

Rates and FX Outlook

Polish Financial Market

November 2013

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Summary

- ▶ Recent economic data showed that global economic recovery remains slow, unsteady and differing among particular countries. At the beginning of November we will see the autumn 2013 European Economic Forecast, as well as central banks (NBP, ECB, BoE, CNB) updated economic outlook. As regards the ECB, we expect monetary conditions to stay unchanged. However, the statement should remain relatively dovish as October's flash inflation for the euro zone declined more than expected. December's ECB meeting will be more interesting, as new forecasts, including the first projections for 2015, will be released.
- ▶ The NBP will show its medium-term projection for 2013-15 already in November. This information should be of more relevance to the market than the rate decision itself. There is a broad consensus that the Council will keep official rates unchanged. We expect the outlook on the economic growth central scenario to be more optimistic as compared to the previous projection (2.4% 2014), while the central path of CPI inflation should show some gradual increase towards NBP's target in coming years. What is more, November's releases of monthly data (together with 3Q GDP data) should also support the view of economy gaining steam (though with still limited inflationary pressure). Consequently, it might fuel expectations for a stronger recovery in coming quarters. The big question is whether the MPC will signal how long will interest rates remain unchanged (currently the so-called „forward guidance” suggests flat rates till end-2013). In our view, it will be more reasonable for the MPC to say that central bank's policy (in upcoming quarters) will depend on inflation and growth outlook, and not to bind itself with a declaration of stable rates in a particular period. The market is probably biased by recent comments of many MPC members that rates might be unchanged till (at least) mid-2014, so any shortening of this period might be interpreted as a hawkish signal.
- ▶ In October bond markets gained strongly as market expectations about the start of the Fed's tapering have shifted toward March next year. Following the recent rally we do not see much room for further yields / rates decline. In our opinion the front ends of curves should anchor near current levels (or slightly below) as inflation rate will stay well below the bottom of fluctuation band of NBP's target. On the other hand, visible signals of Poland's recovery might put some upward pressure on yields on mid and long-end of curves.
- ▶ The zloty firmed against the main currencies in October, supported by global mood improvement. External factors will remain crucial in medium term, while domestic ones might influence the market mood in the short run. We expect the domestic currency to gradually appreciate due to more visible improvement in economic outlook. We uphold our view that EURPLN will stay below 4.20 against the euro in 4Q. However, the US economic data might add some volatility to zloty's quotations.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-October	1M	3M
Reference rate	0	0	2.50	→	→
WIBOR 3M	-4	-1	2.66	→	↗
2Y bond yield	4	-20	2.83	→	↗↗
5Y bond yield	11	-33	3.50	↗	↗↗
10Y bond yield	9	-31	4.17	↗	↗↗
2/10Y curve slope	5	-11	134	→	→

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: We foresee WIBOR rates to remain relatively stable in the short-term, amid no suggestion on upcoming changes in monetary. Macro data point to continued recovery, which should be more pro-inflationary and translate into gradual increase in money market rates (FRA) in medium term.

Short end: We expect yields / IRS rates to consolidate near current level after strong gains in October. The next data set will be mixed (we have industrial production and 3Q GDP forecasts above consensus, but 12M CPI below) and while the new GDP and CPI projection may be (should be) higher, it would be probably offset by general not-so-hawkish view of the MPC.

Long end: Following the recent rally of medium and longer term instruments we do not see much value here. There is some room for increase, which may be driven by domestic good news on economic activity (3Q GDP data, which will be published later this month). We expect a more visible increase in yields / IRS rates in medium term.

Risk factors to our view: Global factors, in particular future Fed's decision will still set tone of the markets. Therefore, investors will focus on the upcoming macro data, which will strongly influence investors' mood. Stronger macro data might cause that Fed's tapering comes back on the agenda and upward pressure on yields could re-emerge.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-October	1M	3M
EURPLN	-1.6	-0.9	4.18	→	→
USDPLN	-4.5	-2.3	3.05	→	→
CHFPLN	-1.7	-1.8	3.39	→	↘
GBPPLN	0.6	-3.1	4.89	→	→
EURUSD	3.0	1.4	1.37	→	→

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

PLN FX Market: our view and risk factors

EUR: We expect the zloty to firm moderately vs EUR in coming months (similarly to changes observed recently), supported by gradual recovery of domestic economy and still improving balance of payments (we foresee C/A deficit to narrow in coming months due to surplus in trade). What is more, the zloty should be backed by still strong euro on the international markets.

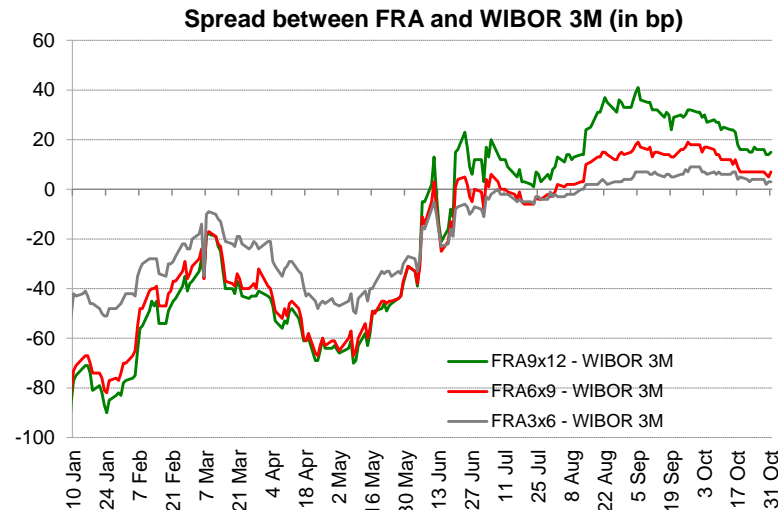
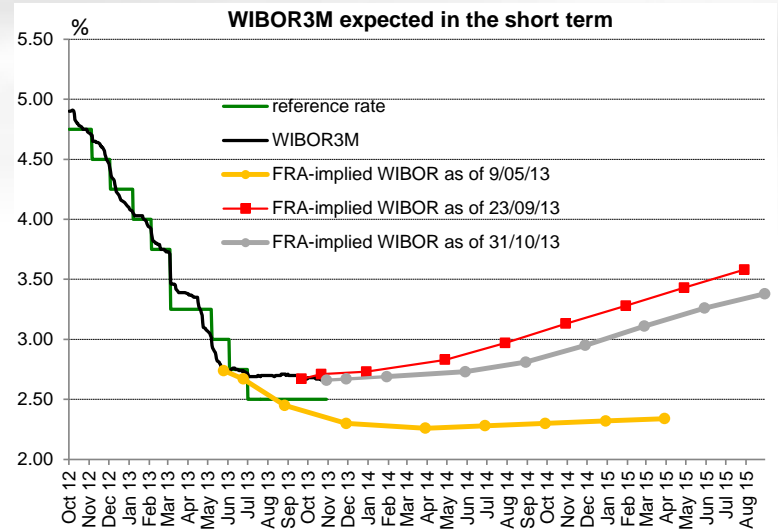
USD: We see some stabilisation of USDPLN after significant decline in October. What is more, the US dollar might remain relatively weak as upcoming macro data will confirm negative impact on the US economy from the shutdown and debt ceiling debate.

CHF: In October, zloty gained strongly also versus other main currencies, i.e. CHF and GBP. While CHFPLN could stabilise near current level in short term, we foresee further gradual decline in medium term. Status quo on EURCHF - we still expect range-bound of the exchange rate.

Risk factors to our view: The FX market continues to trade on the US monetary policy, therefore the upcoming macro data from the US will be crucial for investors' mood. Any stronger signals from the US economy might be interpreted as a trigger for sooner tapering and translate into risk-averse mood.

