



# RATES AND FX OUTLOOK

## POLISH FINANCIAL MARKET

June 2014



Bank Zachodni WBK

 Grupa Santander

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# Summary

- ❶ **Economic growth in Poland remains solid and we expect GDP to expand 3.5% this year, fuelled not only by strong external demand, but also by reviving domestic consumption and investment. Meanwhile, inflation keeps surprising on the downside.** April CPI growth fell to 0.3%YoY, spurring worries about possible deflation and substantially changing market expectations about monetary policy. The market is no longer pricing-in a rate hike before 2016 and there has even been some speculation about possible rate cuts.
- ❷ **We think that further monetary easing in Poland is unlikely, as the economy is accelerating and the risk of deflation is low (even if a negative CPI reading in July cannot be ruled out, due to a high base, it should be a short-lived effect).** We expect price growth to start accelerating before the end of the year, amid strengthening domestic demand. That said, we think the period of stable interest rates in Poland may be longer than we had anticipated previously, and may last until the end of 1H15, as it may take longer for the CPI to return to the NBP's 2.5% target, while possible policy easing by the ECB will be also an important factor for the Polish central bank. The Monetary Policy Council's meeting in June could well be another non-event, as the panel is likely to wait for the central bank's July economic projections. In July, the MPC is likely to extend its forward-guidance horizon until the year-end. Such a decision, in our opinion, should be regarded as a signal that no additional rate cuts are on the agenda in Poland.
- ❸ **Polish bond yields and IRS rates dropped sharply in May due to low CPI data and the changing monetary policy outlook for Poland and the Euro zone. The ECB decision in June may be a milestone for the market.** Currently, the market is pricing-in that the ECB will use conventional and non-conventional tools to counter the risk of deflation in the Euro zone. If this happens, we do not rule out further decline in yields/IRS rates in the coming weeks. However, in the medium term we still expect higher domestic yields as, in our view, the market will realise that speculation about rate cuts and deflation in Poland was unfounded, macro data will confirm the recovery is continuing and bond yields on the core debt markets should start rising as the Fed approaches the end of its QE programme.
- ❹ **In May, the zloty more than recouped the losses suffered in April. The key driver for its appreciation to 4.14 per euro is the expectation of more monetary policy easing in the Euro zone.** We think that reducing the ECB's deposit rate below zero would support the zloty in the medium term, but see profit-taking as a possible in reaction to such an ECB decision in the short run. We still expect the EURPLN to decline towards 4.0 by the year-end.

# 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	0	2.72	→	→
2Y bond yield	-32	-18	2.70	→	↗
5Y bond yield	-41	-27	3.27	↘	→
10Y bond yield	-69	-36	3.67	↘	→
2/10Y curve slope	-38	-18	97	↘	→

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:** We expect WIBOR rates to remain stable in the coming weeks. We think FRA rates will remain more vulnerable to the next macro data releases. While short FRAs should stay stable, longer ones might increase slightly as upcoming macro data confirm the positive growth outlook.

**Short end:** Further monetary policy easing in the Euro zone may push Polish short-term yields lower. The next set of monthly economic data for Poland should be decent, in our view, but probably not to the extent that would offset the impact of lower ECB rates. We think yields may start rising after July, when it becomes clearer that interest rate cuts are not in the agenda in Poland and the global macro outlook improves.

**Long end:** We see a possible further drop in the near term, following ECB policy easing and strengthening of core debt markets. Low bond supply, good budget performance and low inflation until July should be supportive for Polish bonds in the nearest months. In the medium run we still expect higher domestic yields, as macro data should confirm the recovery is continuing, market expectations of monetary easing dissipate and bond yields on the core debt markets start to rise as the Fed approaches the end of its QE programme.

**Risk factors to our view:** Expectations regarding the monetary policy outlook both in Poland and in the Euro zone seem central for the FI market at the moment. A correction of recent gains is possible if the ECB decision in June disappoints investors. Also, higher-than-expected inflation and activity indicators may trigger an upward move, reducing speculation about possible rate cuts in Poland.

# Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-April	1M	3M
EURPLN	-0.4	-1.4	4.14	→	→
USDPLN	0.6	0.0	3.04	→	↘
CHFPLN	-0.8	-1.5	3.39	→	↘
GBPPLN	0.5	-0.5	5.09	→	→
EURUSD	-1.0	-1.4	1.36	→	→

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 think that reducing the ECB's deposit rate below zero would support the zloty in the medium term, but see profit-taking as a possible reaction to such an ECB decision in the short run. Level 4.0 remains our target for EURPLN at the year-end.

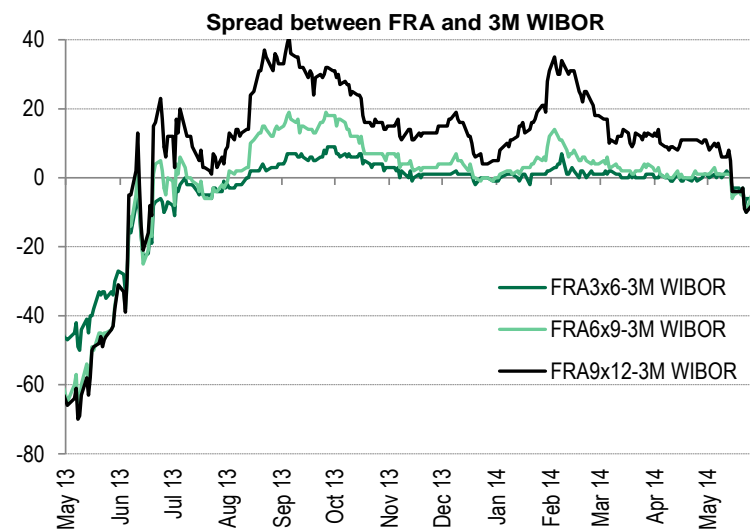
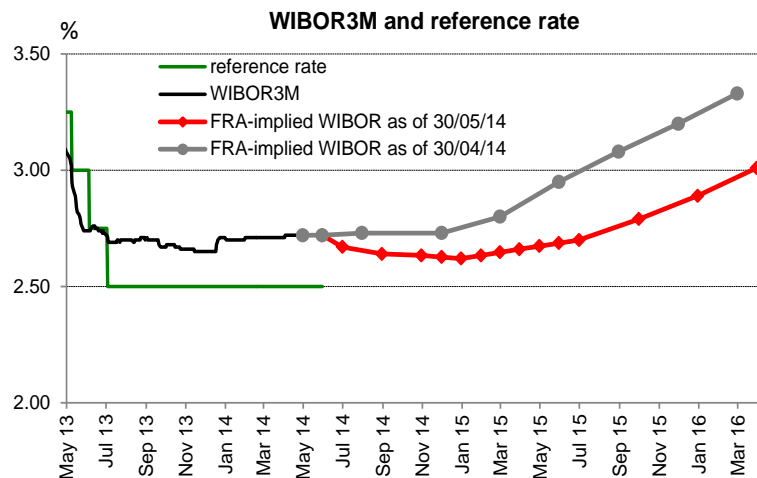
**USD:** The EURUSD rate fell substantially ahead of the ECB meeting. The prospect of ECB easing in June may be positive for the dollar in the short term, but we are not sure that it will last. Therefore, we think that a temporary correction in the USDPLN rate may be stronger than the EURPLN. In the medium run, we expect the zloty to gain versus dollar, as the EURUSD should, in our opinion, gravitate towards 1.40.

**CHF:** The EURCHF should appreciate gradually if the Euro zone and global risk environments continue to improve. However, more ECB easing could place the rate under near-term pressure and, in a worst case scenario, may require the SNB to intervene to defend the floor. We expect the CHFPLN to fluctuate near current levels in the short run, while the zloty should appreciate against the CHF in the medium to long term.

**Risk factors to our view:** The crisis in Ukraine appears to have receded, however it may negatively affect CEE currencies again should military tensions escalate. Negative market reaction is also possible if the ECB decision disappoints markets. Any negative surprise from Polish macro data may also weaken the zloty, fuelling market speculation about possible rate cuts.

