RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

March 2014

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Grupa Santander

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Summary

- Economic growth in Poland accelerated to 2.7%YoY in the last quarter of 2013, driven not only by decent performance of net exports, but also by strengthening domestic demand (private consumption growing 2.1%YoY, fixed investment 1.3%YoY). Leading indicators keep showing that the economy remains on path of growth acceleration at the start of 2014, and so we stick to the scenario of 3.5% economic expansion this year. At the same time, Poland's external imbalance keeps shrinking quickly – due to surplus in foreign trade the current account deficit dropped in 2013 to 1.5% of GDP (lowest since 1995) and is expected to improve further.
- Inflation remains low, however we predict it will be picking up slowly later in the year, as domestic demand continues strengthening. The Monetary Policy Council is keeping monetary policy on hold, with unchanged declaration that interest rates should remain stable at least until the middle of 2014. Although at the nearest meeting in March the MPC will receive the updated medium-term macroeconomic projections, we doubt it will make any changes to its forward guidance. Instead, it would rather wait patiently until the end of H1, observing carefully economic data, before it makes any further suggestions about policy outlook. We still expect that first interest rate hike in Poland is possible in the autumn this year.
- After investors' concerns about emerging markets decreased in February, the zloty and Polish bonds gained substantially, in line with our expectations. Despite the open pension funds (OFE) have disappeared as the major player from the domestic debt market, bond auctions held by the Ministry of Finance in February were quite successful, showing decent demand of investors.
- However, the new risk factor – crisis in Ukraine – has hit the financial markets at the February/March turn. The risk of Russia's military intervention and intensifying standoff between Russia and the West have triggered a significant risk aversion, which resulted in weakening of CEE currencies, including the zloty, and weakening of bonds.
- Growing tension about Ukraine has the potential to further negatively affect the financial markets. Even assuming that the political crisis would not escalate, the currencies in the region may suffer from elevated volatility in the next couple of weeks. Apart from geopolitical risk, there are doubts regarding Ukraine's potential default and possible impact of conflict on global energy prices. In the medium run, we still believe the zloty has potential to gain, due to improving macro situation (faster GDP, shrinking external imbalance, looming rate hike). In case of bond market, we also expect a period of elevated uncertainty in next few weeks. After the geopolitical risk dissipates, the scope for decline in yields will be limited however, as it will be replaced by increasing focus on accelerating global economic growth and upward trend of yields in the core markets, as Fed would continue its QE tapering.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-February	1M	3M
Reference rate	0	0	**2.50**	→	→
WIBOR 3M	6	0	**2.71**	→	→
2Y bond yield	20	-19	**3.02**	↗	↗↗
5Y bond yield	-7	-42	**3.68**	↗	↗↗
10Y bond yield	-15	-33	**4.36**	↗↗	↗↗
2/10Y curve slope	-35	-14	**135**	↗	↗

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 do not expect the MPC to make any changes in its communication strategy until July. This will keep short-term money market rates relatively stable in the nearest months with only slight potential to increase, as the horizon of current MPC's forward guidance approaches. FRA market may be more responsive to new (solid) economic data, pricing-in growing probability of rate hike in second year-half.

Short end: In the short run the yields on the front end of the curve will be under pressure of tensions around Ukraine. While we assume this factor should lessen in the medium term, it would be replaced by impact of strengthening economic recovery in Poland and abroad, boosting expectations for interest rate hike.

Long end: Mid and long end of the curve are usually more sensitive to changes in global risk aversion, and this was the case also this time, in response to crisis in Ukraine. We expect a period of elevated uncertainty in next few weeks, to be followed by increasing focus on accelerating global economic growth and upward trend of yields in the core markets, as Fed would continue its QE tapering.

Risk factors to our view: Situation in Ukraine is currently the biggest threat. Apart from that, we are entering an election cycle in emerging economies, which potentially may fuel investors' uncertainty in the months to come. On the opposite side, the rise in energy prices due to geopolitical tensions may potentially harm the fragile economic recovery in the world economy, which may result in a scenario of lower yields in the core markets than predicted in our base-case scenario.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-February	1M	3M
EURPLN	-0.9	-1.8	**4.16**	→	→
USDPLN	-1.9	-3.3	**3.03**	→	→
CHFPLN	0.4	-1.2	**3.42**	→	↘
GBPPLN	0.7	-1.5	**5.07**	→	↘
EURUSD	1.0	1.5	**1.38**	→	→

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: Intensified tension about Ukraine has the potential to have further negative impact on the financial markets. Even assuming that the political crisis would not escalate, the CEE currencies, including the zloty, may suffer from elevated volatility in the next couple of weeks. In the medium run, we still believe the zloty has potential to gain, due to improving macro situation (faster GDP, shrinking external imbalance, looming rate hike).

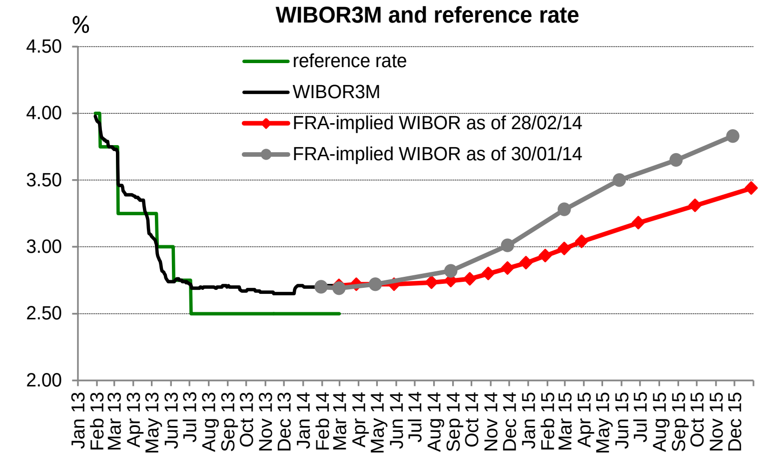
USD: Higher-than-expected inflation in the euro zone supported the euro, reducing odds for ECB’s interest rate cut in March. However, increased geopolitical risk and prospect of further Fed QE tapering may strengthen the dollar in the short term. We still think the euro will start recovering in the medium run. Thus, the USDPLN, after range-trading in nearest weeks, should resume a downward trend in the second year-half.

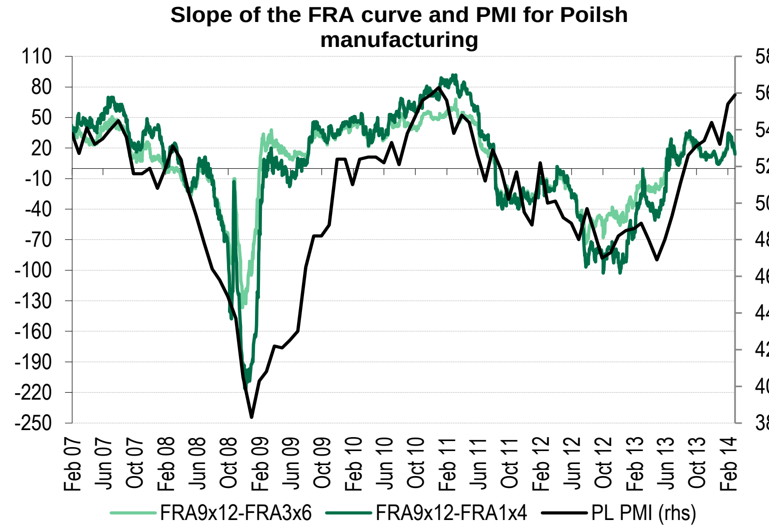
CHF: Increased risk aversion will prevent CHFPLN from decreasing in the short run. However, as mentioned above, we see the scope for moods improvement in the following months. Together with predicted rise in EURCHF it will result in gradual zloty appreciation against the Swiss franc.

Risk factors to our view: As in the case of bond market, Ukraine is the biggest risk factor. Risk of escalation into wider military conflict just next to Poland’s eastern border, although hopefully not very high, may be significantly negative for CEE currencies. Another potential problem is danger of Ukraine’s default, should the international financial assistance not arrive quickly.

Domestic Money Market: FRAs will continue gradual increase

- 6-12M WIBOR increased in February by 1-2bp, while 1M and 3M rates stayed unchanged. Short FRA rates have remained stable and longer ones (6x9 and 9x12) declined by 10-20bp and returned to levels seen before the January's turmoil in the emerging markets.
- Currently, 3-12M WIBOR rates are 20-30bp above the NBP reference rate. FRAs are pricing-in roughly stable 3M rate during the next 6 months and its rise by ca. 20bp from current levels at the end of the year. We anticipate 3M WIBOR to be 25bp higher in December 2014 vs. current levels with the spread between the main NBP rate within the 20-30pb range. This implies that FRA9x12 could remain stable.
- On the other hand, when we look at the relation between the slope of the FRA curve and the economic activity in industry, there seems to be a room for further rise in FRA rates, as the PMI continues upward trend. In the short term this move may be additionally fuelled by zloty depreciation due to crisis in Ukraine (FRA recorded a temporary rise in reaction to currency weakening in January).
- We do not expect the MPC to give any hints to investors on the future path of NBP rates before July (in contrast to what has been suggested recently by Zielińska-Głębocka and Hausner). Maintaining current forward guidance should stabilize FRAs shorter than 9x12 and constrain the pressure for an upward move of WIBOR rates until around mid-2014.



