# Rates and FX Outlook

## Polish Financial Market

October 2013

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# Summary

- Recently, the obvious global factors have been affecting the Polish market (e.g. expected Fed tapering, US government shutdown, political issues in the euro zone), while local elements were not surprising. The Monetary Policy Council did not surprise keeping the rates on hold and the economic recovery continues in line with our expectations. The announced plan regarding open pension funds (OFE) is the new domestic issue drawing market attention. Due to these changes the role of (OFE) on the Polish bond market will be reduced considerably (in practice they will disappear), while foreign investors' position will become even more important. While bond and equity markets, but also the zloty, rebounded after the immediate strong negative reaction to plan's announcement, the issue is likely to return to the market, as the government might present more details influencing the market mood. That's why we present details on the issue in the special section.
- Outcomes of European central banks meetings in September were more or less in line with expectations – while Poland's MPC, the ECB and the CNB left monetary conditions unchanged, the NBH decided to continue monetary easing, cutting official rates by 20bp (which, contrary to August cut, was in line with expectations). As regards the Polish Council we believe that only the meeting in November may bring more clarity regarding interest rate outlook due to publication of new CPI and GDP projections. The recent macro data have shown more signs of a gradually progressing recovery in Poland's economic activity and leading indicators (including September's PMI manufacturing release) also suggesting a fairly positive outlook ahead. At the same time, CPI inflation has remained well below the NBP's target, but has bottomed out from record-low. We expect this trend to continue, which will finally lead to a change in monetary policy parameters (we forecast the first rate hike in mid-2014).
- Contrary to European central banks, September's FOMC decision to postpone the start of tapering its QE program surprised market participants. As a consequence, risky assets, including the Polish ones strengthened across the board. However, market euphoria was only short-lived as political crisis in Italy and budget battle in the US Congress caused profit taking, increasing volatility on the emerging markets. While dovish signals from central banks should anchor the front ends of curves near current levels, the mid and long end of curves should stay under pressure of global environments. We maintain a scenario of further weakening of bonds in following months.
- The zloty also benefited from global mood improvement after Fed's decision to delay tapering. Positive fundamental situation, especially further rebound in economic activity combined with good external position (C/A surplus) will support the zloty in medium horizon. However, in short term we expect stabilization of EURPLN near 4.23 on average in October, due to uncertain situation on global market.

# Short- and Medium-term Strategy: Interest rate market

| | Change (bp) | | Level | Expected trend | |
|---|---|---|---|---|---|
| | Last 3M | Last 1M | end-September | 1M | 3M |
| Reference rate | -0.25 | 0.00 | **2.50** | → | → |
| WIBOR 3M | 2 | -1 | **2.71** | → | ↗ |
| 2Y bond yield | 1 | -8 | **3.03** | → | ↗ |
| 5Y bond yield | 10 | 1 | **3.83** | → | ↗ |
| 10Y bond yield | 13 | 3 | **4.47** | → | ↗ |
| 2/10Y curve slope | 12 | 11 | **145** | → | ↘ |

*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:** Dovish rhetoric of the MPC members stabilises WIBOR rates near current levels. What is more, market expectations on interest rate path have remained unchanged – investors are pricing-in the first hike in 9 month period, in line with our baseline scenario. We expect consolidation of WIBOR and FRA rates before returning to upward trend in medium term.

**Short end:** The front-end of curve well anchored near current level as the MPC members pointed out that official rates might remain low even till mid-2014 (or longer). We see a similar scenario for October. However, more visible economic rebound and inflation increase should result in gradual yields increase in 3M period.

**Long end:** Changes in both yields and IRS rates were significant in September. Yields/rates rebounded due to unexpected Fed's decision to postpone tapering after significant sell-off due to the announced plans of OFE overhaul. However, the month ended with yields near levels at the end of previous month. Situation should not change significantly in October as global market mood has remained fragile. We maintain the scenario of further weakening of T-bonds in medium term.

**Risk factors to our view:** Fears of Fed's tapering have remained the main risk element to our predictions and additionally we see problems regarding the US debt limit. If any of these factors affect global market, Polish yields would show another yields/rates increase, sharper than we currently expect.

# Short- and Medium-term Strategy: FX market

| | Change (%) | | Level | Expected trend | |
|---|---|---|---|---|---|
| | Last 3M | Last 1M | end-September | 1M | 3M |
| EURPLN | -2.6 | -1.2 | **4.22** | → | → |
| USDPLN | -5.9 | -3.0 | **3.12** | → | → |
| CHFPLN | -1.6 | -0.4 | **3.45** | ↘ | ↘ |
| GBPPLN | -2.0 | -0.6 | **4.96** | → | → |
| EURUSD | 3.5 | 2.0 | **1.35** | → | → |

*Note: Single arrow down/up indicates at least 1.5% expected move down/up, double arrow means at least 5% move*

## PLN FX Market: our view and risk factors

**EUR:** Due to improving economic outlook and fiscal problems in the US, the EURUSD has continued gradual upward trend. Thanks to euro strengthening, the zloty also gained in September. Currently the EURPLN is traded in narrow range between 4.20 and 4.23 and we do not expect major changes in October, but still think that in medium term the balance of risks should point to the stronger zloty.

**USD:** In September zloty gained more against the US dollar thanks to euro appreciation. September Fed's decision to postpone tapering and unsolved fiscal situation in the US helped the European currency to increase above 1.35 against the dollar. We maintain our view that EURUSD should range-trade in coming weeks. Therefore, we predict USDPLN to consolidate near current level.

**CHF:** Low official rates and a high current account surplus in Switzerland have kept EURCHF range-bound. We foresee the exchange rate to appreciate gradually if the euro zone risk environment continues to improve. Consequently, we do not exclude subdued decline in CHFPLN. The risk here is outflow from both USD and EUR n favour of CHF in case of global risk aversion (US debt limit or/and weaker data)

**Risk factors to our view:** The most important risk factors are regarding central banks' actions. Faster than currently expected tapering of Fed's quantitative easing together with a new LTRO should be EUR negative. It might translate into risk-averse mood and negatively affect the emerging market currencies, including the zloty. The new risk element concerns the US debt limit.

# OFE overhaul: Main changes in pension system

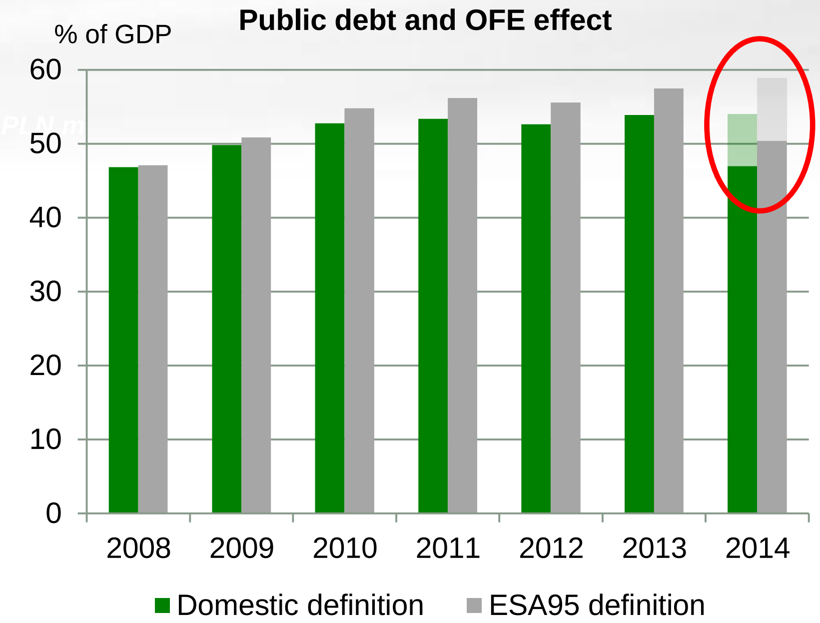
- In early September 2013 the Polish government announced long-awaited changes in pension system. The final proposal assumes that open pension funds (OFE) will have to transfer to the public sector 51.5% of their assets (the ratio is implied by the share of government and state-guaranteed bonds in total OFE portfolios at the end of 2012). The remaining assets will remain under OFE management. Funds will not be allowed to invest in Polish treasuries, but investment limits for other assets will be relaxed. Though this may influence market dynamics in various asset classes, unfortunately no details are known at this stage. It is only clear that limits for investments abroad will gradually increase – from current 5% to 10% in 2014, 20% in 2015, 30% in 2016.
- At the same time, within the above-mentioned 51.5% of total assets of each OFE, the value of transferred by each OFE treasury bonds and state-guaranteed bonds must not be lower than resulting from share of treasuries and state-guaranteed bonds in assets of each OFE as for 3.09.2013, i.e. the day preceding the announcement of planned pension system overhaul.
- If a particular OFE would have more than 51.5% of bonds in its assets (at the day of transfer), it would transfer 51.5% in the form of bonds, while it could keep the remaining treasury papers in portfolio.
- If a particular OFE would have lower share of bonds as compared to 3.09.2013 (due to changes in relative pricing against equity or/and different allocation of future contribution), it would have to buy the remaining part. Slide 9 shows structure of OFEs investment portfolios.
- As regards future flows to OFE, every participant of pension system will be able to decide if his future contributions will go to OFE or public entity (ZUS) - three months for decision since new law comes into force; ZUS is a default choice in case of no decision). PM Tusk suggested that „Poles would be allowed to shift the future flow of contributions every 2-3 years". OFE contribution will amount to 2.92% of gross salary (above current 2.8% but below earlier target level of 3.5%).

*Sources: Ministry of Finance, Reuters, BZ WBK*

# OFE overhaul: Public debt and deficit down

**Revenue, spending and balance of the budget 2013-2014 (PLNbn)**

| | 2013 amended (1) | 2014 (2) | Change (2) / (1) |
|---|---|---|---|
| **Revenue, including:** | 275.7 | 276.5 | 0.3% |
| Tax revenue | 239.2 | 248.0 | 3.7% |
| - *VAT* | 113.0 | 115.7 | 2.4% |
| - *CIT* | 22.0 | 23.3 | 5.9% |
| - *PIT* | 40.9 | 43.7 | 6.8% |
| Non-tax revenue | 35.0 | 26.9 | -23.1% |
| **Spending** | 327.3 | 324.2 | -0.9% |
| Spending (excl. OFE) | 327.3 | 333.5 | 1.9% |
| **Budget balance** | -51.6 | -47.7 | - |
| Balance (excl. OFE) | -51.6 | -57.0 | - |

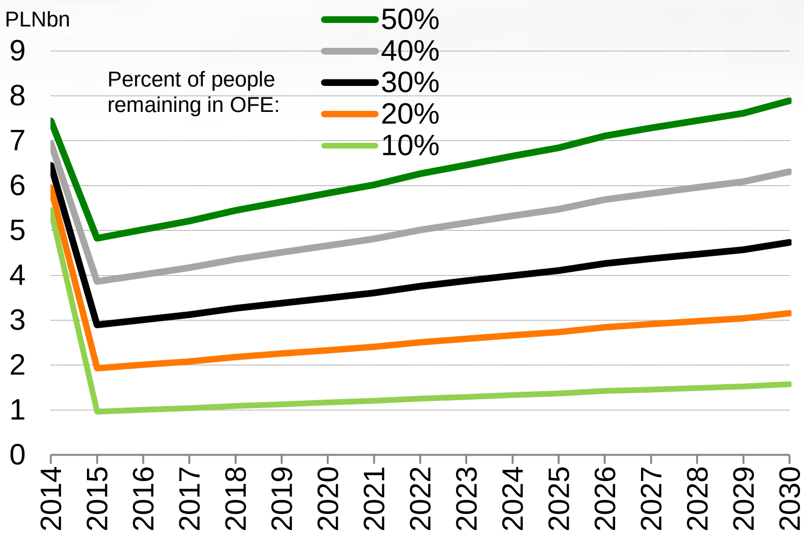



- Transferring bonds to public sector will lower public debt by ca. 8% of GDP, allowing to move away from (suspended) safety thresholds and from the constitutional limit of 60%. The government plans to lower safety thresholds (50% and 55%) only in the new spending rule, but to maintain the 55% in the Public Finance Act. It has to be kept in mind that the road fund (KFD) is not included in the domestic definition of public debt.
- The 2014 budget deficit will be reduced due to lower costs of debt servicing (PLN4.8bn) and lower subsidies to social security fund FUS (depending on the amount of people to opt-in).