# Domestic Money Market: Fading expectations for rate hikes

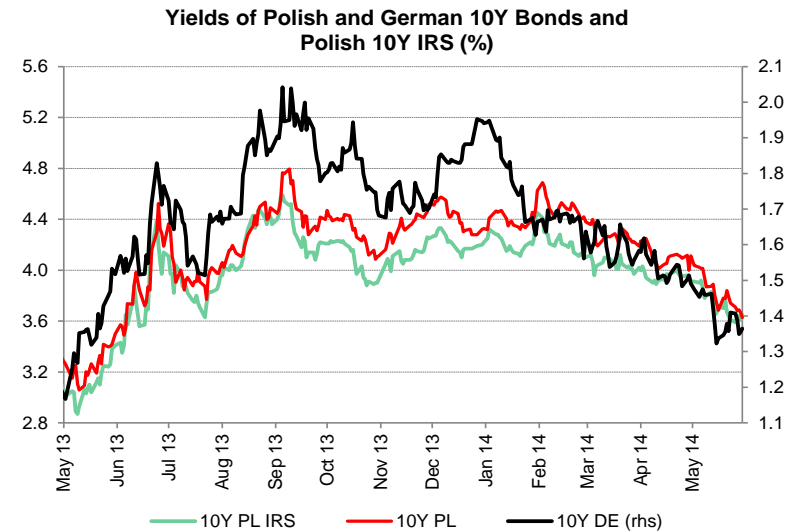
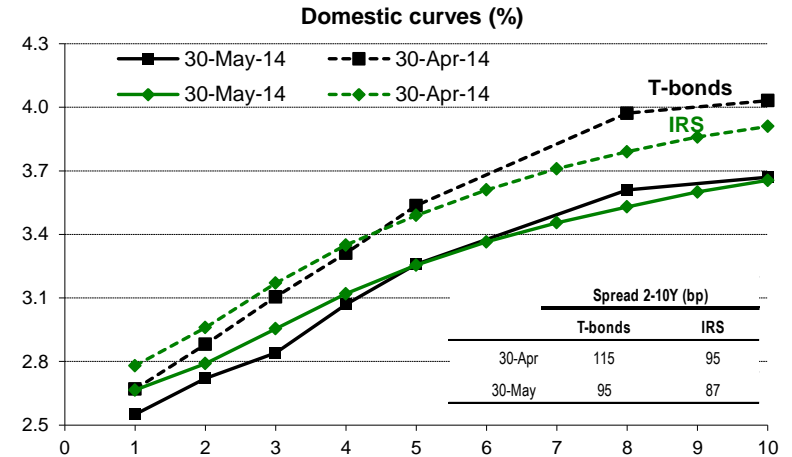
- In May 1M-12M WIBOR rates were stable, despite a surprisingly low April CPI figure. We see a fairly high probability of the MPC extending its forward guidance until year-end in July (suggested by the majority of the MPC members), which should stabilise money market rates.
- FRA investors quickly adjusted their expectations to the new conditions. Both a low CPI reading and the NBP president's statement not ruling out deflation caused a substantial FRA decline in May. Short FRA dropped by 10bp to below WIBOR3M. One should notice that FRA12x15 declined below WIBOR3M for the first time since June 2013, when the MPC cut rates by 25bp. Currently, the market is pricing-in the first rate hike not earlier than in 2016 (FRA21x24 implies a WIBOR3M increase of 20bp).
- In our view, WIBOR rates should remain roughly unchanged in the coming months. However, we foresee rates increasing gradually as we get closer to year-end when the economy accelerates strongly and inflation rises. As regards FRA, rates are likely to remain more vulnerable to upcoming macro data releases. While short FRA should stay stable, longer ones might increase slightly as upcoming macro data confirm the positive growth outlook.



Source: Reuters, BZ WBK

# Domestic IRS and the T-Bond Market: Strong rally

- In May both IRS and T-bonds rallied strongly as investors paid less attention to the Ukrainian crisis and switched their focus back to monetary policy. Expectations of more ECB stimulus, a strengthening of German Bunds and surprisingly low Polish inflation pushed yields of domestic T-bonds and IRS rates to fresh 2014 lows.
- A bullish flattener has been developing on both T-bonds and IRS markets as mid- and long-term rates benefited the most. Consequently, the 2-10Y spread narrowed to 95bp (down from 115bp at the end of April) for T-bonds and to nearly 80bp (from 95bp) for IRS. The spread vs. German bonds for all tenors has also narrowed, to 235bp for the 10Y, its lowest since late October 2013.
- The ECB policy and CPI outlook are the main factors influencing investors' views of the Polish debt market. Currently, the market is pricing-in that ECB will use conventional and non-conventional measures to avert the risk of deflation. If this materializes, we do not exclude a further decline in yields/IRS rates in the coming weeks, but, in the medium term, we expect a return of the upward trend. This would be driven by rising yields in core debt markets and by domestic macroeconomic data, that, in our opinion, should convince the market that speculation about possible interest rate cuts in Poland is unfounded.

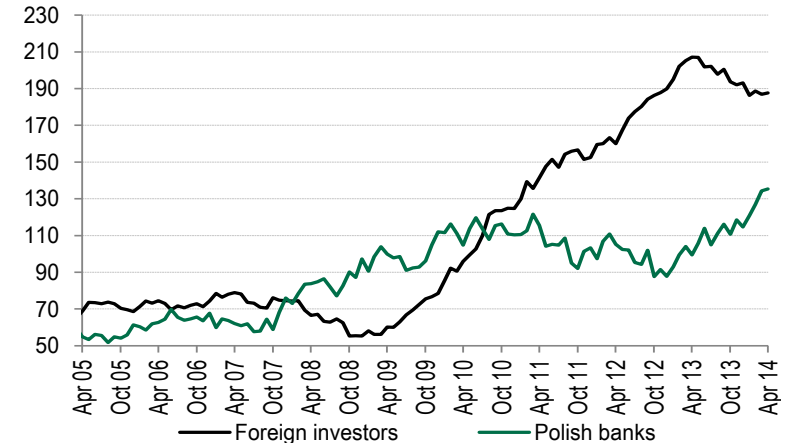


Source: Reuters, BZ WBK.

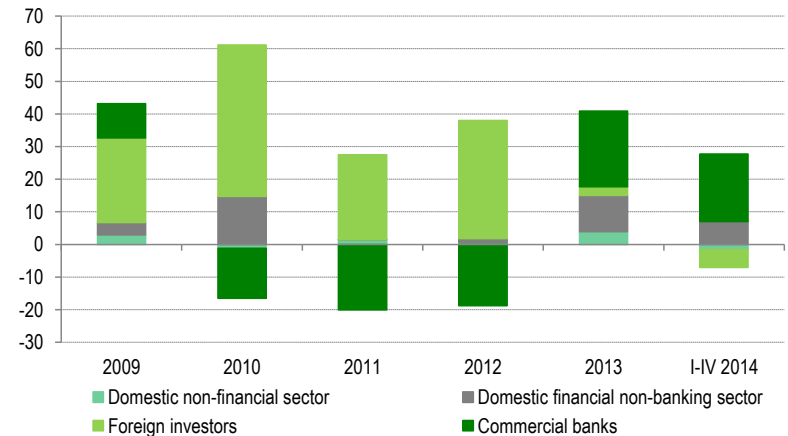
# Demand Corner: Foreign investors are buying again

- Data released by the Ministry of Finance showed that in April non-residents increased their portfolios by PLN0.7mn, after a substantial decline (PLN1.8bn) the previous month. Foreign investors' demand for Polish assets increased significantly in May, the Ministry of Finance announced. It was one of the factors contributing to a sharp decline in the 10Y benchmark yield. Interestingly, in April non-residents considerably increased the proportion of floating rate notes in their portfolios.
- As in previous months, domestic commercial banks have been net buyers. Their T-bond portfolio increased by PLN1.54bn to PLN135.4bn, the highest level since March 2011.
- Currently, foreign investors and local banks are the main investors in the T-bond market, holding 29% and 40% of PLN-denominated T-bonds, respectively.
- Since 2013, domestic banks have been playing the main role in financing the treasury's borrowing needs.

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



**Domestic financing – demand side (in PLN bn)**



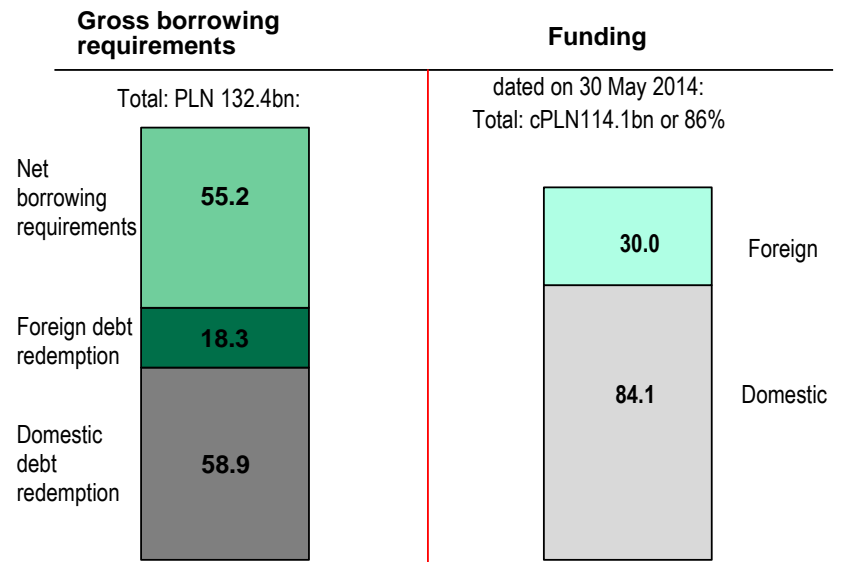
Source: Ministry of Finance, BZ WBK.