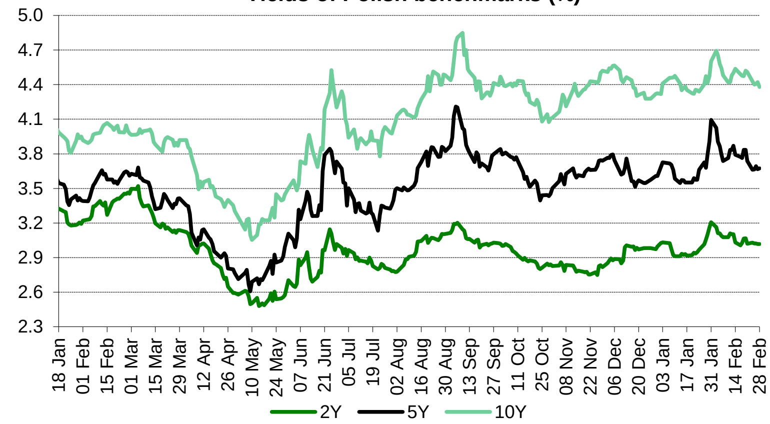


Sources: Reuters, BZ WBK

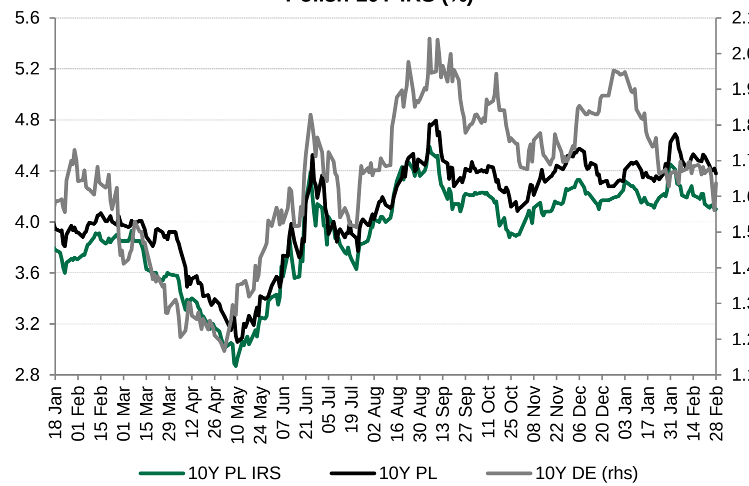
Domestic IRS and T-Bond Market: Calm after the storm … but clouds still over Ukraine

- IRS and bond curves flattened in February as middle and long term sectors recovered substantially after January's surge. 2-10Y spreads narrowed by nearly 10bp in both cases, while 2-5Y moved down by 15bp for the IRS and by 20bp for T-bonds.
- Reaction of Polish fixed income market to the turmoil in Ukraine was initially less significant than during the EM market turmoil in January, however growing risk of Russia's military intervention has eventually pushed yields higher, especially in the long end of the curve.
- It is worth to notice that serious worries that absence of the biggest domestic player on the debt market (OFE) might lead to elevated volatility in yields did not materialise. At the end of February both yields and IRS rates were at levels observed before January's sell-off. Despite lack of pension funds, bond auction results were relatively good, supporting positive market mood.
- After the February's downward move, yields of the 2Y, 5Y and 10Y bond benchmarks approached the line of the upward trend observed since November. Strong core markets and high level of gross borrowings coverage shall constrain the potential for strong increase in yields. However, higher risk aversion due to situation in Ukraine will add volatility on the Polish debt market, in particular on the long end of curve. Any signals of calming down the situation should activate the demand side.

Yields of Polish benchmarks (%)



Yields of Polish and German 10Y Bonds and Polish 10Y IRS (%)

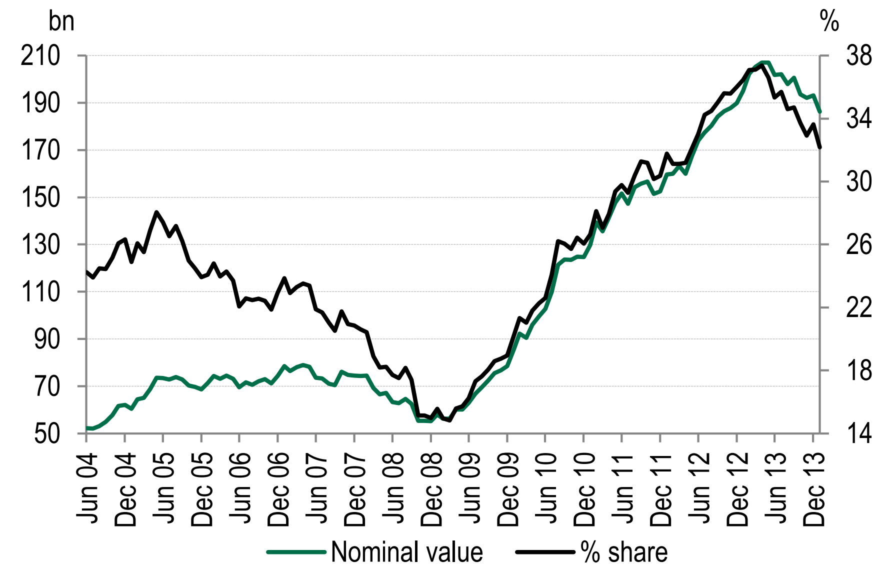


Sources: Reuters, CB, BZ WBK

Demand Corner: Foreigners didn’t roll holdings in January

- The nominal value of PLN marketable bonds held by foreign investors plunged in January by PLN6.9bn, by most since October 2013. This contraction was mainly due to maturity of OK0114, of which foreigners held over PLN8bn at the end of the 2013. Apparently, foreigners did not decide to roll over their position in Polish debt, they did not show also much interest in new 2Y bond, OK0716 (they purchased only PLN200m of this new bond). After January, share of foreigners’ holdings in Polish debt market was lowest since May 2012 (32.2%) and in nominal terms the value was lowest since September 2012 (PLN186.3bn).
- Nonbank financial institutions (mutual funds, insurance companies, hedging funds) were the main contributor to this decline, as they sold papers worth PLN7.4bn. Foreign banks purchased PLN1.3bn of bonds.
- In January Polish banks purchased a significant amount of bonds (+PLN6.2bn vs. end of December 2013), their activity concentrated in the middle and long end of the curve (PS and DS series – PS0417, DS1021). At the end of January, nominal value of bonds held by Polish banks was highest since March 2011 and amounted to PLN120.9bn.

Holdings of Polish bond by foreign investors

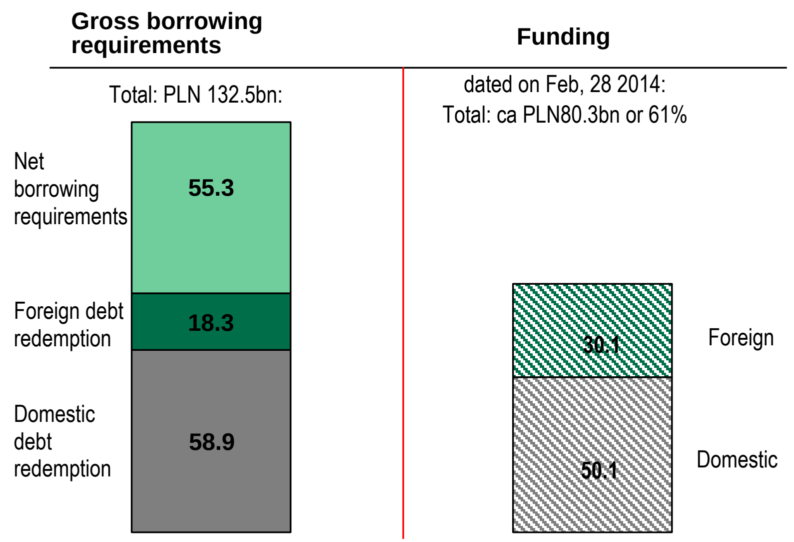


Sources: MF, BZ WBK

Supply Corner: Flexibility in the supply of T-bonds

- In line with expectations, Polish Ministry of Finance cut T-bonds offer in February. Despite disappearance of the main domestic investor (private pension funds) demand at regular auctions was quite high (in particular on the first one). All in all, the Ministry sold T-bonds worth PLN8.82bn in total (slightly below the maximum level of supply at PLN9bn).
- The Ministry sold also €300m of 20Y registered bonds on the German market. Bonds were priced to yield 3.272% (78.5bp above the mid-swap rate). Deputy finance minister Wojciech Kowalczyk commented on these results said that the Ministry will focus on smaller projects addressed to new long-term investors rather than on public issues on EUR or USD market.
- According to our estimates, the Ministry completed ca. 61% of the 2014 borrowing requirements at the end of February.
- In line with expectations March's issuance plan is limited (see table beside). However, we foresee higher activity on the primary market in April due to redemption of PS0414 worth PLN19.5bn and PLN5.8bn of the interest payments. Assuming "conservative" T-bonds sale in March and the roll-over of T-bonds maturing in April, we foresee completion ratio at 80% at the end of April, in line with the Ministry expectations.

