



RATES AND FX OUTLOOK

POLISH FINANCIAL MARKET

December 2014



Bank Zachodni WBK

 Grupa Santander

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Summary

- The Monetary Policy Council (MPC) has kept main interest rates on hold in November, even though the new central bank projections definitely supported additional policy easing, with downward revisions to GDP and inflation forecasts. The policymakers have clearly signalled their focus has moved from inflation to the growth outlook and it seems likely that most of the Council members see GDP prospects as more optimistic than those outlined in the last NBP projection. At the same time, they see the main drivers of low inflation as supply-side in nature, which cannot be addressed by domestic interest rates.
- As most of the economic data released last month surprised on the upside, it would seem quite irrational to expect the MPC to change its mind and support an interest rate reduction at the December meeting. However, it should be noted that the Council is not a uniform body but a panel of ten policymakers, who are apparently deeply divided in their opinions about the optimal policy decisions. This is reflected by, among other things, the fact that there were three rate-cut motions submitted at the meeting in November: -100bp, -50bp, -25bp, none of which gathered enough support. But it shows that some of the central bankers still see substantial room for monetary easing. Judging by the last MPC press conference and by MPC members' recent comments, we guess that November's decision was a close call and it was probably a change in the opinion of just one MPC member that determined the decision (October's rate cut was passed due to the NBP governor's casting vote with support 5:5). While we do not expect a rate cut in December, we think there is still room for at least minor monetary policy easing, as – despite better-than-expected data on economic activity – inflation forecasts are still falling. We predict that 12M CPI will remain below zero at least until mid-2015 and that inflation will not return to the target until the end of 2016.
- An MPC decision to leave rates unchanged in December may trigger a further correction in the short end of yield curve. However, the move could be short-lived, as the next data releases (which could confirm sub-zero inflation and a drop in production) may fuel hopes that monetary policy adjustment is still possible in the near future. Yields at the long end of the curves should stay low, amid expectations of QE in the Euro zone.
- Despite positive surprises from macro data releases (GDP, PMI, labour market), the EURPLN has remained relatively stable. This situation is likely to continue in the nearest weeks as, in our view, the balance of risk for the currency is fairly symmetric for December.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-November	1M	3M
Reference rate	-50	0	2.00	→	↘↘
3M WIBOR	-53	10	2.06	→	↘↘
2Y bond yield	-44	5	1.74	→	↘
5Y bond yield	-57	-4	1.96	→	→
10Y bond yield	-74	-6	2.37	→	→
2/10Y curve slope	-29	-11	64	→	↗

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

PLN rates: our view and risk factors

Money market: WIBOR rates should remain stable in the last month of the year. On one hand, new data showing a drop in industrial output and sub-zero inflation may fuel hopes of an interest rate cut in 1Q15, but it should be offset by the year-end effect, i.e. the short-term cost of money rising temporarily in December. We still expect the MPC to cut official rates by 25bp by the end of 1Q15E, so WIBOR rates should follow suit in three months.

Short end: The front end of the curves has underperformed after the surprising MPC decision in November and better-than-expected economic data (3Q15 GDP and strong November PMI). We expect macro data releases later in December (sub-zero inflation, deceleration in production) to support short-term instruments as expectations of a rate cut in 1Q15 may revive.

Long end: Rates at the long end of the curves should maintain stay close to record-lows, amid expectations for quantitative easing in the Euro zone. However, we should remember that year-end is typically a period of subdued liquidity and may bring higher volatility in the market as a result.

Risks to our view: If, despite positive surprises in macro data, the MPC decides to cut rates in December, the fixed-income market may revert to a downward trend as the market could be over-optimistic about further rate cuts. A significant change in market expectations about implementation of QE in the Euro zone, or the pace of monetary tightening in the US, would also be a significant risk factor for Polish bonds.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected Trend	
	Last 3M	Last 1M	end-November	1M	3M
EURPLN	-0.7	-0.5	4.18	→	→
USDPLN	5.1	0.4	3.36	→	→
CHFPLN	-0.4	-0.2	3.48	↘	→
GBPPLN	-0.5	-1.3	5.28	→	→
EURUSD	-5.6	-1.0	1.24	→	→

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

PLN FX Market: Our view and risk factors

EUR: Despite positive surprises from macro data (GDP and November's PMI, which reduced expectations for interest rate cuts in Poland), the EURPLN has remained relatively stable. This situation is likely to continue in the short-term and we see risks for the EURPLN rate evenly balanced.