# Supply Corner: Pre-announcement of low summer supply

- May's auction attracted solid demand for Polish bonds. Demand recorded at a regular auction of a new 5Y benchmark (PS0719) and a floater (WZ0119) was twice the maximum level on offer of PLN5bn. Consequently, the Ministry issued T-bonds worth PLN5.7bn and covered c86% of this year's borrowing requirements at the end of May. Its liquidity cushion increased to PLN45bn (from PLN30.4bn at the end of April).
- As expected, in June the Ministry of Finance plans two auctions -- a regular auction and switch auction. Supply is very limited and amounts to PLN3-5bn. However, a wide spectrum of T-bonds with a new 10Y benchmark (DS0725) should meet market demand (see table for details). Taking into account that this year borrowing needs will be lower by cPLN15bn lower, due to the smaller budget deficit, we assume that after June the Ministry will fully finance its gross borrowing needs.
- The Ministry announced it will run only one standard auction in July, to cover the rollover of T-bonds maturing that month. Moreover, after the vacation it will start pre-financing next year's borrowing requirements.

## Gross borrowing requirement and its funding in 2014



## Auction schedule for June 2014

Auction date	Settlement date	T-bonds	Expected supply
5 Jun 2014	9 Jun 2014	DS0725 / WS0428/ WZ0124	PLN3.0-5.0bn

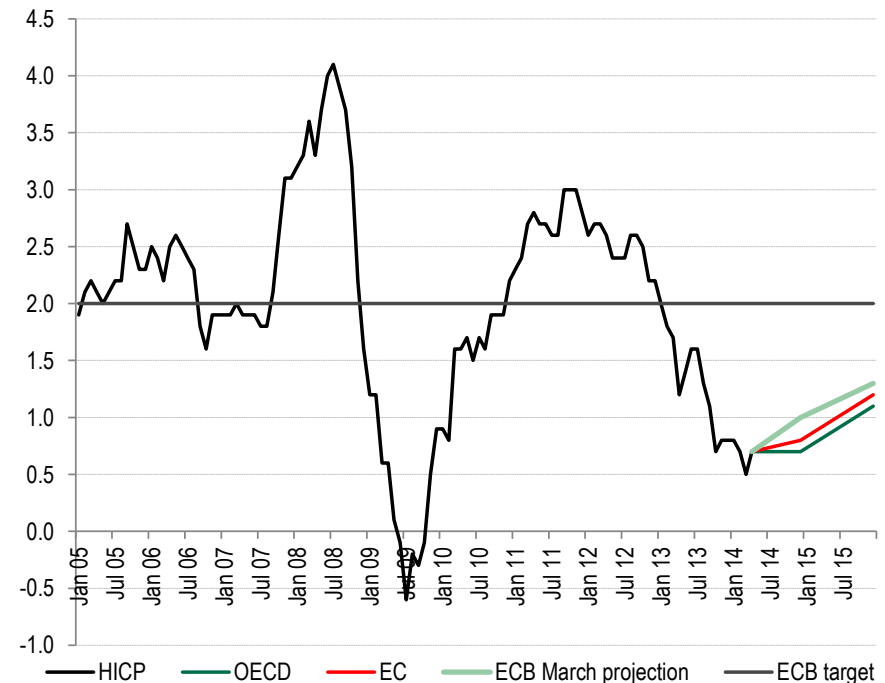
Auction date	Settlement date	T-bonds to be offered	Buy-back of T-bonds
18 Jun 2014	20 Jun 2014	the choice depends on market conditions	OK0714 WZ0115

Source: Ministry of Finance, BZ WBK.

# International Money Market and IRS: Monetary easing on the agenda in June

- Money market rates and IRS in the Euro zone dropped after Mario Draghi pre-announced monetary policy easing in June during the May press conference. 3M and 6M EURIBOR fell by 2-3bp and FRA from 3x6 to 9x12 declined by 4-6bp. The market now anticipates that 3M EURIBOR will decline by 10-12bp in the next 3-9 months.
- The Euro zone IRS curve flattened as medium- and long-term rates dropped by c10bp and the short end moved down less. 2Y, 5Y, and 10Y IRS reached their lowest levels since May 2013.
- Mario Draghi and other ECB governing council members said that any monetary policy easing depends on the updated inflation projections. Given the recent downward revisions of OECD and European Commission estimates, we would expect the central bank's forecasts to follow the same path.
- Cutting the ECB deposit rate below zero would be – as Mario Draghi has said in the past – entering uncharted waters and, even if it is expected by the market, such a decision is likely to push money rates down, in our opinion.

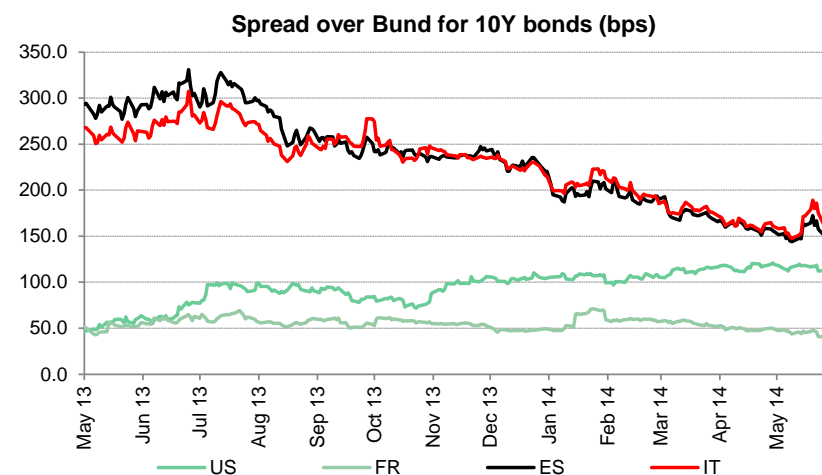
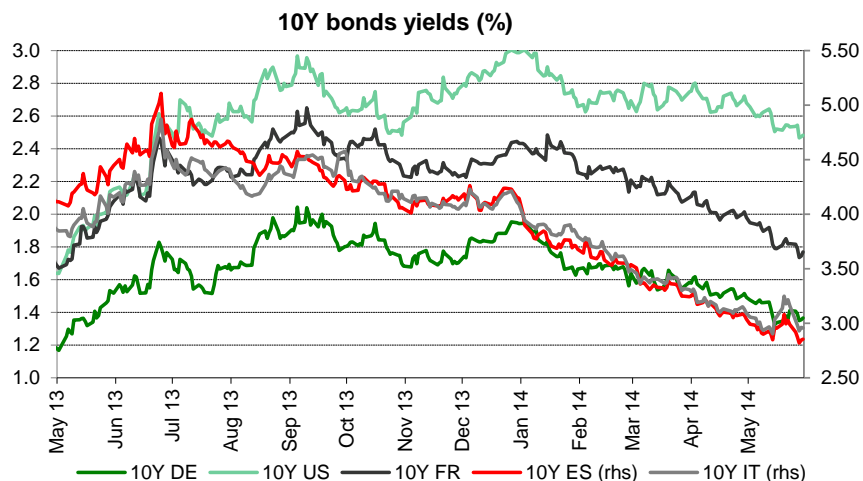
**HICP in the Euro zone and most recent ECB, European Commission and OECD forecasts**



Source: Reuters, ECB, Fed, BZ WBK.

# International Bond Market: Cores strong, peripheries volatile

- Core debt markets continued to be supported by hopes for more monetary policy easing by the ECB. Those expectations have been fuelled even further after disappointing data from Germany (flash manufacturing PMI, ZEW and Ifo for May).
- At the same time, the Euro zone's peripheral markets faced a sudden correction after rather subdued flash 1Q14 GDP numbers and flash May PMIs. Yields of the 10Y Spanish and Italian bonds surged by c40bp to their highest since April. Still, this move proved only temporary, as the market did not react negatively to European Parliament election results. Despite the success of euro-sceptic and populist parties in the EU, in Italy the populist parties failed to beat the ruling party, which helped calm investors. Additionally, rating agencies have upgraded Spain, Portugal and Greece, which has also improved sentiment in the peripheral markets. Spanish and Italian bonds have pared nearly all the losses suffered a few weeks earlier and yields have returned to multi-year lows.
- The market expects the ECB at least to cut the deposit rate and launch some extra liquidity measures. If this is confirmed, some short-term profit taking is likely, but we expect a negative deposit rate to support peripheries in the coming quarters.