Gross borrowing requirements and its funding in 2014



Auctions schedule for March 2014

Auction date	Settlement date	T-bonds	Expected supply
6 Mar 2014	10 Mar 2014	OK0716 / WZ0119	PLN2.0-6.0bn

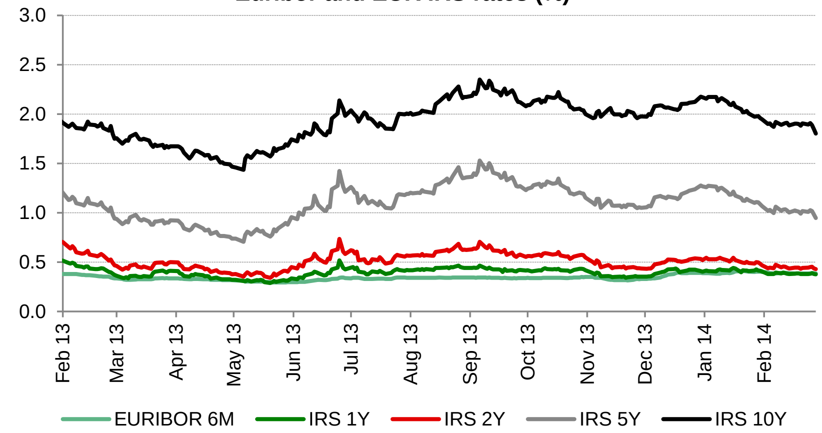
Auction date	Settlement date	T-bonds to be offered	Buy-back of T-bonds
20 Mar 2014	24 Mar 2014	the choice depending on the market conditions	PS0414 OK0714

Sources: MF, BZ WBK

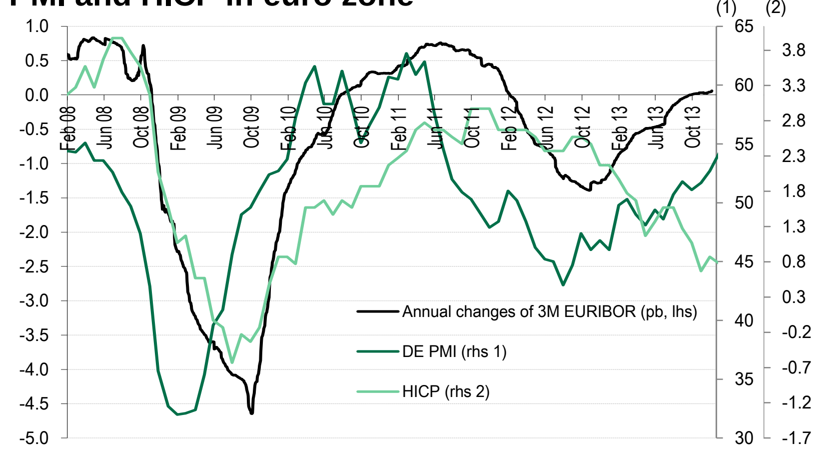
International Money Market and IRS: Stable amid low HICP

- Money market rates and IRS rates in the euro zone have remained stable, while FRA rates have moved slightly up during the past month.
- The increase of the latter was due to the rhetoric of the ECB after its February's meeting. Mario Draghi said that monetary authority needs more information, like March's update of the CPI and GDP forecasts and assessment on the durability of the turmoil in the emerging markets. As regards the persistently low inflation, Draghi stressed it is key that the euro zone sees no deflation and low price growth can stay in the upcoming months. His comment sounded rather hawkish as some investors expected a rate cut at that meeting.
- Even though the economic recovery is progressing, the potential for a rebound of EURIBOR seems to be limited as long as inflation is low. Also, the ECB will maintain a dovish rhetoric to keep the short-term interest rates at the rock-bottom levels.
- The European Commission has revised downwards its annual HICP forecasts in the euro zone to 1.0% from 1.5% in 2014 and to 1.3% from 1.4% in 2015. Low inflation should keep pace of EURIBOR and IRS increase subdued (together with the EBC's readiness to act if needed), any upward pressure may rely on the strength of signs of an economic revival.

Euribor and EUR IRS rates (%)



Nominal annual change of 3M EURIBOR vs. German PMI and HICP in euro zone

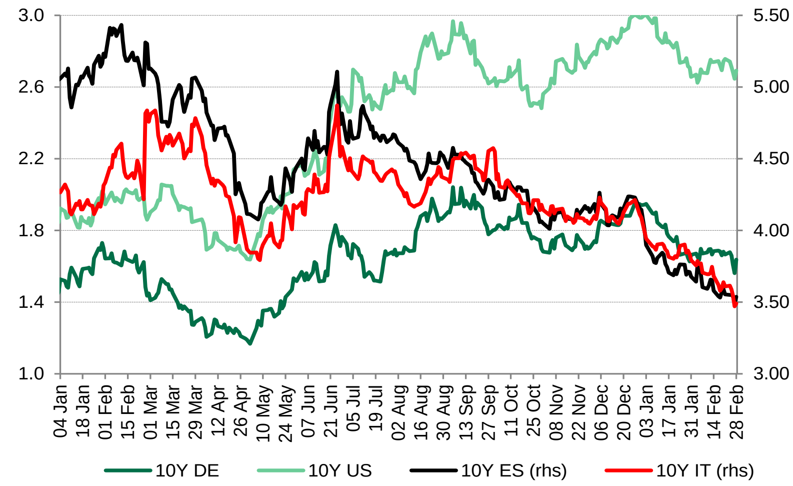


Sources: Thomson Reuters, ECB, Fed, BZ WBK

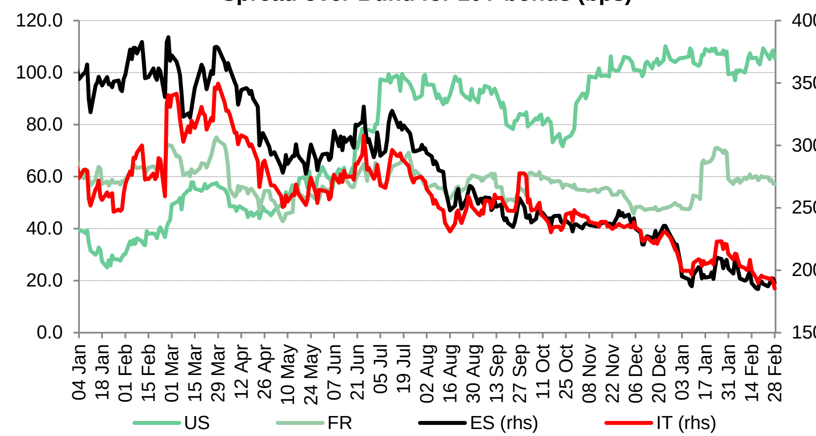
International Bond Market: Strong demand for safe assets due to situation in Ukraine

- No significant changes were recorded in the core markets. The first half of February saw some correction of the long term 10Y Bunds and Treasuries after the January's rally, but tensions in Ukraine and other EM markets supported demand for safe assets later in the month.
- Yield of the 10Y Bunds has broken through the local low at 1.60% and may decline by other 10bp, to the trough from mid-July 2013 in the short-term. However, we still forecast the upward trend of core yields to be resumed later in the year amid clearer signs of an economic recovery.
- Peripheral debt strengthened in February. Implemented political changes in Italy have been carried out smoothly and fast while Moody's agency upgraded Spanish rating by one notch, to Baa2 with positive outlook. The agency justified its decision saying that economic recovery of this country seems to be persistent and based on a row of structural reforms. Market was expecting that Spain may be upgraded, but positive outlook came as a surprise. Consequently, yields of 10Y Italian and Spanish bonds reached the lowest levels since March 2006 (c.3.50% in both cases), falling below pre-crisis levels. Italian and Spanish 10Y spreads vs. Bunds have retraced nearly 80% of the surge triggered by Greek debt crisis.