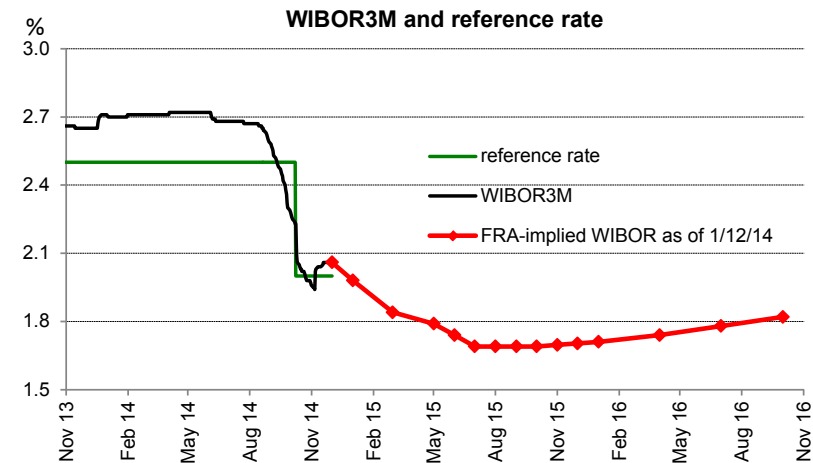
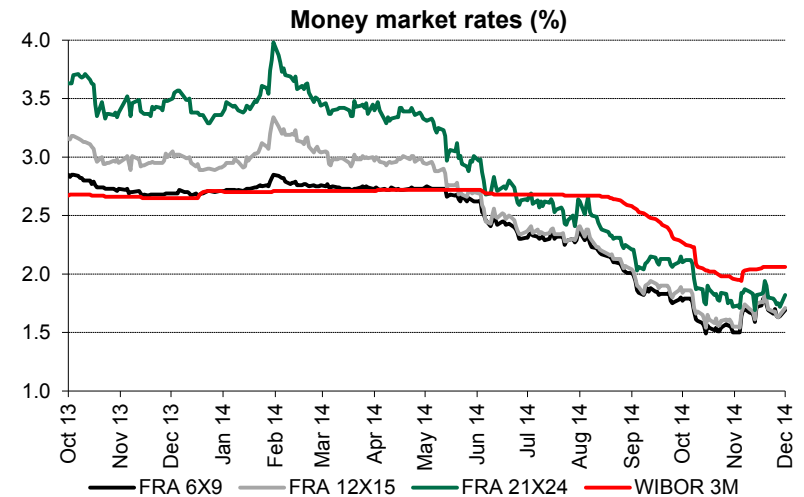
USD: The USDPLN has continued to rise, but more slowly. Assuming a horizontal trend for the EURUSD, we do not see major moves in USDPLN either between now and year-end.

CHF: Swiss voters rejected three initiatives at the end-November referendum, including enlargement of the Swiss National Bank's gold reserves. Results of the referendum slightly weakened the Swiss franc. In our opinion, the EURCHF might continue to increase towards 1.22, which should help the zloty gain some ground against the Swiss franc in short run.

Risks to our view: Risk factors are unchanged: geopolitics and central bank decisions.