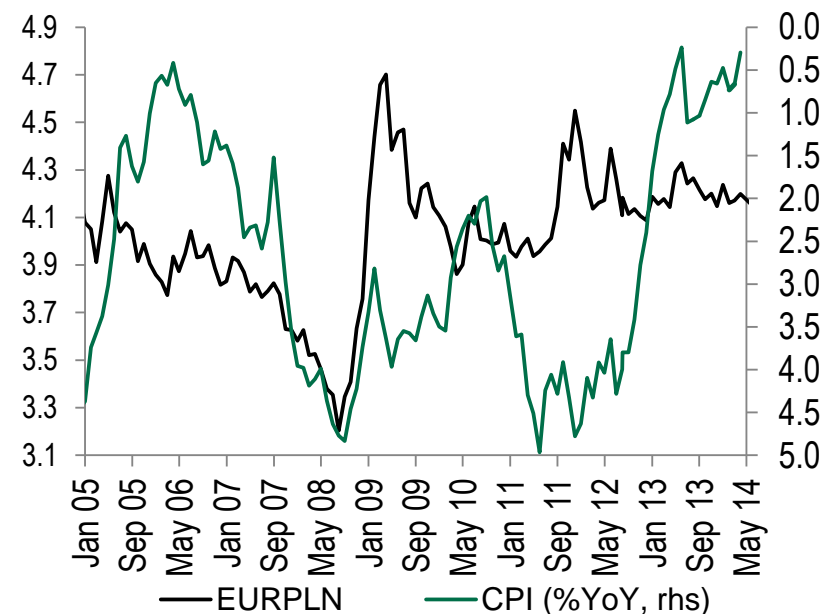


Source: Reuters, BZ WBK.

# Foreign Exchange Market: Zloty supported by hopes for more ECB easing

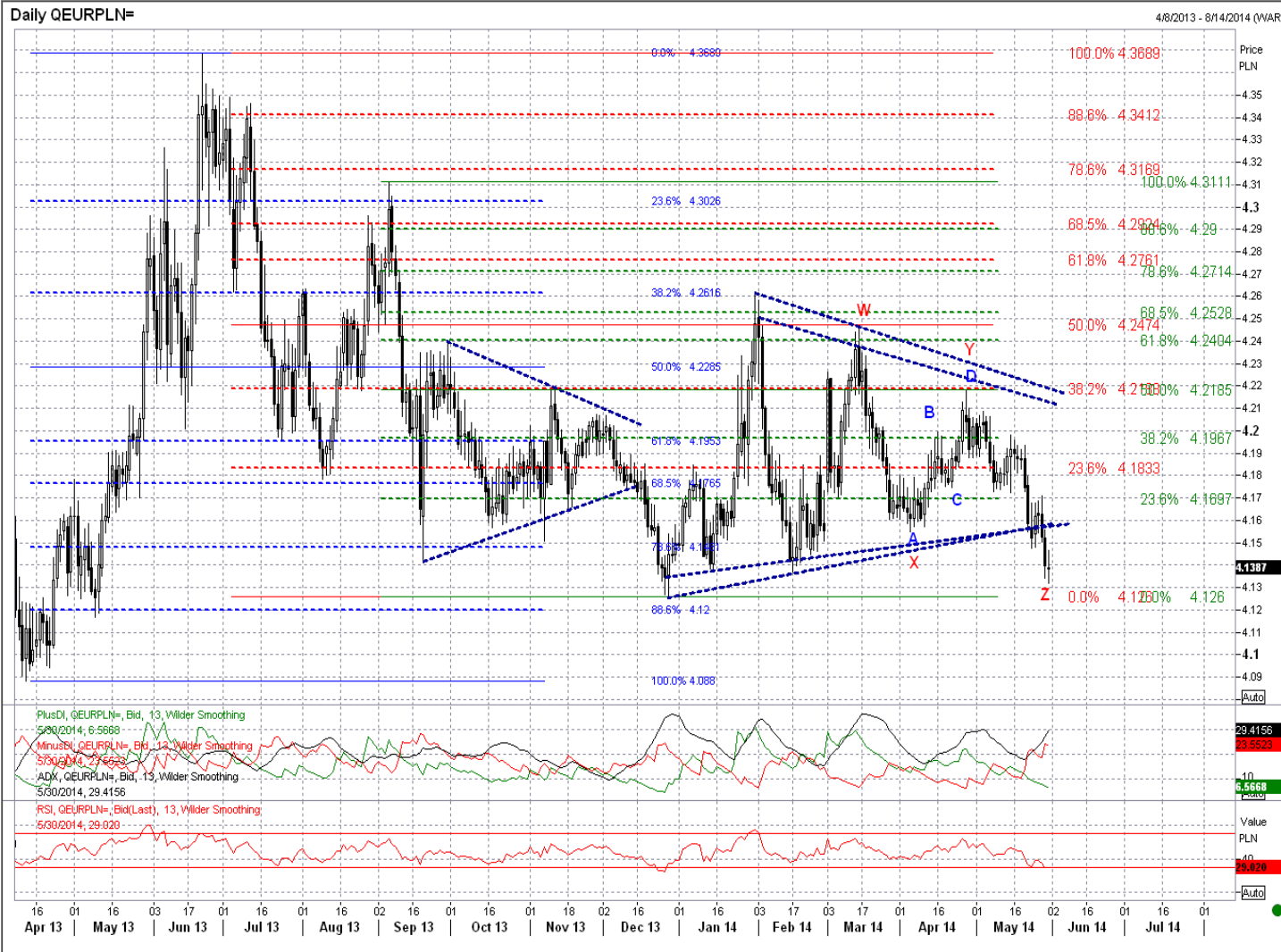
- In late April the EURPLN edged close to the 4.22 level due to major tensions in Ukraine. However, in May the zloty more than recouped those losses. The key driver for the zloty's appreciation to 4.14 per euro in the last few days of May is the growing expectation of more monetary policy easing in the Euro zone.
- However, the zloty and other CEE currencies (except for the Russian rouble) have been underperforming other EM currencies in recent weeks, which is probably due to geopolitical risk related to the Ukraine crisis (although this factor seems to be gradually losing significance). On top of that, the zloty was negatively affected by diminishing chances of rate hikes in Poland. Although the Polish flash 1Q14 GDP data surprised on the upside, April's CPI slid to 0.3%YoY vs. the 0.7%YoY expected. This, together with dovish comments from MPC members, has substantially affected monetary policy expectations.
- We still expect a significant move in EUR/PLN as the trading range continues to narrow. The Ukrainian elections did not provide a meaningful boost, so perhaps the June ECB meeting will be a trigger. We think that reducing the ECB's deposit rate below zero would support the zloty in the medium term, but see profit-taking possible in reaction to such a decision in the short run. Our target for the EURPLN rate at year-end remains 4.0.

EURPLN and Polish annual inflation



Source: Reuters, BZ WBK

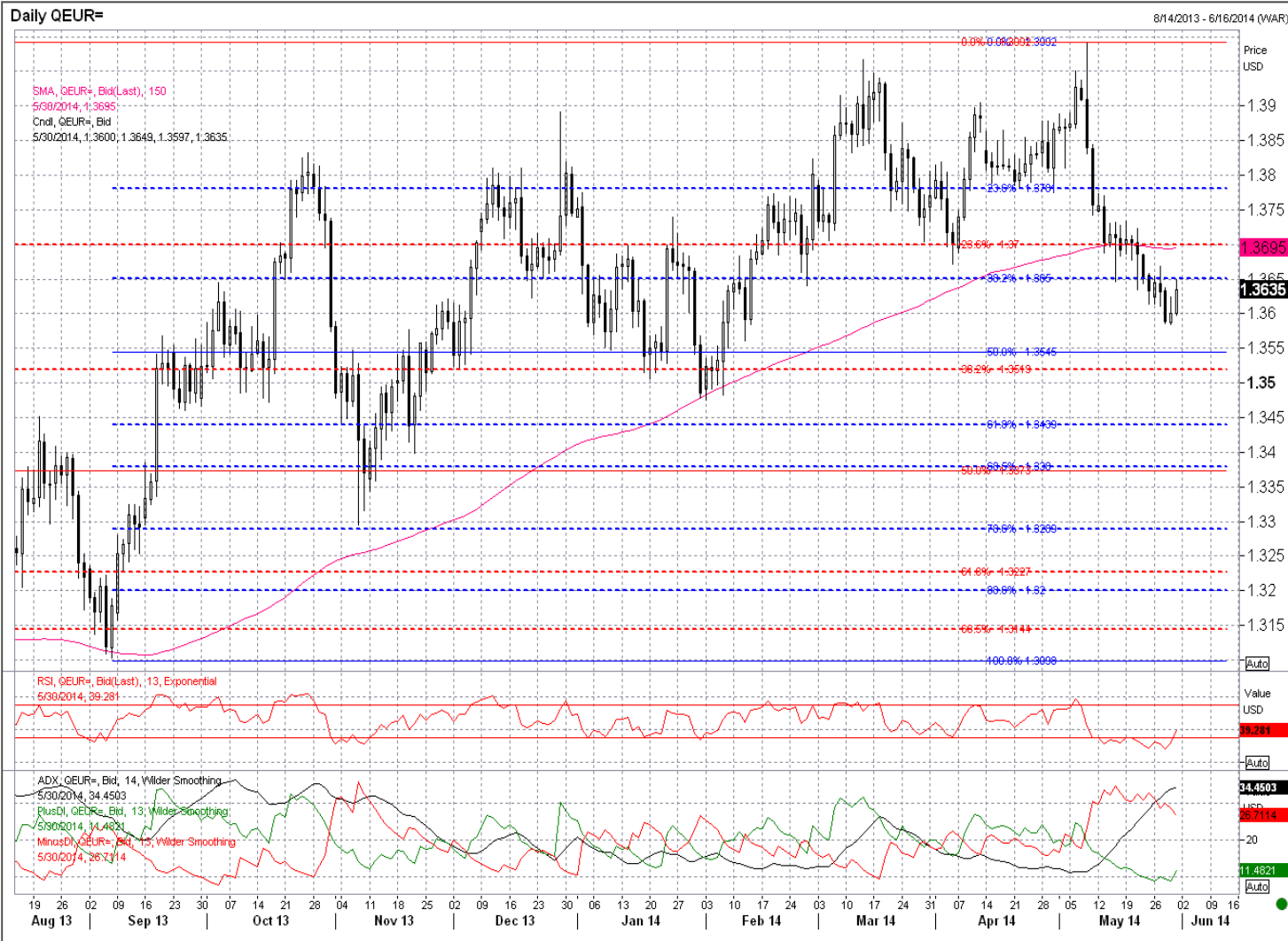
# FX Technical Analysis Corner: EUR/PLN may fall further



