



RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

May 2014



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Summary

- While some recent economic indicators for Poland were below expectations (PMI, industrial output, retail sales, exports), others exceeded forecasts (construction output, employment and wage growth). In our view, the general picture has not changed much – **the economy is on a path of gradual recovery, with GDP growth accelerating from c3%YoY in 1Q14 to nearly 4%YoY in 4Q14**. The effect of the crisis in Ukraine on Poland's economic growth is not yet visible and the impact is likely to be relatively small, as long as the growing tension between Russia and the West does not stop the recovery in the Euro zone.
- **Inflation stays low and will remain subdued for the better part of the year.** The headline CPI number probably touched bottom in 1Q14 and a steady upward move in the coming months is likely to be led mainly by a statistical effect. However, we think CPI growth will start accelerating more strongly in 4Q, as growing domestic demand will put some pressure on retail prices and, on top of that, food prices might bottom out rapidly. The risk for our CPI forecast is still on the downside and comes from external factors, including a Russian embargo or low commodity prices.
- Poland's monetary policy remains in stand-by mode. Comments from Monetary Policy Council (MPC) members suggest maintaining the status quo until July, when the Council will probably extend its forward guidance again, announcing stable interest rates until the end of this year. **We still believe that interest rate hikes in Poland may start in 1Q15.**
- **This month, the most important event will be ECB meeting as some investors are pricing-in monetary easing after the inflation data for the Euro zone.** We think the ECB will maintain its wait-and-see policy and its dovish tone. We expect Mario Draghi to highlight the bank's willingness to take further action if necessary.
- Polish bonds have been supported in recent weeks by low inflation, the MPC's remarks and the ECB's suggestions about possible use of non-standard measures, while rising tension in Ukraine put some upward pressure on long-term yields. The ECB policy may be key for the market in near term. We predict horizontal trend in yields in the short run. However, if the ECB does not fuel hopes for imminent quantitative easing at its next meeting, the escalation of geopolitical risk and a predicted set of strong economic data for April may push yields up further in the next few weeks (in particular, in the middle and at the long end of the curve). On the other hand, low bond supply in May should limit yield growth.
- ECB policy and the situation in Ukraine are also crucial for the FX market. **We still think the PLN should appreciate in the medium run. However, the increased geopolitical risk may continue to weigh on the currency over the next few weeks.**

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-April	1M	3M
Reference rate	0	0	2.50	→	→
3M WIBOR	1	1	2.72	→	→
2Y bond yield	-33	-12	2.88	→	→
5Y bond yield	-56	-22	3.54	→	↗
10Y bond yield	-66	-19	4.03	→	↗
2/10Y curve slope	-34	-8	115	→	↗

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

PLN rates: our view and risk factors

Money market: As we expected, the situation in the money market did not change significantly in April, despite still low inflation data. Given our expectations for monetary policy (in July the Council will extend its forward guidance to year-end), we foresee 3M WIBOR unchanged in the coming months. FRAs are likely to be more vulnerable.

Short end: In April, the front end of the curves declined a bit more than we forecast. However, we still think that yields and IRS rates up to 5Y are well anchored by the MPC's rhetoric and by expectations that the Council will extend its forward guidance until year-end. Therefore, we expect the 2Y benchmark yield to move sideways in the coming months.

Long end: Contrary to our expectations, T-bond yields and IRS rates shifted down quite significantly in the last month, mainly due to signals from the ECB suggesting further monetary easing. We think that the still-dovish tone from the ECB, declining yields in core markets and low domestic bond supply should stabilise 5Y and 10Y yields and IRS rates near current levels in the short-run. However, in the medium term we uphold our forecast of a gradual increase in yields and IRS rates as macro data should show a more significant improvement and the upward trend in core bond markets should resume.

Risk factors to our view: Geopolitical destabilisation remains one of the key risks right now, as the crisis in Ukraine is escalating and may evolve into a civil war. That could potentially put upward pressure on yields. On the other hand, ECB policy is a very important factor. If the central bank starts non-conventional monetary easing immediately, i.e. in May, it would push yields and IRS rates down sharply.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-April	1M	3M
EURPLN	-0.9	0.7	4.20	→	↘
USDPLN	-2.7	0.3	3.04	→	→
CHFPLN	-0.6	0.7	3.44	→	↘
GBPPLN	-0.5	1.4	5.12	→	↘
EURUSD	1.9	0.4	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: The zloty has remained sensitive to global events. Tension in Ukraine is partly balanced by the ECB's dovish comments. While in a one month period we predict a horizontal trend, with EURPLN between 4.18 and 4.20, in the medium term fundamentals would justify an appreciation of the zloty against euro towards 4.0 at the end of the year.

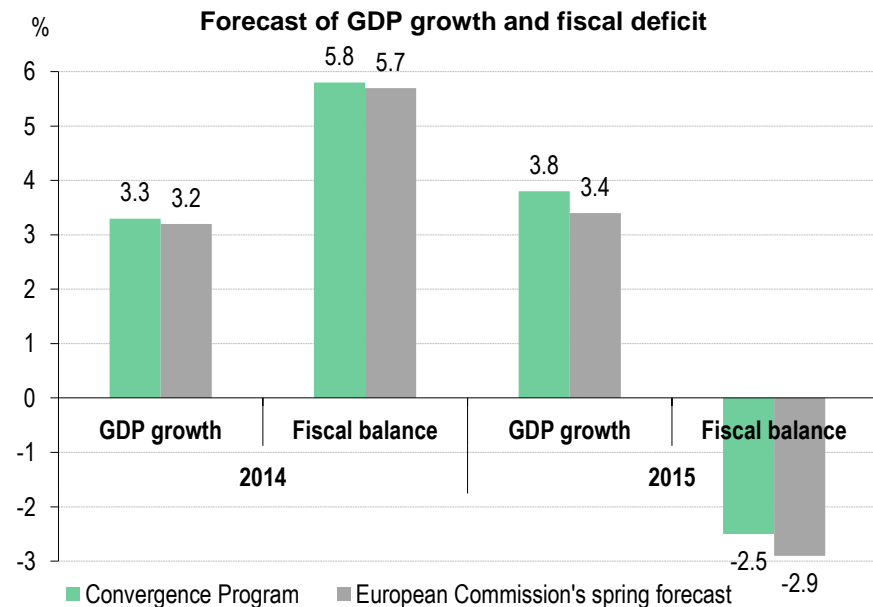
USD: The US dollar's performance against the main currencies was mixed despite the on-going recovery and decline in unemployment in the US. Our expectation that the EURUSD rate will not vary much in the months ahead is still valid, as risk factors are balanced. Given our forecast for the EURUSD and EURPLN, we expect the USDPLN to stay in horizontal trend, oscillating near its current level.

CHF: The situation for the EURCHF has not changed significantly. We still believe that the easing of Euro zone-specific risks implies that the EURCHF should be higher, but renewed worries about Ukraine and Chinese growth have kept the CHF bid. Assuming a horizontal trend for the EURCHF, we expect the CHFPLN to fluctuate near its current level in the short run, while the zloty should appreciate against the CHF in the medium to long term.

Risk factors to our view: Geopolitics have moved to centre stage for the zloty. If the Ukraine-Russia conflict escalates out of the control, the zloty may weaken more significantly than we currently expect. On the domestic side, much weaker economic growth in Poland could also result in the zloty weakening in the short run.

Fiscal policy: Changes to pension funds and faster GDP growth help fiscal consolidation

- In 2013 the Poland's fiscal consolidation stopped, with the general government deficit increasing to 4.3% of GDP (up from 3.9% of GDP the previous year). The increase came mainly from unfavourable structure of GDP growth (the increasing role of net exports and the decline in domestic demand) and the low inflation rate.
- Poland's new Convergence Programme update assumes a general government surplus of 5.8% of GDP in 2014 (according to ESA95) due to the implementation of pension system reforms. It will be only a one-off effect and in the following years the public sector balance is likely to shift to a deficit, reaching -2.5% of GDP in 2015, -1.8% in 2016 and -1.2% in 2017, according to Finance Ministry's plan. At the same time, general government debt should fall slightly below 50% of GDP this year and decline gradually in the following years towards 45% in 2017.
- Poland's government is determined to continue policy of fiscal consolidation and to meet the EU's recommendations, which implies a decline in the general government deficit to 2.9% of GDP in 2015 (ESA95). The updated Convergence Programme for 2014 shows that the expected general government deficit path should meet the Ecofin targets set in December 2013, which should allow Poland to exit the excessive deficit procedure.