Domestic Money Market: Stable rates until the end of the year

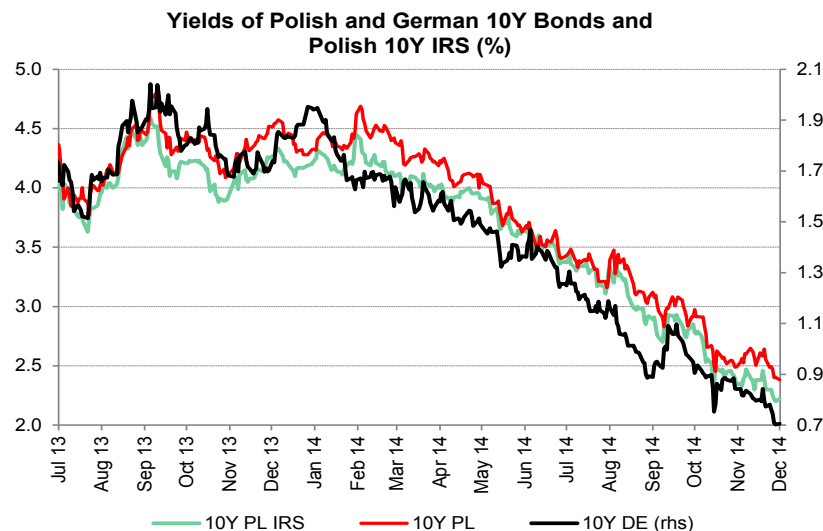
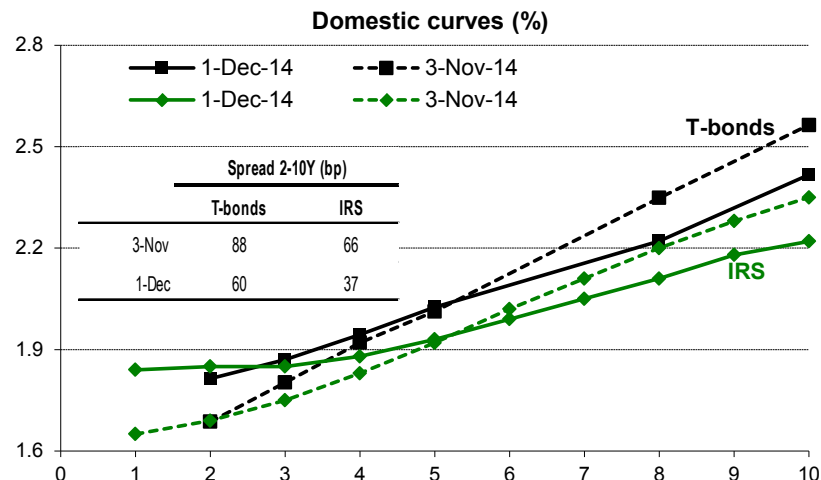
- ❶ Money market rates increased in November after the Monetary Policy Council decided to keep official rates unchanged. WIBORs climbed by 10-14bp after the Council meeting, with the biggest rise in the 1M rate and the smallest in the 12M.
- ❷ FRA rates initially increased even more, but then retraced some of the move, as investors returned to more aggressive expectations of NBP rate cuts. At the end of November, the FRA market was pricing in a rate cut of 25bp in three months' time and a total of 50bp on a six-month horizon, but it slightly scaled back its expectations after the release of much stronger-than-expected November PMI data.
- ❸ In our view, the MPC will keep the official rates unchanged at its December meeting, which should cause no significant change in money market rates as such a decision is widely anticipated. Upcoming data releases could potentially reinforce hopes for rate cuts in the near future, as we predict a drop in industrial output and another month of very low CPI. On the other hand, it is worth noting that the turn of the year usually brings a slight increase in the cost of short-term money. We expect those two effects to cancel each other out, so WIBOR rates should remain relatively stable in the next few weeks.
- ❹ Our baseline scenario still assumes one more interest rate cut by the end of 1Q15 and then stabilisation of the NBP reference rate at 1.75% until the end of 2015.



Source: Reuters, BZ WBK

Domestic IRS and the T-Bond Market: Global environment supports domestic curves

- Domestic IRS and bond yields surged substantially (c15-20bp across the curves) after the surprising MPC decision to keep rates unchanged in November. Domestic data releases and changes in global sentiment made the remainder of the month more volatile. Eventually, strengthening prevailed and domestic IRS and bonds yields in the middle and at the long end of the curves reached fresh record-lows as expectations for QE in the Euro zone increased. Moreover, a bullish flattener developed in both markets, tracking the global trend (2-10Y spreads narrowed to the lowest level since mid-May 2013).
- A stronger-than-expected November PMI reading triggered profit-taking in the FI market at the start of December (especially at the front end of the curves) and we think the move may continue if the MPC decides to leave official rates unchanged. However, the correction might be short-lived, as yields could ease later in the month on the back of new economic data releases and growing hopes of policy easing in the Euro zone. The ECB and Fed meetings will be more important for the long end of the curves. The strong belief in QE by the ECB and the still-relatively-soft stance of the US Fed should support domestic asset valuation near their current levels, or even a bit lower, if core and peripheral debt continue to strengthen.
- Favourable results of the bond auction could also support the domestic curve (as in November).