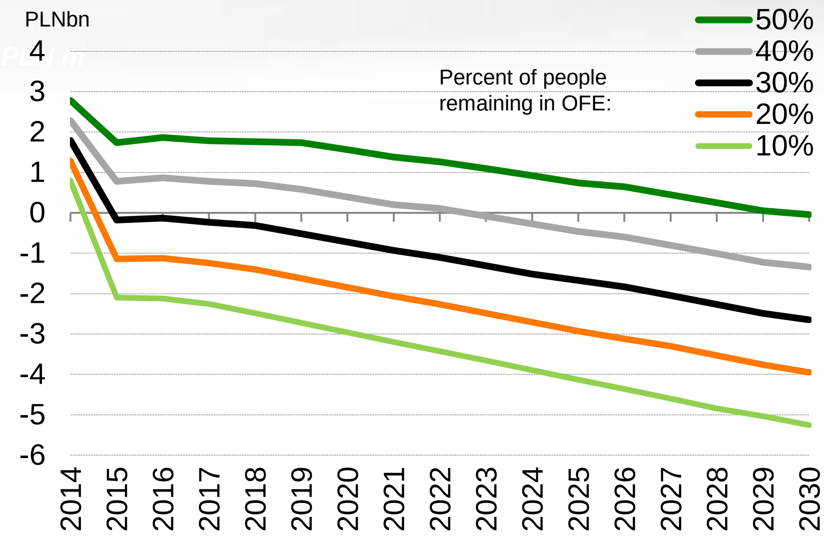
*Source: MinFin, CSO, Eurostat, BZ WBK*

# OFE overhaul: Will OFE remain net receiver of funds?

**Estimated ZUS contribution to OFEs depending on percent of members opting-in**




**Estimated net inflows to OFEs depending on percent of members opting-in**




- Assets of people who have less than 10 years to retirement will be faster transferred to ZUS : according to FinMin it will be PLN4.4bn in 2014 and PLN2-2.5bn in next years (assuming 50% people decides to stay in OFE).
- While in 2014 OFE will be still net receivers of funds (as the changes in law will get into force not earlier than in the mid-year), the net inflow of contributions in 2015 and subsequent years will depend on the ratio of people who will decide to opt-in (stay in OFE)
- It should be remembered that in the long run OFE would become net sellers of assets anyway, even without the reform, as they would have to sell equities to pay pension benefits

*Source: BZ WBK Brokerage*

# OFE overhaul: Will OFE have to buy more bonds?

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

| Fund | Assets (PLNbn) | Asset allocation (%) | | | |
|---|---|---|---|---|---|
| | | Bonds* | Equities | Deposits | Other |
| **ING** | 68.6 | 45.6% | 41.9% | 8.6% | 3.9% |
| **Aviva** | 64.1 | 47.1% | 40.1% | 7.7% | 5.1% |
| **PZU** | 38.3 | 47.2% | 42.4% | 5.0% | 5.4% |
| **Amplico** | 22.8 | 52.8% | 41.4% | 1.5% | 4.3% |
| **AXA** | 17.9 | 52.1% | 37.5% | 4.7% | 5.7% |
| **Generali** | 14.3 | 54.5% | 39.5% | 1.6% | 4.4% |
| **Nordea** | 12.9 | 52.4% | 40.1% | 0.6% | 6.9% |
| **PKO BP** | 12.6 | 51.4% | 40.9% | 6.3% | 1.4% |
| **AEGON** | 12.1 | 46.2% | 39.5% | 5.9% | 8.4% |
| **Allianz** | 8.7 | 51.8% | 38.9% | 1.0% | 8.3% |
| **Pocztylion** | 5.4 | 53.8% | 40.5% | 2.1% | 3.6% |
| **Pekao** | 4.3 | 49.7% | 41.2% | 5.2% | 3.9% |
| **Warta** | 3.8 | 53.7% | 40.0% | 2.3% | 4.0% |
| **Total** | **286.0** | **48.7%** | **40.7%** | **5.7%** | **4.9%** |

* State treasuries, road bonds and state-guaranteed bonds

- The table above shows breakdown of OFE assets at the end of August. There were no major changes on the market between this date and the reference date (3 Sep. 2013)
- 7 out of 13 pension funds have the share of state treasuries and state-guaranteed bonds above the minimum 51.5% limit of transfer. If this situation maintains at the moment of transfer, bonds above the limit might be kept to maturity or sold on the market, but no new investments would be allowed.
- Any significant sell-off in the bond market or sharp rise in prices of other assets may cause that some OFEs would have to buy more bonds before the transfer (to keep the minimum required share in total portfolio).

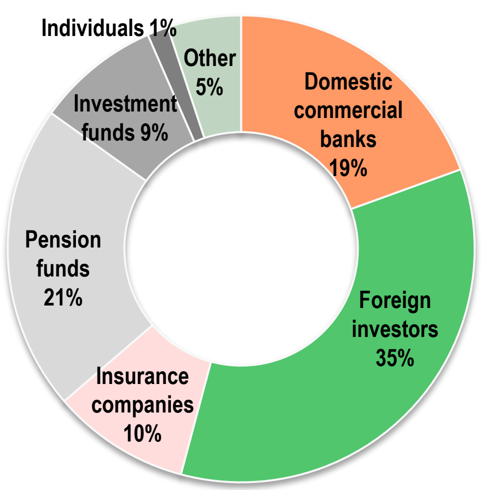
*Source: BZ WBK Brokerage*

# OFE overhaul: Bonds more dependent on foreign investors

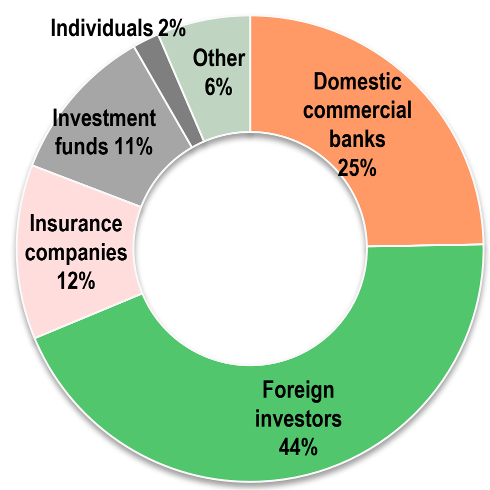
- At the end of August OFE kept bonds mostly in 3-5 years segment, with a preference of fixed coupon bonds (PS, DS) rather than floating ones.
- The share of foreign investors on the local bond market would increase from 35% to almost 45% after OFE sector is eliminated (based on August data). This means higher dependence on foreign money flows, which means higher volatility (liquidity premium).
- There is a risk of some outflow next year after benchmarks adjustments.

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

| | OK | PS | DS | WS | WZ & IZ | Total |
|---|---|---|---|---|---|---|
| **2013** | | | 2,002.5 | | | 2,002.5 |
| **2014** | 698.5 | 1,777.7 | | | | 2,476.2 |
| **2015** | 211.6 | 4,029.8 | 2,262.4 | | 2,595.7 | 9,099.5 |
| **2016** | 198.2 | 14,957.0 | | | 6,150.1 | **21,107.1** |
| **2017** | | 6,226.0 | 2,888.0 | | 7,793.0 | **16,907.0** |
| **2018** | | 19,391.3 | | | 8,566.7 | **27,958.0** |
| **2019** | | | 7,388.3 | | 30.0 | 7,388.3 |
| **2020** | | | 6,120.9 | | | 6,120.9 |
| **2021** | | | 5,448.7 | | 7,379.8 | **12,828.5** |
| **2022** | | | | 2,482.3 | | 2,482.3 |
| **2023** | | | 2,370.4 | | 4,115.0 | 6,485.4 |
| **2024+** | | | | 2,230.4 | 3,211.7 | 5,442.1 |
| **Total** | 910.1 | **46,381.8** | **28,481.2** | 4,712.7 | **39,855.6** | **120,341** |




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




*Sources: MF, BZ WBK*

# OFE overhaul: DS series in foreign hands in above 50%

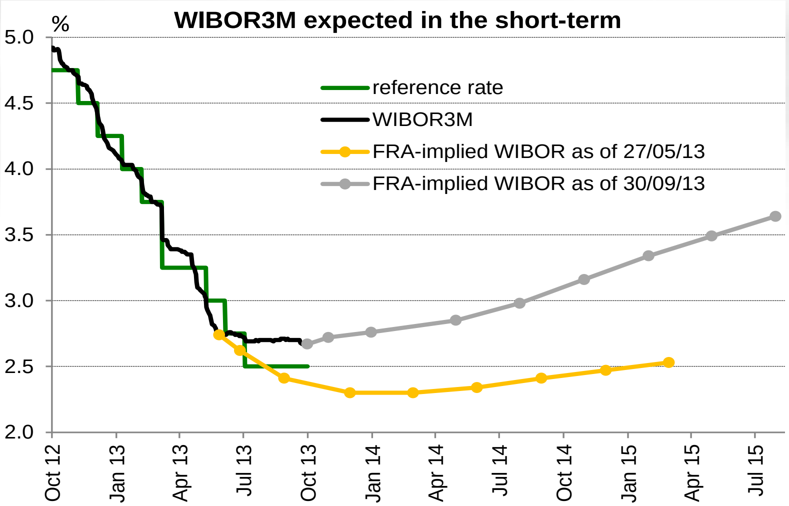
- The table below presents bonds of the biggest nominal value held by OFE (plus current 2Y, 5Y and 10Y benchmarks). The lower part of the table shows what happens with shares of holdings after OFE transfer their bond portfolio to ZUS and relevant bonds are redeemed (based on August data).
- OFE are focused on the middle of the curve. On the other hand, non-residents increased their holdings on the front-end (though current 2Y benchmark OK0715 has still small nominal outstanding) and still have a large share in long term T-bonds (DS). This share might increase to above 50% after OFE disappear (in case of IZ0816 to above 70%) As for the current 2Y benchmark, we already see a significant concentration in foreign hand (over 20%). The same applies to WZ bonds.