Domestic Money Market: More careful expectations of future hikes

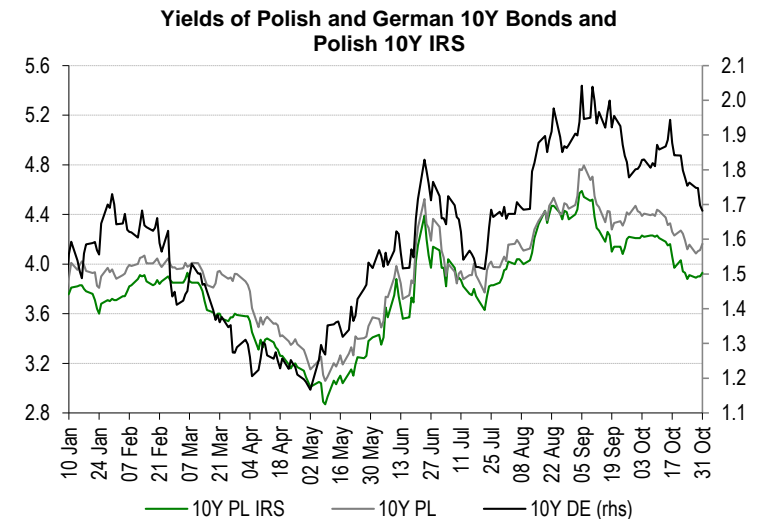
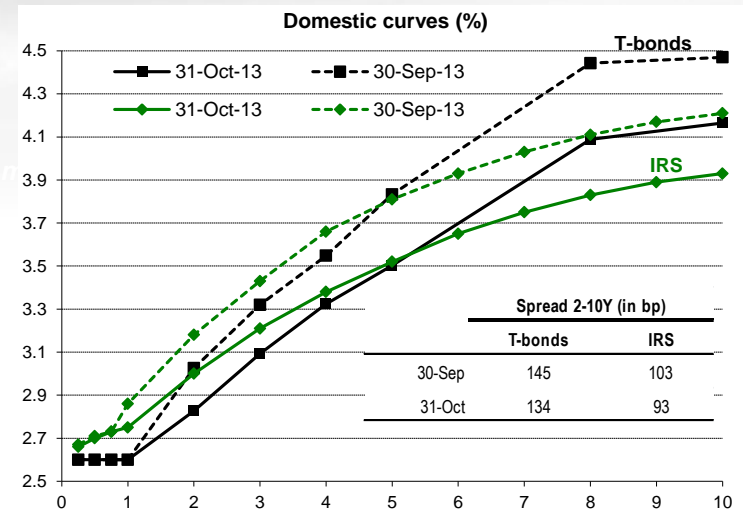
- ▶ October was another quiet month on the money market. WIBOR rates were stable; we noted only 1bp decline in 3M and 6M rates.
- ▶ FRA market declined quite considerably in October after a bullish sequence of macroeconomic data, rally on the domestic debt market and some dovish comments from the MPC. Consequently, spread between WIBOR and FRA narrowed. What is more, rate hike expectations (by 25bp in 9 month period) disappeared. Currently market players shift their expectations about the first hike to 4Q 2014, pricing-in rates increase by 50bp in 18 month period.
- ▶ We expect WIBOR rates to remain relatively stable this month (or even till year-end) as upcoming macro data would be mixed – continuation of rebound in economic activity, but still low CPI rate. The market tone for November will be set, however, by the MPC. On the one hand, the projection of CPI and GDP should be higher. On the other, MPC members in their comments suggest flat rates for long time – will this be reflected in the statement? Overall, we probably need even more signs of recovery and higher inflation to see stronger market effect.



Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: Room for yields decline limited

- ▶ Polish T-bonds and IRS markets posted impressive gains in October. This development was backed by market expectations that the Fed's tapering will be postponed until next year. Consequently, yields and IRS rates eased, with 10Y benchmark declining below 4.10% and 10Y IRS falling below 4%, for the first time since end-July. What is more, yields/rates on the long end fell more than on the front end of curves, so both curves moved to bull-flattening (see chart).
- ▶ The change of market assumptions about to the future Fed policy prompted us to revise our forecasts of yields slightly downwards (see table on page 16). We believe that front-ends of the curves should anchor near or slightly below 3% till year-end, supported by still dovish rhetoric from the MPC and CPI inflation below the lower border of tolerance range around NBP target.
- ▶ Medium and longer term instruments will remain under influence of external sentiment. In our opinion the room for further decline in yields is limited, as the normalization of monetary policy in the US will have to start sooner or later. Moreover, visible signals of economic recovery in Poland might put some upward pressure on yields on mid and long-end of curves.

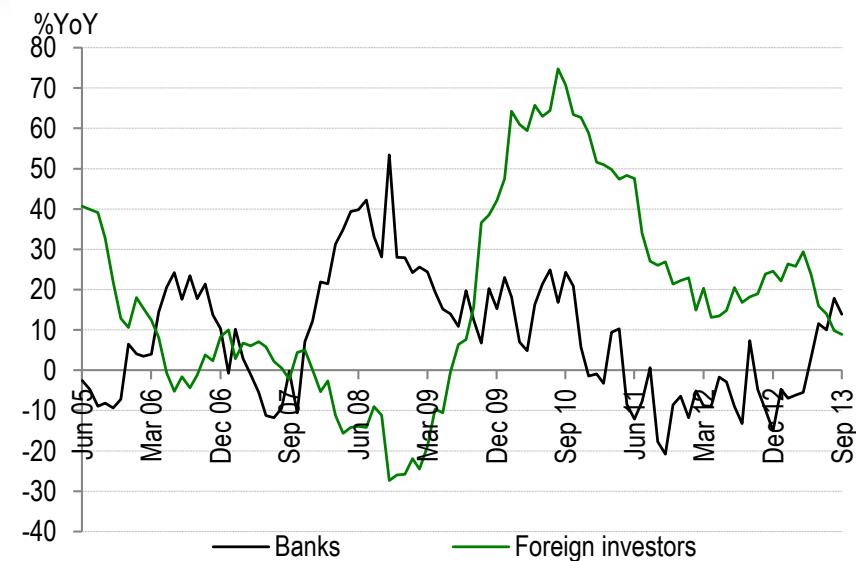


Sources: Reuters, CB, BZ WBK

Demand Corner: Foreigners buy short term bonds

- ▶ Nominal value of Polish bonds held by foreign investors returned above the PLN220bn mark in September. Purchases of OK0116 made nearly 60% of PLN2.5bn monthly increase. However, despite this inflow, the annual pace of growth of foreigners' holdings continued to fade.
- ▶ Portfolio of domestic banks increased to the highest level since October 2010 after 2nd consecutive month of buying. The share of their holdings in total, PLN marketable debt reached 20.1%, the highest level since April 2012.
- ▶ In September, when the government presented changes to OFE, private pension funds bought debt with nominal value of PLN1.8bn (value of the portfolio reached highest level since May 2012). This was already a 6th consecutive month of purchases.
- ▶ Mutual funds decided to cut their exposure to Polish bonds (first time since March). At the end of September they had debt worth PLN2.8bn less, than at the end of August.

Annual change of nominal value of bond portfolio held by Polish banks and foreign investors

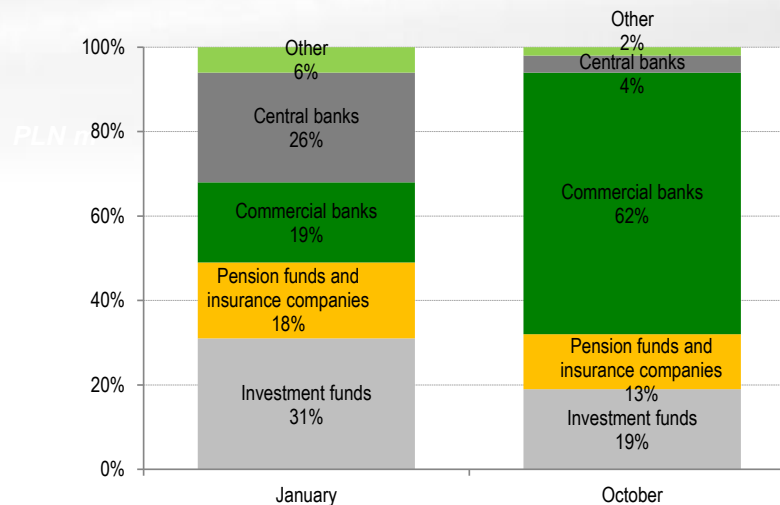


Sources: MF, BZ WBK

Supply Corner: MF will start pre-financing process

- ▶ With the latest auction in October, Poland completely covered this year's borrowing needs. Last month on the domestic market the Ministry of Finance launched T-bonds worth ca. PLN15bn. According to the ministry, Polish non-banking sector players as well as foreign investors and domestic banks bought the bulk of the issue.
- ▶ Unexpectedly, the Ministry tapped foreign markets in October, reopening a 6-year €-denominated benchmark maturing on 15 January 2019. The ministry sold bonds worth €700m, increasing the aggregate nominal amount to €1.7bn. The bond was priced 43bp over mid-swap (down from 65bp for the original tranche priced in January 2013).
- ▶ There is one regular, one switch and one buy-back auction scheduled on the domestic market this month (see table). Offer on regular tender is quite significant (PLN4-8bn), but favourable market conditions should support auction results.
- ▶ The Ministry of Finance will again tap foreign market, issuing bonds denominated in JPY. We believe that there will one more auction in bonds denominated in USD before the year-end.