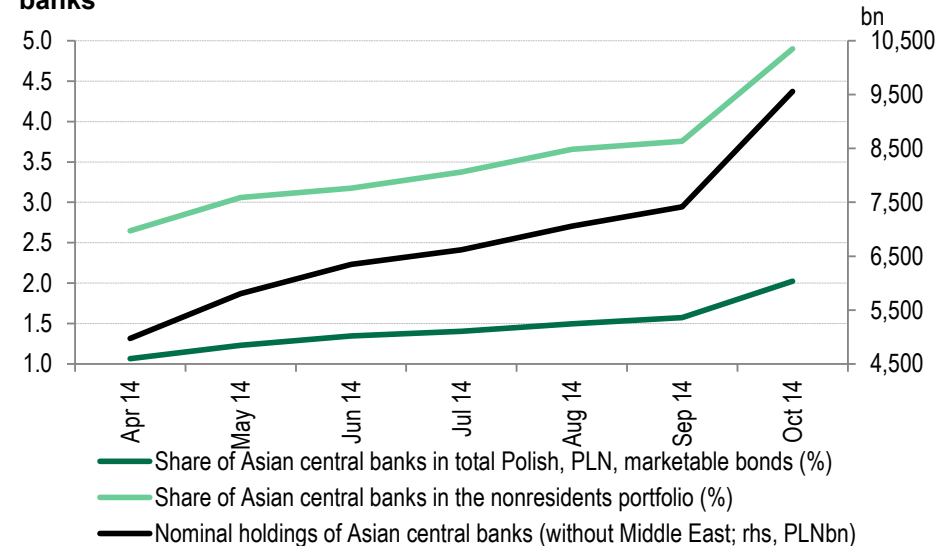


Source: Reuters, Bloomberg, BZ WBK.

Demand Corner: Asian central banks continue to accumulate Polish bonds

- The non-residents' holdings of Polish, PLN-denominated marketable bonds dropped by nearly PLN2.5bn (-1.25% MoM) to PLN195bn at the end of October, or 40.1% of the total outstanding amount.
- Polish investors' portfolios increased by PLN8.6bn (3.1% MoM) to nearly PLN292bn. This was the biggest monthly nominal increase since March and PLN6.65PLN of it was accounted for by Polish banks (which held c30% of Polish PLN marketable bonds).
- Among non-residents, commercial and central banks added PLN2.2bn and PLN1.8bn, respectively, while mutual funds and others sold PLN3.3bn and PLN2.9bn, respectively.
- Central banks in Asia and the Middle East accumulated PLN2.1bn in October. Their holdings nearly doubled between April and October, from nearly PLN5bn to PLN9.6bn (data are only available since April 2014).
- The biggest purchase made by non-residents was PLN1bn of OK0116, while most aggressive selling was PLN996mn of PS0415.
- The most noticeable selling by the Polish banks was PLN1.1bn of the 10Y benchmark DS0725 and the most significant buying was PLN2.5bn of the 5Y benchmark PS0719 (at the end of October Polish banks held 37% of this bond).

Polish PLN, marketable bonds held by the Asian central banks



Supply Corner: Moderate T-bond supply expected in 1Q15

In November the Finance Ministry sold cPLN4.5bn of T-bonds (WZ0124, DS0725 and WS0428) at a standard auction, slightly more than planned. The ministry also tapped the market that month with a switch tender, selling cPLN7bn of T-bonds. We estimate that at the end of November the Ministry had already pre-financed nearly 20% of 2015 funding. Therefore, the goal of reaching 25% of next year's target at the end of this year is realistic.