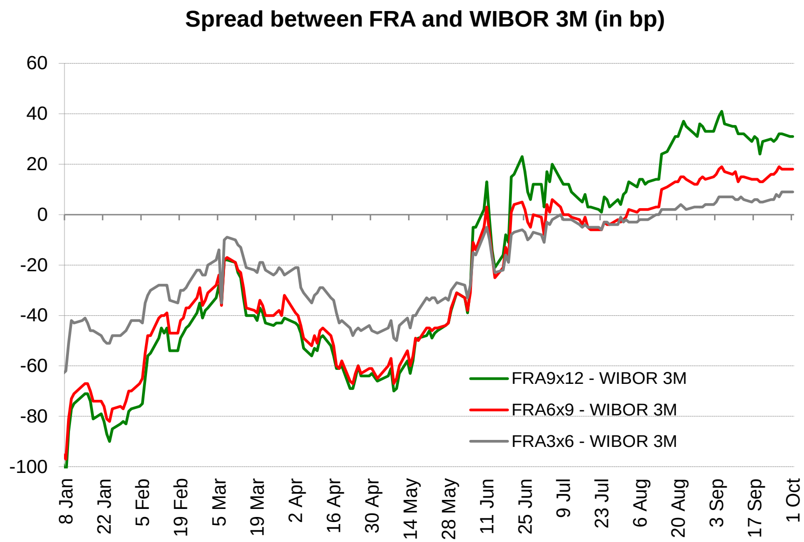
| | OK0715 | IZ0816 | PS0416 | PS1016 | WZ0117 | PS0417 | WZ0118 | PS0418 | PS0718 | DS1019 | DS1020 | WZ0121 | DS1021 | DS1023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal value held by OFE (PLNm) | 212 | 6,150 | 7,333 | 7,624 | 7,793 | 6,226 | 8,567 | 14,327 | 5,064 | 7,388 | 6,121 | 7,380 | 5,449 | 2,370 |
| Share held by OFE in series outstanding | 1.9% | 39.6% | 30.9% | 32.5% | 31.2% | 31.0% | 31.8% | 44.2% | 46.5% | 28.5% | 26.2% | 26.8% | 24.9% | 13.7% |
| Share held by foreign investors in series outstanding | 39.0% | 44.9% | 26.5% | 23.2% | 20.0% | 31.8% | 4.4% | 20.2% | 22.1% | 42.4% | 45.5% | 16.6% | 45.6% | 52.7% |
| Share held by biggest holder | 20.0% | 22.1% | 10.0% | 15.0% | 16.3% | 10.1% | 15.0% | 2.2 | 3.4% | 12.2% | 6.9% | 15.0% | 13.1% | 2.6% |
| Share held by biggest foreign holder | 20.0% | 3.4% | 2.4% | 1.8% | 16.3% | 1.3% | 2.5% | 1.9% | 3.4% | 2.3% | 1.4% | 15.0% | 3.0% | 1.9% |
| Without OFE sector | | | | | | | | | | | | | | |
| Share held by foreign investors in series outstanding | 39.7% | 74.3% | 38.4% | 34.4% | 29% | 46% | 6.5% | 36.3% | 41.3% | 59.2% | 61.6% | 23% | 60.7% | 52.7% |
| Share held by biggest holder | 20.3% | 4.4% | 3.5% | 2.6% | 23.8% | 1.9% | 3.6% | 3.5% | 8.1% | 8.6% | 1.8% | 20.7% | 4.0% | 2.4% |
| Share held by biggest foreign holder | 20.3% | 4.4% | 3.5% | 2.6% | 23.8% | 1.9% | 3.6% | 3.5% | 8.1% | 8.6% | 1.8% | 20.7% | 4.0% | 2.4% |

*Sources: MF, BZ WBK, Bloomberg OK0715, PS0718 and DS1023 are 2Y, 5Y and 10Y benchmarks added for comparison.*

# Domestic Money Market: No major changes

- In September average WIBOR rates remained relatively stable. Slight decrease in rates up to 6M resulted from dovish statements of the MPC members, who pointed out that official rates might stay unchanged till mid-2014.
- FRA market was more volatile, adjusting its expectations to both domestic and external factors. September's Fed decision to delay the QE tapering caused decline in long end of FRA curve. But strengthening was only short-lived. FRA9x12 has stayed near 3%, anchoring expectations for the first rate hike in the middle of 2014, which is consistent with our expectations.
- We expect WIBOR rates to consolidate near the current level in coming weeks. October's MPC meeting should be relatively boring as expectations of gradual recovery have been confirmed and CPI inflation has remained well below the NBP's target. Meeting in November should be more interesting due to release of new CPI and GDP projections.
- FRA rates will be more sensitive to macro data releases later this month. As they will be GDP and CPI positive, the upward move is quite possible

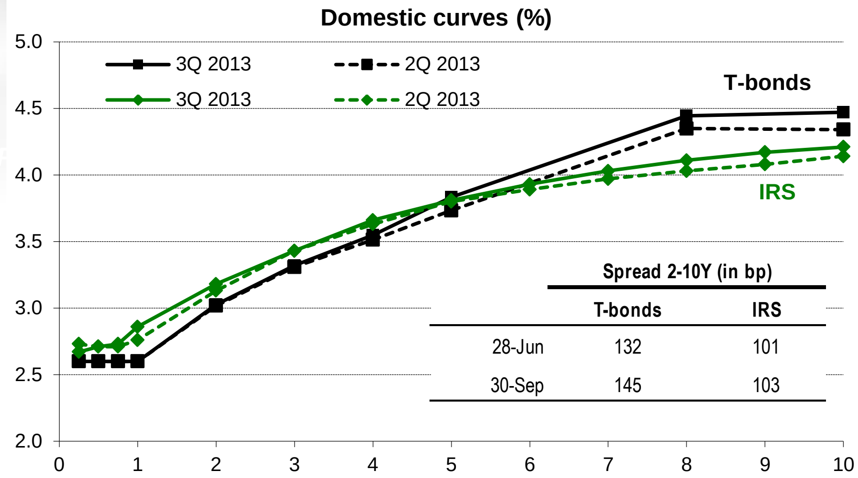



*Sources: Reuters, BZ WBK*

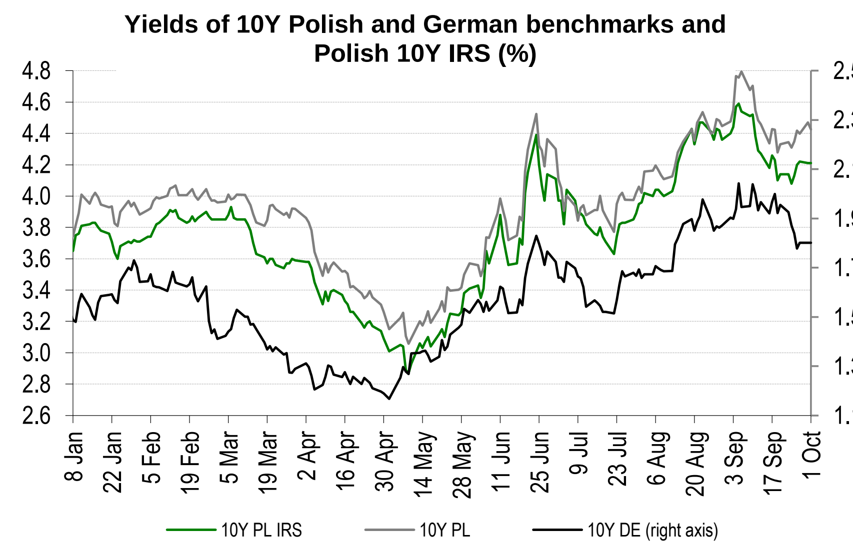
# Domestic IRS and T-Bond Market: Under pressure

- Polish assets suffered from global trends and local events. Both T-bonds and IRS weakened sharply in reaction to government's changes in pension system and fears over Fed's tapering. FOMC decision to delay start of the QExit increased appetite for risky assets, including Polish ones. Consequently, both T-bonds and IRS rally trimmed all earlier losses. However, market euphoria was only short-lived and uncertainty regarding fiscal situation in the US and political turmoil in Italy caused profit taking.
- Both yield and IRS curves have remained relatively steep. T-bonds market underperformed IRS, mainly in 10Y sector which translated into asset swap spread widening. In case of 5Y sector, asset swap spread narrowed to nearly zero.
- Investors' mood will remain under pressure, mostly of external factors, while domestic ones will stay in the shadow, at least in the short term. In monthly terms we foresee both yields and IRS rates in horizontal trend. However, in medium term we expect upward trend will dominate on the market.




Spread 2-10Y (in bp)

| | T-bonds | IRS |
|---|---|---|
| 28-Jun | 132 | 101 |
| 30-Sep | 145 | 103 |

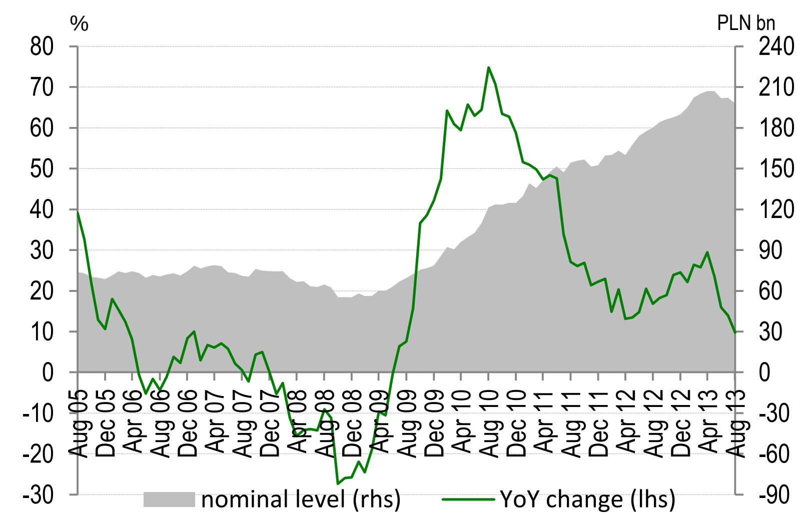



*Sources: Reuters, CB, BZ WBK*

# Demand Corner: Foreigners' bond holdings below PLN200bn

- Nominal value of bonds held by foreign investors declined at the end of August below PLN200bn for the first time since January. The level of PLN197.9bn was established after a monthly outflow of PLN4.2bn.
- On the other hand, Polish banks increased their holdings by nearly PLN6.2bn to PLN111.1bn, the highest level since June.
- Share of bonds held by domestic investors increased slightly (from 64.3% to 65.4%) also due to an increase of portfolio of insurance companies, mutual funds and pension funds.
- It is worth to notice that after 12 consecutive months of inflow of foreign funds (since May' 12 until April' 13), last four months showed that this trend has faded – during May-Aug period, there has been only one monthly inflow (PLN345m) and three outflows (average at PLN3.2bn is biased downwards by one outflow of PLN21m in May). Since record high reached in April at PLN207.1bn, foreign investors have trimmed holdings of Polish bonds by c. PLN9bn. The annual pace of growth of foreign portfolio is the lowest since August 2009 (below 10%).

