17	19	18	19	19	21	19
Gross wages, employment	20	16	16	18	18	16	18	17	16	18	18	16
Foreign trade												
Balance of payments*			31			30			30			
Balance of payments	13	15	15	13	13	13	14	12	13	14	14	
Money supply	14	12	14	14	13	14	14	12	14	14	14	

* Quarterly data. a preliminary data for January. b January and February.
Source: CSO, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

		Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16E	Oct 16E
PMI	pts	50.9	52.2	52.1	52.1	50.9	52.8	53.8	51.0	52.1	51.8	50.3	51.5	52.2	50.5
Industrial production	% YoY	4.0	2.4	7.8	6.7	1.3	6.8	0.7	6.0	3.2	6.0	-3.4	7.5	4.6	1.6
Construction production	% YoY	-2.5	-5.2	1.2	-0.4	-8.6	-10.5	-15.8	-14.9	-13.7	-13.0	-18.8	-20.5	-20.9	-20.3
Retail sales ^a	% YoY	0.1	0.8	3.3	4.9	0.9	3.9	0.8	3.2	2.2	4.6	2.0	5.6	6.2	5.2
Unemployment rate	%	9.7	9.6	9.6	9.8	10.3	10.3	10.0	9.5	9.1	8.8	8.6	8.5	8.4	8.3
Gross wages in corporate sector	% YoY	4.1	3.3	4.0	3.1	4.0	3.9	3.3	4.6	4.1	5.3	4.8	4.7	4.4	5.0
Employment in corporate sector	% YoY	1.0	1.1	1.2	1.4	2.3	2.5	2.7	2.8	2.8	3.1	3.2	3.1	3.0	2.9
Exports (€)	% YoY	3.0	4.5	12.6	11.5	-0.9	5.9	0.8	4.8	-0.7	6.4	-4.8	10.9	3.2	1.7
Imports (€)	% YoY	5.2	0.2	6.7	3.8	0.6	7.7	1.1	0.3	0.4	2.4	-7.3	9.9	5.9	6.0
Trade balance	EUR mn	19	252	574	294	441	316	444	531	345	404	-313	-44	-390	-402
Current account balance	EUR mn	-608	-305	405	-573	771	-529	54	563	624	-203	-802	-672	-859	-808
Current account balance	% GDP	-0.4	-0.4	-0.3	-0.2	0.0	-0.1	-0.4	-0.5	-0.5	-0.4	-0.3	-0.3	-0.4	-0.5
Budget deficit (cumulative)	PLN bn	-31.1	-34.5	-36.1	-42.6	1.8	-3.1	-9.6	-11.1	-13.5	-18.7	-14.4	-14.9	-35.5	-41.1
Budget deficit (cumulative)	% of FY plan	67.6	74.8	78.4	92.5	-3.2	5.7	17.5	20.3	24.6	34.1	26.3	27.3	64.9	75.2
CPI	% YoY	-0.8	-0.7	-0.6	-0.5	-0.9	-0.8	-0.9	-1.1	-0.9	-0.8	-0.9	-0.8	-0.5	-0.4
CPI excluding food and energy	% YoY	0.2	0.3	0.2	0.2	-0.1	-0.1	-0.2	-0.4	-0.4	-0.2	-0.4	-0.4	-0.4	-0.4
PPI	% YoY	-2.8	-2.3	-1.8	-0.8	-1.2	-1.5	-1.9	-1.2	-0.4	-0.8	-0.5	-0.1	0.3	0.4
Broad money (M3)	% YoY	8.3	8.9	9.3	9.1	10.2	10.1	9.1	11.6	11.6	11.4	10.7	10.0	9.6	8.9
Deposits	%YoY	8.9	9.2	9.7	9.0	9.9	10.4	9.4	11.6	11.8	11.3	10.6	9.9	9.2	8.7
Loans	%YoY	7.9	7.7	7.0	6.9	6.2	5.8	4.4	6.7	5.0	4.6	4.7	3.7	3.5	3.3
EUR/PLN	PLN	4.22	4.25	4.25	4.29	4.41	4.40	4.29	4.31	4.41	4.40	4.40	4.30	4.32	4.33
USD/PLN	PLN	3.75	3.78	3.96	3.95	4.06	3.96	3.87	3.80	3.90	3.92	3.98	3.84	3.86	3.88
CHF/PLN	PLN	3.86	3.91	3.92	3.96	4.03	3.99	3.93	3.94	3.99	4.04	4.05	3.96	3.96	3.99
Reference rate ^b	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.72	1.73	1.73	1.72	1.71	1.69	1.67	1.67	1.67	1.69	1.71	1.71	1.71	1.72
Yield on 2-year T-bonds	%	1.79	1.65	1.58	1.71	1.46	1.46	1.44	1.48	1.54	1.70	1.66	1.61	1.71	1.74
Yield on 5-year T-bonds	%	2.43	2.18	2.10	2.28	2.24	2.26	2.18	2.25	2.24	2.38	2.24	2.14	2.26	2.38
Yield on 10-year T-bonds	%	2.91	2.66	2.73	2.93	3.04	3.03	2.88	2.95	3.04	3.11	2.89	2.71	2.85	2.95

Note: ^a in nominal terms, ^b at the end of the period.