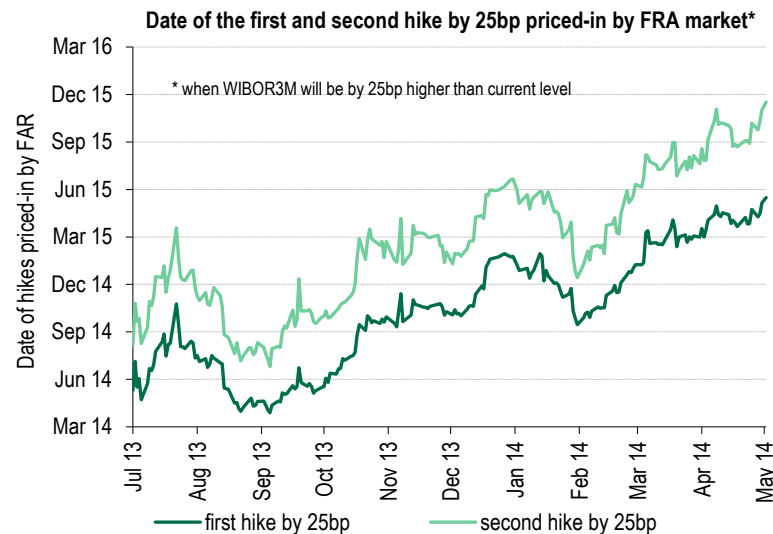
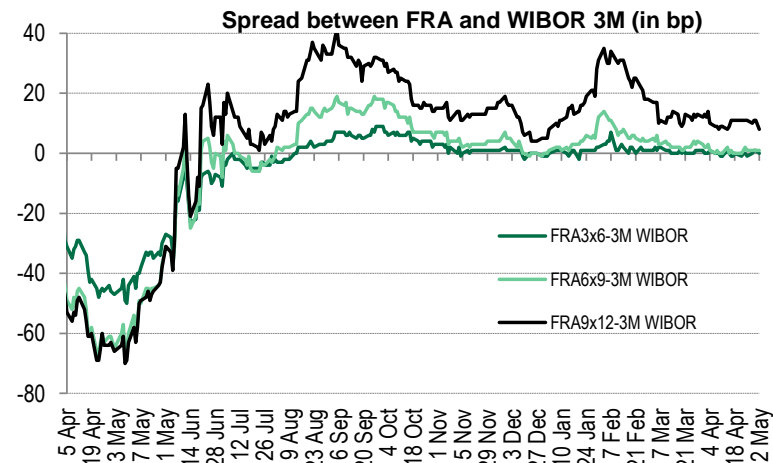
Source: Ministry of Finance, European Commission.

Fiscal policy: Risk of lower GDP offset by other factors

- The Convergence Programme Update 2014 is based on economic forecasts, which in our view are not unrealistic but are quite ambitious (except for 2014, which we think may be even slightly better than assumed in the programme). The government predicts GDP growth of 3.3% in 2014, 3.8% in 2015 and 4.3% in 2016-17.
- We think the risk to expected growth is more on the downside. The economic recovery in the Euro zone is still uneven and may be easily derailed by a threat of deflation, while the situation in Ukraine and a building conflict between Russia and the West creates another threat for the economy (even though the direct impact on Poland may not be substantial, it could undermine growth in the Euro zone).
- While lower economic growth would negatively affect public finances, there are at least three reasons to believe that this would not necessarily mean a substantial deviation from the fiscal consolidation path set out in the Convergence Programme:
 - First of all, the fiscal effect of pension system reform implemented at the start of this year will largely depend on the number of people opting to stay in open pension funds (OFE). The government's plans are based on the assumption that the opt-in ratio will be around 50%, while recent evidence suggests that the number of people choosing to stay in is very small. If the actual ratio were much smaller, it would have a positive impact on the fiscal balance.
 - Secondly, the Convergence Programme assumes a simple linear relation between VAT revenues and GDP growth, while it may be argued that the true tax elasticity is, in fact, strongly non-linear (as was evidenced in the recent economic downturn). That means that if GDP growth is slightly slower than predicted, the scale of tax revenue improvement in the phase of economic recovery may be stronger than assumed in the Ministry of Finance's simulations.
 - A third factor, that may potentially offset negative surprises from GDP growth, is a possible improvement in tax collection. While the programme does not rely on any significant progress in this area, the Ministry of Finance has been working hard to improve collection for some time and this could bring positive surprises in tax revenues.

Domestic Money Market: The MPC's rhetoric and low inflation stabilise rates

- In April the MPC signalled very clearly that no policy changes should be expected before July. This, together with the Council members' comments, should anchor money market rates near current levels. Consequently, 1M-12M WIBOR rates remained more or less stable (1M and 3M rates increased 1 bp at the beginning of April but remained unchanged for the rest of the month).
- FRA rates also were quite stable in April due to the MPC's comments (declaration of stable rates until the end of 3Q14 and a strong possibility of that continuing until year-end) and low inflation. The market is increasingly convinced that the first rate hike will take place on a 12-month horizon (the spread FRA12x15-WIBOR3M oscillates around 25bp). Market players have also reduced their expectations of monetary tightening in the cycle. They are currently pricing-in a 3M WIBOR hike to nearly 3.40% in a two-year period, while, at the end of January, they forecast almost 4%.
- In our opinion, May's MPC meeting is likely to be rather a non-event. We do not expect any significant changes in tone compared with the previous one. Meanwhile, we think the inflation rate should stabilise in April at a low 0.7%YoY. As a result, 3M WIBOR should stay near its current level in the coming weeks. FRA rates will be more sensitive to upcoming data, but we think the only thing likely to significantly change the market's view on interest rates in the medium term would be a much better-than-expected GDP number for 1Q14.



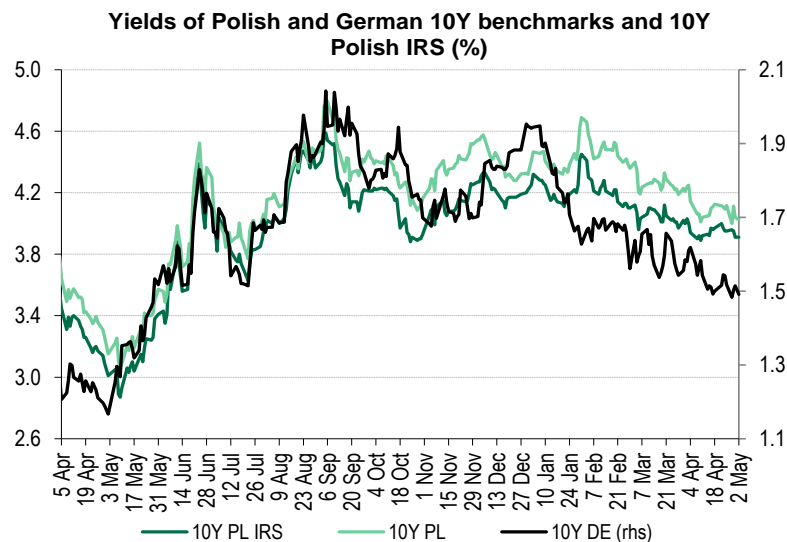
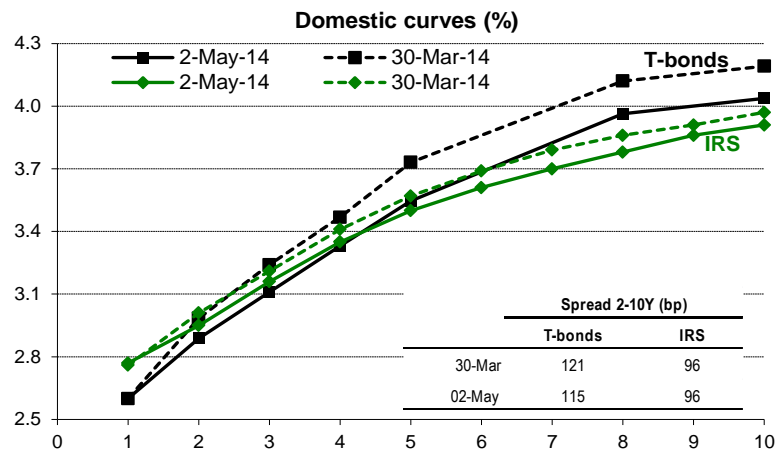
Source: Reuters, BZ WBK

Domestic IRS and the T-Bond Market: The ECB and the situation in Ukraine are key

Domestic T-bonds and IRS strengthened in the first half of April for reasons including: (1) the MPC suggested that rate stability would last longer than previously implied by its forward guidance; and (2) ECB's comments about the possible use of non-standard measures. Lower risk aversion shifted both curves down and caused the 2-10Y spread to narrow as 10Y rates dropped the most. A correction in second half of the month was triggered by higher geopolitical risk, but the impact was limited, particularly at the long end of the curve, by favourable auction results and lower yields in core markets.

We think ECB policy and Ukraine are the main factors influencing investors' view of the Polish debt market. On one hand, possible ECB action (more likely in June when new central bank forecasts will be released) should keep yields low. On the other hand, any escalation of the Ukrainian conflict may drive the yields up temporarily. All in all, we believe the yields are likely to stay in a horizontal trend this month, with 2Y yields at 2.85%-3.05% and 10Y yields at 4.00%-4.25%. May's low supply of domestic debt on the primary market may cause yields to drift towards the lower end of the range.

In the medium term, we see potential for 10Y yields to rise towards 4.55% at the end of the year, assuming the Euro zone recovers and the ECB will not be forced to act to counter the low inflation rate. Data from the real economy is likely to strengthen the case for rising yields.