**Foreigners' bond holdings**

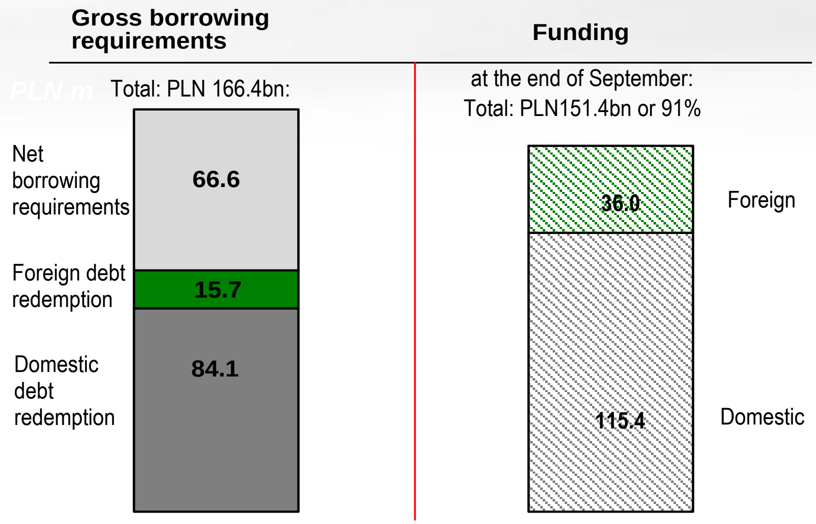



*Sources: MF, BZ WBK*

# Supply Corner: Close to covering 100% of this year target

- After September's auction the completion rate reached 88.5% of this year target (after budget amendment). However due to loans from the EIB worth €1bn this rate increased to 91% at the end of September.
- T-bonds supply in Q4 (detail in the table) will concentrate in October, with the total issue at PLN8-17bn at two regular auctions. High offer might absorb majority of additional liquidity, as capital flows this month from redemption (DS1013) and coupon payments (from DS and PS series) amount to almost PLN30bn. This should help the Ministry in covering 100% of this year target.
- As expected, the ministry will be more active on the international markets (mainly EUR and USD). Sources from bonds issuance on the foreign market will pre-finance next year's FX borrowing needs. What is more, in October the ministry plans to buy back eurobonds maturing in February 2014 up to €500m.

**Gross borrowing requirements' financing in 2013**



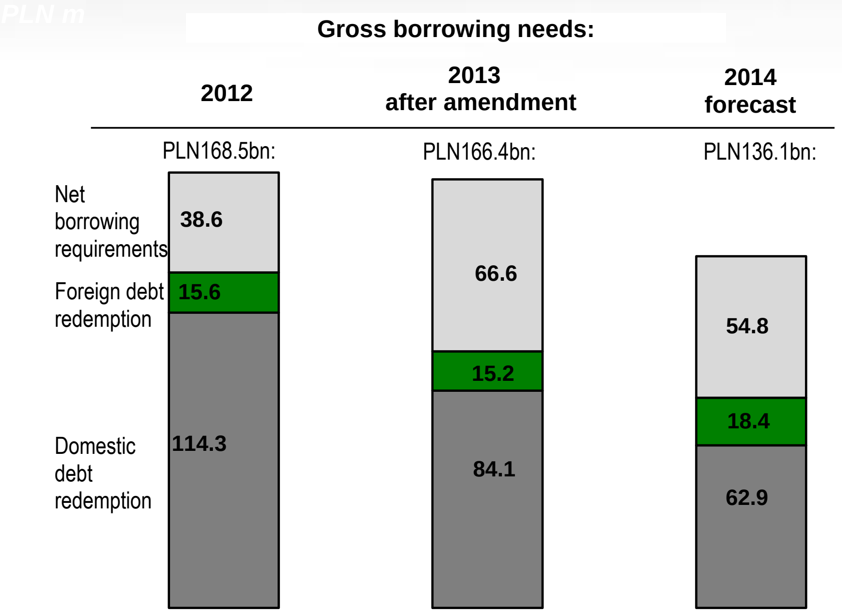

**Auction schedule for Q4 2013**

| Auction date | Settlement date | Series | Planned supply |
|---|---|---|---|
| 3 Oct 2013 | 7 Oct 2013 | PS0718 | PLN2.0-5.0bn |
| 22 Oct 2013 | 24 Oct 2013 | OK0116/ DS1023 or series WS, WZ and IZ | PLN6.0-12.0bn |
| 7 Nov 2013 | 12 Nov 2013 | offer depending on market situation | |

*Sources: MF, BZ WBK*

# Supply Corner: Lower borrowing needs in 2014

- At the end of September Poland's government sent the 2014 budget draft to the Parliament. The next year budget assumes deficit at PLN47.7bn, down from PLN51.6bn assumed for this year (after amendment).
- Next year the gross borrowing requirements will be lowered thanks to lower budget deficit and changes in pension system, but also due to lower redemptions of domestic debt . They will reach PLN136.1bn (vs PLN166.4bn expected in 2013), in which net requirements will fall to nearly PLN55bn from PLN 66.6bn this year. Of course, OFE overhaul will change not only the supply, but also the demand-side.
- Funding of gross borrowing needs will not change significantly in comparison with previous years. Issuance of PLN-denominated Treasury papers (mainly fixed-rate T-bonds) will still play the main role.
- As regards the foreign funding the ministry plans to concentrate on issuing FX-denominated bonds. Net issuance will increase to nearly PLN14bn vs only PLN3bn this year target.

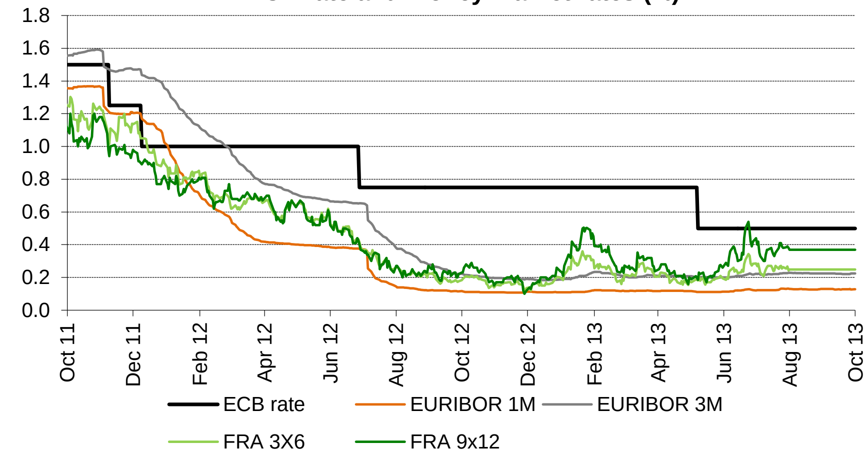



*Sources: MF, BZ WBK*

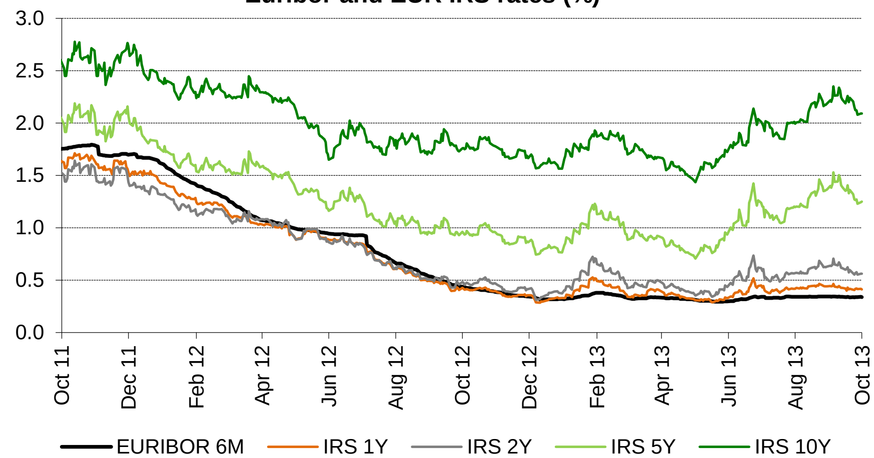
# International Money Market and IRS: Normalisation has continued

- The normalization of rates in the euro area proceeds slower than in the U.S. However, Fed's decision to delay start of tapering caused a decline of LIBOR rates. At the same time EURIBOR rates have remained more or less stable. Dovish signals from the ECB (possible LTRO if needed) anchor EURIBOR at current level.
- IRS rates (both in EUR and USD) also rebounded after Fed's decision and ECB announcement of possible LTRO. In monthly terms EUR IRS fell by 5-15bp, while USD IRS by 5-25bp (with the highest decline in 5Y rates).
- Central banks actions will remain in the centre of attention. We expect both the ECB and Fed to keep their monetary policy unchanged. What is more, the ECB will reconfirm its forward guidance, facing several important questions, including the decline in excess liquidity might become foreground. We expect the rhetoric to remain dovish, stabilising the money market rates at current levels. On the other hand after some consolidation on IRS market, we foresee rates to return to upward trend.

ECB rate and money market rates (%)



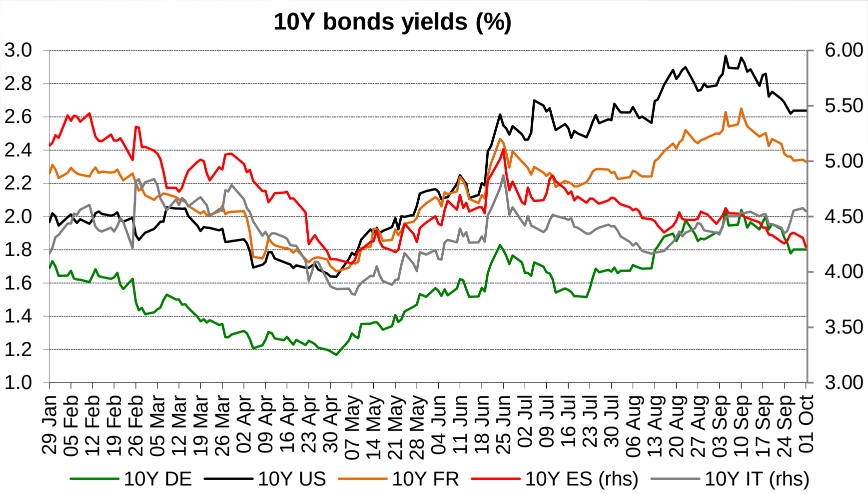

Euribor and EUR IRS rates (%)

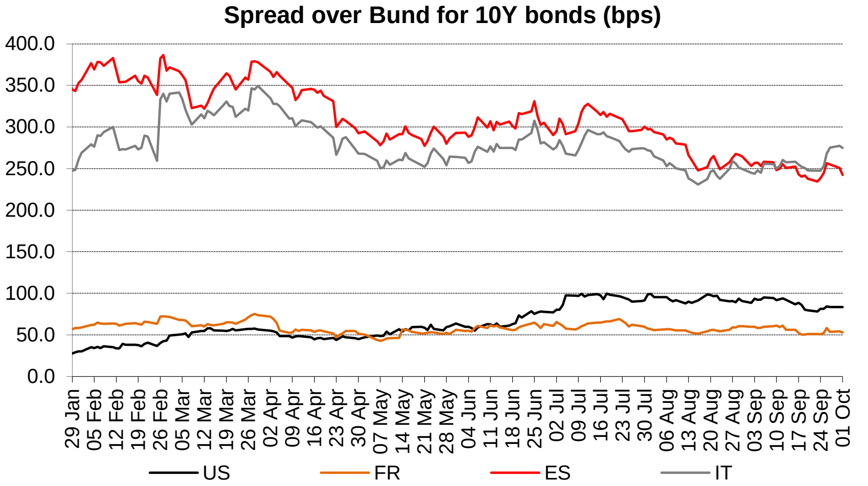



*Sources: Thomson Reuters, ECB, BZ WBK*

# International Bond Market: Safe haven assets well bid

- FOMC meeting was the key event in September. Fed surprised financial markets as it decided to keep the monthly scale of buying T-bonds at USD 45bn and MBS at USD 40bn, delaying start of tapering. Such a decision improved investment sentiment and supported various asset classes. Yields on 10y Bunds and UST reached the lowest levels since mid-August (1.75% and 2.60%, respectively).
- The unexpected Fed's decision and dovish signal from the ECB also supported peripheral debt. However, Italian bonds underperformed the Spanish ones. Italian debt remained under pressure from the government crisis. Yields went higher, with 10Y papers reaching 4.50% (three months' high).
- Investors' mood will remain fragile in coming weeks due to uncertainty over central bank decision (mainly Fed), fiscal problems in the US and political crisis in Italy. Therefore, we foresee safe haven assets to remain well bid. However, our baseline scenario remains unchanged. In medium term we maintain outlook for higher yields on long-term end of the curves.