10Y bonds yields (%)



Spread over Bund for 10Y bonds (bps)

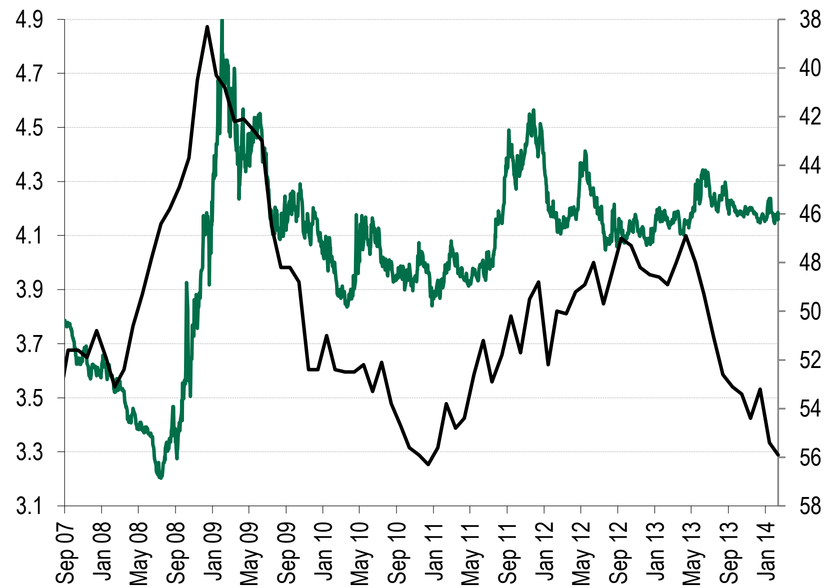


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: EM tensions pressure the zloty

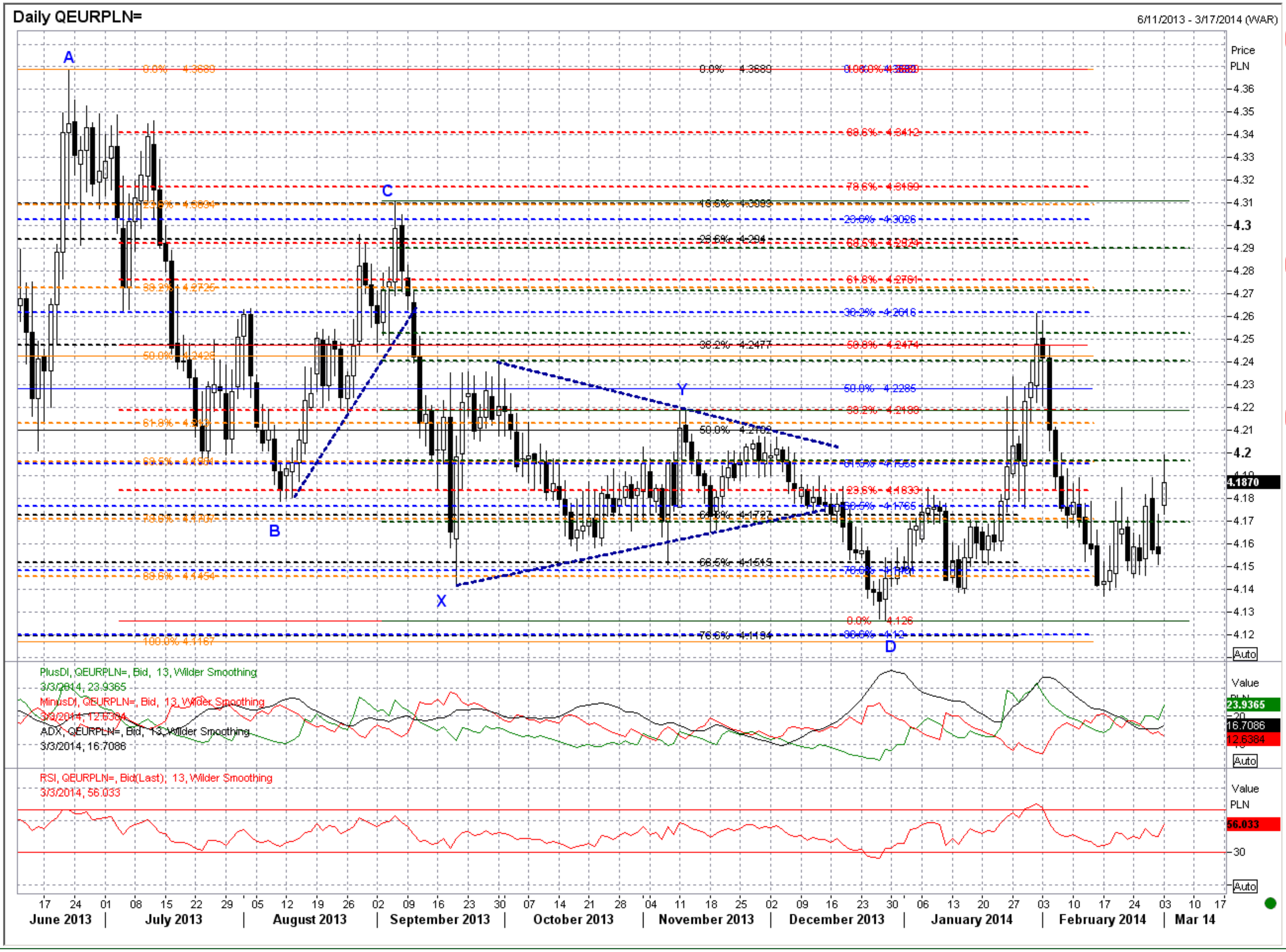
- After January's turmoil, the mood in the emerging markets has stabilized. Positive surprise from the Polish, Czech and Hungarian manufacturing PMIs for February (in contrast to January's readings) helped the zloty to end the weakening trend vs. the euro that ran for three consecutive weeks, and EURPLN retreated as far as 4.14.
- However, the rise of tension in Ukraine pushed CEE currencies towards depreciation again (EURPLN towards 4.19). In the near term, the scope for strengthening of the zloty will by limited by several factors, including persisting uncertainty regarding the situation in Ukraine and the likely continuation of QE3 tapering by the FOMC. It is worth to notice that worries about emerging markets are present since early 2014 and new sources of uncertainty are still emerging (protests in Venezuela, Thailand, new threads of corruption scandal in Turkey). Let us remind that according to the IMF, in 2014 the spread between economic growth in EM and core markets will be lowest since 2001. All these can constrain the pace of PLN appreciation.
- However, we expect the zloty to outperform other EM currencies and continue to appreciate in the medium term, as macro data show clearer signs of accelerating and well-balanced growth (the current account deficit fell to 1.5% of GDP in 2013 and is expected to shrink further). A possible interest rate hike in H2-14 would also support the currency.

EURPLN and PMI for Polish manufacturing



Sources: BZ WBK, Reuters, CSO

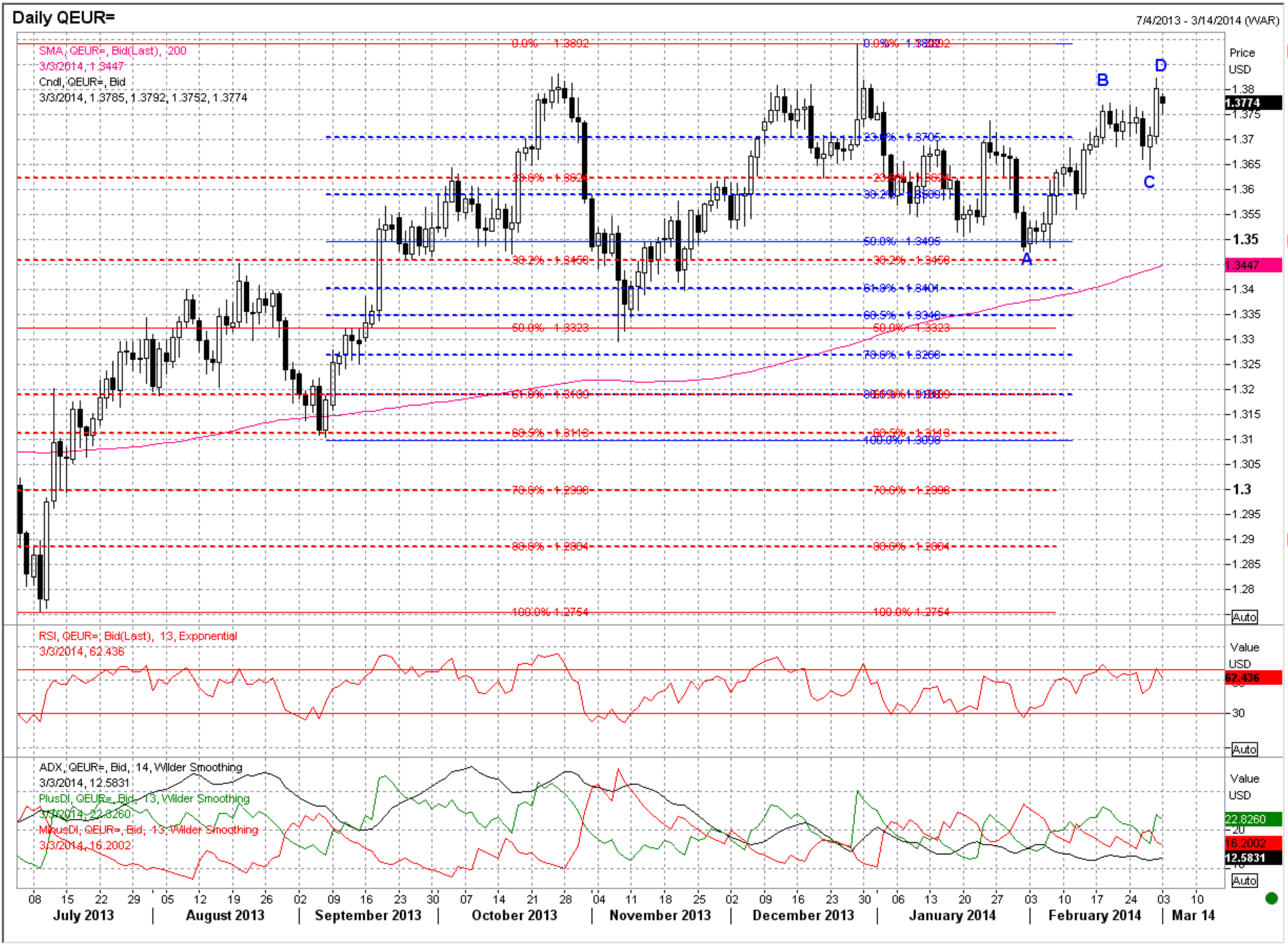
FX Technical Analysis Corner: No strong signals