Institutional distribution of 6Y eurobonds issued in 2013



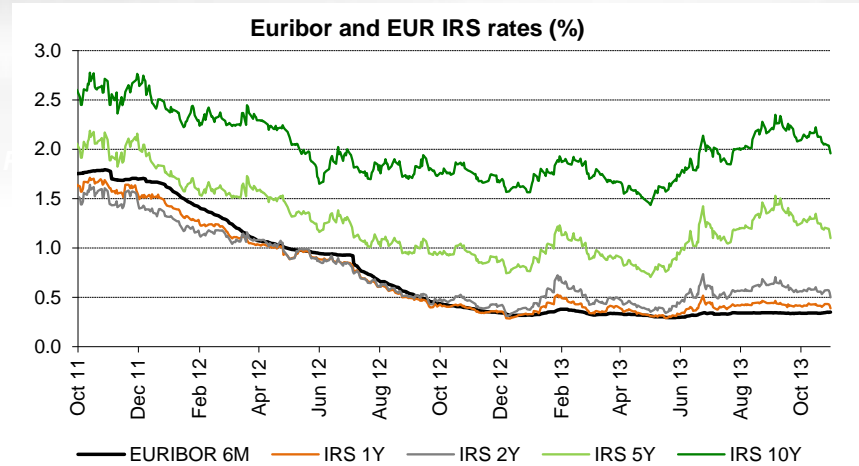
Auctions schedule for November 2013

Auction date	Settlement date	Series	Planned supply
7 Nov 2013	12 Nov 2013	OK0116, PS0718	PLN4.0-8.0bn
Auction date	Settlement date	Buy-back T-bonds	Nominal value of buyback (USD m)
13 Nov 2013	15 Nov 2013	USD20140115	Up to 100
Auction date	Settlement date	Buy-back T-bonds	Bonds to be offered
20 Nov 2013	22 Nov 2013	OK0116, PS0718	the choice depending on the market conditions from the following T-bonds: DS1023, WS, WZ and IZ

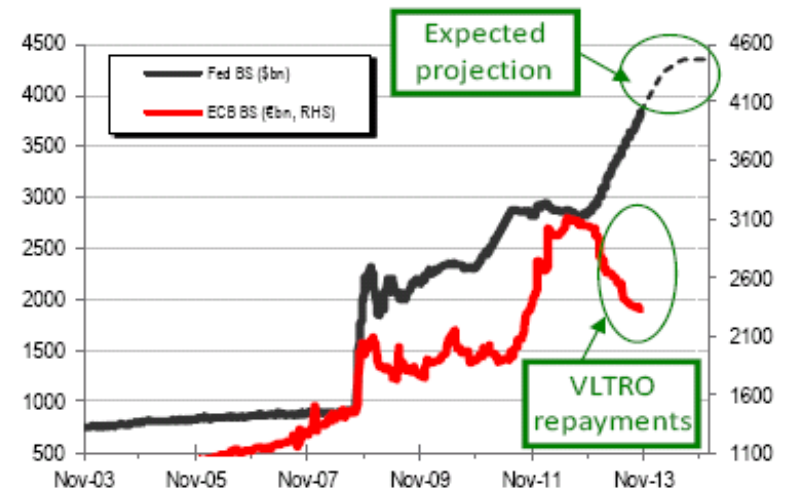
Sources: MF, BZ WBK

International Money Market and IRS: All depend on macro data

- October showed that EUR money market and IRS rates were still strongly influenced by the developments in the US. However, money market rates and the front end of IRS curve have remained well anchored by monetary policy expectations, assuming stable official rates for the extended period.
- In October both USD and EUR IRS curves slightly flattened (with 2-10Y spread narrowing to 147bp for EUR and 221bp for USD) and shifted down. One should notice that 10Y EUR IRS ended the month below 2%, for the first time since July.
- October's Fed statement to the decision reads that further signals of persistence of recovery are necessary before a decision on QE3 tapering is made. Such decision is imminent, the only uncertainty factors are the moment and scale of the tapering, and they will depend upon macro data. Therefore, we think that money market rates should remain stable in short term. However, declining excess euro liquidity as banks are repaying the three-year LTROs might leave the upside risks on short-term euro money market rates in medium term.



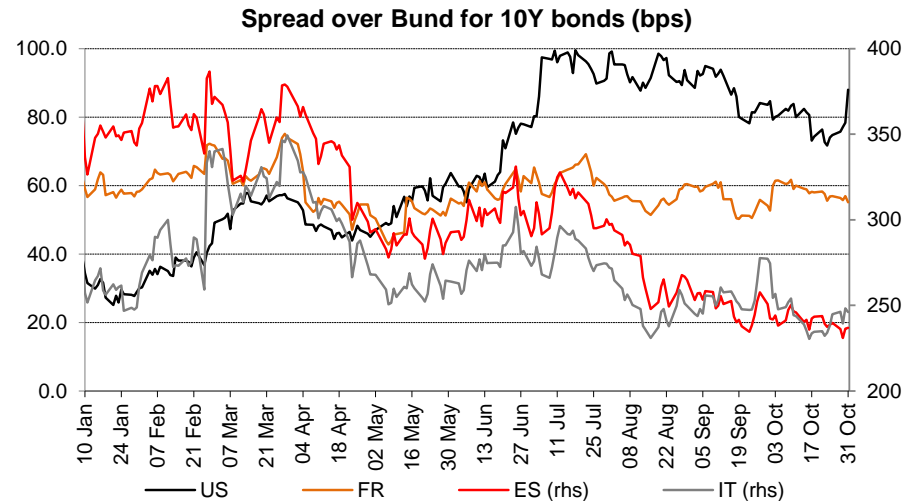
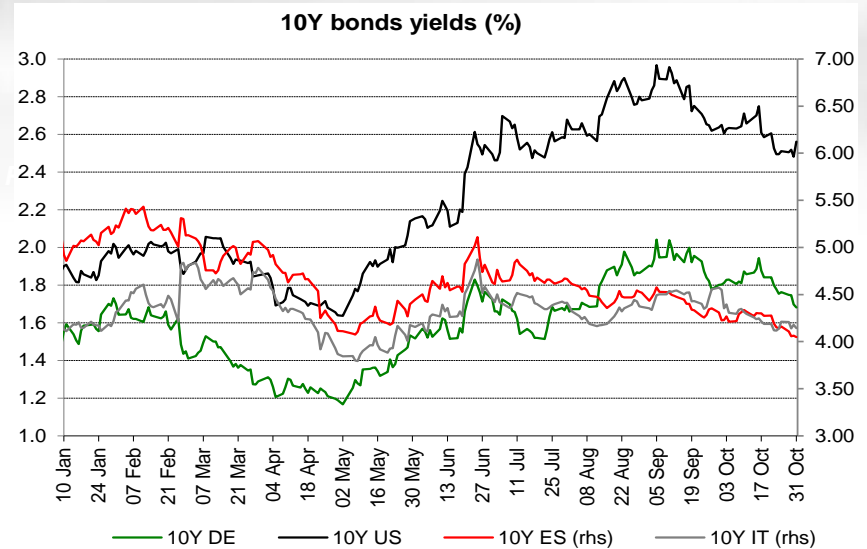
Fed's balance sheet vs ECB's balance sheet



Sources: Thomson Reuters, ECB, Fed, BZ WBK

International Bond Market: Now it is time for consolidation

- The (temporary) budget deal and the debt ceiling increase in the US limited uncertainty on financial markets. What is more, the long-awaited September non-farm payrolls surprised to the downside, decreasing sharply the likelihood of tapering being announced before 2014. Consequently, global debt markets strengthened significantly. Yield of 10Y UST tested 2.48% (the lowest level since mid-July), while 10Y Bund fell towards 1.70% (close to local minimum at the beginning of August).
- Peripheral debt also rallied significantly. Yields in 10Y sectors fell between nearly 1pp for Greece and 25bp for Spain. One should notice that yield of 10Y Spanish benchmark ended the month close to 4% (the lowest level since 2010). As regards Italy yield declined by 43bp and spread versus Bund narrowed by nearly 30bp.
- The softer economy revival should remain the main concern of the market, in particular due to still weak labour market data from the US (effect of partial shutdown in October). While yields might go slightly lower this month, we believe that they will remain close to the bottom of the range seen for the next three months.