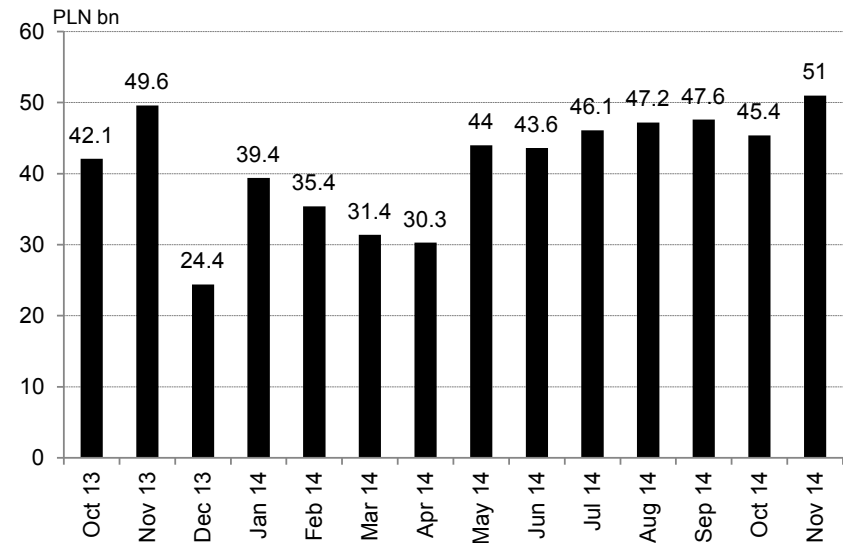
Poland's Finance Ministry announced that it will hold a single switch auction on December 4, in line with its issuance plan for 4Q14. The ministry is seeking to redeem floating rate WZ0115T-bonds and fixed-rate PS0415 and OK0715 bonds. The offer of T-bonds at this auction will depend on market conditions, but, in our view, it might be T-bonds from the mid- and long-end of the curve and floaters, i.e. the WZ series.

Supply of T-bonds could continue to be moderate in 1Q15, according to Piotr Marczak, the head of the ministry's public debt department. This would be a result of the high PLN and FX liquidity cushion (which, in our view, could still be cPLN50bn at the end of this year) and reduced redemptions of Treasury securities in January-March next year.

Auction plan for December 2014

Auction / Settlement date	T-bonds to be offered	Source T-bonds	Outstanding (PLN m)
4 Dec 2014 / 8 Dec 2014	The choice depends on market conditions	WZ0115	6441.3
		PS0415	21805.1
		OK0715	10229.6

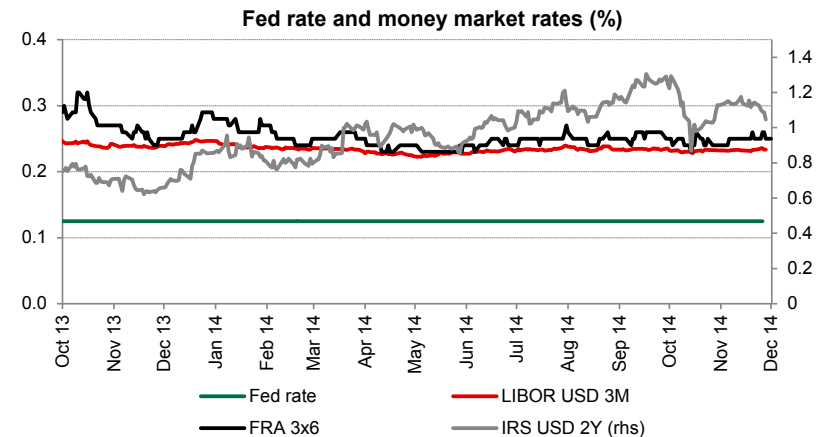
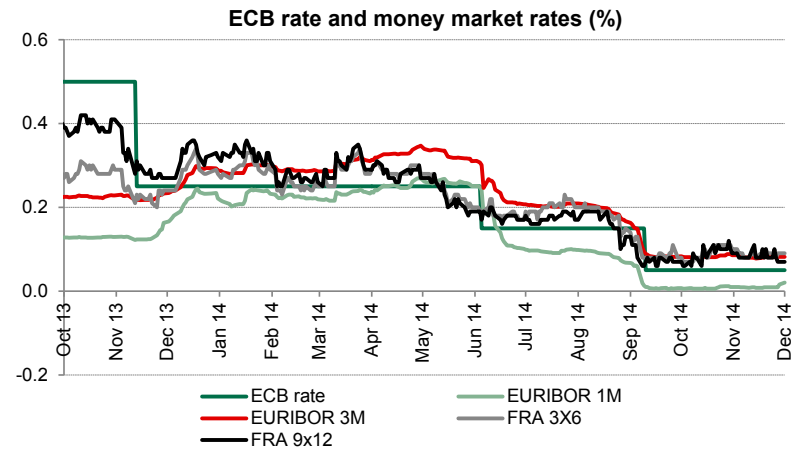
PL and FX liquidity cushion



Source: Finance Ministry, BZ WBK.