- EURPLN did not break resistance mentioned last month at 4.247, the exchange rate headed south and fell below support at 4.18.
- Currently, the technical analysis does not give any clear directional signals.
- 4.126-4.14 area of support should prevent from any deeper move down while first crucial resistance seems to be as high at around 4.26.

Sources: BZ WBK, Reuters

FX Technical Analysis Corner: Will 1.618 initiate a decline?



- Scenario of EURUSD rebound presented last month materialized in February.
- The exchange rate did not break support at around 1.35-1.345 and surged to ca. 1.38 (after having broken two resistance levels at 1.365 and 1.374).
- AB/CD=1.618, Fibonacci ”golden ratio”, suggesting that some downward correction may take place soon. Support levels are at 1.365 and 1.35.

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	1,631.8	1,705.6	377.9	395.7	404.3	453.9	392.4	414.1	422.2	476.9
GDP	%YoY	4.5	1.9	1.6	3.5	0.5	0.8	1.9	2.7	3.1	3.6	3.6	3.7
Domestic demand	%YoY	3.6	-0.2	-0.1	3.0	-0.9	-1.7	0.5	1.2	1.5	3.5	3.0	3.7
Private consumption	%YoY	2.6	0.8	0.8	2.4	0.0	0.2	1.0	2.1	2.2	2.3	2.5	2.6
Fixed investments	%YoY	8.5	-0.8	-0.4	4.6	-2.1	-3.2	0.6	1.3	1.5	2.0	5.0	7.0
Unemployment rate [a]	%	12.5	13.4	13.4	12.8	14.3	13.2	13.0	13.4	14.0	12.7	12.5	12.8
Current account balance	EURm	-18,519	-14,191	-5,912	-2,573	-2,313	486	-2,072	-2,013	-386	-52	-850	-1,285
Current account balance	% GDP	-5.0	-3.7	-1.5	-0.6	-3.1	-2.3	-1.9	-1.5	-1.0	-1.1	-0.8	-0.6
General government balance	% GDP	-5.0	-3.9	-4.4	4.4	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.1	1.3	0.5	1.1	0.7	0.8	1.1	0.9	1.7
CPI [a]	%YoY	4.6	2.4	0.7	1.8	1.0	0.2	1.0	0.7	0.8	1.3	1.2	1.8
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.2	1.2	1.0	1.4	1.2	1.1	1.3	1.1	1.5

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; [a] at the end of period * without changes in pension system

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	3.00	3.25	2.75	2.50	2.50	2.50	2.50	2.75	3.00
WIBOR 3M	%	4.54	4.91	3.02	2.88	3.77	2.96	2.70	2.66	2.71	2.74	2.92	3.17
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.29	3.29	2.77	2.98	2.88	3.04	3.16	3.37	3.58
Yield on 5-year T-bonds	%	5.44	4.53	3.46	3.99	3.49	3.09	3.63	3.64	3.73	4.00	4.09	4.13
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.65	3.95	3.58	4.26	4.36	4.47	4.61	4.72	4.82
2-year IRS	%	4.98	4.52	3.10	3.47	3.43	2.81	3.14	3.04	3.14	3.34	3.60	3.80
5-year IRS	%	5.24	4.47	3.51	4.10	3.52	3.08	3.76	3.68	3.77	4.09	4.23	4.32
10-year IRS	%	5.33	4.56	3.86	4.47	3.76	3.41	4.13	4.14	4.23	4.39	4.55	4.70
EUR/PLN	PLN	4.12	4.19	4.20	4.09	4.16	4.20	4.25	4.19	4.18	4.13	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.97	3.15	3.22	3.21	3.08	3.06	3.01	2.93	2.87
CHF/PLN	PLN	3.34	3.47	3.41	3.28	3.38	3.41	3.44	3.40	3.42	3.36	3.22	3.11
GBP/PLN	PLN	4.75	5.16	4.94	4.95	4.88	4.94	4.97	4.98	5.07	5.01	4.87	4.84

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

Economic Calendar and Events

Date		Event:	Note:
5-Mar	**PL**	**MPC Meeting – interest rate decision**	**We expect the MPC to keep interest rates unchanged**
6-Mar	**PL**	**Auction of T-bonds OK0716 and WZ0119**	Offer: PLN2.0-6.0bn
	EZ	ECB Meeting – interest rate decision	-
11-Mar	EU	Ecofin meeting	-
14-Mar	**PL**	**CPI for February**	**Our forecast: 0.8%YoY, below market consensus at 0.9%YoY**
17-Mar	**PL**	**CPI excluding food and energy prices for February**	**Our forecast and market consensus are at 0.9%YoY**
18-Mar	**PL**	**Employment and wages for February**	**We expect employment to increase by 0.3%YoY and wages growth at 3.5%YoY. Our forecasts are slightly above market consensus**
	HU	MPC Meeting – interest rate decision	-
18-19 Mar	US	FOMC meeting	-
19-Mar	**PL**	**Industrial output and PPI for February**	**Our forecast of industrial output is 6.1%YoY (in line with market consensus). We predict PPI at -1.3%YoY**
20-Mar	**PL**	**Switch tender**	**Buy-back of T-bonds: PS0414 and OK0714**
20-21 Mar	EU	European Council meeting	-
25-Mar	HU	NBH meeting	-
27-Mar	CZ	CNB meeting	-
TBA	**PL**	**Retail sales for February**	**Our forecast is 6.2%YoY. It is slightly above market consensus at 6.0%YoY**
3-Apr	EZ	ECB Meeting – interest rate decision	-
9-Apr	**PL**	**MPC Meeting – interest rate decision**	**-**

Annex

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

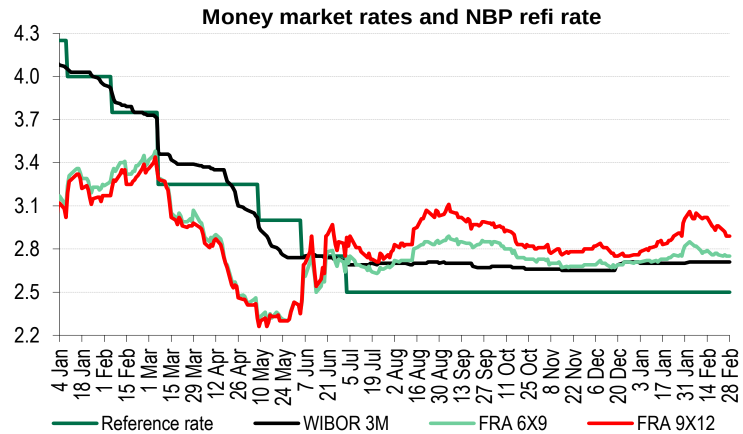
1. Domestic markets performance

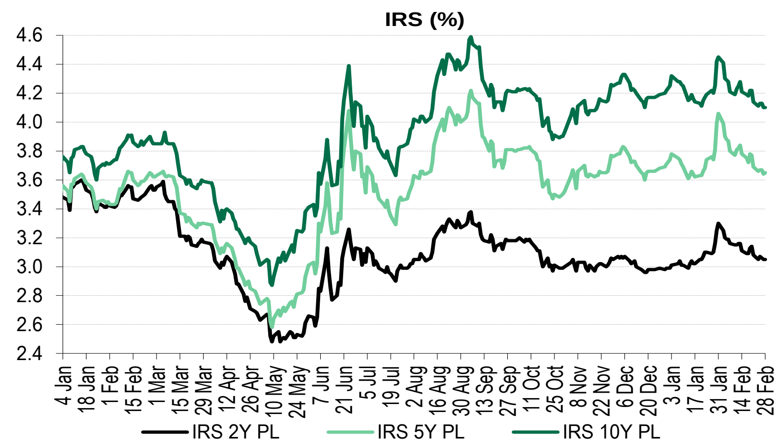
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of February	**2.50**	**2.49**	**2.61**	**2.71**	**2.74**	**2.78**	**2.41**	**2.41**	**2.43**	**2.52**	**2.72**	**2.72**	**2.76**	**2.88**
Last 1M change (bp)	0	-7	1	1	2	3	0	0	2	3	2	1	1	-1
Last 3M change (bp)	0	-2	1	6	4	3	1	1	3	6	5	6	7	8
Last 1Y change (bp)	-125	-121	-119	-102	-93	-82	-119	-109	-95	-77	-91	-77	-63	-47