*Sources: Thomson Reuters, BZ WBK*

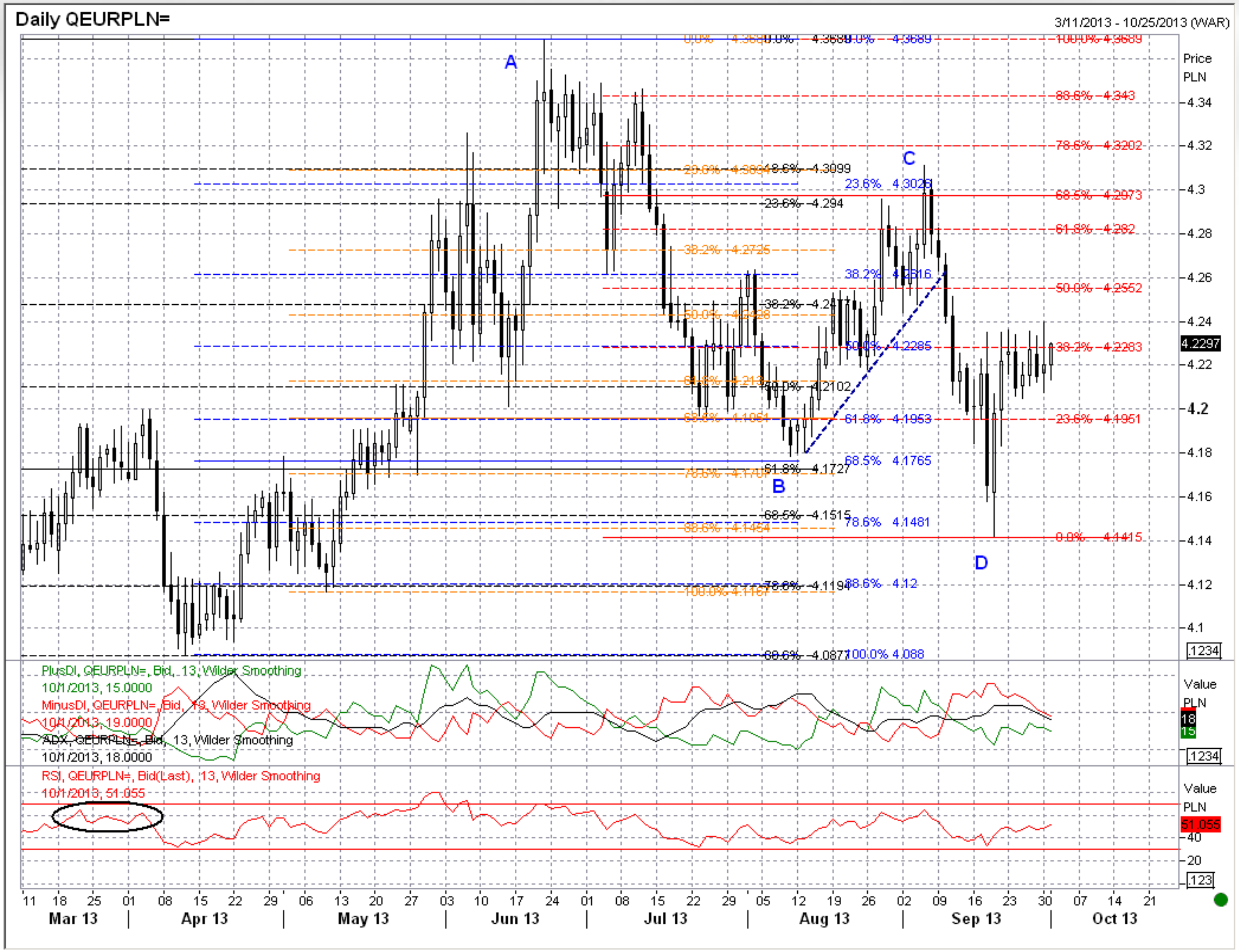
# Foreign Exchange Market: Zloty awaits (even stronger) impulse

- In early September hopes for avoiding military action in Syria supported the domestic currency. Furthermore, after the FOMC's September meeting second attempt at zloty strengthening below 4.20 was recorded – EURPLN plunged to nearly 4.14. Still, the worldwide correction was soon recorded and the zloty pared all gains.
- Interestingly, global market remained relatively stable despite partial US government shutdown and uncertainty if Italian government resists turmoil related to possible expelling Berlusconi from the parliament. As those negative factors emerged on the market, EURPLN remained in 4.20-4.23 range.
- Although a number of negative circumstances should work towards weaker zloty (including timing of fomration of new government in Germany), a recent stabilisation makes us careful of expecting any visible increase of EURPLN. We expect the exchange rate to stay around 4.23 in October and we still see further drop below 4.20 in late 2013 amid further signs of economic revival (notice strong September's PMI – the highest since April 2011).

**EURPLN and psychological level 4.20**


*Sources: Reuters, BZ WBK*

# FX Technical Analysis Corner: EURPLN tested strong support




- EURPLN tested the resistance mentioned a month ago at 61.8% of retracement of downward wave from ca. 4.37 to 4.18 and then plunged to strong support area at just above 4.14.
- AB/CD is very close to strong Fibo ratio of 1.13. Additionally, the support at c.4.14 is still in place.
- These circumstances constrain the potential for a deeper decline.
- On the other hand, the exchange rate faces problems with breaking resistance at 23.6% retracement level.

*Sources: Reuters, BZ WBK*

# FX Technical Analysis Corner: EURUSD close to strong resistance


- EURUSD rebounded exactly from support at 1.31 suggested a month ago. Currently, the exchange rate is close to strong resistance at c.1.36 composed of 88.6% retracement of CD wave and 127% projection of AB move (B + 127% of length of AB).
- ADX > 33 suggests the upward trend is quite strong.

*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 | 1,631.0 | 1,702.4 | 377.8 | 395.5 | 403.5 | 454.1 | 393.3 | 413.8 | 421.4 | 473.8 |
| GDP | %YoY | 4.5 | 1.9 | 1.2 | 2.7 | 0.5 | 0.8 | 1.3 | 2.0 | 2.3 | 2.7 | 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 | 14.2 | 13.8 | 13.2 | 13.2 |
| Current account balance | EURm | -18,519 | -14,191 | -3,437 | 98 | -2,313 | 362 | -690 | -797 | -205 | 953 | 114 | -765 |
| Current account balance | % GDP | -5.0 | -3.7 | -0.9 | 0.0 | -3.1 | -2.3 | -1.6 | -0.9 | -0.3 | -0.2 | 0.0 | 0.0 |
| General government balance | % GDP | -5.0 | -3.9 | -4.2 | -3.5 | - | - | - | - | - | - | - | - |
| CPI | %YoY | 4.3 | 3.7 | 1.1 | 2.1 | 1.3 | 0.5 | 1.1 | 1.4 | 2.0 | 2.3 | 2.0 | 2.1 |
| CPI [a] | %YoY | 4.6 | 2.4 | 1.6 | 2.1 | 1.0 | 0.2 | 1.2 | 1.6 | 2.0 | 2.5 | 2.1 | 2.1 |
| CPI excluding food and energy prices | %YoY | 2.4 | 2.2 | 1.3 | 2.0 | 1.2 | 1.0 | 1.5 | 1.6 | 2.1 | 2.2 | 1.9 | 2.0 |

*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 | 3.04 | 3.09 | 3.77 | 2.96 | 2.70 | 2.72 | 2.78 | 2.97 | 3.18 | 3.42 |
| Yield on 2-year T-bonds | % | 4.81 | 4.30 | 3.03 | 3.47 | 3.29 | 2.77 | 2.98 | 3.09 | 3.18 | 3.33 | 3.57 | 3.78 |
| Yield on 5-year T-bonds | % | 5.44 | 4.53 | 3.52 | 4.07 | 3.49 | 3.09 | 3.63 | 3.85 | 3.90 | 4.00 | 4.15 | 4.23 |
| Yield on 10-year T-bonds | % | 5.98 | 5.02 | 4.07 | 4.72 | 3.95 | 3.58 | 4.26 | 4.50 | 4.55 | 4.65 | 4.77 | 4.90 |
| 2-year IRS | % | 4.98 | 4.52 | 3.16 | 3.84 | 3.43 | 2.81 | 3.14 | 3.27 | 3.48 | 3.75 | 3.98 | 4.15 |
| 5-year IRS | % | 5.24 | 4.47 | 3.59 | 4.49 | 3.52 | 3.08 | 3.76 | 4.01 | 4.20 | 4.45 | 4.65 | 4.67 |
| 10-year IRS | % | 5.33 | 4.56 | 3.92 | 4.68 | 3.76 | 3.41 | 4.13 | 4.40 | 4.50 | 4.60 | 4.72 | 4.92 |
| EUR/PLN | PLN | 4.12 | 4.19 | 4.20 | 4.06 | 4.16 | 4.20 | 4.25 | 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 | 3.21 | 3.11 | 3.05 | 3.00 | 2.95 | 2.89 |
| CHF/PLN | PLN | 3.34 | 3.47 | 3.40 | 3.28 | 3.38 | 3.41 | 3.44 | 3.38 | 3.34 | 3.29 | 3.26 | 3.22 |
| GBP/PLN | PLN | 4.75 | 5.16 | 4.95 | 4.82 | 4.88 | 4.94 | 4.98 | 4.99 | 4.90 | 4.83 | 4.81 | 4.75 |