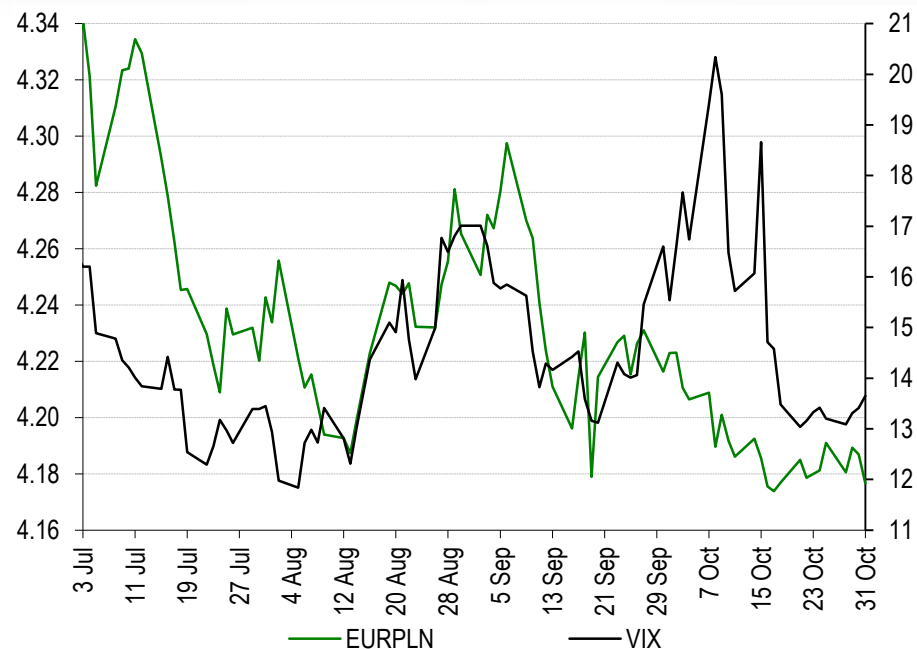


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: Strong zloty despite risk factors

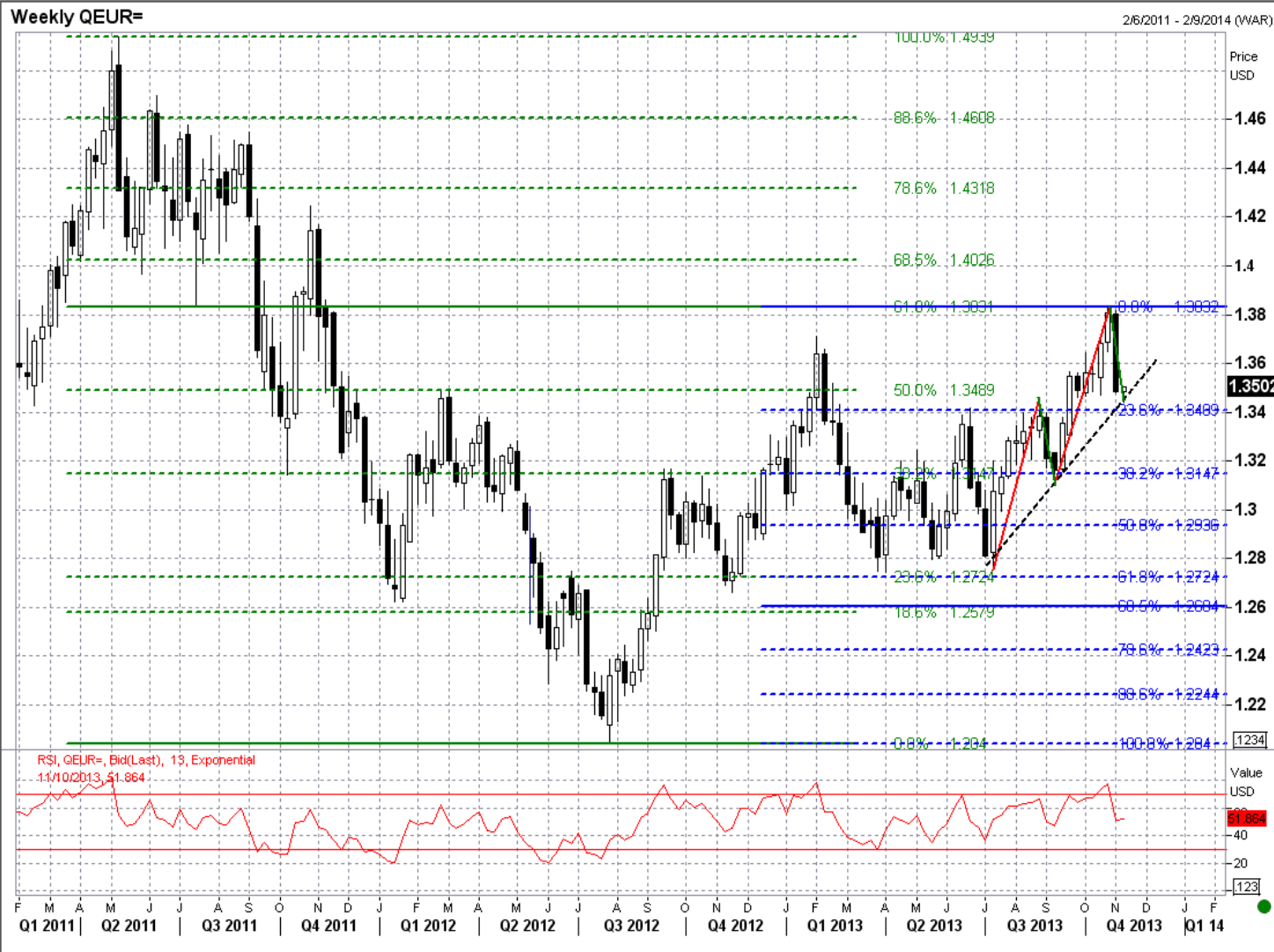
- Despite some important risk factors, which emerged in the first half of October (partial shutdown of the US government, lack of agreement on lifting the debt ceiling), the zloty gained slightly vs. the euro while global market sentiment (measured by VIX index) was quite shaky.
- Negative impact of shutdown on the US economy and poor labour market data support hopes that Fed will not hurry with QE3 tapering. This was to some extent confirmed in October's FOMC statement (though it was not as dovish as expected). Additionally, more domestic data confirm economic rebound (we have pointed that the zloty is a cyclical currency) and strong domestic data may also explain performance of the zloty. Furthermore, recent amendment of the Polish budget states that PLN8.4bn is expected to be collected from increased selling of foreign currencies on the market.
- We expect an average EURPLN below 4.20 in Q4. US data are particularly vital now and they may trigger some volatility in 4.14-4.24 range. Expectations for continuation of an economic rebound should support the domestic currency.

EURPLN and VIX index



Sources: Reuters, BZ WBK

FX Technical Analysis Corner: Potential for a rebound



- ▶ EURUSD reached exactly 61.8% retracement of the downward wave observed since May 2011 until July 2012.
- ▶ Additionally, two upside waves marked red are of nearly equal length and together a divergence with the RSI this was initiated a plunge of EURUSD.
- ▶ The exchange rate reached nearly first support at 38.2% Fibonaci retracement. The ratio of lengths of corrections marked green is close to 1.13 (vital Fibonaci ratio).
- ▶ This supports view of a rebound after recent plunge.