- ▶ Last month we hinted that the zloty may pare at least part of the losses as AB~CD. The following weeks saw a visible decline in the EURPLN.
- ▶ Consequently, the exchange rate has broken the lower band of the narrowing trading range.
- ▶ The EURPLN hovers close to its December low. Additionally, WX~YZ and this may limit the room for a further decline. However, if this is broken, the EURPLN may head towards 4.088.

Source: Reuters, BZ WBK

# FX Technical Analysis Corner: EURUSD breaks 150-day MA



- ▶ In May we pointed out that the 150-day moving average had been protecting the EURUSD from a steeper drop since August 2013. However, during the past month this vital support has been broken.
- ▶ The ADX points to a downward trend that has gained strength recently.
- ▶ The first serious support seems to be around 1.345-1.35 (where two Fibonacci retracement levels meet) and this is the target for the coming weeks.

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	1,709.8	378.4	396.3	405.6	455.5	397.4	413.6	422.1	476.8
GDP	%YoY	4.5	2.0	1.6	3.5	0.4	0.8	2.0	2.7	3.4	3.5	3.6	3.6
Domestic demand	%YoY	3.6	-0.1	0.0	3.4	-1.0	-1.6	0.6	1.8	3.0	3.8	3.0	3.7
Private consumption	%YoY	2.6	1.3	0.8	2.5	0.0	0.1	1.0	2.1	2.6	2.5	2.5	2.6
Fixed investment	%YoY	8.5	-1.6	-0.2	6.2	-2.4	-3.3	0.5	2.0	10.7	3.0	5.0	7.0
Unemployment rate <sup>a</sup>	%	12.5	13.4	13.4	12.1	14.3	13.2	13.0	13.4	13.5	12.0	11.8	12.1
Current account balance	EURm	-18,519	-14,191	-4,984	-2,462	-2,313	486	-2,086	-1,071	-771	459	-1,191	-959
Current account balance	% GDP	-5.0	-3.7	-1.3	-0.6	-3.1	-2.3	-1.9	-1.3	-0.9	-0.9	-0.6	-0.6
General government balance	% GDP	-5.1	-3.9	-4.3	5.7	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	0.7	1.3	0.5	1.1	0.7	0.6	0.5	0.4	1.2
CPI <sup>a</sup>	%YoY	4.6	2.4	0.7	1.4	1.0	0.2	1.0	0.7	0.7	0.6	0.7	1.4
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	0.9	1.2	1.0	1.4	1.2	0.8	0.9	0.8	1.2

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

<sup>a</sup> 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 <sup>a</sup>	%	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	2.72	3.77	2.96	2.70	2.66	2.71	2.72	2.72	2.74
Yield on 2-year T-bonds	%	4.81	4.30	2.98	2.90	3.29	2.77	2.98	2.88	3.01	2.81	2.78	2.98
Yield on 5-year T-bonds	%	5.44	4.53	3.46	3.46	3.49	3.09	3.63	3.64	3.71	3.39	3.28	3.45
Yield on 10-year T-bonds	%	5.98	5.02	4.04	3.95	3.95	3.58	4.26	4.36	4.38	3.83	3.68	3.92
2-year IRS	%	4.98	4.52	3.10	3.03	3.43	2.81	3.14	3.04	3.07	2.89	2.95	3.22
5-year IRS	%	5.24	4.47	3.51	3.51	3.52	3.08	3.76	3.68	3.70	3.34	3.36	3.63
10-year IRS	%	5.33	4.56	3.86	3.77	3.76	3.41	4.13	4.14	4.16	3.70	3.50	3.72
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	2.99	3.15	3.22	3.21	3.08	3.06	3.04	2.99	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	5.04	4.88	4.94	4.97	4.98	5.06	5.11	5.06	4.95

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; <sup>a</sup> at the end of period



# Economic Calendar and Events

Date		Event:	Note:
3-Jun	PL	<b>MPC Meeting – interest rate decision</b>	<b>Official rates on hold</b>
5-Jun	EZ	ECB Meeting – interest rate decision	–
	PL	<b>Auction of DS0725 / WS0428 / WZ0124</b>	<b>Offer: PLN3.0-5.0bn</b>
13-Jun	PL	<b>CPI for May</b>	<b>Our forecast: 0.4%YoY, slightly below the market consensus of 0.5%YoY</b>
16-Jun	PL	<b>CPI excluding food and energy prices for May</b>	<b>Our forecast and market consensus are at 0.9%YoY</b>
17-Jun	PL	<b>Employment and wages for May</b>	<b>We expect employment to increase by 0.7%YoY and wages to grow 4.7% YoY. Our forecast of wage growth is above market consensus of 4.4%</b>
18-Jun	PL	<b>Switch tender</b>	<b>T-bonds to be buyback: OK0714, WZ0115</b>
	PL	<b>Industrial output and PPI for May</b>	<b>Our forecast of industrial output is 5.1%YoY (below market consensus). We predict PPI at -0.6%YoY</b>
	US	FOMC meeting – interest rate decision	–
19-Jun	EU	Eurogroup meeting	–
20-Jun	EU	EcoFin meeting	–
24-Jun	HU	NBH meeting - interest rate decision	–
26-Jun	CZ	CNB meeting - interest rate decision	–
TBA	PL	<b>Retail sales for May</b>	<b>Our forecast is 5.4% YoY vs market consensus of 6.6%YoY</b>
2-Jul	PL	<b>MPC Meeting – interest rate decision</b>	–
3-Jul	EZ	ECB Meeting – interest rate decision	–

Source: CB, CSO, Finance Ministry

# Annexe

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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

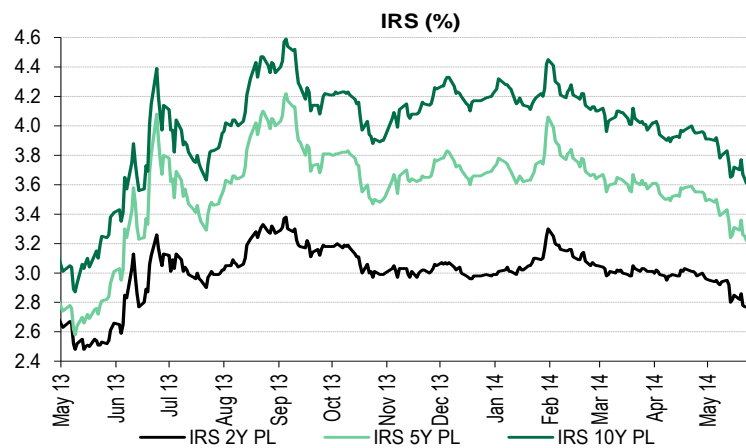
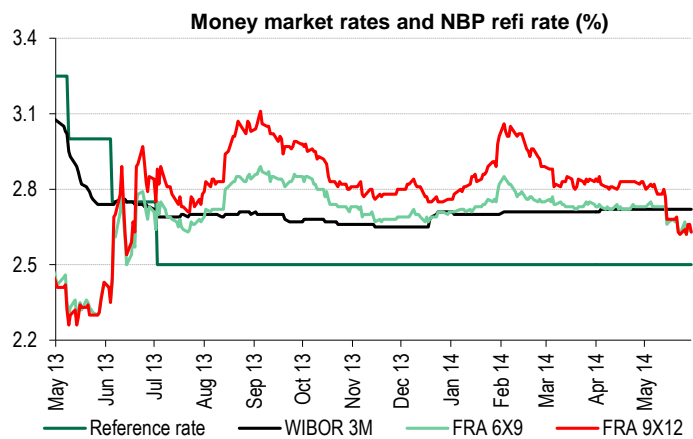
# 1. Domestic market performance

## Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of May	2.50	2.51	2.62	2.72	2.74	2.80	2.43	2.42	2.40	2.40	2.67	2.64	2.62	2.66
Last 1M change (bp)	0	1	0	0	0	1	3	-3	-6	-10	-5	-8	-11	-14
Last 3M change (bp)	0	2	1	1	0	2	2	1	-3	-12	-5	-8	-14	-22
Last 1Y change (bp)	-50	-40	-39	-2	8	15	-24	-11	0	3	5	17	19	23

## Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of May	2.72	3.27	3.67	2.78	3.26	3.65	-6	1	2
Last 1M change (bp)	-16	-27	-36	-18	-23	-26	2	-4	-10
Last 3M change (bp)	-30	-41	-69	-27	-39	-45	-3	-2	-24
Last 1Y change (bp)	1	16	10	12	25	24	-11	-9	-14



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
<b>T-bonds auction</b>	18,143	8,821	6,573	17,503	5,700	5,000	5,000	5,000	5,000	5,000	3,000	2300	87,040
<b>T-bills auction</b>													0
<b>Retail bonds</b>	256	475	190	170	170	170	170	180	170	175	185	176	2,487
<b>Foreign bonds/credits</b>	16,724	1,150					5450			3200			26,524
<b>Prefinancing and financial resources at the end of 2013</b>	25,000												25,000
<b>Total</b>	<b>60,123</b>	<b>10,445</b>	<b>6,763</b>	<b>17,673</b>	<b>5,870</b>	<b>5,170</b>	<b>10,620</b>	<b>5,180</b>	<b>5,170</b>	<b>8,375</b>	<b>3,185</b>	<b>2476</b>	<b>141,050</b>
<b>Redemption</b>	16,497	5,613	2,230	16,035	116	60	10,323	1,793	2,796	83	816	91	56,452
<b>Net inflows</b>	<b>43,626</b>	<b>4,832</b>	<b>4,533</b>	<b>1,638</b>	<b>5,754</b>	<b>5,110</b>	<b>297</b>	<b>3,387</b>	<b>2,374</b>	<b>8,292</b>	<b>2,369</b>	<b>2,385</b>	<b>84,598</b>
<b>Rolling over T-bonds</b>			4,807										4,807
<b>Buy-back of T-bills/ FX-denominated bonds</b>													0
<b>Total</b>	<b>43,626</b>	<b>4,832</b>	<b>9,340</b>	<b>1,638</b>	<b>5,754</b>	<b>5,110</b>	<b>297</b>	<b>3,387</b>	<b>2,374</b>	<b>8,292</b>	<b>2,369</b>	<b>2,385</b>	<b>89,405</b>
<b>Coupon payments from domestic debt</b>	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
<b>Total 2014</b>	<b>38,627</b>		<b>1,677</b>	<b>40,304</b>	<b>16,149</b>	<b>56,452</b>
<b>Total 2015</b>	<b>83,354</b>		<b>1,710</b>	<b>85,064</b>	<b>14,789</b>	<b>99,853</b>
<b>Total 2016</b>	<b>77,971</b>		<b>1,273</b>	<b>79,245</b>	<b>17,262</b>	<b>96,506</b>
<b>Total 2017</b>	<b>58,543</b>		<b>917</b>	<b>59,460</b>	<b>12,566</b>	<b>72,026</b>
<b>Total 2018</b>	<b>66,671</b>		<b>911</b>	<b>67,582</b>	<b>14,396</b>	<b>81,978</b>
<b>Total 2019+</b>	<b>148,099</b>		<b>3,233</b>	<b>151,332</b>	<b>135,784</b>	<b>287,116</b>

Source: MF, BZ WBK

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

Scheduled wholesale bond redemption by holders (data at the end of April 2014, in PLN mn)

	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	0	0	0	0	0	52	4	1	57
Q3 2014	4,865	1,673	1,538	19	771	132	10	87	9,096
Q4 2014	0	0	0	0	0	57	7	13	77
<b>Total 2014</b>	<b>4,865</b>	<b>1,673</b>	<b>1,538</b>	<b>19</b>	<b>771</b>	<b>241</b>	<b>21</b>	<b>101</b>	<b>9,230</b>
	53%	18%	17%	0%	8%	3%	0%	1%	100%
<b>Total 2015</b>	31,514	29,424	9,157	591	6,349	244	280	5,866	83,425
	38%	35%	11%	1%	8%	0%	0%	7%	100%
<b>Total 2016</b>	40,970	18,466	6,859	723	11,610	115	536	6,122	85,402
	48%	22%	8%	1%	14%	0%	1%	7%	100%
<b>Total 2017</b>	23,621	17,239	6,822	702	6,345	51	144	3,619	58,543
	40%	29%	12%	1%	11%	0%	0%	6%	100%
<b>Total 2018</b>	16,421	30,896	3,361	372	10,680	67	162	4,358	66,317
	25%	47%	5%	1%	16%	0%	0%	7%	100%
<b>Total 2019+</b>	70,231	37,723	25,513	1,117	10,284	261	284	8,894	154,307
	46%	24%	17%	1%	7%	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 April			Share in TOTAL (%) in April
	End Apr'14	End Mar'14	End Dec'13	End Sep'13	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
<b>Domestic investors</b>	278.7	277.9	381.2	377.3	341.8	352.9	361.4	0.30	-19.44	-19.66	59.8
<b>Commercial banks</b>	135.4	134.3	114.7	116.2	102.0	102.1	110.9	0.86	12.05	36.16	29.0 (0.1pp)
<b>Insurance companies</b>	53.2	52.9	52.0	52.8	54.7	57.0	54.3	0.64	1.64	3.46	11.4
<b>Pension funds</b>	3.5	3.5	125.8	122.7	116.7	120.3	120.7	0.75	-97.34	-96.94	0.8
<b>Mutual funds</b>	46.0	45.8	46.7	46.1	32.5	33.0	31.3	0.45	-0.54	4.98	9.9
<b>Others</b>	40.5	41.4	42.0	39.5	35.9	40.5	44.3	-2.2	-0.3	9.4	8.7 (-0.2pp)
<b>Foreign investors*</b>	187.6	186.9	193.2	200.6	184.2	174.0	163.2	0.40	-3.24	-8.95	40.2
<b>Banks</b>	30.5	30.5	29.1	32.1	27.8	22.6	24.3	5.72	4.85	-18.10	6.5
<b>Non-bank fin. sector</b>	150.6	150.6	156.0	159.7	147.5	143.1	131.7	-1.21	-3.45	-5.26	32.3 (-1.0pp)
<b>Non-financial sector</b>	4.5	4.5	4.7	5.2	5.6	5.2	4.4	7.53	-5.22	-17.35	1.0
<b>TOTAL</b>	466.3	464.8	574.3	577.9	526.0	526.9	524.7	0.34	-29.00	-15.82	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	48.7
Belgium	21.8	9.8	31.6	30.0	63.9
Finland	6.9	4.8	11.7	11.7	55.0
France	105.0	70.2	175.2	174.0	56.4
Germany	144.0	-	144	144.0	44.1
Greece	16.8	5.6	-	-	-
Ireland	6.9	7.7	14.6	14.6	65.0
Italy	187.8	27.6	235.4	235.4	61.1
Netherlands	32.0	15.9	47.9	45.9	61.9
Portugal	11.4	7.4	18.8	7.2	53.8
Spain	68.2	36.7	141.3	141.3	54.1
<b>Total</b>	<b>624.2</b>	<b>189.9</b>	<b>848.2</b>	<b>828.8</b>	<b>55.4</b>

\*/ YTD (year calendar) data for 2014

Source: Eurostat, BZ WBK.