International Money Market and IRS: Higher volatility at the turn of the year

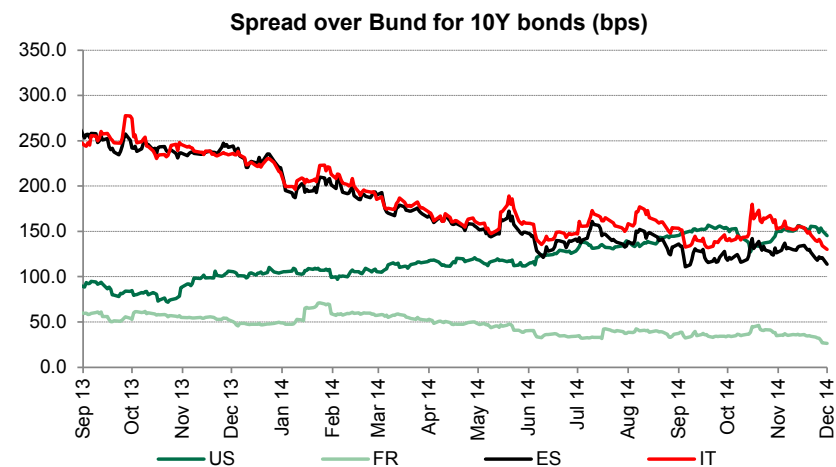
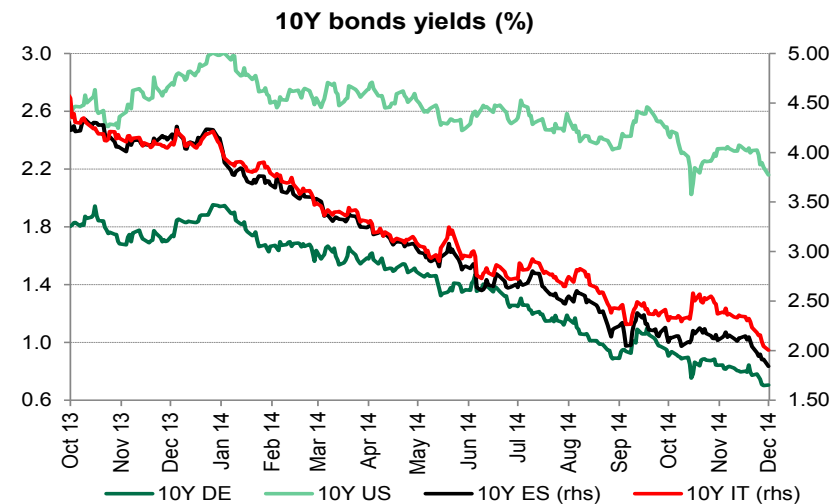
- EUR and USD money market rates were fairly stable in November, while IRS adjusted to a new market situation based on the assumption that the ECB is likely to implement further easing in the coming months, possibly as soon as its December meeting. Consequently, EUR IRS rates fell 1-16bp on a monthly basis. Monthly changes across the USD IRS curve were similar to the European market as the US macro data were mixed. Both curves flattened visibly (with the 2-10Y spread narrowing to 70bp for the EUR and to 163bp for the USD) as 10Y sectors outperformed others.
- The ECB meeting and macro data releases are likely to remain the key issues for the market this month. We believe that new CPI and GDP projections will lead the ECB to implement extra measures in 1Q15, but this month the main focus will be on the second TLTRO in mid-December. If the results turn out to be lower than anticipated, it could push the ECB into action as early as January. If there is no significant change in the Fed's rhetoric, in short run both EUR and USD money market rates look likely to increase slightly due to the year-end effect.
- The IRS market could be more vulnerable to upcoming macro data and central bank moves. A strong belief in QE in the Euro zone, together with a low inflation outlook, could support a further gradual decline in both EUR and USD rates between now and the end of 2014, in particular at the long end of the curves. However, in the medium term, we still expect a moderate rise in interest rates.



Source: Reuters, ECB, Fed, BZ WBK.