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

# Economic Calendar and Events

| Date | | Event: | Note: |
|---|---|---|---|
| **2-Oct** | **PL** | **MPC Meeting – interest rate decision** | **We expect the MPC to keep interest rates unchanged** |
| | EZ | ECB Meeting – interest rate decision | - |
| | DE | Auction of 10Y benchmark | Offer: €5bn |
| **3-Oct** | **PL** | **Auction of PS0718** | **Offer: PLN2.5-5.5bn** |
| | ES | Auction of medium and long term bonds | Offer: €3-4bn |
| 9-Oct | DE | Auction of 5Y benchmark | Offer: €4bn |
| 11-Oct | IT | Auction of 3Y bonds | - |
| **15-Oc** | **PL** | **CPI for September** | **Our forecast: 1.2%YoY (slightly below consensus)** |
| **16-Oct** | **PL** | **Core inflation for September** | **We predict core CPI after excluding food and energy prices at 1.6%YoY vs market consensus at 1.5%YoY** |
| | **PL** | **Employment and wages for September** | **We expect employment to fall by 0.3%YoY and wages growth at 3.2%YoY** |
| | **PL** | **Buyback auction of EUR-denominated bonds** | **Up to €500m** |
| | DE | Auction of 2Y benchmark | Offer: €5bn |
| **17-Oct** | **PL** | **Industrial output and PPI for September** | **Our forecast of industrial output (7.9%YoY) is one of the highest on the market, after strong PMI reading there is indeed a risk of higher IP.** |
| **22-Oct** | **PL** | **Auction of OK0116/ DS1023 or series WS, WZ and IZ** | **Offer: PLN6-12bn** |
| **23-Oct** | DE | Auction of 30Y benchmark | Offer: €2bn |
| **TBA** | **PL** | **Retail sales for September** | **Our forecast at 4.6%YoY is in line with market consensus** |
| 29-Oct | HU | MPC Meeting – interest rate decision | - |
| 29-30-Oct | US | FOMC Meeting – interest rate decision | - |
| **5-Nov** | **PL** | **MPC Meeting – interest rate decision** | **We expect the MPC to keep interest rates unchanged** |
| 7-Nov | 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

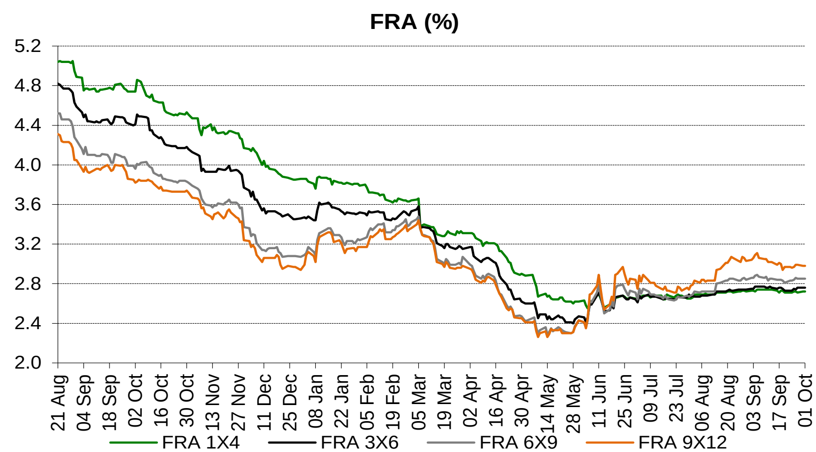
# 1. Domestic markets performance

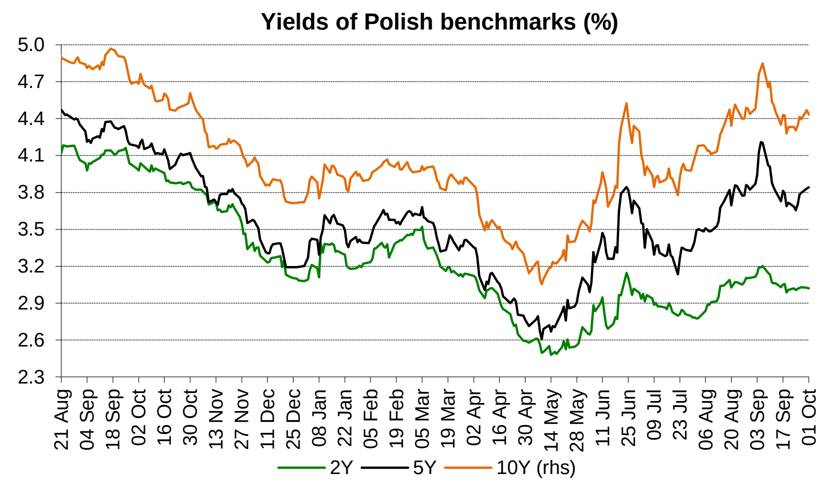
## Money market rates (%)

| | Reference rate (%) | Polonia (%) | WIBOR (%) 1M | 3M | 6M | 12M | OIS (%) 1M | 3M | 6M | 12M | FRA (%) 1x4 | 3x6 | 6x9 | 9x12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **End of September** | **2.50** | **2.38** | **2.59** | **2.67** | **2.71** | **2.75** | **3.22** | **3.12** | **3.02** | **2.93** | **3.61** | **3.67** | **2.81** | **2.86** |
| **Last 1M change (bp)** | 0 | -11 | -2 | -3 | -2 | -2 | 80 | 70 | 60 | 34 | -26 | -25 | 2 | 4 |
| **Last 3M change (bp)** | -25 | -25 | -19 | -6 | 0 | 4 | 67 | 62 | 47 | 38 | -2 | 0 | 11 | 12 |
| **Last 1Y change (bp)** | -225 | -254 | -231 | -225 | -223 | -220 | -133 | -126 | -113 | -103 | -31 | -30 | -156 | -155 |

## Bond and IRS market (%)

| | BONDS 2Y | 5Y | 10Y | IRS 2Y | 5Y | 10Y | Spread BONDS / IRS (bp) 2Y | 5Y | 10Y |
|---|---|---|---|---|---|---|---|---|---|
| **End of September** | **3.03** | **3.83** | **4.47** | **3.18** | **3.81** | **4.21** | **-16** | **2** | **26** |
| **Last 1M change (bp)** | -8 | 1 | 3 | -9 | -19 | -15 | 1 | 20 | 18 |
| **Last 3M change (bp)** | 1 | 10 | 13 | 5 | 1 | 7 | -4 | 9 | 6 |
| **Last 1Y change (bp)** | -100 | -36 | -22 | -105 | -40 | -15 | 5 | 4 | -6 |




*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 | 5,707 | 17,000 | 2,000 | | 99,659 |
| **T-bills auction** | 3,603 | 1,747 | 3,084 | | | | | | | | | | 8,434 |
| **Retail bonds** | 150 | 154 | 154 | 154 | 154 | 154 | 154 | 113 | 154 | 150 | 128 | 150 | 1,769 |
| **Foreign bonds/credits** | 4,140 | 1,301 | | | | | 4,330 | | 4,225 | | | | 13,996 |
| **Prefinancing and financial resources at the end of 2012** | 24,400 | | | | | | | | | | | | 24,400 |
| **Total** | **49,651** | **13,593** | **11,319** | **16,971** | **12,157** | **4,761** | **4,484** | **5,808** | **10,086** | **17,150** | **2,128** | **150** | **148,258** |
| **Redemption** | 11,686 | 13,854 | 2,791 | 16,157 | 2,340 | 1,859 | 7,269 | 3,191 | 1,122 | 19,582 | 2,256 | 2,368 | 86,475 |
| **Net inflows** | **37,965** | **-261** | **8,528** | **814** | **9,817** | **2,902** | **-2,785** | **2,617** | **8,963** | **-2,432** | **-128** | **-2,218** | **61,782** |
| **Rolling over T-bonds** | | | 4,827 | | | 7,801 | | | 3,784 | | | | **16,412** |
| **Buy-back of T-bills/ FX-denominated bonds** | | | | | | | | | | 2,115 | | | **2,115** |
| **Total** | **37,965** | **-261** | **13,355** | **814** | **9,817** | **10,703** | **-2,785** | **2,617** | **12,748** | **-317** | **-128** | **-2,218** | **80,310** |
| *Coupon payments* | *2,492* | | | *7,322* | | | *1,955* | | *1,497* | *9,836* | | | *22,951* |

*Note: Our forecasts – shaded area*

*Sources: MF, BZ WBK*

# 2. Polish bonds: supply recap (cont.)

## Schedule Treasury Securities redemption by instruments (in PLNm)

| | Bonds | Bills | Retail bonds | Total domestic redemption | Foreign Bonds/Credits | Total redemptions |
|---|---|---|---|---|---|---|
| January | 10,001 | 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 | 19,582 | 0 | 265 | **19,847** | 950 | **20,797** |
| November | 0 | 1,332 | 208 | **1,540** | 716 | **2,256** |
| December | 0 | 2,223 | 146 | **2,368** | 0 | **2,368** |
| Total 2013 | 53,604 | 15,317 | 2,283 | **71,205** | 15,891 | **87,095** |
| Total 2014 | 61,283 | 6,110 | 1,698 | **69,091** | 14,825 | **83,916** |
| Total 2015 | 90,137 | | 628 | **90,765** | 17,448 | **108,213** |
| Total 2016 | 54,200 | | 485 | **54,685** | 14,329 | **69,014** |
| Total 2017 | 71,444 | | 91 | **71,535** | 16,871 | **88,406** |
| Total 2018+ | 245,336 | | 3,288 | **248,624** | 134,966 | **383,591** |

*Sources: MF, BZ WBK*

# 2. Polish bonds: supply recap (cont.)

## Schedule wholesale bonds redemption by holders (data at the end of August 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 | 6,136 | 4,570 | 6,355 | 2,407 | 2,061 | 111 | 85 | 1,164 | 22,890 |
| **Total 2013** | **6,136** | **4,570** | **6,355** | **2,407** | **2,061** | **111** | **85** | **1,164** | **22,890** |
| | **27%** | **20%** | **28%** | **11%** | **9%** | **0%** | **0%** | **5%** | **100%** |
| Total 2014 | 34,688 | 11,023 | 5,850 | 2,476 | 3,624 | 403 | 106 | 3,786 | 61,956 |
| | 56% | 18% | 9% | 4% | 6% | 1% | 0% | 6% | 100% |
| Total 2015 | 29,576 | 26,838 | 8,335 | 9,099 | 10,523 | 230 | 377 | 5,229 | 90,208 |
| | 33% | 30% | 9% | 10% | 12% | 0% | 0% | 6% | 100% |
| Total 2016 | 28,480 | 14,208 | 3,795 | 21,305 | 6,303 | 62 | 160 | 3,965 | 78,278 |
| | 36% | 18% | 5% | 27% | 8% | 0% | 0% | 5% | 100% |
| Total 2017 | 24,944 | 12,099 | 6,364 | 16,907 | 7,667 | 45 | 93 | 3,326 | 71,444 |
| | 35% | 17% | 9% | 24% | 11% | 0% | 0% | 5% | 100% |
| Total 2018+ | 74,044 | 42,377 | 23,663 | 68,735 | 18,764 | 236 | 387 | 11,506 | 239,713 |
| | 31% | 18% | 10% | 29% | 8% | 0% | 0% | 5% | 100% |