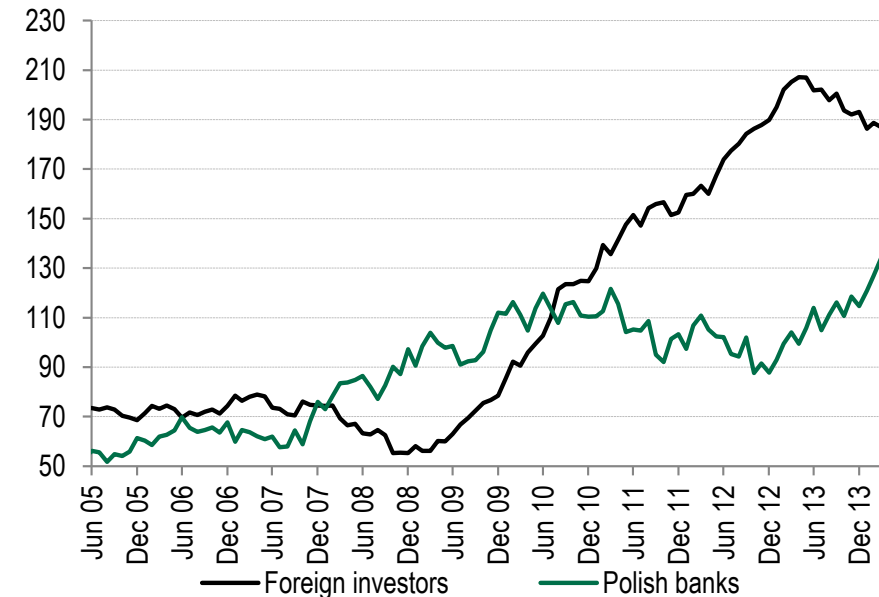
Source: Reuters, BZ WBK.

Demand Corner: Polish banks continue to accumulate bonds

Data released by the Ministry of Finance showed that, at the end of March, non-residents held c40% of outstanding marketable, PLN-denominated Polish bonds. That means foreigners sold debt of PLN1.8bn nominal value in the month. 1Q14 was already the fourth consecutive quarter of foreign investors selling Polish bonds. In March the biggest reductions were recorded in short-term bonds (PLN1.2bn of PS0414, and PLN1.7bn of PS0415). These sales were partly offset by PLN2.6bn of purchases of DS1023 (foreigners hold now c55% of the outstanding amount of this bond). Among non-residents, foreign banks purchased bonds worth nearly PLN1.7bn, while non-bank financials sold debt worth nearly PLN1.9bn.

It is worth noting that Polish banks increased their holdings of PLN-denominated Polish bonds by PLN7.4bn MoM in March after buying more than PLN6bn in the first two months of the year. In total, banks' portfolios increased by 17% in 1Q14 (+PLN19.6bn). In March, banks' purchases were concentrated on the short end and middle of the curve (+PLN1.5bn of PS0415, +PLN1.9bn of OK0716, +PLN2.2bn of PS0417). Polish banks hold 40% of the outstanding OK0716 and 44% of PS0417.

Nominal holdings of Polish bonds by foreign investors and domestic banks (PLN bn)

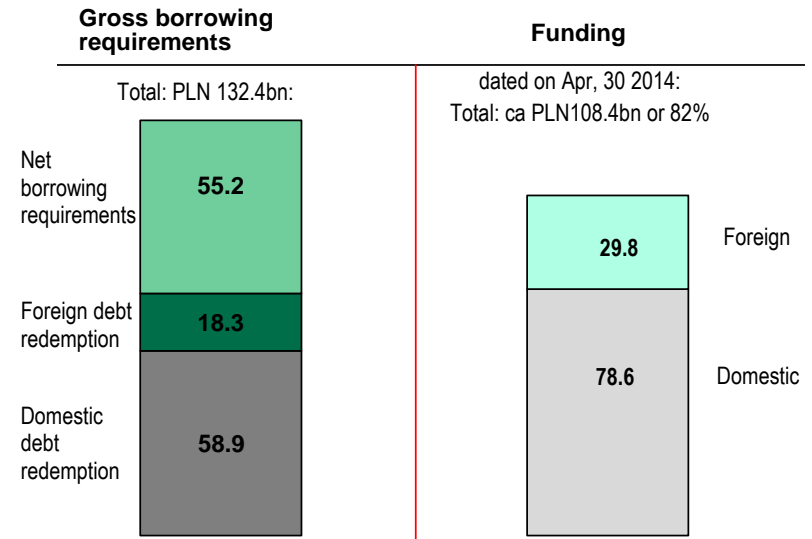


Source: Ministry of Finance, BZ WBK.

Supply Corner: Subdued T-bond issuance in May

- In April, Poland's Finance Ministry sold PLN17.5bn of bonds at two auctions. Demand was strong (PLN25bn in total), in particular at the second auction, supported by inflows of cash from redemptions and interest payments (of around PLN22bn). That allowed the ministry to sell more than planned, at higher prices than on the secondary market.
- The ministry had secured nearly 82% of this year's borrowing requirements by the end of April. We think it is more and more likely to have covered 100% of this year's target at the end of June.
- T-bond supply on the domestic market will be very limited in May (PLN4-7bn in total). The ministry decided to offer a new 5Y benchmark, PS0719, and infrastructure bonds (see table) to attract fresh funds. We expect relatively strong demand from both domestic and foreign investors.

Gross borrowing requirement and its funding in 2014



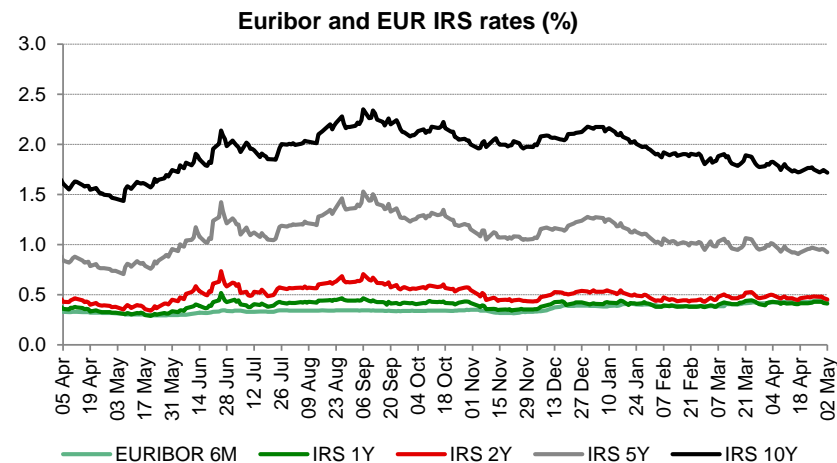
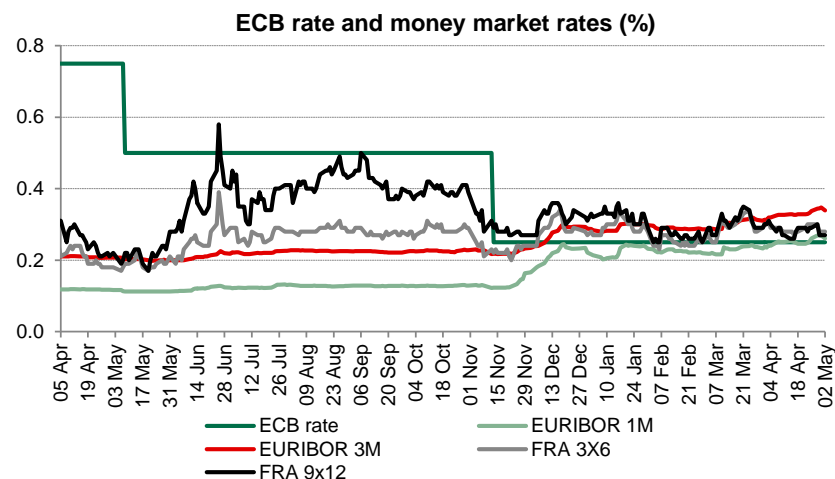
Auction schedule for May 2014

Auction date	Settlement date	T-bonds	Expected supply
08.05.2014	12.05.2014	PS0719 / WZ0119	PLN3.0-5.0bn
22.05.2014	26.05.2014	IDS1024	PLN1.0-2.0bn

Source: Ministry of Finance, BZ WBK.

International Money Market and IRS: To ease or not to ease that is the ECB's question

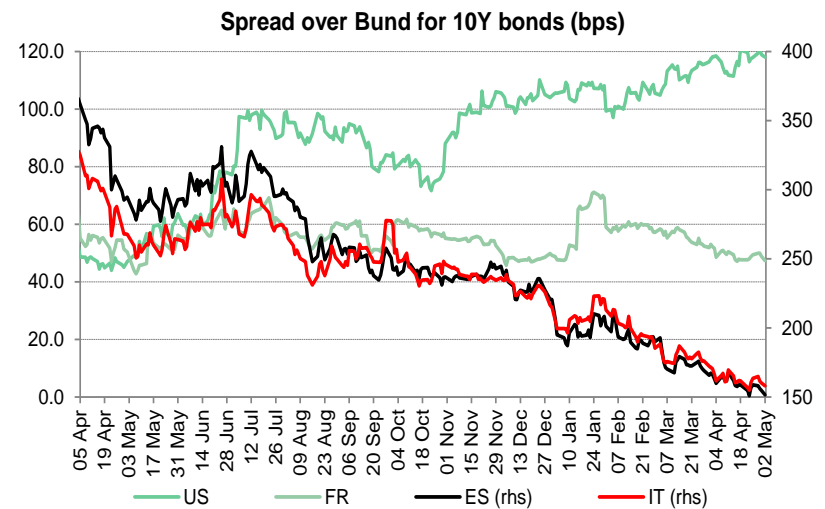
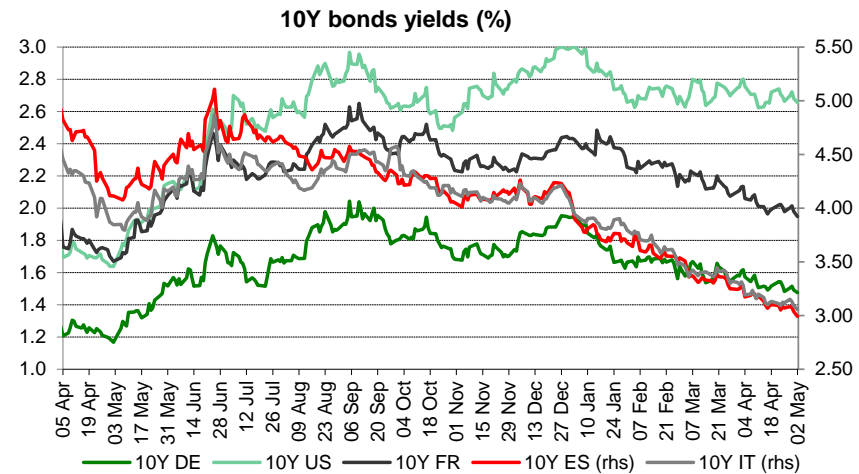
- April brought a subdued increase in EURIBOR rates (3-4bp in monthly terms), mainly due to further repayment of VLTRO funds. However, FRAs declined slightly (1-2 bp), adjusting to dovish comments from the ECB, suggesting further monetary easing (conventional or non-conventional). A muted increase in April flash inflation figures slightly softened expectations that the ECB will decide to act this month. In contrast, USD rates were more or less stable as the FOMC's members tried to reassure the market that monetary policy is still accommodative.
- IRS rates both for the EUR and the USD declined considerably across the board, mainly because of the mixed economic data, showing subdued GDP growth and soft inflation in the Euro zone and the US. Furthermore, the long ends of the curves shifted down more than the front and middle. Consequently, a bullish flattening scenario dominated investor sentiment.
- We expect the ECB to refrain from further action at least until the release of updated forecasts in June. As regards the FOMC, we expect the QE3 tapering to continue at the same pace (from meeting to meeting). Given our expectations for monetary policy, we see the 3M rate (both in EUR and USD) staying close to current levels in the coming months.