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2014	2015	2016E	2017E	1Q16	2Q16	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E
GDP	PLN bn	1 719.1	1 790.1	1 847.7	1 927.4	426.2	446.3	448.9	526.3	446.9	465.1	467.0	548.4
GDP	% YoY	3.3	3.6	3.0	2.9	3.0	3.1	2.9	2.9	3.1	2.9	2.7	2.8
Domestic demand	% YoY	4.9	3.3	3.2	3.5	4.1	2.4	2.9	3.3	3.9	3.8	3.4	3.1
Private consumption	% YoY	2.6	3.1	4.0	3.9	3.2	3.3	4.6	4.9	4.7	4.2	3.4	3.2
Fixed investments	% YoY	9.8	6.1	-2.9	2.9	-1.8	-4.9	-5.0	-1.0	2.6	3.0	3.0	3.0
Industrial production	% YoY	3.4	4.8	3.2	5.2	3.0	5.0	2.8	2.2	7.5	5.0	6.2	2.4
Construction production	% YoY	4.3	0.3	-16.8	-3.2	-12.2	-13.9	-20.1	-18.5	-17.2	-10.6	3.8	4.2
Retail sales ^a	% YoY	3.1	1.5	3.8	5.8	1.9	3.5	4.6	5.0	6.7	7.2	5.2	4.4
Unemployment rate ^b	%	11.4	9.8	8.5	7.9	10.0	8.8	8.4	8.5	8.8	7.9	7.6	7.9
Gross wages in the national economy ^a	% YoY	3.6	3.3	4.2	6.1	3.1	4.3	4.2	5.2	6.1	6.3	6.1	5.8
Employment in the national economy	% YoY	0.2	0.9	2.2	0.6	2.1	2.4	2.2	2.0	0.8	0.6	0.5	0.4
Exports (€)	% YoY	6.4	8.3	3.5	6.5	2.0	3.5	2.8	5.4	6.0	6.4	6.8	6.9
Imports (€)	% YoY	8.3	4.9	3.2	8.5	3.2	1.0	2.5	6.0	7.7	8.5	8.8	9.0
Trade balance	EUR mn	-3 255	2 135	2 650	-649	1 200	1 280	-748	918	555	460	-1 673	8
Current account balance	EUR mn	-8 303	-1 059	-1 221	-4 614	296	984	-2 333	-168	-364	176	-3 323	-1 105
Current account balance	% GDP	-2.0	-0.2	-0.3	-1.0	-0.4	-0.4	-0.4	-0.3	-0.4	-0.6	-0.8	-1.0
General government balance	% GDP	-3.3	-2.6	-2.5	-3.2	-	-	-	-	-	-	-	-
CPI	% YoY	0.0	-0.9	-0.7	1.0	-0.9	-0.9	-0.8	-0.2	0.9	1.0	0.9	1.2
CPI ^b	% YoY	-1.0	-0.5	0.0	1.3	-1.1	-0.8	-0.5	0.0	1.0	0.9	1.0	1.3
CPI excluding food and energy	% YoY	0.6	0.3	-0.3	0.5	-0.1	-0.3	-0.4	-0.3	0.0	0.4	0.6	1.0
PPI	% YoY	-1.5	-2.2	-0.4	0.9	-1.5	-0.8	-0.1	0.7	1.8	0.8	0.6	0.5
Broad money (M3) ^b	% oY	8.2	9.1	7.8	5.6	9.1	11.4	11.1	7.8	7.3	6.7	6.1	5.6
Deposits ^b	%YoY	9.0	9.0	6.4	5.4	9.4	11.3	10.6	6.4	6.2	5.9	5.7	5.4
Loans ^b	%YoY	7.2	6.9	3.6	3.1	4.4	4.6	3.7	3.6	3.4	3.3	3.2	3.1
EUR/PLN	PLN	4.18	4.18	4.36	4.32	4.37	4.37	4.34	4.36	4.37	4.32	4.30	4.30
USD/PLN	PLN	3.15	3.77	3.91	3.81	3.96	3.87	3.89	3.93	3.93	3.82	3.76	3.72
CHF/PLN	PLN	3.45	3.92	3.99	3.83	3.98	3.99	3.99	4.00	3.93	3.84	3.79	3.76
Reference rate ^b	%	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	2.52	1.75	1.70	1.75	1.69	1.68	1.71	1.74	1.75	1.75	1.75	1.75
Yield on 2-year T-bonds	%	2.46	1.70	1.61	1.81	1.45	1.57	1.66	1.74	1.74	1.75	1.82	1.92
Yield on 5-year T-bonds	%	2.96	2.21	2.28	2.60	2.23	2.29	2.22	2.40	2.43	2.48	2.63	2.83
Yield on 10-year T-bonds	%	3.49	2.69	2.97	3.27	2.98	3.04	2.82	3.03	3.13	3.18	3.30	3.45

Note: ^a in nominal terms, ^b at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 12.10.2016 has been prepared by:

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