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of February	**3.02**	**3.68**	**4.36**	**3.05**	**3.65**	**4.10**	**-3**	**2**	**26**
Last 1M change (bp)	-4	0	-5	-5	-9	-10	1	9	5
Last 3M change (bp)	18	-7	-16	-1	-12	-16	19	5	0
Last 1Y change (bp)	-44	6	40	-48	3	25	4	3	15





Sources: Reuters, BZ WBK

2. Polish bonds: supply recap

Total issuance in 2014 by instruments (in PLNm, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bonds auction	18,143	8,821	5,000	13,000	9,000	5,000	5,000	5,000	5,000	5,000	3,000	2300	84,264
T-bills auction													0
Retail bonds	150	170	190	170	170	170	170	180	170	175	185	176	2,076
Foreign bonds/credits	16,724	1,150					5450			3200			26,524
Prefinancing and financial resources at the end of 2013	25,000												25,000
Total	**60,017**	**10,141**	**5,190**	**13,170**	**9,170**	**5,170**	**10,620**	**5,180**	**5,170**	**8,375**	**3,185**	**2476**	**137,863**
Redemption	16,497	5,613	2,230	20,147	116	60	11,612	1,793	2,514	83	816	91	61,571
Net inflows	**43,520**	4,528	**2,960**	**-6,977**	**9,054**	**5,110**	**-992**	**3,387**	**2,656**	**8,292**	**2,369**	**2,385**	**76,292**
Rolling over T-bonds													**0**
Buy-back of T-bills/ FX-denominated bonds													**0**
Total	**43,520**	4,528	**2,960**	**-6,977**	**9,054**	**5,110**	**-992**	**3,387**	**2,656**	**8,292**	**2,369**	**2,385**	**76,292**
Coupon payments from domestic debt	*1,546*			*5,799*			*1,645*		*1,298*	*6,546*			*16,834*

Note: Our forecasts – shaded area

Sources: MF, BZ WBK

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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	13,660		155	**13,815**	2,681	**16,497**
February			171	**171**	5,442	**5,613**
March			117	**117**	2,113	**2,230**
April	19,507		66	**19,573**		**19,573**
May			116	**116**		**116**
June			60	**60**		**60**
July	9,986		89	**10,075**	1,236	**11,311**
August			198	**198**	1,594	**1,793**
September			76	**76**	2,438	**2,514**
October			83	**83**		**83**
November			171	**171**	645	**816**
December			91	**91**		**91**
Total 2014	43,153		1,395	**44,548**	16,149	**60,696**
Total 2015	83,354		1,357	**84,711**	14,789	**99,500**
Total 2016	74,217		927	**75,145**	17,262	**92,406**
Total 2017	58,543		795	**59,338**	12,566	**71,904**
Total 2018	58,285		849	**59,134**	14,396	**73,530**
Total 2019+	143,159		3,136	**146,295**	135,784	**282,079**

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of January 2014, in PLNm)

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2014	0	0	0	0	0	55	1	2	58
Q2 2014	11,674	2,877	2,962	724	753	87	74	986	20,138
Q3 2014	5,417	1,680	1,290	311	707	143	12	824	10,385
Q4 2014	0	0	0	0	0	58	7	13	77
Total 2014	**17,091**	**4,557**	**4,252**	**1,036**	**1,461**	**342**	**94**	**1,825**	**30,657**
	56%	**15%**	**14%**	**3%**	**5%**	**1%**	**0%**	**6%**	**100%**
Total 2015	35,117	26,706	8,470	7,117	6,853	232	279	5,435	90,208
	39%	30%	9%	8%	8%	0%	0%	6%	100%
Total 2016	33,760	17,483	6,350	21,017	9,836	107	97	5,864	94,515
	36%	18%	7%	22%	10%	0%	0%	6%	100%
Total 2017	23,830	15,404	6,418	13,288	8,554	47	288	3,614	71,444
	33%	22%	9%	19%	12%	0%	0%	5%	100%
Total 2018	15,867	25,827	2,934	30,909	6,671	68	270	4,036	86,581
	18%	30%	3%	36%	8%	0%	0%	5%	100%
Total 2019+	60,605	30,881	23,968	59,083	12,916	203	294	8,775	196,725
	31%	16%	12%	30%	7%	0%	0%	4%	100%

Sources: MF, BZ WBK

3. Polish bonds: demand recap

Holders of marketable PLN bonds

	Nominal value (PLN, bn)				Nominal value (PLN, bn)			% change in January			Share in TOTAL (%) in January
	End Jan'14	End Dec'13	End Sep'13	End Jun'13	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	392,6	381,2	377,3	369,4	341,8	352,9	361,4	2,99	0,80	15,54	67.8 (1.4pp)
Commercial banks	120,9	114,7	116,2	113,9	102,0	102,1	110,9	5,38	9,13	30,11	20.9 (0.9pp)
Insurance companies	52,4	52,0	52,8	53,1	54,7	57,0	54,3	0,82	1,81	0,94	9.1
Pension funds	132,4	125,8	122,7	117,7	116,7	120,3	120,7	5,31	4,71	16,62	22.9 (1.0)
Mutual funds	46,3	46,7	46,1	46,5	32,5	33,0	31,3	-0,98	-6,60	11,93	8.0 (-0.1pp)
Others	40,6	42,0	39,5	38,3	35,9	40,5	44,3	-3,39	-4,19	1,33	7.0 (-0.3pp)
Foreign investors*	186,3	193,2	200,6	201,8	184,2	174,0	163,2	-3,56	-3,79	-4,47	32.2 (-1.4pp)
Banks	30,4	29,1	32,1	32,3	27,8	22,6	24,3	4,39	11,95	-0,06	5.3 (0.2pp)
Non-bank fin. sector	148,6	156,0	159,7	160,1	147,5	143,1	131,7	-4,73	-5,74	-4,84	25.7 (-1.5pp)
Non-financial sector	4,1	4,7	5,2	5,3	5,6	5,2	4,4	-13,79	-24,43	-15,70	0.7 (-0.1pp)
TOTAL	578,9	574,3	577,9	571,2	526,0	526,9	524,7	0,79	3,14	8,24	100

**Total for Foreign investors does not match sum of values presented for sub-categories due to omission of irrelevantly small group of investors.* *Sources: MF, BZ WBK*

4. Euro zone bonds: supply recap

Euro zone's issuance plans and completion in 2014 (€ bn)

	Total redemptions	Deficit	Borrowing needs	Expected bond supply	% of completion (YtD*)
Austria	23.4	4.3	27.7	24.7	10.0
Belgium	21.8	9.8	31.6	30.0	28.3
Finland	6.9	4.8	11.7	11.7	40.0
France	105.0	70.2	175.2	174.0	23.2
Germany	144.0	-	144	144.0	19.3
Greece	*16.8*	*5.6*	-	-	-
Ireland	6.9	7.7	14.6	14.6	37.5
Italy	187.8	27.6	235.4	235.4	19.4
Netherlands	32.0	15.9	47.9	45.9	22.7
Portugal	11.4	7.4	18.8	7.2	-
Spain	68.2	36.7	141.3	141.3	25.4
Total	**624.2**	**189.9**	848.2	**828.8**	**22.3**

Sources: Eurostat, BZ WBK

**/ YtD (year calendar) data for 2014*

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	**1.6**	**2.9**	**0.8**	**1.4**	**-1.6**	**-1.4**	**-4.4**	**5.0**	**57.8**	**50.3**
Czech Republic	-1.2	1.8	1.4	1.0	-2.4	-1.5	-2.7	-2.8	46.1	47.2
Hungary	1.1	2.1	1.7	1.2	2.9	2.7	-2.4	-3.0	77.8	79.1
EU	0.1	1.5	1.5	1.2	1.7	1.7	-3.5	-2.7	89.4	89.7
Euro area	-0.4	1.2	1.4	1.0	2.7	2.7	-3.1	-2.6	95.5	95.9
Germany	0.4	1.8	1.6	1.4	7.0	6.7	-0.1	0.0	79.6	77.3