*Sources: MF, BZ WBK*

# 3. Polish bonds: demand recap

## Holders of marketable PLN bonds

| | Nominal value (PLN, bn) | | | | Nominal value (PLN, bn) | | | % change in August | | | Share in TOTAL (%) in August |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | End Aug'13 | End Jul'13 | End Jun'13 | End Dec 2012 | End 3Q 2012 | End 2Q 2012 | End 1Q 2012 | MoM | 3-mth | YoY | |
| **Domestic investors** | 374,0 | 364,1 | 369,4 | 337,5 | 341,8 | 352,9 | 361,4 | 2.74 | 1.1 | 9.24 | 65.4 (1.1pp) |
| **Commercial banks** | 111,1 | 104,9 | 113,9 | 87,8 | 102,0 | 102,1 | 110,9 | 5.89 | 5.01 | 17.87 | 19.4 (0.9pp) |
| **Insurance companies** | 54,4 | 53,8 | 53,1 | 52,8 | 54,7 | 57,0 | 54,3 | 1.08 | 4.50 | -3.84 | 9.5 |
| **Pension funds** | 120,9 | 120,1 | 117,7 | 117,4 | 116,7 | 120,3 | 120,7 | 0.68 | 3.58 | 0.93 | 21.1 (-0.1pp) |
| **Mutual funds** | 48,9 | 47,3 | 46,5 | 41,7 | 32,5 | 33,0 | 31,3 | 3.43 | 7.00 | 42.65 | 8.6 (0.2pp) |
| **Others** | 38,7 | 37,9 | 38,3 | 37,8 | 35,9 | 40,5 | 44,3 | 2.04 | 0.23 | 3.21 | 6.8 (0.1pp) |
| **Foreign investors*** | 197,9 | 202,1 | 201,8 | 189,9 | 184,2 | 174,0 | 163,2 | -2.10 | -4.43 | 9.80 | 34.6 (-1.1pp) |
| **Banks** | 28,6 | 29,7 | 32,3 | 28,4 | 27,8 | 22,6 | 24,3 | -3.67 | -8.87 | 9.27 | 5.0 (-0.2pp) |
| **Non-bank fin. sector** | 159,6 | 162,5 | 160,1 | 153,1 | 147,5 | 143,1 | 131,7 | -1.83 | -4.00 | 9.12 | 27.9 (-0.8pp) |
| **Non-financial sector** | 5,8 | 5,8 | 5,3 | 5,2 | 5,6 | 5,2 | 4,4 | 0.11 | 2.27 | 17.71 | 1.0 |
| **TOTAL** | 571,9 | 566,2 | 571,2 | 527,4 | 526,0 | 526,9 | 524,7 | 1.01 | 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.*

*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 | 85.0 |
| **Belgium** | 30.3 | 8.8 | 40.0 | 37.0 | 98.0 |
| **Finland** | 6.8 | 5.6 | 12.4 | 12.4 | 99.0 |
| **France** | 105.5 | 61.6 | 171.1 | 170.0 | 91.0 |
| **Germany** | 157.0 | 17.1 | 174.1 | 174.1 | 76.0 |
| **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 | 85.0 |
| **Netherlands** | 31.5 | 15.2 | 46.7 | 50.0 | 90.0 |
| **Portugal** | 5.9 | 7.4 | 13.3 | 3.0 | 84.0 |
| **Spain** | 61.9 | 48.4 | 133.3 | 113.4 | 82.0 |
| **Total** | **584.3** | **220.0** | **832.2** | **772.3** | **86.0** |

**/ 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 Sep | 2012 | end of Sep | 2012 | end of Sep | 2012 | end of Sep |
| **Poland** | **4.25** | **2.50** | **4.11** | **2.67** | **3.72** | **4.47** | **241** | **267** | **80** | **88** |
| **Czech Republic** | 0.05 | 0.05 | 0.18 | 0.12 | 1.86 | 2.39 | 54 | 59 | 63 | 60 |
| **Hungary** | 5.75 | 3.50 | 5.75 | 3.56 | 6.23 | 5.93 | 492 | 413 | 269 | 277 |
| **Euro area** | 0.75 | 0.50 | 0.19 | 0.23 | | | | | | |
| **Germany** | | | | | 1.32 | 1.80 | | | 39 | 25 |

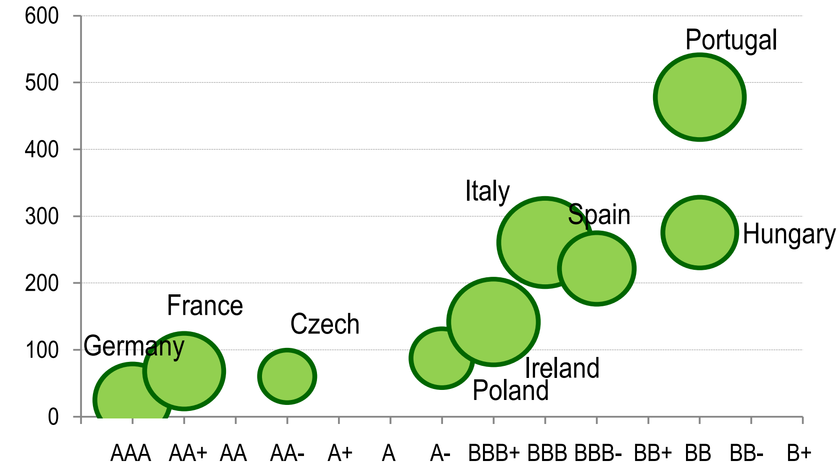
*Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK*

# 5. Poland vs other countries (cont.)

**Sovereign ratings**

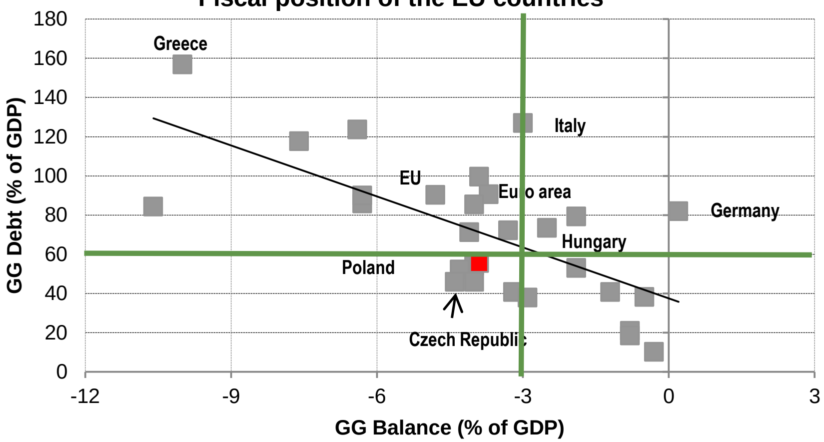
| | S&P | | Moody's | | Fitch | |
|---|---|---|---|---|---|---|
| | rating | outlook | rating | outlook | rating | outlook |
| Poland | A- | stable | A2 | stable | A- | stable |
| Czech | AA- | stable | A1 | stable | A+ | stable |
| Hungary | BB | stable | Ba1 | negative | BB+ | negative |
| Germany | 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**