## 5. Poland vs. other countries

### Main macroeconomic indicators (European Commission 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
<b>Poland</b>	1.6	3.2	0.8	1.1	-1.6	-1.7	-4.3	5.7	57.0	49.2
<b>Czech Republic</b>	-0.9	2.0	1.4	0.8	-1.2	-0.4	-1.5	-1.9	46.0	44.4
<b>Hungary</b>	1.1	2.3	1.7	1.0	3.1	3.0	-2.2	-2.9	79.2	80.3
<b>EU</b>	0.1	1.6	1.5	1.0	1.6	1.8	-3.0	-2.5	88.9	89.5
<b>Euro area</b>	-0.4	1.2	1.3	0.8	2.6	2.9	-3.3	-2.6	95.0	96.0
<b>Germany</b>	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 May	2013	end of May	2013	end of May	2013	end of May	2013	end of May
<b>Poland</b>	2.50	2.50	2.71	2.72	4.32	3.67	238	232	79	60
<b>Czech Republic</b>	0.05	0.05	0.05	0.05	2.53	1.72	58	35	60	52
<b>Hungary</b>	3.00	2.40	2.99	2.56	5.71	4.81	377	345	256	195
<b>Euro area</b>	0.25	0.25	0.29	0.34						
<b>Germany</b>					1.94	1.37			26	22

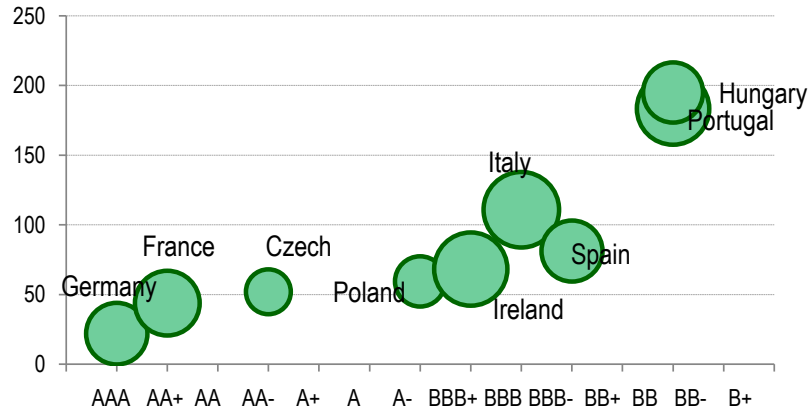
Source: EC – Spring 2014, stat offices, central banks, Reuters, BZ WBK.

# 5. Poland vs other countries (cont.)

**Sovereign ratings**

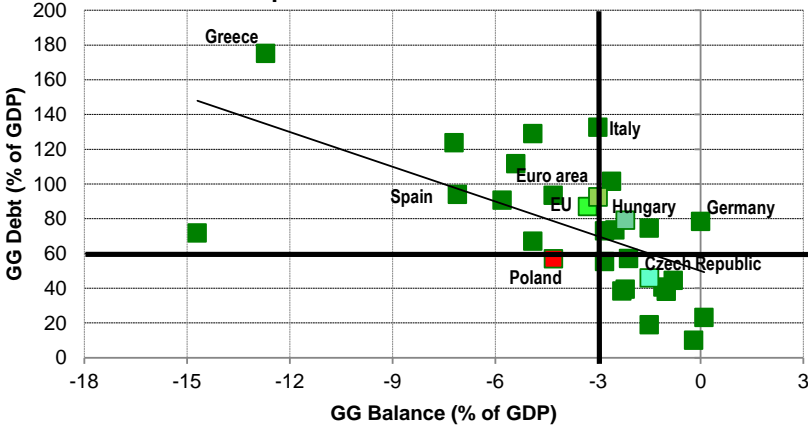
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	stable	Caa3	stable	B	stable
Ireland	BBB+	positive	Baa3	positive	BBB+	stable
Italy	BBB	negative	Baa2	stable	BBB+	negative
Portugal	BB	stable	Ba2	positive	BB+	negative
Spain	BBB	stable	Baa3	stable	BBB	stable

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



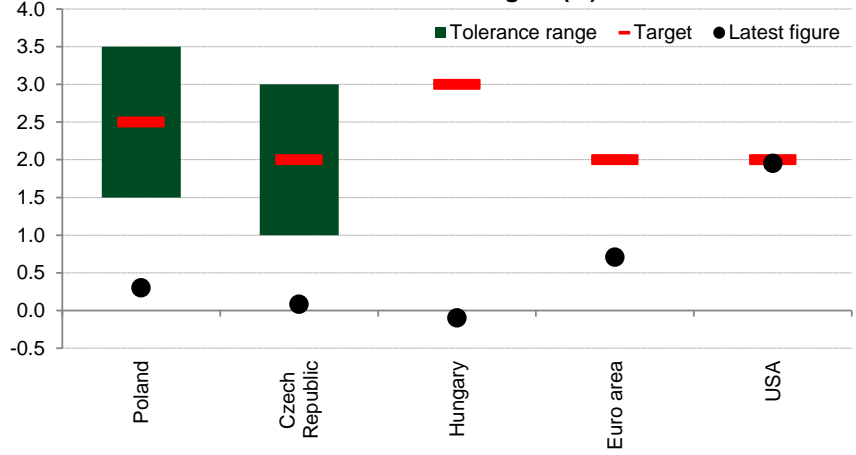
Note: Size of bubbles reflects the debt/GDP ratio

**Fiscal position of the EU countries**

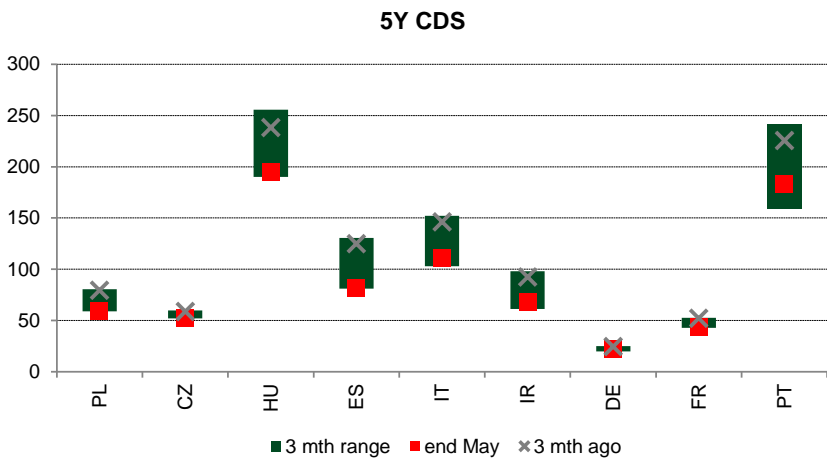
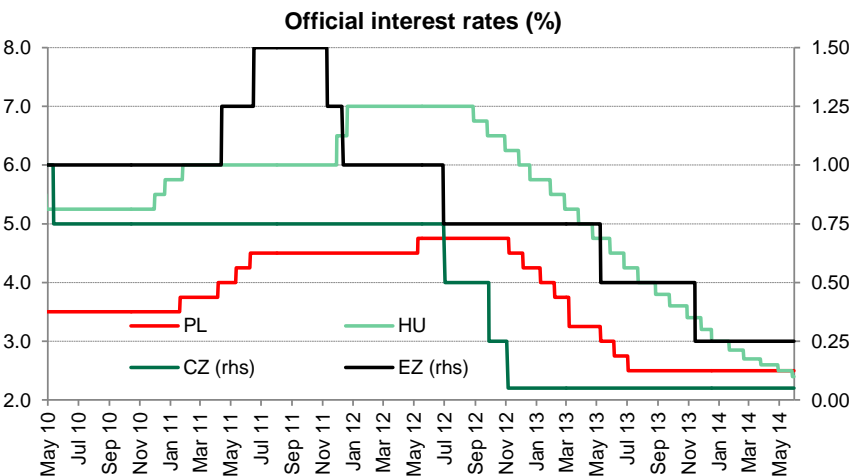
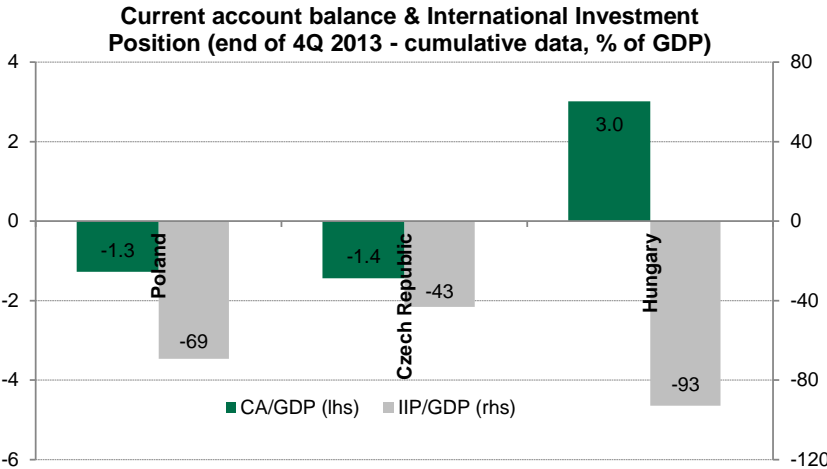
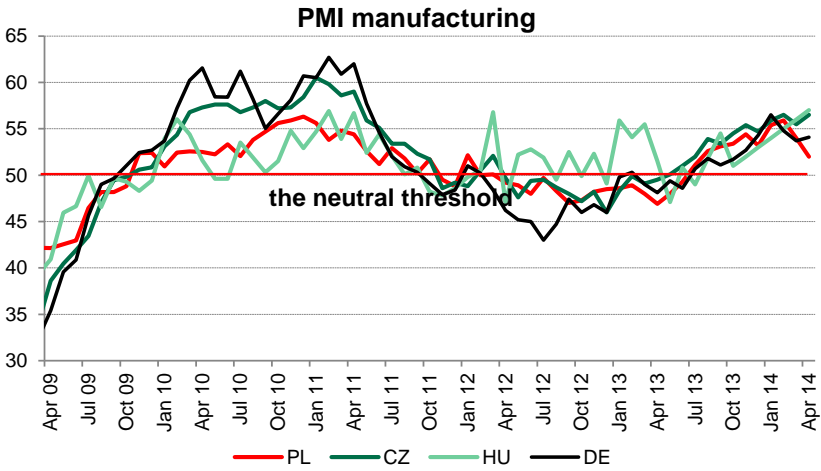