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2013	end of Feb	2013	end of Feb	2013	end of Feb	2013	end of Feb	2013	end of Feb
Poland	**2.50**	**2.50**	**2.71**	**2.71**	**4.32**	**4.36**	**238**	**272**	**79**	**79**
Czech Republic	0.05	0.05	0.05	0.05	2.53	2.22	58	58	60	59
Hungary	3.00	2.70	2.99	2.75	5.71	6.11	377	447	256	238
Euro area	0.25	0.25	0.29	0.29						
Germany					1.94	1.64			26	25

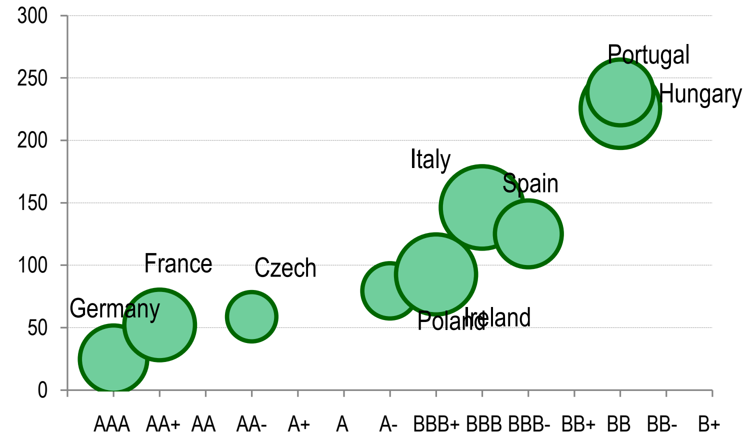
Sources: EC – Winter 2014, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

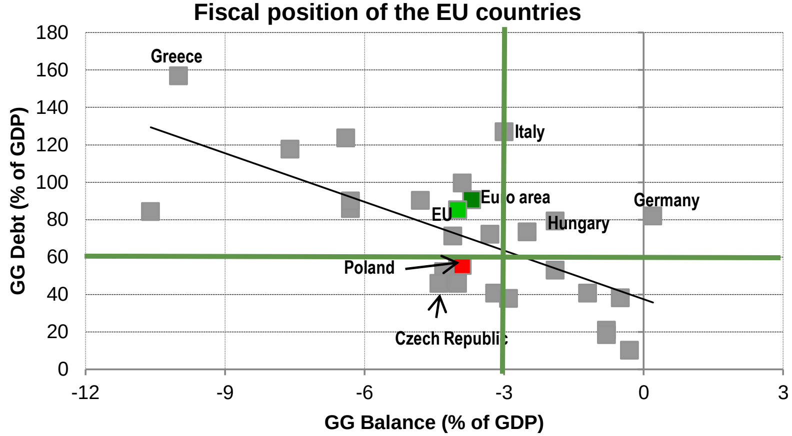
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	stable	Caa3	stable	B-	stable
Ireland	BBB+	positive	Baa3	positive	BBB+	stable
Italy	BBB	negative	Baa2	stable	BBB+	negative
Portugal	BB	negative	Ba3	stable	BB+	negative
Spain	BBB-	stable	Baa3	stable	BBB	stable

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

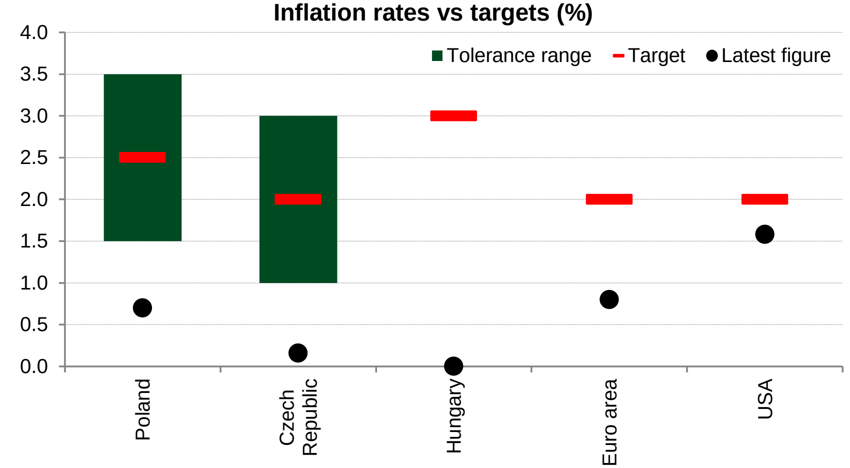


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries



Inflation rates vs targets (%)



Source: rating agencies, Reuters, BZ WBK, EC

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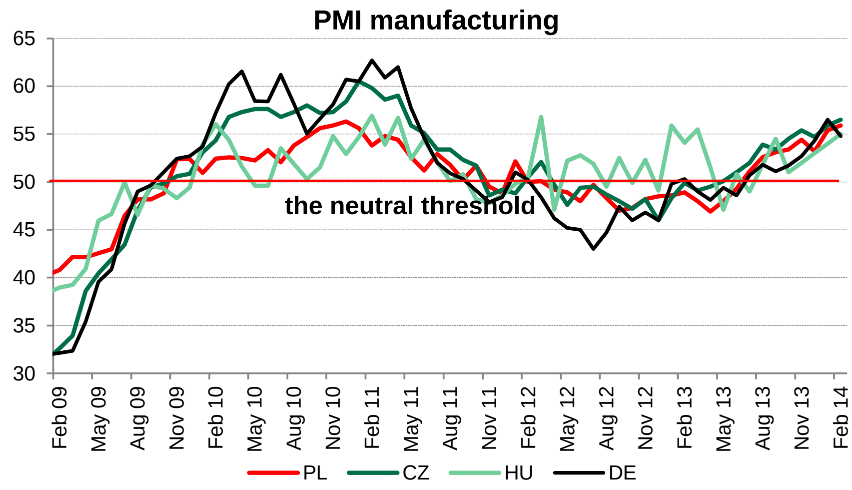
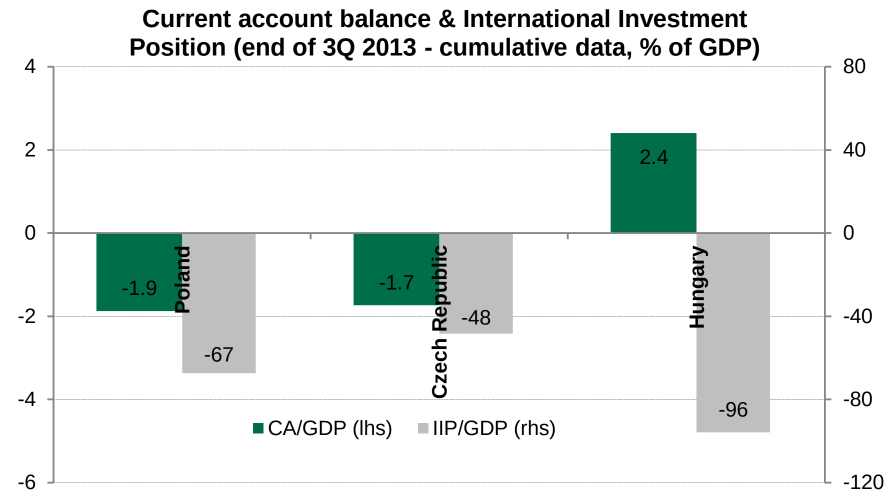
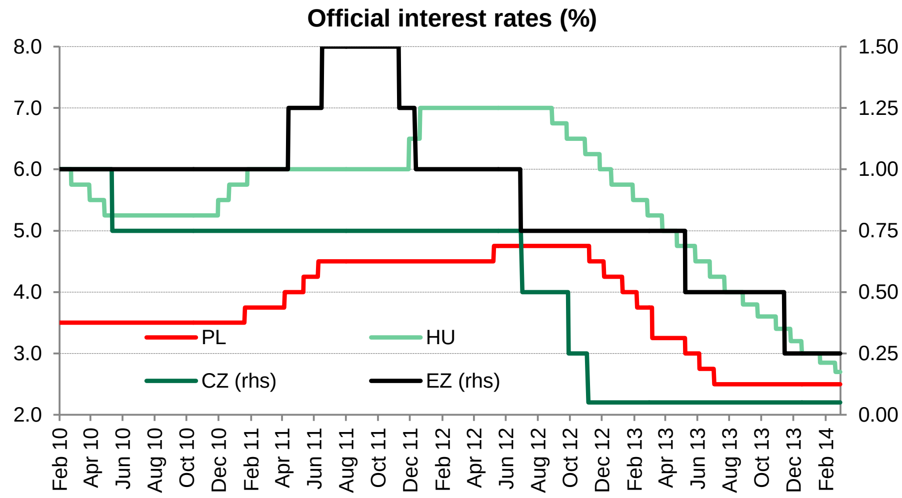
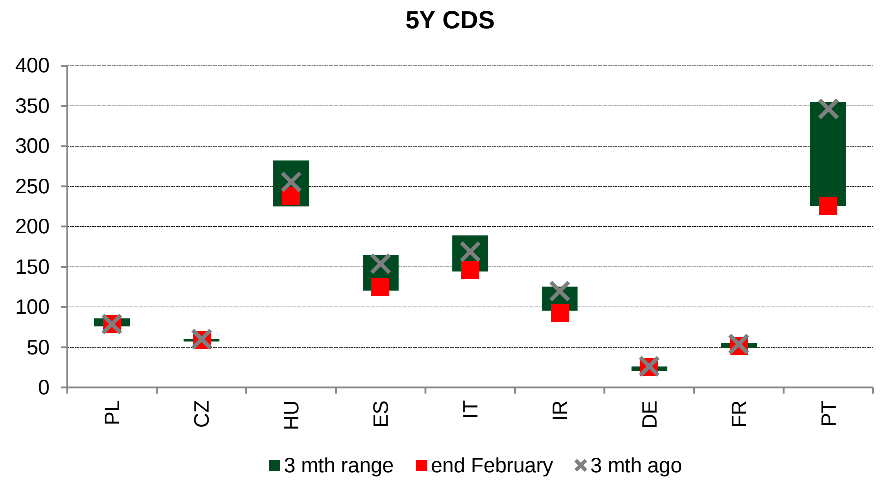
5. Poland vs other countries (cont.)