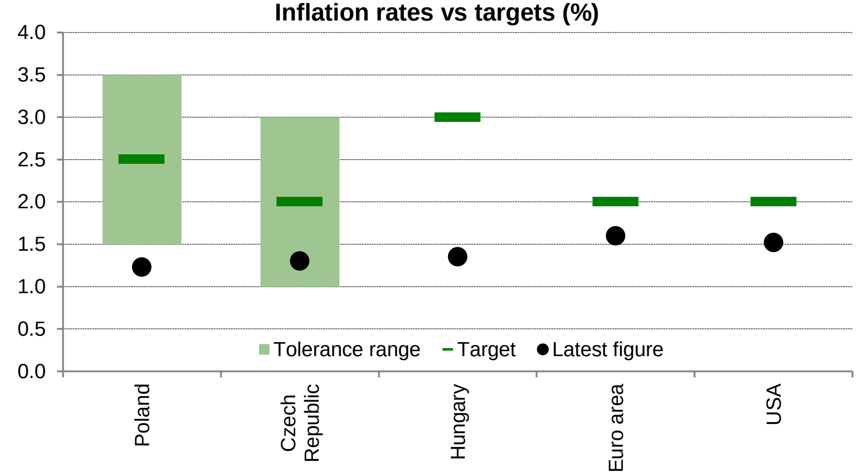



*Note: Size of bubbles reflects the debt/GDP ratio*

**Fiscal position of the EU countries**

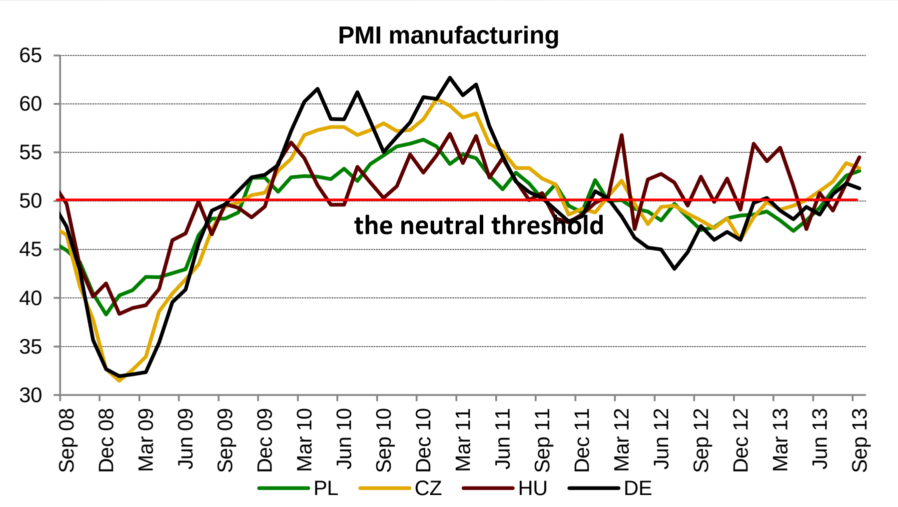


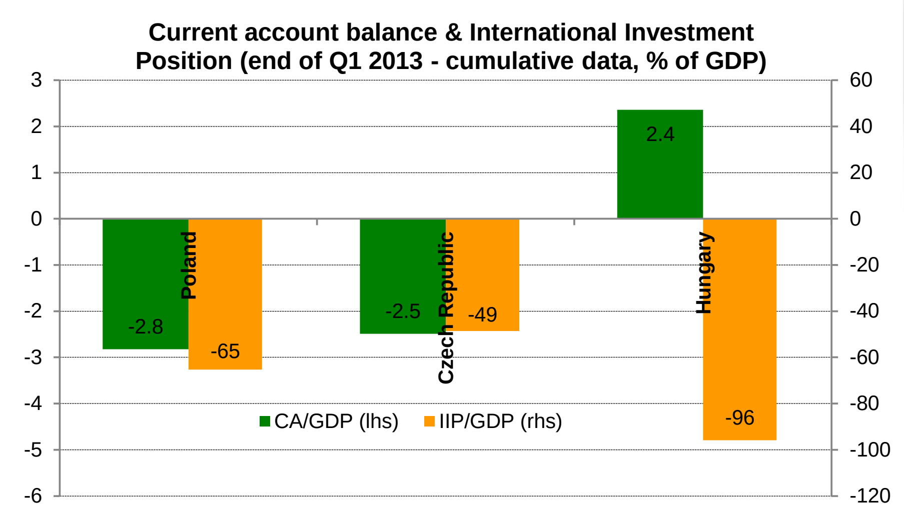

**Inflation rates vs targets (%)**

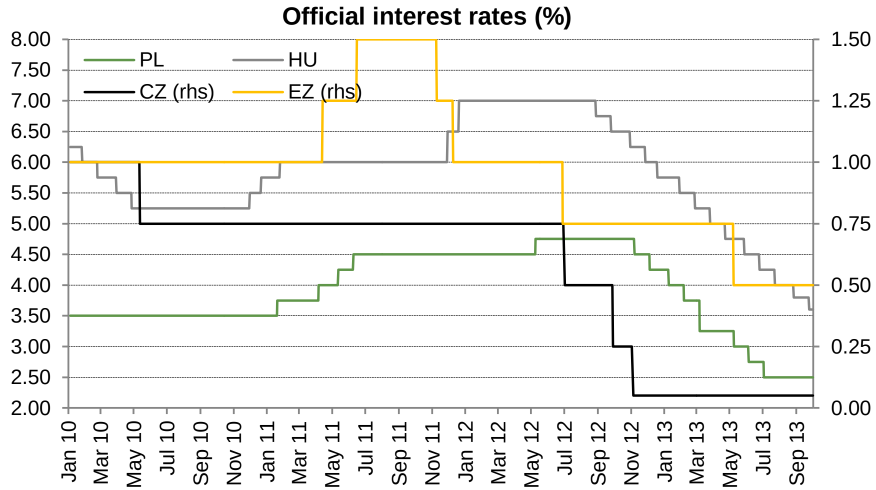


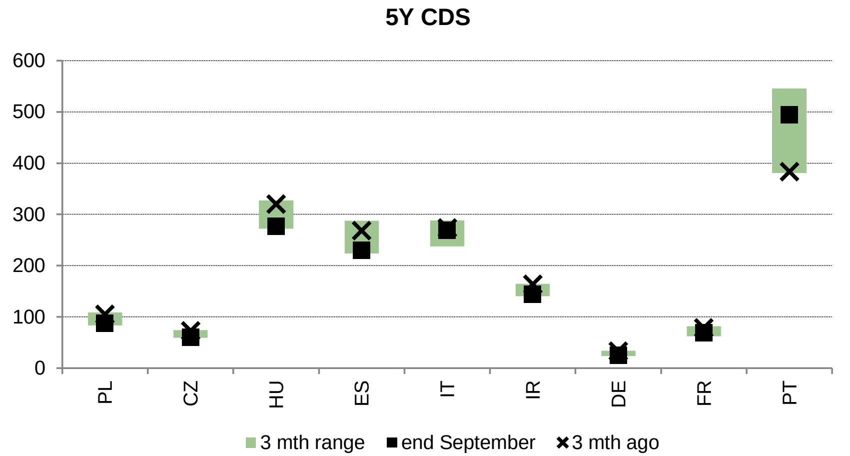

*Source: rating agencies, Reuters, BZ WBK, EC*

# 5. Poland vs other countries (cont.)



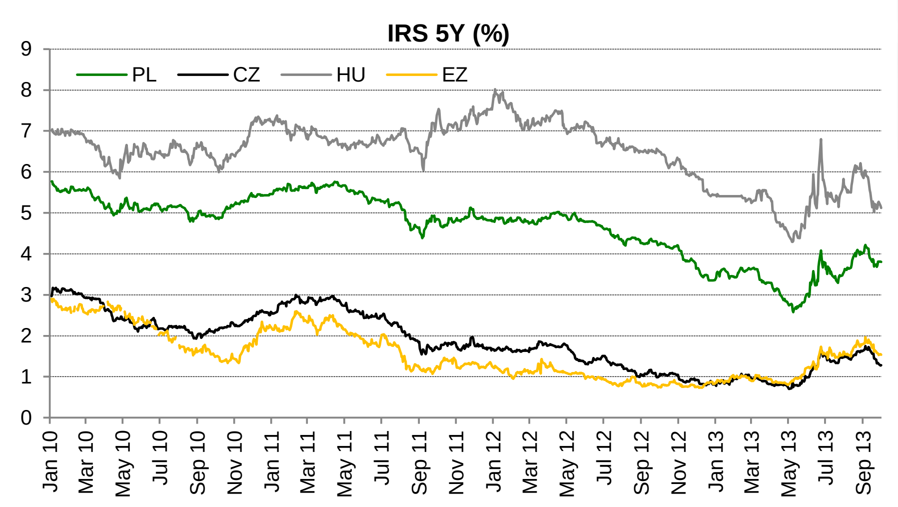



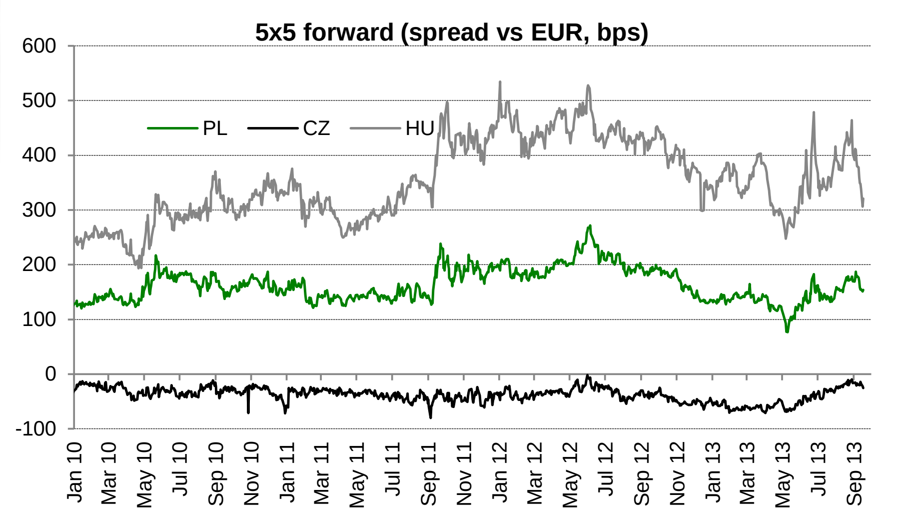



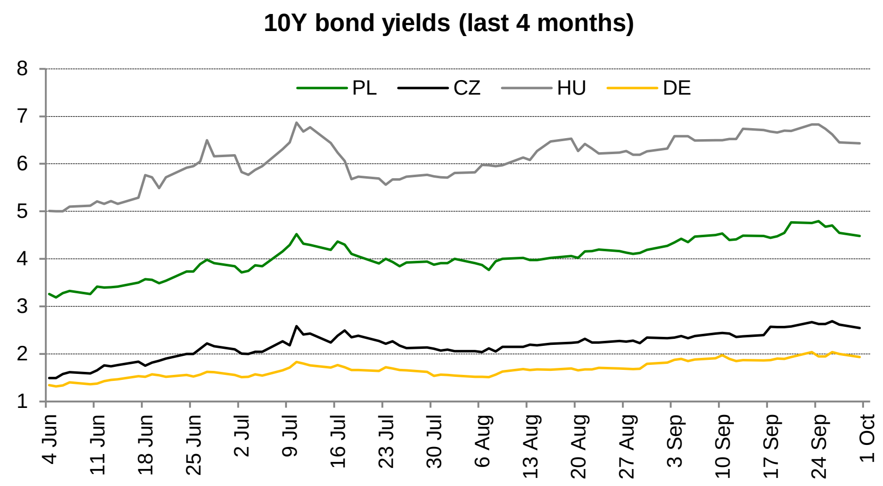



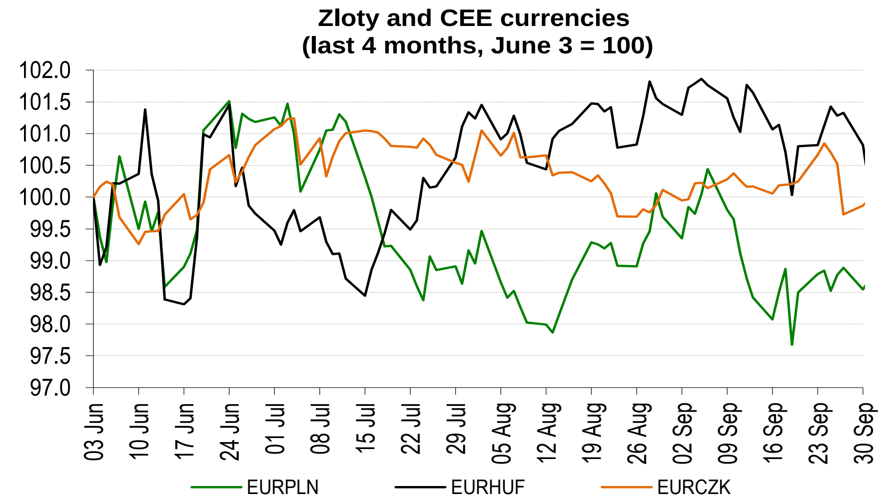

*Source: Markit, Eurostat, central banks, Reuters, BZ WBK, EC*

# 5. Poland vs other countries (cont.)




*Source: Reuters, BZ WBK*

# 6. Central bank watch

| | | | | | Expected changes (bp) | | | Risks/Events |
|---|---|---|---|---|---|---|---|---|
| | | Last | 2012 | 2013F | 1M | 3M | 6M | |
| **Euro zone** | Forecast | 0.50 | 0.75 | 0.50 | | | | We expect no change in monetary policy as the gradual economic improvement in the Euro area continues. We think that ECB will reconfirm its readiness to offer another LTRO if needed. |
| | Market implied » | | | | 0 | 3 | 6 | |
| **UK** | Forecast | 0.50 | 0.50 | 0.50 | | | | The BoE will uphold its "wait and see" stance. However, sharp increase in short-term rates might remain the main concern to the BoE as it suggests that the market does not find its forward guidance credible. |
| | Market implied » | | | | 1 | 3 | 8 | |
| **US** | Forecast | 0-0.25 | 0-0.25 | 0-0.25 | | | | Fed surprised the market, deciding to refrain from tapering its asset purchases for the time being. Tapering is going to happen till year-end, but the decision to postpone it seems to create more uncertainty on the timing and format. |
| | Market implied » | | | | 0 | 1 | 4 | |
| **Poland** | Forecast | 2.50 | 4.25 | 2.50 | | | | October's MPC meeting will bring no important changes and basic monetary policy parameters will stay on hold. What is more the MPC members clearly suggest that the Council will not change rates until the year-end. However, signals about interest rates path in 2014 may be important for the market. |
| | Market implied » | | | | 5 | 9 | 18 | |
| **Czech Republic** | Forecast | 0.05 | 0.05 | 0.05 | | | | The CNB kept official interest rates on hold last month. The Council's statement suggest that rates will remain at low levels as long as there are no significant inflation pressures. The CNB refrained from intervening against CZK, but FX interventions are still possible. |
| | Market implied » | | | | 32 | 32 | 30 | |
| **Hungary** | Forecast | 3.60 | 5.75 | 3.50 | | | | The NBH has continued monetary policy easing, cutting official rates by 20bp in September. The dovish comments suggest more cuts in the near term. |
| | Market implied » | | | | -12 | -32 | -31 | |

This analysis is based on information available until 1st October 2013 and has been prepared by:

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## Disclaimer