Source: Reuters, ECB, Fed, BZ WBK.

International Bond Market: Possible ECB action drove yields down

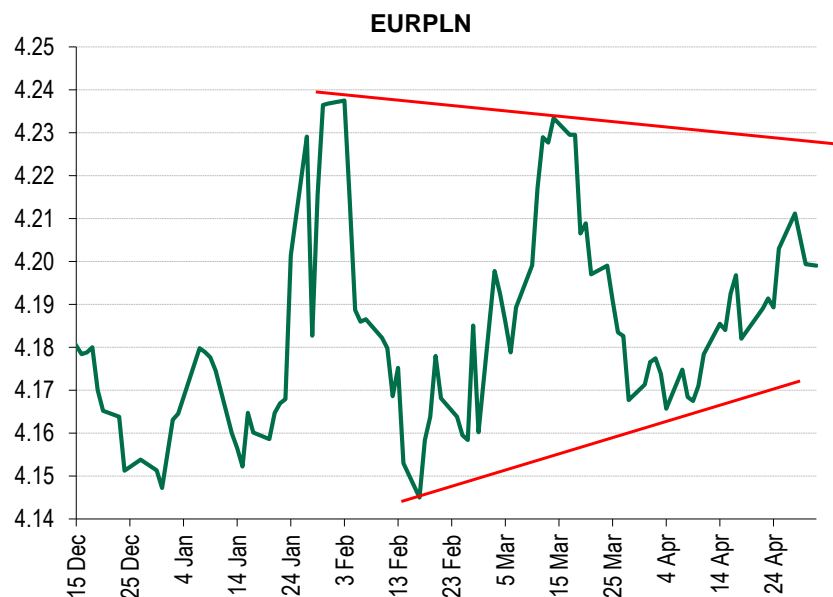
- ▶ The rise in US Treasury yields in reaction to hawkish comments by the Fed's new head Janet Yellen at the post-meeting conference in March proved short-lived as the FOMC's minutes were more dovish and Fed officials softened their rhetoric. Meanwhile, comments by ECB members, suggesting that further monetary easing is possible, supported not only Bunds, but also peripheral debt in the Euro zone. Safe haven assets were also supported by heightened perceptions of risk from the conflict in Ukraine.
- ▶ Euro zone 'peripheral' debt drew demand in expectation of monetary stimulus by the ECB. Italy, Spain and Portugal successfully sold bonds at auctions where yields touched record lows.
- ▶ The outcome of April's FOMC meeting was in line with expectations. The Fed has continued its tapering on the same scale and we expect more of the same at the next meeting. The key issue for investors in the coming months will be the timing of possible rate hikes in the US.
- ▶ As regards the ECB, we think that lack of action this month may result in a correction as some investors are pricing-in easing. However, this could be short-lived as hopes of a move at the next meeting should keep Bund yields low.



Source: Reuters, BZ WBK.

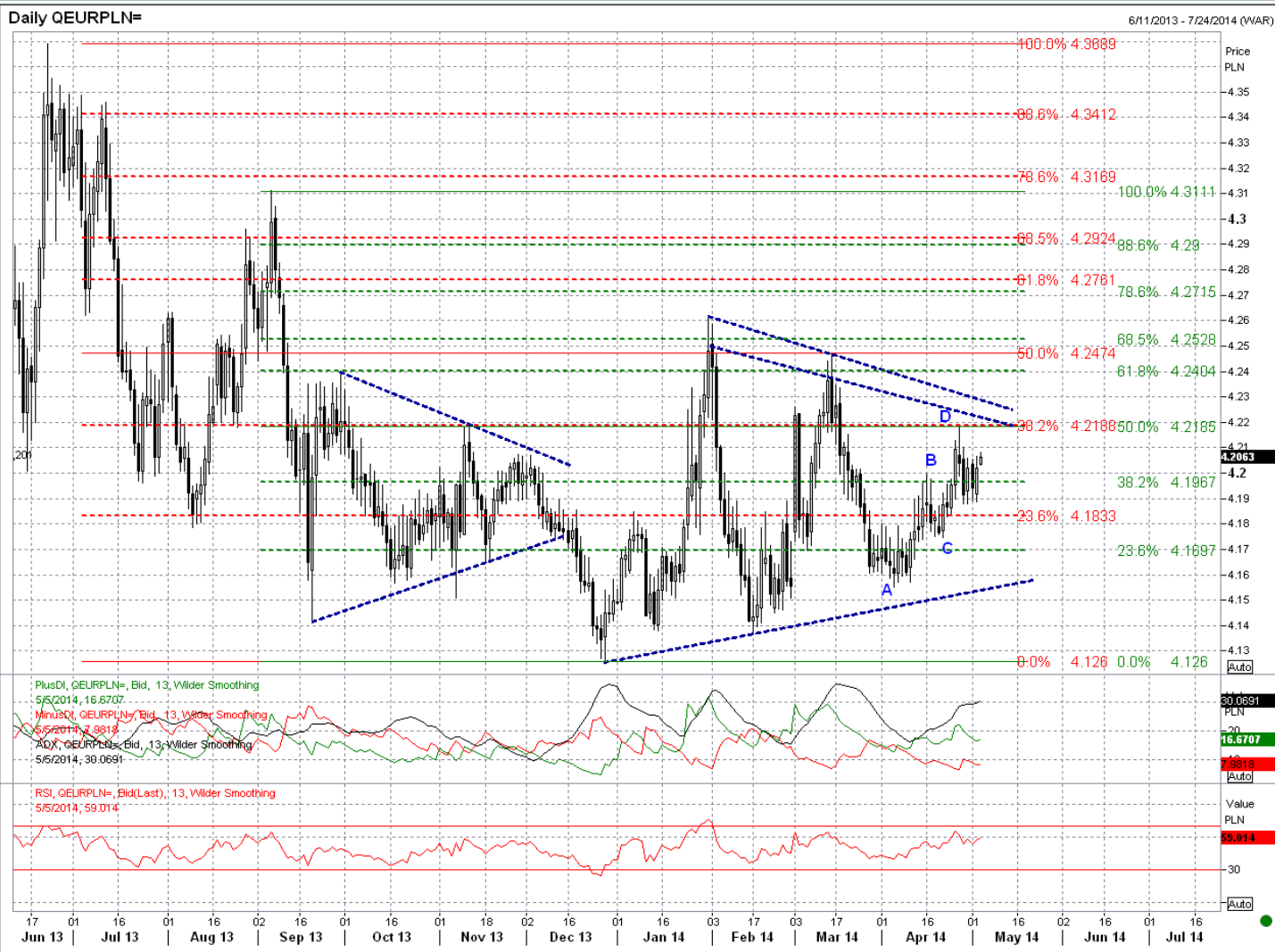
Foreign Exchange Market: Recovery limited by tensions in the East

- Last month we suggested the Polish FX market faced similar changes to those at the turn of January/February and that, after two weeks of appreciation vs. the euro, the zloty might reverse. Indeed, the last three weeks saw a rebound of EUR/PLN (from 4.16 to nearly 4.22 – the highest since mid-March) as the domestic currency came under pressure from tensions in Ukraine. This has been partly neutralised by decent Polish macro data and hopes for further ECB easing.
- Despite the agreement signed in Geneva by the heads of diplomacy of the US, EU, Ukraine and Russia, the situation is far from stable. New sanctions imposed on Russia do not seem to have changed the government's attitude. Thus, we should assume that tension will persist in the near future – particularly as presidential elections in Ukraine are due on May 25 – and this is likely to weigh on CEE currencies, including the zloty. On the other hand, hopes for more ECB easing should support the zloty.
- We note the trading range is narrowing gradually and this suggests that a significant move may take place in the coming months. Breaking 4.22 would open the door to the EUR/PLN regaining this year's peak of 4.26, while falling below 4.15 may lead to zloty's appreciation to 4.12 per euro.