Sources: Reuters, BZ WBK

Macroeconomic Forecasts

Poland		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1,523.2	1,595.2	1,632.2	1,701.4	377.9	395.7	405.7	452.9	392.6	413.2	422.7	472.9
GDP	%YoY	4.5	1.9	1.3	2.7	0.5	0.8	1.8	2.0	2.4	2.8	2.8	2.8
Domestic demand	%YoY	3.6	-0.2	-0.7	1.8	-0.9	-1.7	0.1	-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	1.2	1.2	1.5	1.7	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-1.9	2.8	-2.1	-3.2	-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	13.0	13.7	14.2	13.8	13.0	13.2
Current account balance	EURm	-18,519	-14,191	-4,838	-834	-2,313	362	-1,910	-977	-198	961	-639	-959
Current account balance	% GDP	-5.0	-3.7	-1.2	-0.2	-3.1	-2.3	-1.9	-1.2	-0.7	-0.5	-0.2	-0.2
General government balance	% GDP	-5.0	-3.9	-4.8	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	1.0	1.8	1.3	0.5	1.1	1.0	1.6	1.9	1.7	2.1
CPI ^a	%YoY	4.6	2.4	1.2	2.1	1.0	0.2	1.0	1.2	1.7	2.2	2.0	2.1
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.9	1.2	1.0	1.4	1.4	1.9	2.0	1.8	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	3.03	3.07	3.77	2.96	2.70	2.68	2.73	2.95	3.18	3.42
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.44	3.29	2.77	2.98	2.90	3.08	3.32	3.57	3.78
Yield on 5-year T-bonds	%	5.44	4.53	3.45	4.03	3.49	3.09	3.63	3.57	3.77	3.98	4.15	4.23
Yield on 10-year T-bonds	%	5.98	5.02	4.01	4.68	3.95	3.58	4.26	4.28	4.43	4.63	4.77	4.90
2-year IRS	%	4.98	4.52	3.12	3.81	3.43	2.81	3.14	3.10	3.38	3.73	3.98	4.15
5-year IRS	%	5.24	4.47	3.49	4.38	3.52	3.08	3.76	3.62	3.88	4.27	4.60	4.77
10-year IRS	%	5.33	4.56	3.84	4.64	3.76	3.41	4.13	4.08	4.33	4.58	4.72	4.92
EUR/PLN	PLN	4.12	4.19	4.19	4.06	4.16	4.20	4.25	4.17	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.97	3.15	3.22	3.21	3.07	3.05	3.00	2.95	2.89
CHF/PLN	PLN	3.34	3.47	3.40	3.12	3.38	3.41	3.44	3.38	3.28	3.16	3.07	2.95
GBP/PLN	PLN	4.75	5.16	4.92	4.82	4.88	4.94	4.97	4.91	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:
5-Nov	EZ	The autumn 2013 European Economic Forecast	
6-Nov	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged
7-Nov	EZ	ECB Meeting – interest rate decision	-
	GB	BoE Meeting – interest rate decision	-
	CZ	CNB Meeting – interest rate decision	-
	PL	Auction of OK0116 and PS0718	Offer: PLN4-8bn
13-Nov	PL	Buyback auction of USD-denominated bonds	Up to \$100m
14-Nov	PL	CPI for October	Our forecast: 0.9%YoY (slightly below consensus)
	PL	3Q GDP - flash	Our forecast: 1.8%YoY (vs market consensus at 1.7%)
15-Nov	PL	Core inflation for October	We predict core CPI after excluding food and energy prices at 1.3%YoY
19-Nov	PL	Employment and wages for October	We expect employment to fall by 0.3%YoY and wages growth at 2.8%YoY
20-Nov	PL	Switch auction	Bonds to be bought-back: OK0114 and PS0414
21-Nov	PL	Industrial output and PPI for October	Our forecast of industrial output (6.6%YoY) is well above market expectations. We predict PPI at -1.2%YoY
22-Nov	PL	Retail sales for October	Our forecast at 3.2%YoY is below market consensus
26-Nov	HU	MPC Meeting – interest rate decision	-
29-Nov	PL	Q3 GDP	The 3Q GDP breakdown will be released. We foresee net export to remain the main driver, with some rebound in consumption and investments (but growth will remain negative YoY)
4-Dec	PL	MPC Meeting – interest rate decision	We expect the MPC to keep interest rates unchanged
5-Dec	EZ	ECB Meeting – interest rate decision	-

Annex

1. Domestic markets performance
2. Polish bonds: supply recap
3. Polish bonds: demand recap
4. Euro zone bonds: supply recap
5. Poland vs other countries
6. OFE overhaul
7. Central bank watch

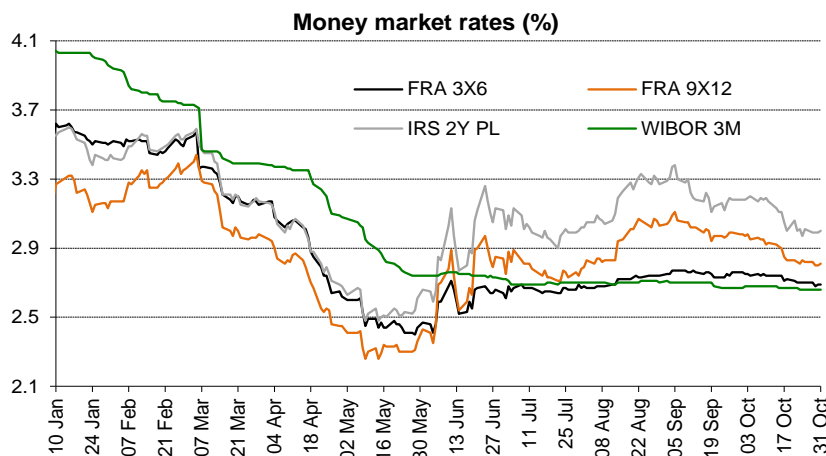
1. Domestic markets performance

Money market rates (%)

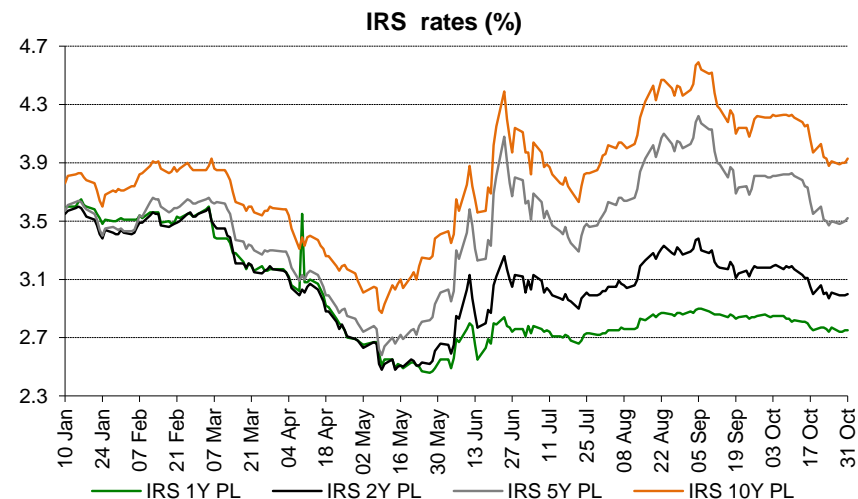
	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of October	2.50	2.66	2.60	2.66	2.70	2.75	2.41	2.39	2.41	2.50	2.67	2.69	2.73	2.81
Last 1M change (bp)	0	28	1	-1	-1	0	5	-2	-1	-6	-5	-7	-12	-17
Last 3M change (bp)	0	13	-3	-4	-1	2	-4	-4	-2	6	2	3	5	5
Last 1Y change (bp)	-225	-169	-218	-209	-204	-198	-209	-195	-157	-133	-184	-148	-111	-92

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of October	2.83	3.50	4.17	3.00	3.52	3.93	-17	-2	24
Last 1M change (bp)	-20	-33	-31	-18	-29	-28	-2	-4	-2
Last 3M change (bp)	3	18	19	1	5	8	2	13	11
Last 1Y change (bp)	-106	-61	-36	-114	-67	-44	8	6	8



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	15,028	7,500		103,187
T-bills auction	3,603	1,747	3,084										8,434
Retail bonds	150	154	154	154	154	154	154	113	154	150	128	150	1,769
Foreign bonds/credits	4,140	1,301					4,330		4,225				13,996
Prefinancing and financial resources at the end of 2012	24,400												24,400
Total	49,651	13,593	11,319	16,971	12,157	4,761	4,484	5,808	10,086	15,178	7,628	150	151,786
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	-4,404	5,372	-2,218	65,310
Rolling over T-bonds			4,827			7,801			3,784				16,412
Buy-back of T-bills/ FX-denominated bonds										2115	309		2,424
Total	37,965	-261	13,355	814	9,817	10,703	-2,785	2,617	12,748	-2,289	5,681	-2,218	84,146
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		208	1,540	716	2,256
December	0		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 September 2013, in PLNm)

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2013	0	0	0	0	0	0	0	0	0
Q2 2013	0	0	0	0	0	0	0	0	0
Q3 2013	0	0	0	0	0	0	0	0	0
Q4 2013	6,420	3,453	6,269	1,118	1,398	110	89	770	19,627
Total 2013	6,420	3,453	6,269	1,118	1,398	110	89	770	19,627
	33%	18%	32%	6%	7%	1%	0%	4%	100%
Total 2014	34,390	10,143	5,706	2,947	3,553	399	106	4,329	61,573
	56%	16%	9%	5%	6%	1%	0%	7%	100%
Total 2015	29,827	26,859	8,516	9,870	9,426	232	325	5,152	90,208
	33%	30%	9%	11%	10%	0%	0%	6%	100%
Total 2016	29,458	14,358	3,916	22,317	6,380	65	335	4,303	81,131
	36%	18%	5%	28%	8%	0%	0%	5%	100%
Total 2017	24,908	12,869	5,194	17,562	7,336	46	104	3,425	71,444
	35%	18%	7%	25%	10%	0%	0%	5%	100%
Total 2018+	75,540	48,487	23,215	68,887	18,047	234	357	11,652	246,418
	31%	20%	9%	28%	7%	0%	0%	5%	100%