International Bond Market: Search for yield likely to continue

- November brought another strong rally on both core and peripheral debt markets. While the front end of curves was more or less stable for both the EUR and USD markets, 10Y bond yields have continued to grind lower. Yields of 10Y benchmarks set record lows (at slightly below 0.7% for Germany, below 1% in France and near 2% in the US) due to declining inflation expectations and the prospect of significant liquidity in the Euro zone. Consequently, a strong curve flattening developed in both EUR and USD markets.
- Peripheral debt also benefited from the strengthening of core markets. 10Y Spanish and Italian benchmark yields reached fresh record lows of 1.9% and 2.04%, respectively. Meanwhile, spreads over Bunds narrowed slightly on a monthly basis (with the exception of Greece, where the spread continued to rise, but more slowly than the previous month).
- Investors are likely to continue to focus on central bank meetings and economic data. In our opinion, the downward pressure on yields is likely to persist in the short run, as the ECB is likely to support QE expectations and inflation should stay low. The FOMC meeting in mid-December could add volatility as the Fed may shed new light on its upcoming tightening strategy. However, in our view, the FOMC stance should remain soft. We expect core yields to remain very close to their current low levels. Peripheral debt could strengthen further as improving fundamentals support the search for yield.

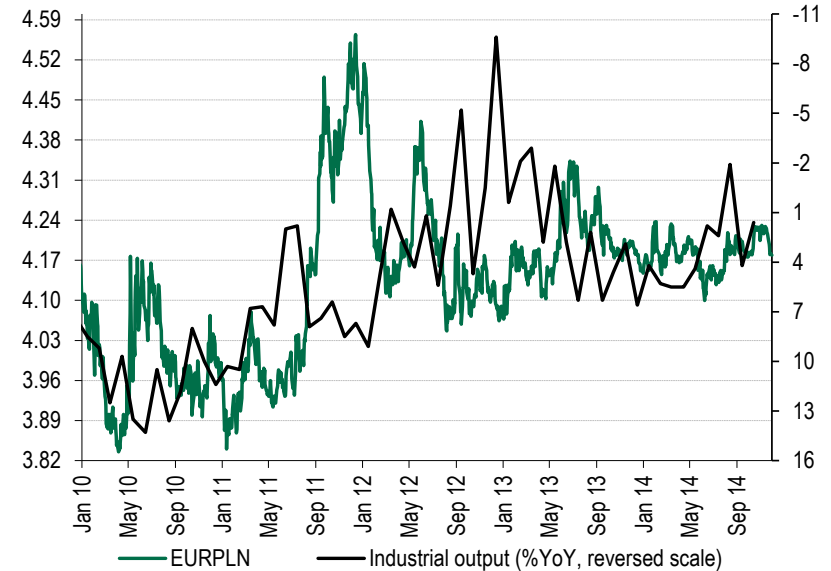


Source: Reuters, BZ WBK.

Foreign Exchange Market: Zloty in a horizontal trend

- In November we suggested the zloty's depreciation to 4.24 per euro might be temporary and could soon reverse. We said the Polish currency may benefit from expectations of an imminent end to the easing cycle in Poland and decent domestic economic data. Our guess proved correct as the MPC surprised the market by keeping rates flat in November and the later inconclusive comments of its members were accompanied by quite good Polish macro data. ECB officials fuelled expectations that the asset purchase programme may be extended. This dragged the EUR/PLN rate to 4.17 (its lowest since early October).
- Events scheduled for early December could determine whether the EUR/PLN breaks support at 4.16-4.17 (its September low) or rebounds towards 4.20. An MPC decision to keep rates on hold in December should help strengthen the zloty, but data releases (low inflation and low production for November) may have a negative effect. Moreover, we do not expect the ECB to announce the extension of the asset purchase programme in December and this might weigh on risky assets. The potential for domestic currency appreciation may be also limited by developments in the rouble market – the USD/RUB resumed its uptrend in late November and, if this continues, it could have a negative impact on CEE currencies.
- We expect the EUR/PLN to average 4.18 in December. If the exchange rate breaks 4.16-4.17, then the next support is 4.12. Resistance is at 4.20-4.21.