Source: Reuters, BZ WBK

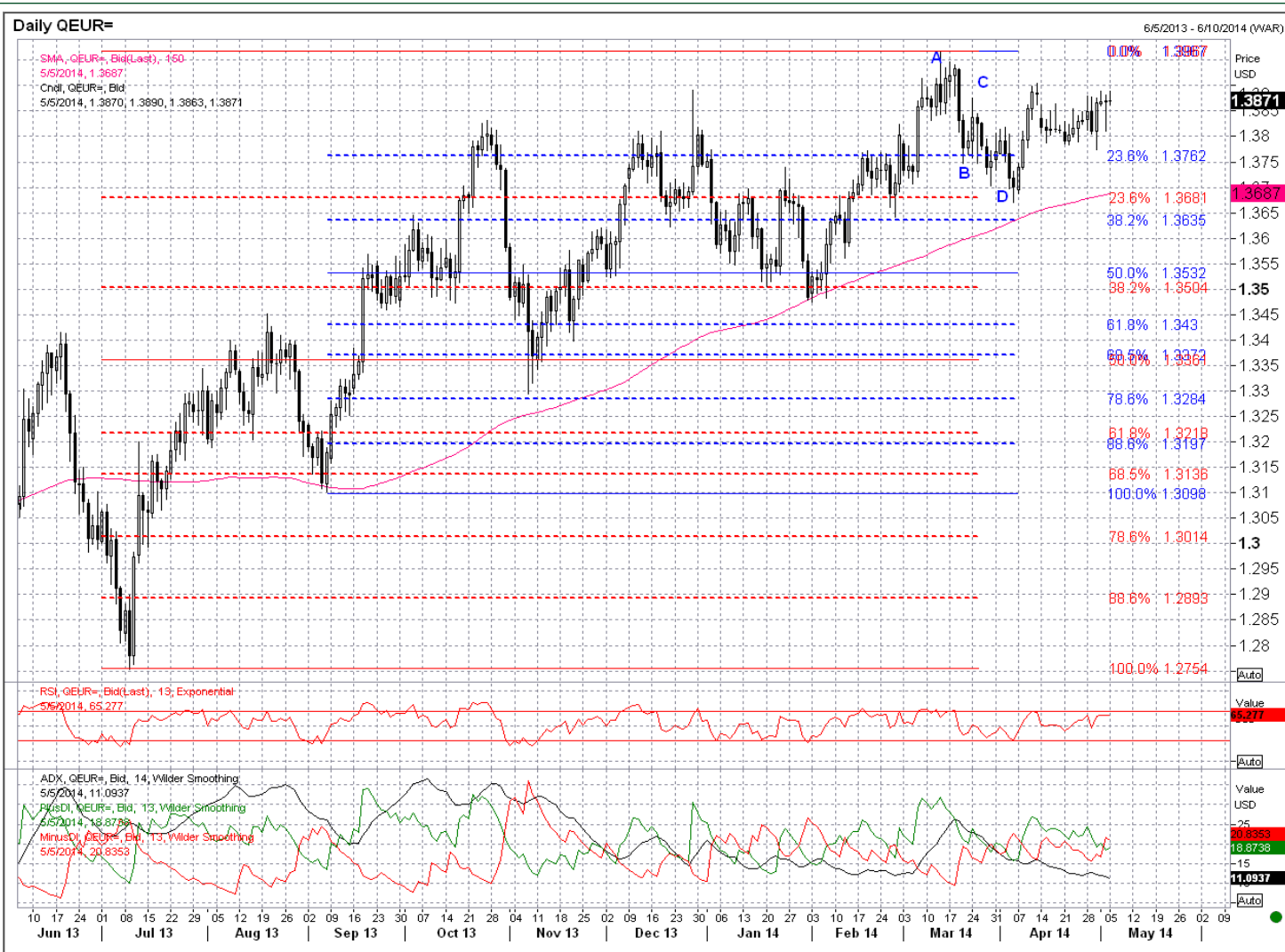
FX Technical Analysis Corner: EUR/PLN close to vital level



- ▶ The EUR/PLN exchange rate reached nearly 4.22, but (so far) managed to stay within a narrowing trading range. However, EUR/PLN is still close to a significant technical level. If the upper band is broken, then the exchange rate may head towards 4.24-4.26.
- ▶ AB is nearly equal to CD and this, together with the resistance composed of two Fibonacci retracements at just below 4.22, suggests that the zloty may pare at least some of its recent losses.

Source: Reuters, BZ WBK

FX Technical Analysis Corner: EUR/USD above 150-day MA



- ▶ The EUR/USD rate dropped slightly below point D marked last month, but then resumed its upward move.
- ▶ Currently, technical analysis does not give any strong signals.
- ▶ Support and resistance levels to watch for the next month are 1.368 and 1.397, respectively.
- ▶ We see that 150-day moving average has worked well as a support for EUR/USD since September 2013.

Source: Reuters, BZ WBK.

Macroeconomic Forecasts

Poland		2011	2012	2013	2014E	1Q13	2Q13	3Q13	4Q13	1Q14E	2Q14E	3Q14E	4Q14E
GDP	PLNbn	1,528.1	1,596.4	1,635.7	1,708.9	378.4	396.3	405.6	455.5	391.7	414.3	423.6	479.4
GDP	%YoY	4.5	2.0	1.6	3.5	0.4	0.8	2.0	2.7	3.1	3.6	3.6	3.8
Domestic demand	%YoY	3.6	-0.1	0.0	3.1	-1.0	-1.6	0.6	1.8	2.1	3.6	3.0	3.7
Private consumption	%YoY	2.6	1.3	0.8	2.5	0.0	0.1	1.0	2.1	2.4	2.5	2.5	2.6
Fixed investment	%YoY	8.5	-1.6	-0.2	4.6	-2.4	-3.3	0.5	2.0	1.5	2.0	5.0	7.0
Unemployment rate ^a	%	12.5	13.4	13.4	12.3	14.3	13.2	13.0	13.4	13.5	12.2	11.9	12.3
Current account balance	EURm	-18,519	-14,191	-4,984	-2,614	-2,313	486	-2,086	-1,071	-1,114	424	-1,190	-734
Current account balance	% GDP	-5.0	-3.7	-1.3	-0.6	-3.1	-2.3	-1.9	-1.3	-1.0	-1.0	-0.7	-0.6
General government balance	% GDP	-5.1	-3.9	-4.3	5.7	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.1	1.3	0.5	1.1	0.7	0.6	0.9	0.9	1.7
CPI ^a	%YoY	4.6	2.4	0.7	1.9	1.0	0.2	1.0	0.7	0.7	1.2	1.3	1.9
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.1	1.2	1.0	1.4	1.2	0.8	1.2	1.1	1.5

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

^a at the end of the period

* without changes in the pension system

Interest Rate and FX Forecasts

Poland		2011	2012	2013	2014E	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
Reference rate ^a	%	4.50	4.25	2.50	2.50	3.25	2.75	2.50	2.50	2.50	2.50	2.50	2.50
WIBOR 3M	%	4.54	4.91	3.02	2.74	3.77	2.96	2.70	2.66	2.71	2.72	2.74	2.78
Yield on 2-year T-bonds	%	4.81	4.30	2.98	2.97	3.29	2.77	2.98	2.88	3.01	2.91	2.93	3.02
Yield on 5-year T-bonds	%	5.44	4.53	3.46	3.70	3.49	3.09	3.63	3.64	3.71	3.60	3.67	3.83
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.25	3.95	3.58	4.26	4.36	4.38	4.07	4.16	4.40
2-year IRS	%	4.98	4.52	3.10	3.11	3.43	2.81	3.14	3.04	3.07	3.01	3.12	3.25
5-year IRS	%	5.24	4.47	3.51	3.78	3.52	3.08	3.76	3.68	3.70	3.62	3.80	4.02
10-year IRS	%	5.33	4.56	3.86	4.05	3.76	3.41	4.13	4.14	4.16	3.89	3.96	4.20
EUR/PLN	PLN	4.12	4.19	4.20	4.12	4.16	4.20	4.25	4.19	4.19	4.17	4.10	4.01
USD/PLN	PLN	2.96	3.26	3.16	2.98	3.15	3.22	3.21	3.08	3.06	3.02	2.97	2.88
CHF/PLN	PLN	3.34	3.47	3.41	3.34	3.38	3.41	3.44	3.40	3.42	3.42	3.33	3.18
GBP/PLN	PLN	4.75	5.16	4.94	4.98	4.88	4.94	4.97	4.98	5.06	5.07	4.94	4.86

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

Economic Calendar and Events

Date		Event:	Note:
7-May	PL	MPC Meeting – interest rate decision	Official rates on hold
	CZ	CZK Meeting – interest rate decision	–
8-May	PL	Auction of PS0719 / WZ0119	Offer: PLN3.0-5.0bn
	EZ	ECB Meeting – interest rate decision	–
14-May	PL	CPI for April	Our forecast: 0.7%YoY, slightly above the market consensus of 0.6%YoY
15-May	PL	CPI excluding food and energy prices for April	Our forecast and market consensus are at 1.0%YoY
	PL	Flash GDP for 1Q 2014	Our forecast is 3.1%, in line with market expectations
19-May	PL	Employment and wages for April	We expect employment to increase 0.8%YoY and wages to grow 4.3% YoY. Our forecast of wage growth is above market consensus
20-May	PL	Industrial output and PPI for April	Our forecast of industrial output is 6.2%YoY (above market consensus). We predict PPI at -0.8%YoY
22-May	PL	Auction of infrastructure bonds IDS1024	Offer: PLN1.0-2.0bn
27-May	HU	NBH meeting	–
TBA	PL	Retail sales for April	Our forecast is 9.1% YoY, vs market consensus of 8.2%YoY
30-May	PL	GDP for 1Q 2014	We predict private consumption growth at 2.4% and investment growth at 1.5% (well below the market consensus of 3.5%)
4-Jun	PL	MPC Meeting – interest rate decision	–
5-Jun	EZ	ECB Meeting – interest rate decision	–