Sources: MF, BZ WBK

3. Polish bonds: demand recap

Holders of marketable PLN bonds

	Nominal value (PLN, bn)				Nominal value (PLN, bn)			% change in August			Share in TOTAL (%) in September
	End Sep'13	End Aug'13	End Jun'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	377.3	374.0	369.4	337.5	341.8	352.9	361.4	0.88	1.16	10.39	65.3 (-0.1pp)
Commercial banks	116.2	111.1	113.9	87.8	102.0	102.1	110.9	4.55	2.00	13.90	20.1 (0.7pp)
Insurance companies	52.8	54.4	53.1	52.8	54.7	57.0	54.3	-2.84	-0.53	-3.41	9.1 (-0.4pp)
Pension funds	122.7	120.9	117.7	117.4	116.7	120.3	120.7	1.46	4.29	5.15	21.2 (0.1pp)
Mutual funds	46.1	48.9	46.5	41.7	32.5	33.0	31.3	-5.73	-0.77	42.00	8.0 (-0.6pp)
Others	39.5	38.7	38.3	37.8	35.9	40.5	44.3	2.3	4.9	16.9	6.8 (0.1pp)
Foreign investors*	200.6	197.9	201.8	189.9	184.2	174.0	163.2	1.35	-0.61	8.89	34.7 (0.1pp)
Banks	32.1	28.6	32.3	28.4	27.8	22.6	24.3	12.31	-0.78	15.37	5.6 (0.6pp)
Non-bank fin. sector	159.7	159.6	160.1	153.1	147.5	143.1	131.7	0.12	-0.22	8.29	27.6 (-0.3pp)
Non-financial sector	5.2	5.8	5.3	5.2	5.6	5.2	4.4	-9.45	-0.92	-7.09	0.9 (-0.1pp)
TOTAL	577.9	571.9	571.2	527.4	526.0	526.9	524.7	1.04	2.13	9.86	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	89.0
Finland	6.8	5.6	12.4	12.4	99.0
France	105.5	61.6	171.1	170.0	102.0
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	90.0
Netherlands	31.5	15.2	46.7	50.0	94.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	91.0
Total	584.3	220.0	832.2	772.3	92.0

*/ 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

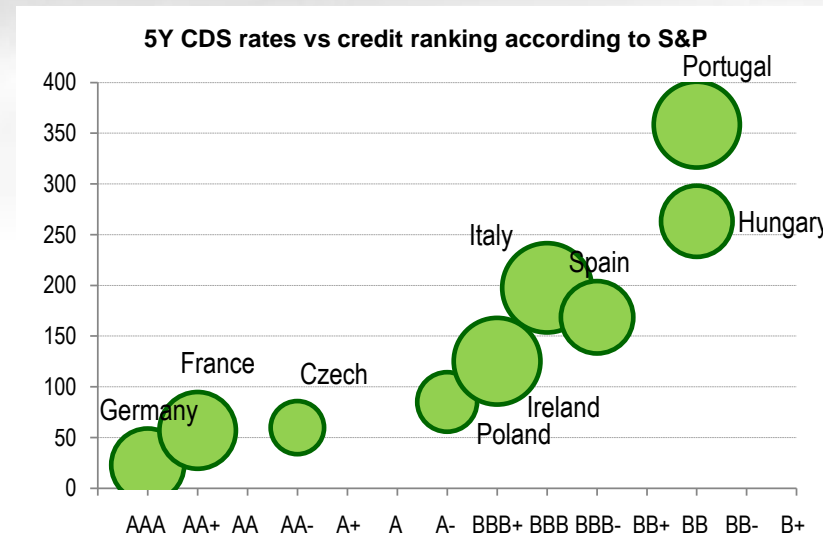
Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2012	2013	2012	end of Oct	2012	end of Oct	2012	end of Oct	2012	end of Oct
Poland	4.25	2.50	4.11	2.66	3.72	4.17	241	248	80	84
Czech Republic	0.05	0.05	0.18	0.12	1.86	2.30	54	62	63	60
Hungary	5.75	3.00	5.75	3.35	6.23	5.55	492	387	269	259
Euro area	0.75	0.50	0.19	0.23						
Germany					1.32	1.68			39	23

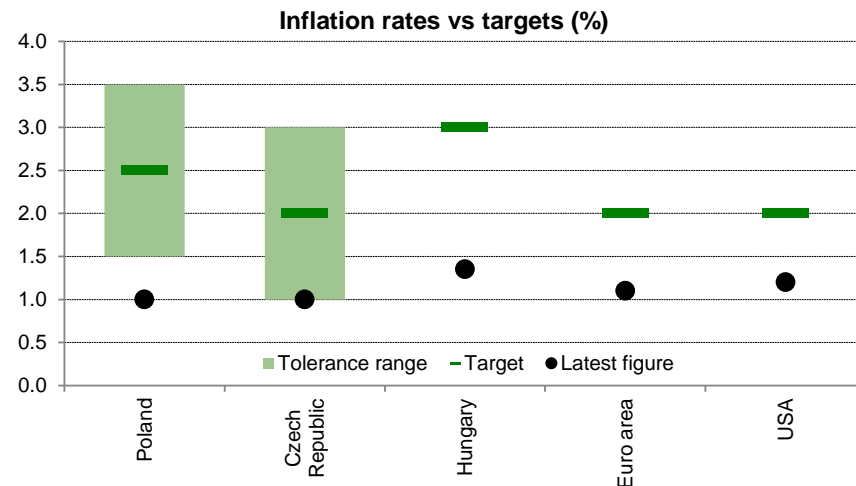
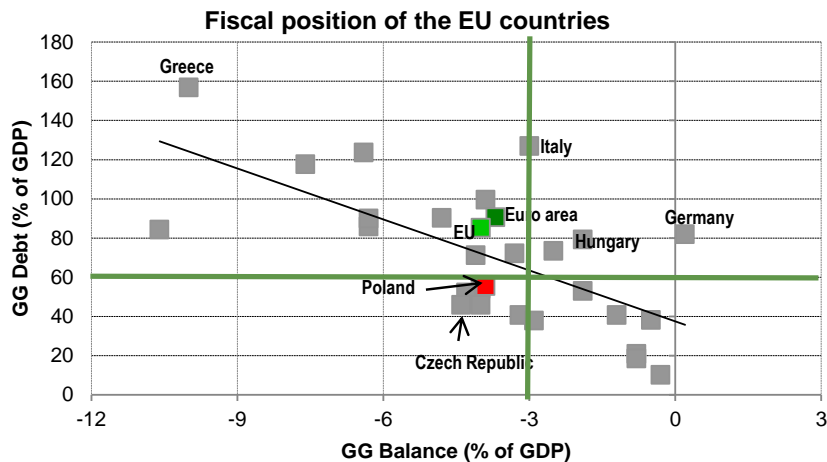
Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK

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	stable

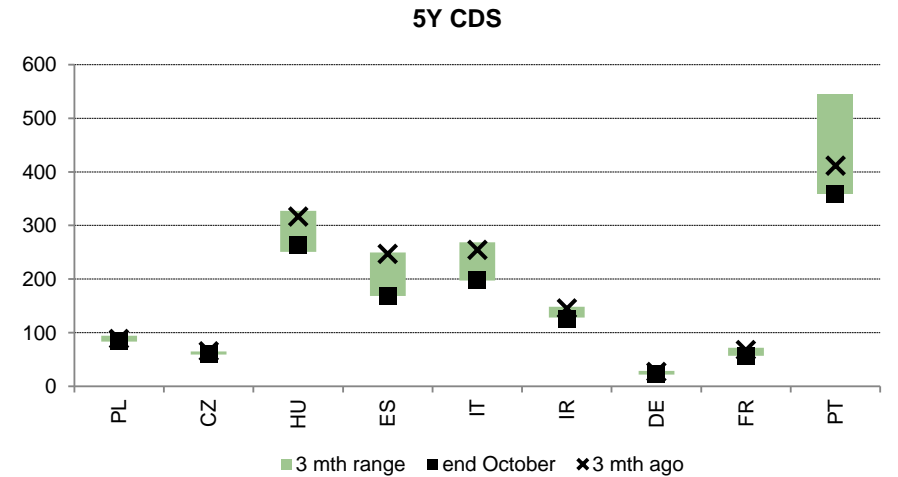
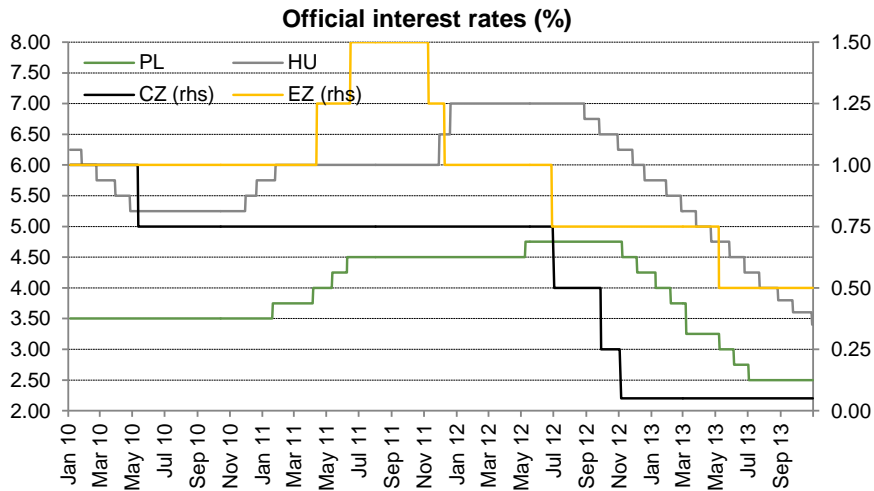
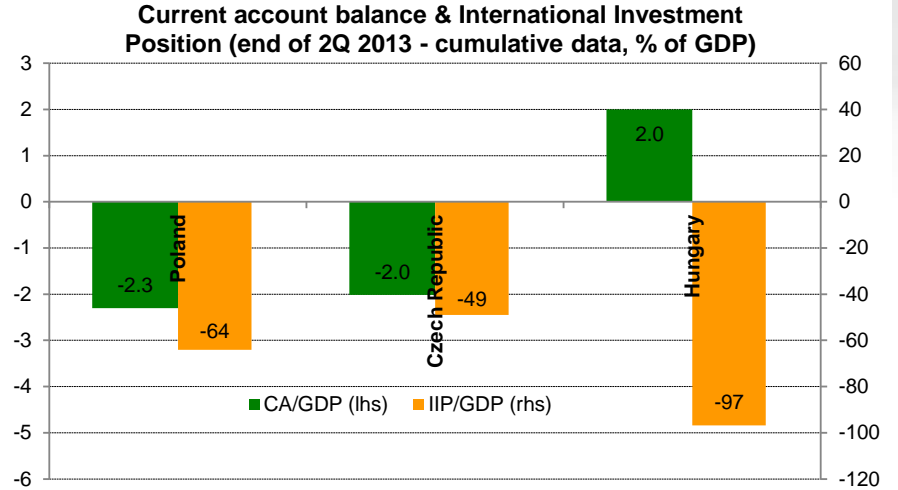
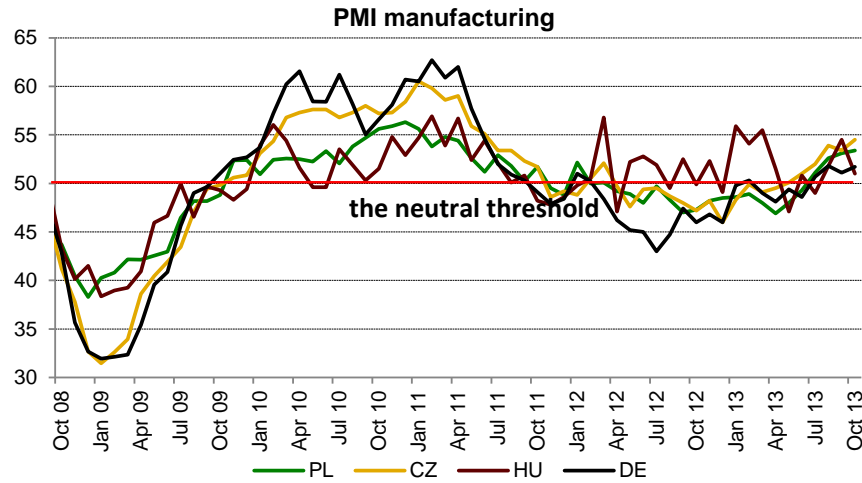


Note: Size of bubbles reflects the debt/GDP ratio



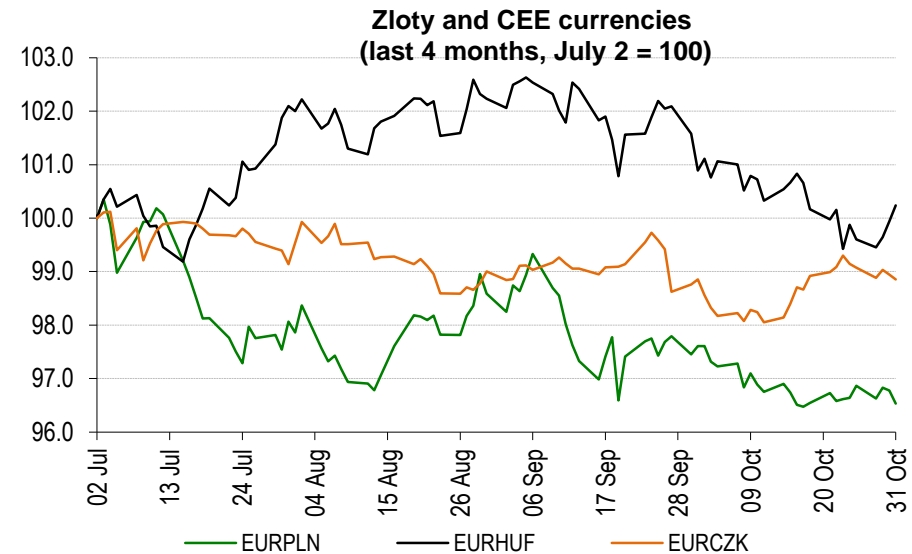
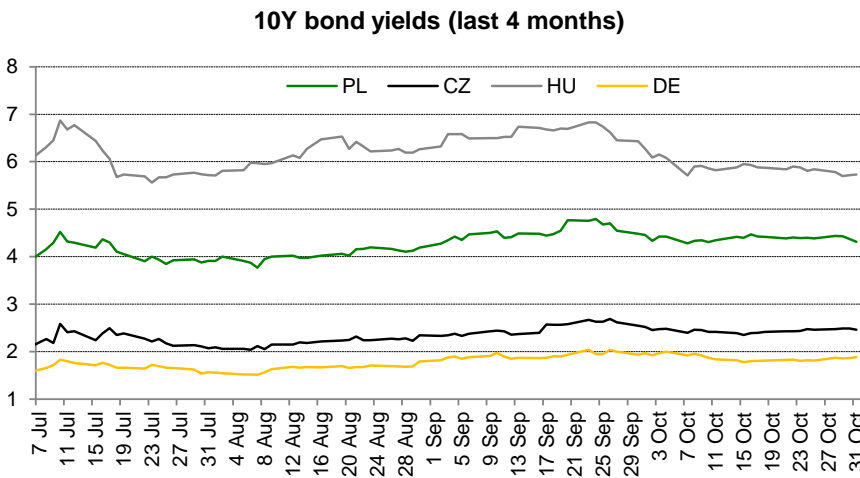
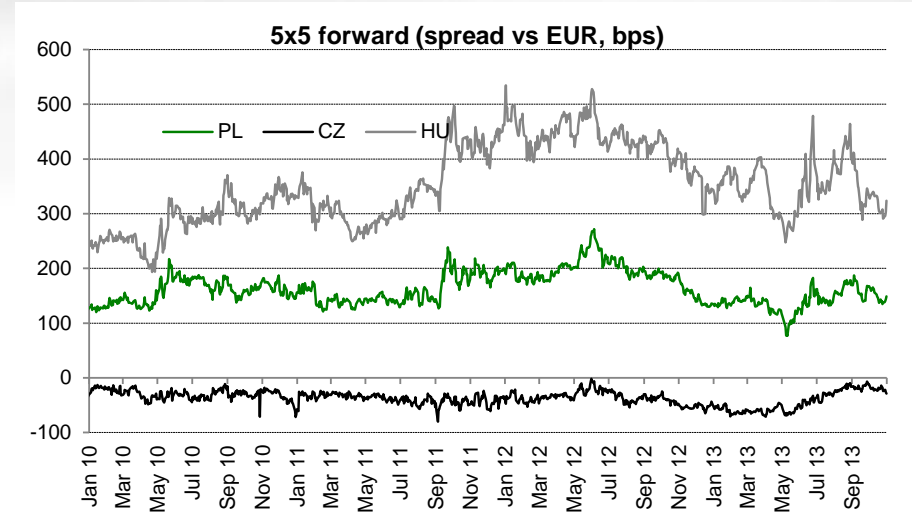
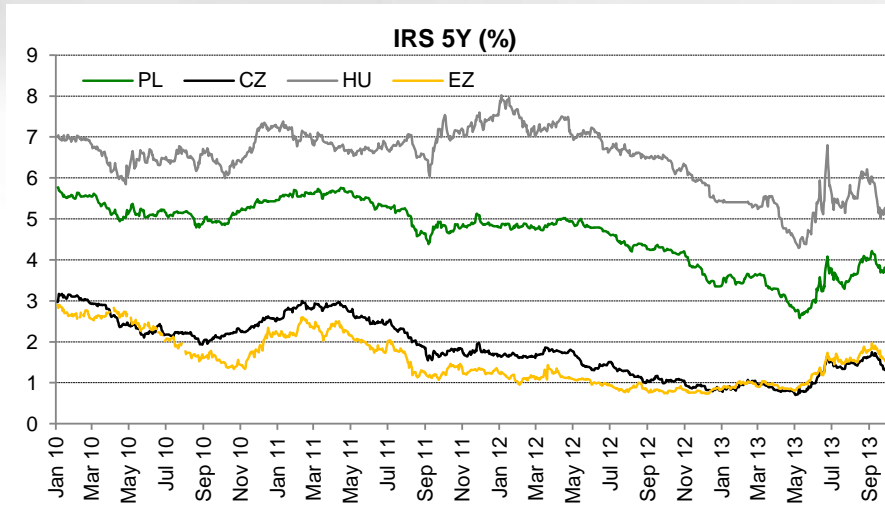
Source: rating agencies, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)