Source: rating agencies, Reuters, EC, BZ WBK

**Inflation rates vs targets (%)**

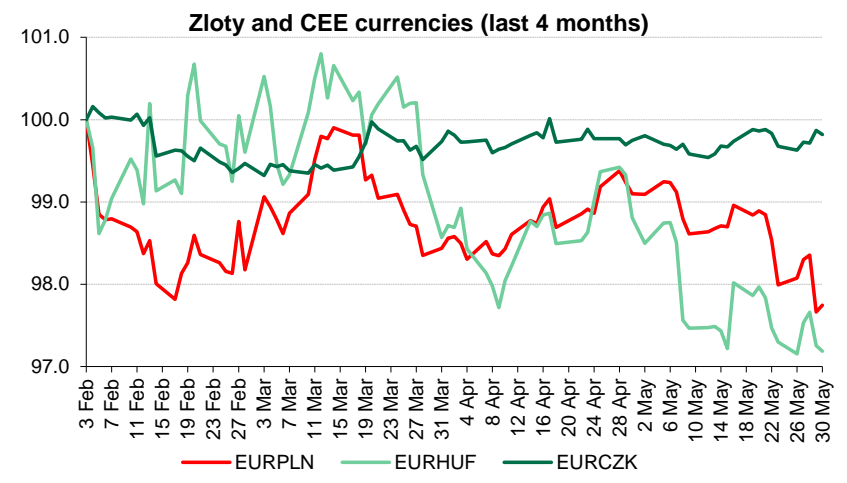
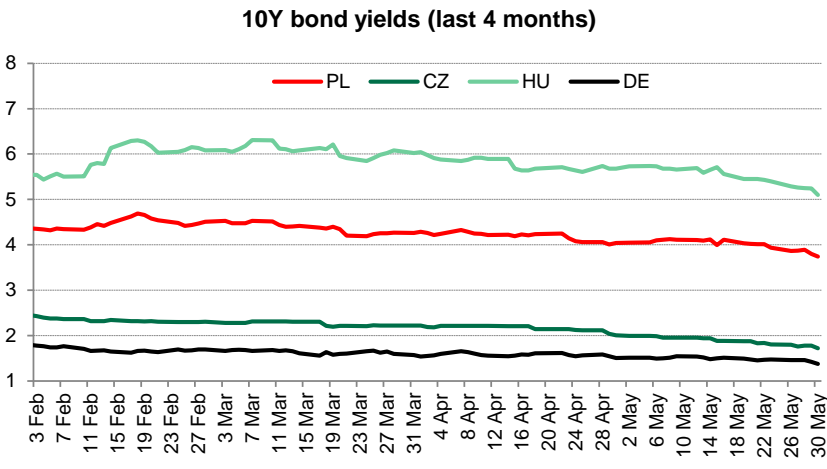
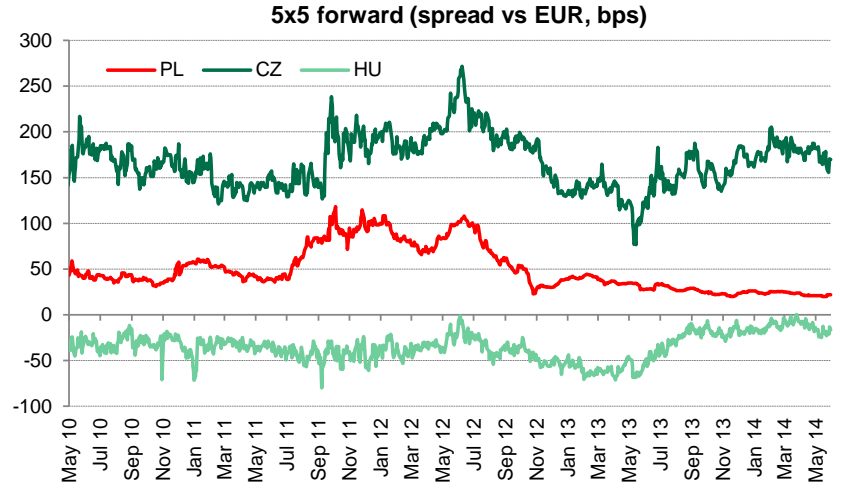
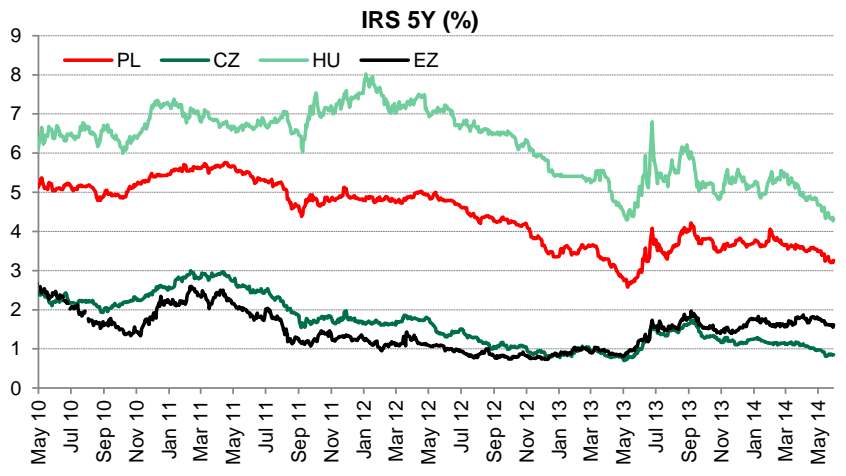


# 5. Poland vs other countries (cont.)



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	2014	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.25	0.25	0.15				The ECB looks set to adopt a package of relatively modest measures. We believe the more-than-likely downward revision to the inflation forecasts contained in the ECB's staff macro projections will probably push the ECB into action, leading it to cut both the refi (to 0.15%) and the depo (to -0.10%) rates. This would come together with some extra liquidity measures.
	Market implied »				-6	-11	-11	
UK	Forecast	0.50	0.50	0.75				The minutes of the Bank of England's MPC meeting in May set a less dovish tone than expected, with the MPC appearing to be very slowly edging towards a discussion of policy rate hikes. We expect the BoE to be the first major central bank to tighten monetary policy.
	Market implied »				1	4	17	
US	Forecast	0-.25	0-.25	0.25				As expected, the Fed continued its gradual slowdown in asset purchases (by USD10bn). The key of this month's meeting will be new projections of both CPI and GDP, which may bring hints about monetary policy in the medium term. New forecasts should confirm the start of monetary tightening in 2015.
	Market implied »				0	1	3	
Poland	Forecast	2.50	2.50	2.50				This month's MPC meeting is likely to be a non-event, just like the previous one. We still think the Council will wait until July's meeting, when it will receive new central bank projections of inflation and GDP, and then it will extend the forward guidance until the end of this year.
	Market implied »				-5	-8	-10	
Czech Republic	Forecast	0.05	0.05	0.05				Status quo in monetary policy: We foresee the official rate remaining unchanged, while the Czech central bank is likely to consider an extension of the CZK peg guidance.
	Market implied »				30	32	29	
Hungary	Forecast	2.40	3.00	2.40				The base rate reached a new record low after a 10bp cut in May. In our opinion, there is still room for further rate cuts, in particular if the ECB decides to ease monetary policy this month.
	Market implied »				-6	-5	4	

Source: Reuters, BZ WBK

This analysis is based on information available through May 30, 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
<b>Long / Buy</b>	Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk.	<b>Long / Receive fixed rate</b>	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.
<b>Short / Sell</b>	Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk.	<b>Short / Pay fixed rate</b>	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		
<b>Long a spread / Play steepeners</b>	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).		
<b>Short a spread / Play flatteners</b>	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		
<b>Long / Buy</b>	Appreciation of a given currency with an expected return of at least 5% in 3 months.		
<b>Short / Sell</b>	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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