Annexe

1. Domestic market 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

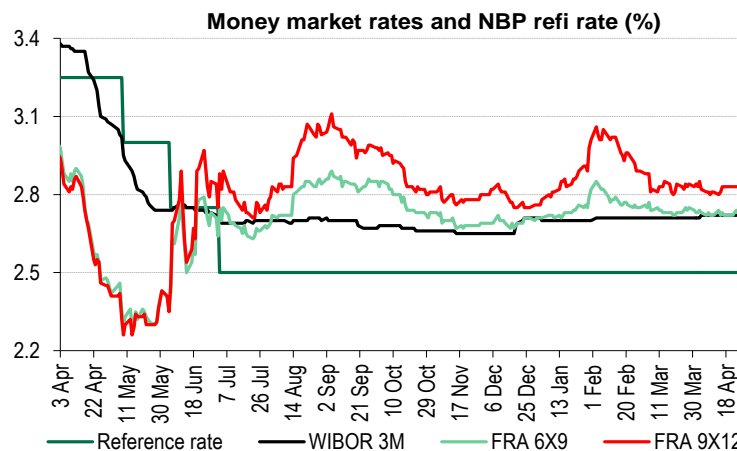
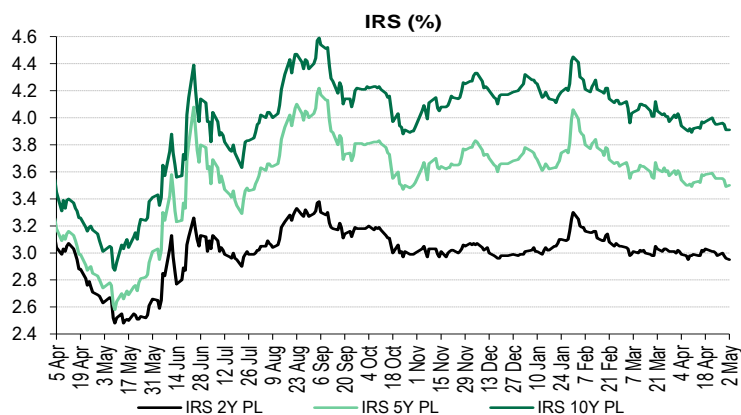
1. Domestic market performance

Money market rates (%)

	Reference	Poland	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of April	2.50	2.50	2.62	2.72	2.74	2.79	2.40	2.45	2.46	2.50	2.72	2.72	2.73	2.80
Last 1M change (bp)	0	8	1	1	0	0	-3	2	3	2	1	1	0	-4
Last 3M change (bp)	0	-103	1	2	2	4	0	5	3	-3	3	0	-9	-21
Last 1Y change (bp)	-75	-60	-63	-36	-29	-23	-65	-40	-24	-5	-18	10	26	35

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of April	2.88	3.54	4.03	2.96	3.49	3.91	-8	5	12
Last 1M change (bp)	-12	-22	-19	-5	-12	-11	-7	-10	-8
Last 3M change (bp)	-28	-37	-57	-29	-50	-51	1	13	-6
Last 1Y change (bp)	29	77	78	28	69	82	1	8	-4



Source: Reuters, BZ WBK

2. Polish bonds: supply recap

Total issuance in 2014 by instruments (in PLN mn, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bonds auction	18,143	8,821	6,573	17,503	5,000	5,000	5,000	5,000	5,000	5,000	3,000	2300	86,340
T-bills auction													0
Retail bonds	256	475	190	170	170	170	170	180	170	175	185	176	2,487
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	60,123	10,445	6,763	17,673	5,170	5,170	10,620	5,180	5,170	8,375	3,185	2476	140,350
Redemption	16,497	5,613	2,230	16,035	116	60	10,323	1,793	2,796	83	816	91	56,452
Net inflows	43,626	4,832	4,533	1,638	5,054	5,110	297	3,387	2,374	8,292	2,369	2,385	83,898
Rolling over T-bonds			4,807										4,807
Buy-back of T-bills/ FX-denominated bonds													0
Total	43,626	4,832	9,340	1,638	5,054	5,110	297	3,387	2,374	8,292	2,369	2,385	88,705
Coupon payments from domestic debt	1,546			5,596			1,327		1,298	7,507			17,275

Note: Our forecasts – shaded area

Source: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule of 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	15,968		66	16,035		16,035
May			116	116		116
June			60	60		60
July	8,998		89	9,087	1,236	10,323
August			198	198	1,594	1,793
September			359	359	2,438	2,796
October			83	83		83
November			171	171	645	816
December			91	91		91
Total 2014	38,627		1,677	40,304	16,149	56,452
Total 2015	83,354		1,710	85,064	14,789	99,853
Total 2016	77,971		1,273	79,245	17,262	96,506
Total 2017	58,543		917	59,460	12,566	72,026
Total 2018	60,971		911	61,882	14,396	76,278
Total 2019+	148,099		3,233	151,332	135,784	287,116

Source: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of March 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	0	0	0	0
Q2 2014	10,224	1,462	2,812	65	296	83	74	1,009	16,026
Q3 2014	4,916	1,414	1,218	24	589	134	11	790	9,096
Q4 2014	0	0	0	0	0	57	7	13	77
Total 2014	15,140	2,876	4,030	90	885	274	91	1,813	25,199
	60%	11%	16%	0%	4%	1%	0%	7%	100%
Total 2015	32,200	29,369	8,467	643	6,417	246	287	5,777	83,405
	39%	35%	10%	1%	8%	0%	0%	7%	100%
Total 2016	34,765	19,897	8,056	718	9,473	115	157	5,859	79,040
	44%	25%	10%	1%	12%	0%	0%	7%	100%
Total 2017	23,416	17,399	5,461	732	7,730	49	145	3,611	58,543
	40%	30%	9%	1%	13%	0%	0%	6%	100%
Total 2018	17,299	28,143	2,833	280	8,127	67	230	3,991	60,971
	28%	46%	5%	0%	13%	0%	0%	7%	100%
Total 2019+	64,063	36,584	24,065	1,036	13,198	255	440	8,881	148,523
	43%	25%	16%	1%	9%	0%	0%	6%	100%

Source: MF, BZ WBK

3. Polish bonds: demand recap

Holders of marketable PLN bonds

	Nominal value (PLN bn)				Nominal value (PLN bn)			% change in March			Share in TOTAL (%) in March
	End Mar'14	End Feb'14	End Dec'13	End Sep'13	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	277.9	269.2	381.2	377.3	341.8	352.9	361.4	3.22	-19.08	-20.12	59.8 (1.0pp)
Commercial banks	134.3	126.9	114.7	116.2	102.0	102.1	110.9	5.83	17.07	29.03	28.9 (1.2pp)
Insurance companies	52.9	52.6	52.0	52.8	54.7	57.0	54.3	0.58	1.82	2.94	11.4 (-0.1pp)
Pension funds	3.5	2.7	125.8	122.7	116.7	120.3	120.7	31.22	-97.22	-96.91	0.8 (0.2pp)
Mutual funds	45.8	45.6	46.7	46.1	32.5	33.0	31.3	0.41	-1.96	8.89	9.9 (-0.1pp)
Others	41.4	41.4	42.0	39.5	35.9	40.5	44.3	-0.1	-1.5	11.0	8.9 (-0.1pp)
Foreign investors*	186.9	188.7	193.2	200.6	184.2	174.0	163.2	-0.96	-3.24	-8.95	40.2 (-1.0pp)
Banks	30.5	28.9	29.1	32.1	27.8	22.6	24.3	5.72	4.85	-18.10	6.6 (0.3pp)
Non-bank fin. sector	150.6	152.5	156.0	159.7	147.5	143.1	131.7	-1.21	-3.45	-5.26	32.4 (-0.9pp)
Non-financial sector	4.5	4.2	4.7	5.2	5.6	5.2	4.4	7.53	-5.22	-17.35	1.0 (0.1pp)
TOTAL	464.8	457.9	574.3	577.9	526.0	526.9	524.7	1.50	-27.10	-15.98	100

*Total for foreign investors does not match sum of values presented for sub-categories due to omission of irrelevantly small group of investors.