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

5. Poland vs other countries (cont.)



Source: Reuters, BZ WBK

6. OFE overhaul

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

Fund	Assets (PLNbn)	Asset allocation (%)							
		Bonds*	change MoM (pp)	Equities	change MoM (pp)	Deposits	change MoM (pp)	Other	change MoM (pp)
ING	70.1	47.20%	1.60	42.17%	0.27	5.88%	-2.72	4.75%	0.85
Aviva	65.4	49.18%	2.08	40.92%	0.82	5.82%	-1.88	4.07%	-1.03
PZU	39.2	45.48%	-1.72	43.18%	0.78	6.33%	1.33	5.01%	-0.39
Amplico	23.3	49.25%	-3.55	41.73%	0.33	4.91%	3.41	4.10%	-0.20
AXA	18.3	50.97%	-1.13	38.39%	0.89	5.36%	0.66	5.28%	-0.42
Generali	14.7	53.25%	-1.25	39.38%	-0.12	3.63%	2.03	3.74%	-0.66
Nordea	13.2	51.78%	-0.62	40.35%	0.25	1.26%	0.66	6.60%	-0.30
PKO BP	12.9	51.08%	-0.32	41.63%	0.73	5.90%	-0.40	1.39%	-0.01
AEGON	12.3	45.15%	-1.05	40.41%	0.91	6.81%	0.91	7.63%	-0.77
Allianz	8.9	50.91%	-0.89	40.24%	1.34	0.99%	-0.01	7.85%	-0.45
Pocztylion	5.6	50.39%	-3.41	40.96%	0.46	5.61%	3.51	3.04%	-0.56
Pekao	4.4	48.07%	-1.63	44.85%	3.65	4.08%	-1.12	3.00%	-0.90
Warta	3.9	52.02%	-1.68	41.01%	1.01	3.97%	1.67	3.00%	-1.00
Total	292.0	48.66%	-0.04	41.38%	0.68	5.33%	-0.37	4.63%	-0.27

* State treasuries, road bonds and state-guaranteed bonds

Source: BZ WBK Brokerage

6. OFE overhaul (cont.)

OFE's holding - the biggest nominal value plus current 2Y, 5Y and 10Y benchmarks (end-September 2013)

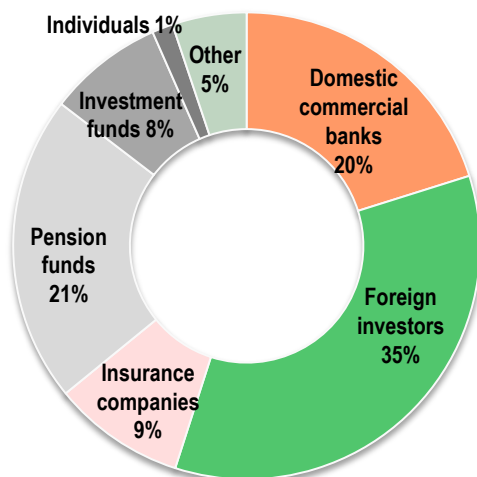
	OK0715	IZ0816	PS0416	PS1016	WZ0117	PS0417	WZ0118	PS0418	PS0718	DS1019	DS1020	WZ0121	DS1021	DS1023
Nominal value held by OFE (PLNm)	209	7,653	6,867	7,121	8,287	5,586	7,635	14,062	6,798	7,407	5,433	7,279	5,281	2,227
Share held by OFE in series outstanding	1.9%	49%	29%	30%	33%	28%	28%	43%	49%	29%	23%	26%	24%	12%
Share held by foreign investors in series outstanding	40%	38%	29%	23%	20%	35%	3%	24%	23%	41%	46%	17%	46%	50%
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%	2.9%	1.9%
Without OFE sector														
Share held by foreign investors in series outstanding	41%	75%	40%	33%	30%	48%	4%	42%	45%	57%	60%	22%	61%	57%
Share held by biggest holder	20%	34%	14%	22%	24%	15%	21%	4%	7%	17%	9%	20%	17%	3%
Share held by biggest foreign holder	20%	5%	3%	3%	24%	2%	3%	2%	7%	9%	3%	20%	4%	2%

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

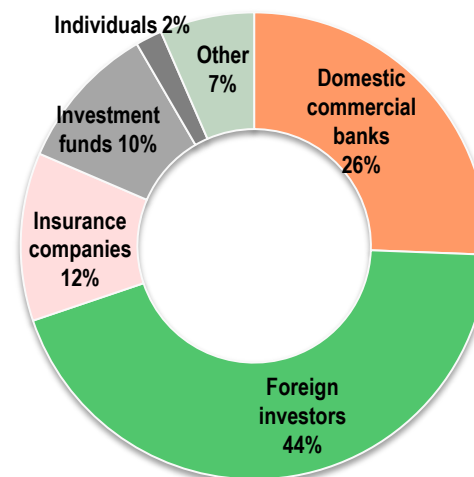
6. OFE overhaul (cont.)

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

	OK	PS	DS	WS	WZ & IZ	Total
2013			713.023			713.023
2014	640.84	2,306.25				2,947.09
2015	209.22	3,575.78	2,208.69		3,876.65	9,870.34
2016	675.68	13,988.3			7,652.76	22,316.7
2017		5,586.21	3,689		8,287.19	17,562.4
2018		20,860.7			7,635.72	28,496.4
2019			7,407.26		1,160.2	8,567.46
2020			5,432.88			5,432.88
2021			5,281.38		7,279.24	12,560.6
2022				2,056.95		2,056.95
2023			2,227.46		4,104.82	6,332.28
2024+				2,225.03	3,160.27	5,385.31
Total	910.1	46,381.8	28,481.2	4,712.7	39,855.6	122,241



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



Sources: MF, BZ WBK

7. Central bank watch

		Last	2012	2013F	Expected changes (bp)			Risks/Events
					1M	3M	6M	
Euro zone	Forecast	0.50	0.75	0.50				We do not expect any change in monetary conditions. Moreover, the message should be the same than in previous meetings, in particular that the release of the EC's new set of forecasts should support the ECB's current stance.
	Market implied »				0	2	5	
UK	Forecast	0.50	0.50	0.50				The BoE will leave monetary policy unchanged this month. Attention should shift to the new forecasts, which will be announced in the November Inflation Report (13.11).
	Market implied »				1	3	8	
US	Forecast	0-0.25	0-0.25	0-0.25				October's decision to keep monetary conditions unchanged, with the statement reflecting a positive assessment of the US economy but, still not enough to announce the beginning of QE3 tapering. We expect the starting date for tapering to be announced in 1Q'14.
	Market implied »				1	3	6	
Poland	Forecast	2.50	4.25	2.50				We foresee the MPC to keep rates unchanged. However, investors' attention will focus on new GDP and CPI projections. In our opinion both central paths should shift up in comparison with July's ones.
	Market implied »				1	3	7	
Czech Republic	Forecast	0.05	0.05	0.05				Status quo should be maintained. We foresee the CNB to keep monetary conditions unchanged, highlighting the possibility of FX intervention if necessary.
	Market implied »				31	30	31	
Hungary	Forecast	3.40	5.75	3.00				The NBH reduced official rates by 20bps to 3.40%, below our forecasts. Taking into account still record low level of CPI (1.4%YoY in September) and an uncertain outlook for 2014 (below NBH target at 3%) we revised downward our forecast of official rate to 3% at the end of this year.
	Market implied »				-11	-20	-16	

This analysis is based on information available until 31st October 2013 and has been prepared by:

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