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

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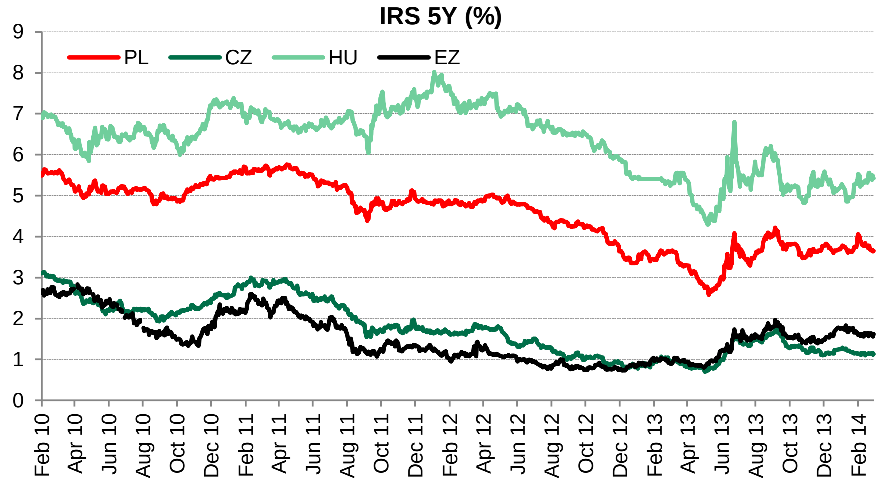
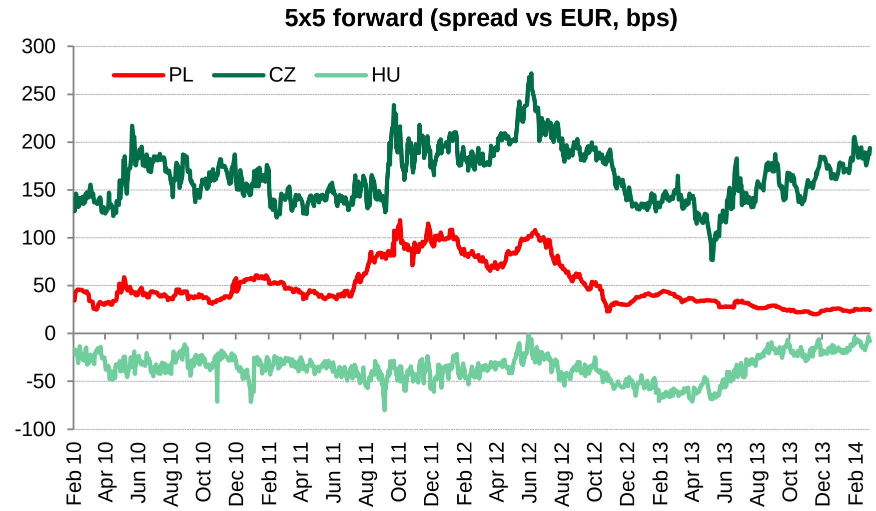
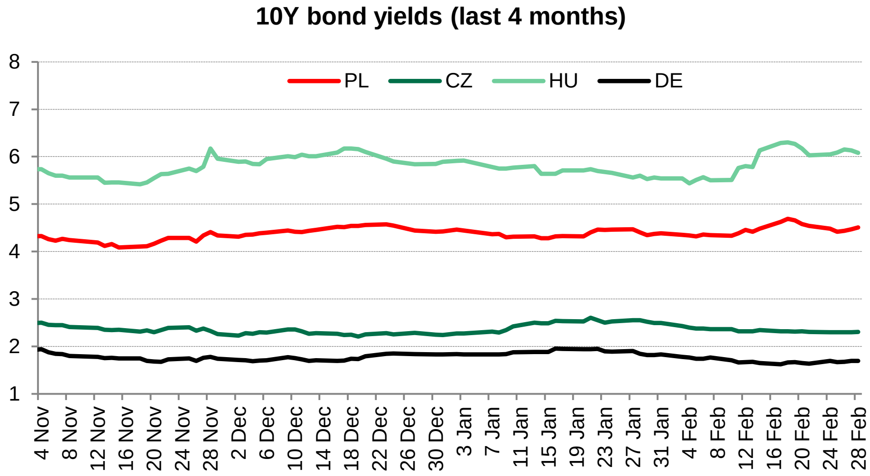
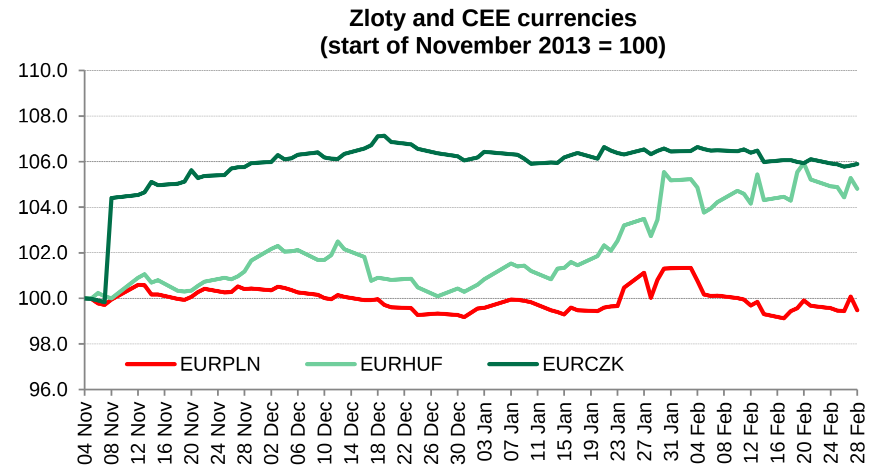
5. Poland vs other countries (cont.)









Source: Reuters, BZ WBK

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7. Central bank watch

					Expected changes (bp)			Risks/Events
		Last	2013	2014F	1M	3M	6M	
Euro zone	Forecast	0.25	0.25	0.25				The ECB's member suggests that the staff 2016 inflation forecasts (to be published in March) might show inflation still below 2%. This would keep alive the debate on the need to act to avoid deflation risk.
	Market implied »				-2	-2	-2	
UK	Forecast	0.50	0.50	0.75				In February's Inflation Report, the Bank of England quite significantly increased its GDP forecasts. What is more, it altered its forward guidance, pointing out that not only unemployment rate, but also other macroeconomic indicators will be crucial for further decision about interest rate. All in all it increases probability of rate hike later this year.
	Market implied »				1	3	10	
US	Forecast	0-.25	0-.25	0.25				The FOMC Minutes from January's meeting showed that Fed will to continue the QE3 tapering at current pace. We do not exclude that March's forecast might allow the Fed to change its forward guidance.
	Market implied »				0	1	3	
Poland	Forecast	2.50	2.50	3.00				We uphold our stance that the MPC will keep interest rates unchanged. Despite higher path of GDP growth in a new projection we do not expect any significant changes in comparison with the previous meetings.
	Market implied »				1	1	5	
Czech Republic	Forecast	0.05	0.05	0.05				The Czech economy is still on the verge of deflation. Consequently, the CNB keeps both interest rates and the FX intervention target (CZK 27/EUR) unchanged.
	Market implied »				33	35	37	
Hungary	Forecast	2.70	3.00	3.00				The NBH cut the policy rate to a larger extent than expected (by 15 bp vs predicted 10 bp). Statement read that decision on the continuation of the monetary policy easing cycle will be taken in March after fresh economic forecasts for Hungary will be available for the central bank. It's a question whether the council's statement gives an indication on the end of rate cuts.
	Market implied »				1	21	57	

This analysis is based on information available until 28th February 2014
and has been prepared by:

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