Source: MF, BZ WBK

4. Euro zone bonds: supply recap

Euro zone planned and completed issuance in 2014 (€ bn)

	Total redemptions	Deficit	Borrowing needs	Expected bond supply	% of completion (YtD*)
Austria	23.4	4.3	27.7	24.7	19.9
Belgium	21.8	9.8	31.6	30.0	57.0
Finland	6.9	4.8	11.7	11.7	40.0
France	105.0	70.2	175.2	174.0	49.9
Germany	144.0	-	144	144.0	33.5
Greece	16.8	5.6	-	-	-
Ireland	6.9	7.7	14.6	14.6	57.5
Italy	187.8	27.6	235.4	235.4	49.2
Netherlands	32.0	15.9	47.9	45.9	52.5
Portugal	11.4	7.4	18.8	7.2	53.8
Spain	68.2	36.7	141.3	141.3	45.1
Total	624.2	189.9	848.2	828.8	45.4

*/ YTD (year calendar) data for 2014

Source: 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)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Poland	1.6	3.2	0.8	1.1	-1.6	-1.7	-4.3	5.7	57.0	49.2
Czech Republic	-0.9	2.0	1.4	0.8	-1.2	-0.4	-1.5	-1.9	46.0	44.4
Hungary	1.1	2.3	1.7	1.0	3.1	3.0	-2.2	-2.9	79.2	80.3
EU	0.1	1.6	1.5	1.0	1.6	1.8	-3.0	-2.5	88.9	89.5
Euro area	-0.4	1.2	1.3	0.8	2.6	2.9	-3.3	-2.6	95.0	96.0
Germany	0.4	1.8	1.6	1.1	7.4	7.3	0.0	0.0	78.4	76.0

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2013	end of Apr	2013	end of Apr	2013	end of Apr	2013	end of Apr	2013	end of Apr
Poland	2.50	2.50	2.71	2.72	4.32	4.03	238	255	79	72
Czech Republic	0.05	0.05	0.05	0.05	2.53	1.88	58	39	60	59
Hungary	3.00	2.50	2.99	2.56	5.71	5.45	377	396	256	225
Euro area	0.25	0.25	0.29	0.34						
Germany					1.94	1.49			26	21

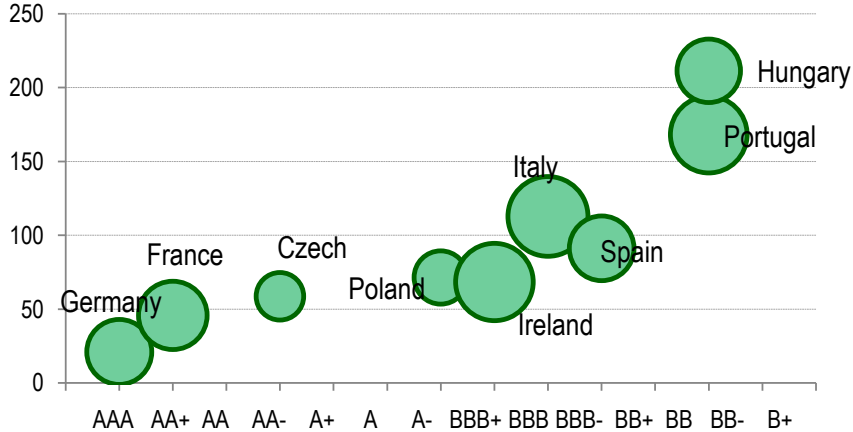
Source: EC – Spring 2014, stat offices, central banks, Reuters, BZ WBK.

5. Poland vs other countries (cont.)

Sovereign ratings

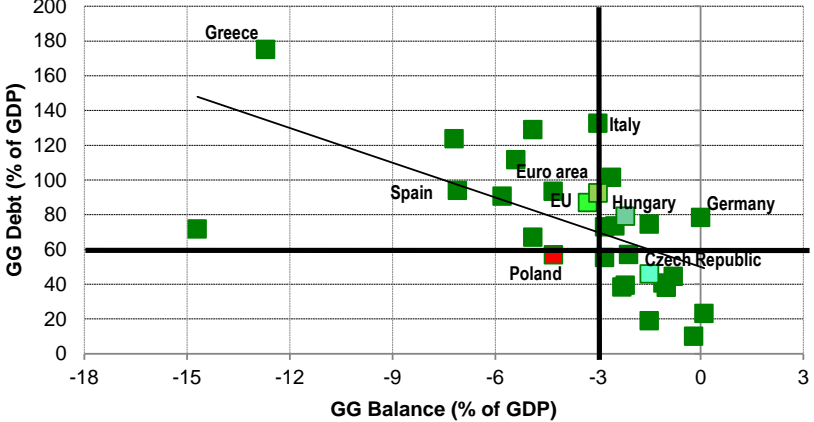
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	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



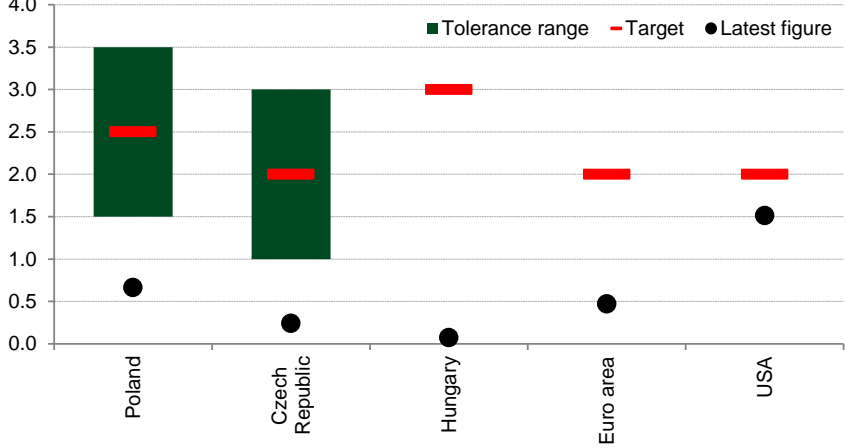
Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

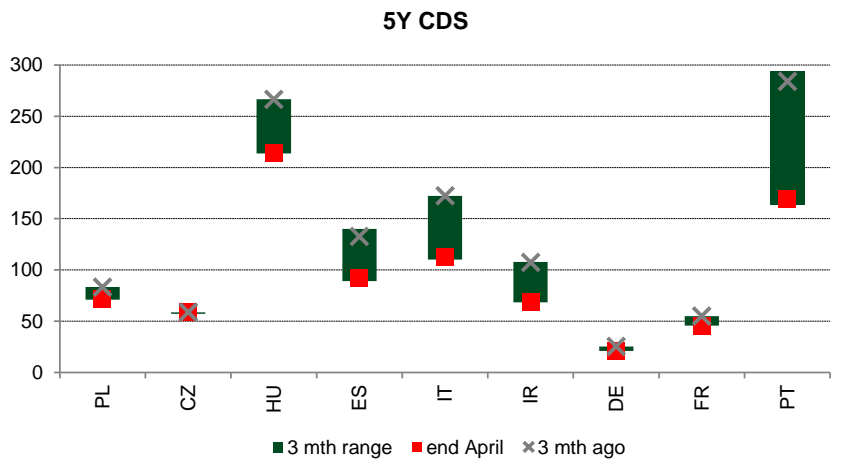
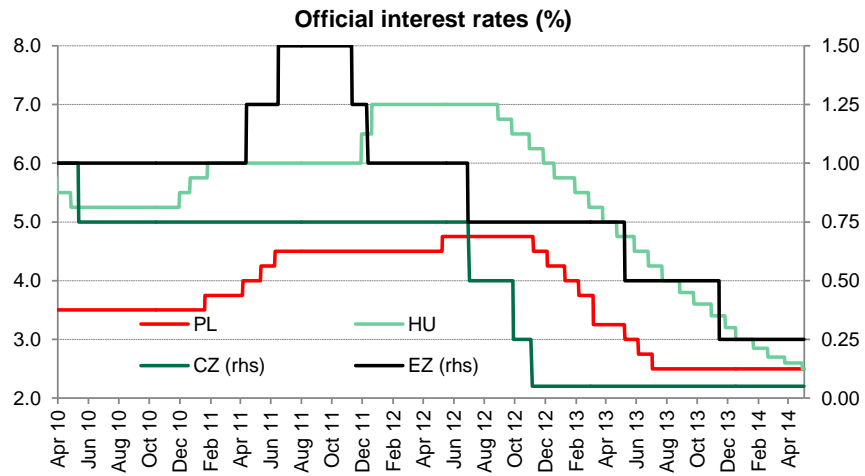
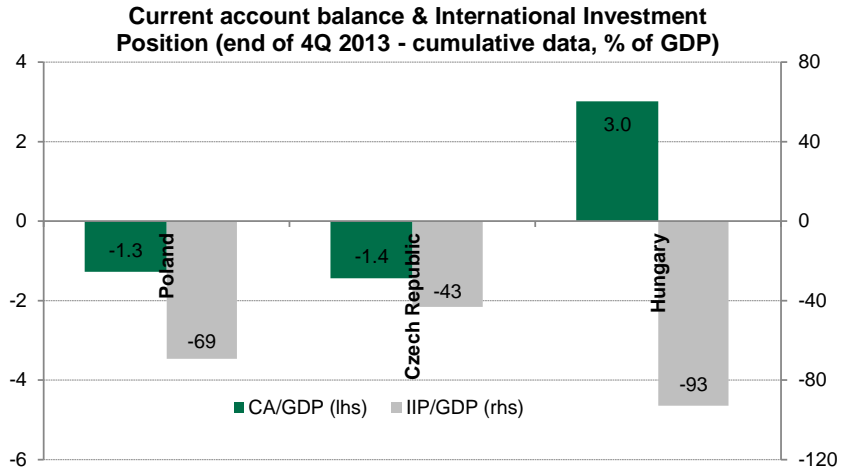
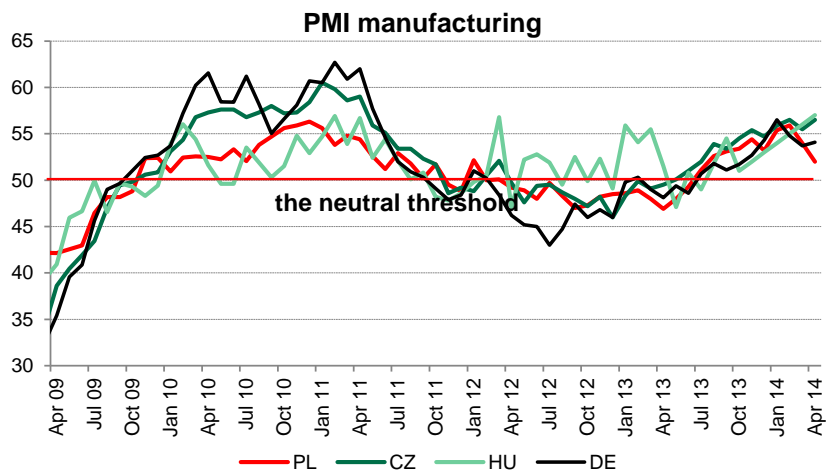


Source: rating agencies, Reuters, EC, BZ WBK

Inflation rates vs targets (%)

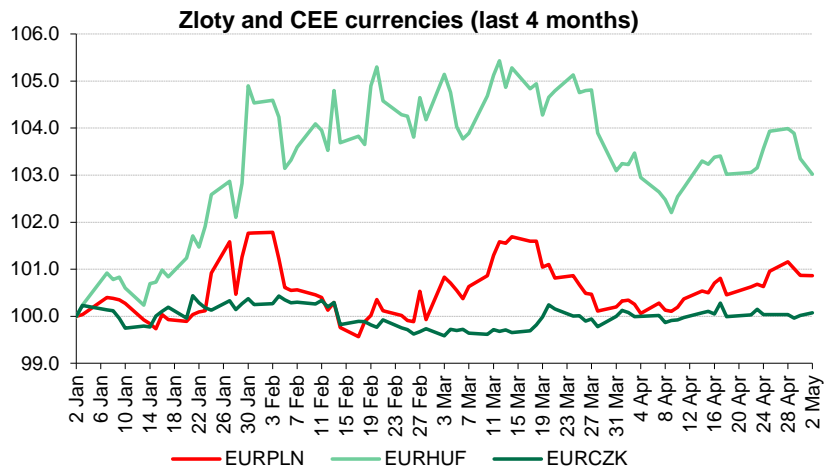
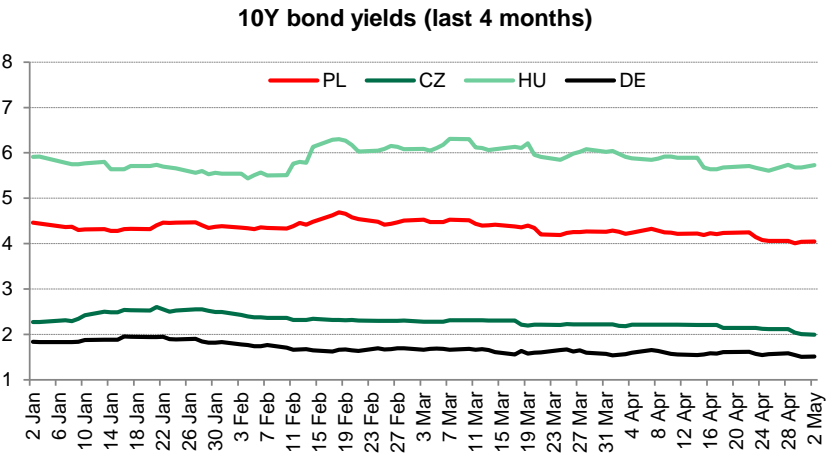
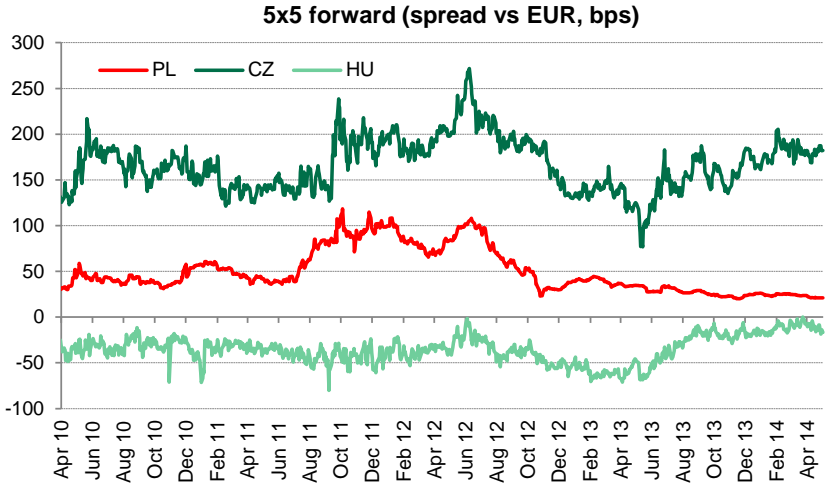
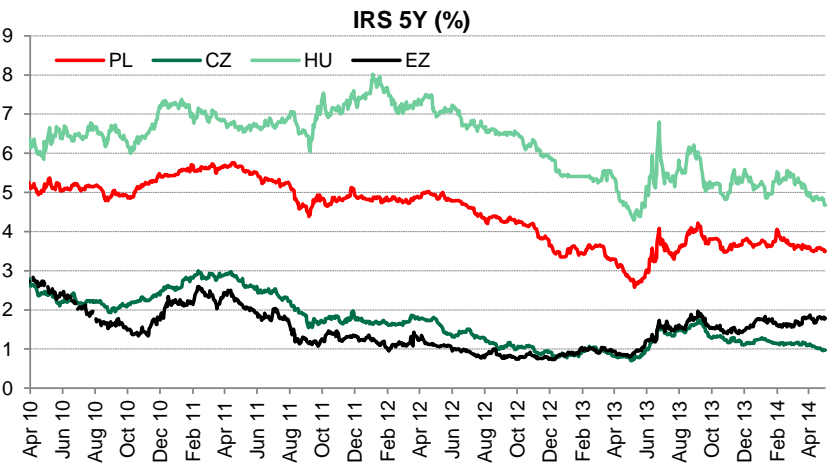


5. Poland vs other countries (cont.)



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

5. Poland vs other countries (cont.)



Source: Reuters, BZ WBK

6. Central bank watch

		Last	2013	2014E	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.25	0.25	0.25				The euro zone flash CPI figures for April came in slightly below the consensus expectation, but we expect the ECB to leave its monetary policy unchanged. The ECB is likely to wait until June , when a new forecast will be released, to make a decision on interest rates.
	Market implied »				-4	-7	-8	
UK	Forecast	0.50	0.50	0.75				We expect no change in policy at the May MPC meeting. We still think that, given the improvement in economy, the BoE will start monetary tightening later this year.
	Market implied »				0	4	15	
US	Forecast	0-25	0-25	0.25				As expected , the Fed continued its gradual slowdown in asset purchases (by USD10bn). It made only minor changes in its statement after a meeting where the decision was unanimous. We do not expect the first rate hike before mid-2015.
	Market implied »				0	2	4	
Poland	Forecast	2.50	2.50	2.50				There was no change at the last meeting. We expect the MPC to maintain its wait and see bias and to leave its forward guidance unchanged. The Council may highlight the conflict between Ukraine and Russia as one of the main risks to Poland's GDP growth.
	Market implied »				0	0	1	
Czech Republic	Forecast	0.05	0.05	0.05				The monetary policy statement maintained the status quo. Inflation is very low, but GDP growth is very subdued. Therefore, we do not expect any changes in the statement's tone. The exchange rate is still the main monetary tool, which may be used if needed.
	Market implied »				31	30	31	
Hungary	Forecast	2.50	3.00	3.00				In line with expectations, the NBH decided to cut official rates by 10bp to 2.50%, a new all-time low. The NBH stated that the base rate has "significantly approached a level which ensures the medium-term achievement of price stability". In our opinion, this was the last rate cut in the cycle.
	Market implied »				2	7	18	

Source: Reuters, BZ WBK

This analysis is based on information available through May 2, 2014 and has been prepared by:

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EXPLANATION OF THE RECOMMENDATION SYSTEM

DIRECTIONAL RECOMMENDATIONS IN BONDS		DIRECTIONAL RECOMMENDATIONS IN SWAPS	
	Definition		Definition
Long / Buy	Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk.	Long / Receive fixed rate	Enter a swap receiving the fixed rate for an expected average return of at least 10bp in 3 months (decline in the swap rate), assuming a directional risk.
Short / Sell	Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk.	Short / Pay fixed rate	Enter a swap paying the fixed rate for an expected average return of at least 10bp in 3 months (increase in the swap rate), assuming a directional risk.
RELATIVE VALUE RECOMMENDATIONS			
	Definition		
Long a spread / Play steepeners	Enter a long position in a given instrument vs a short position in another instrument (with a longer maturity for steepeners) for an expected average return of at least 5bp in 3 months (increase in the spread between both rates).		
Short a spread / Play flatteners	Enter a long position in given an instrument vs a short position in other instrument (with a shorter maturity for flatteners) for an expected average return of at least 5bp in 3 months (decline in the spread between both rates).		
FX RECOMMENDATIONS			
	Definition		
Long / Buy	Appreciation of a given currency with an expected return of at least 5% in 3 months.		
Short / Sell	Depreciation of a given currency with an expected return of at least 5% in 3 months.		

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

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