EUR/PLN and Polish industrial output



Source: Bloomberg, BZ WBK

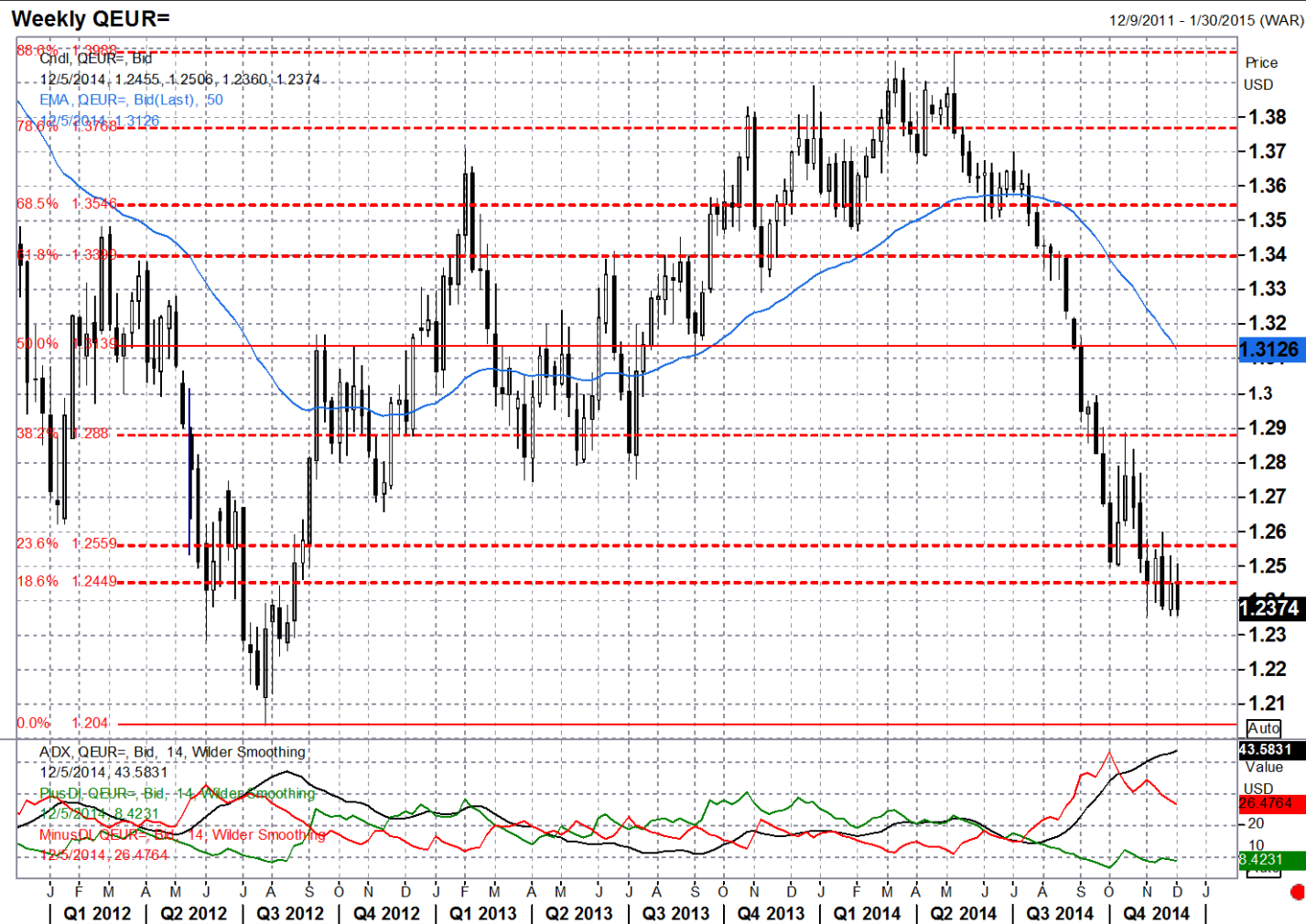
FX Technical Analysis Corner: EUR/PLN may fall further



- ▶ Last month we said we saw room for lower EUR/PLN and that a more noticeable move may be occur in the near future.
- ▶ EUR/PLN recorded quite a sharp drop in late November and reached a support area consisting of September minimums.
- ▶ The ADX oscillator rebounded slightly but so far is below levels that, in the past months, would herald a pause in the trend. This suggests that the EUR/PLN could continue its downward move in the coming weeks.

Source: Reuters, BZ WBK.

FX Technical Analysis Corner: EUR/USD on hold



- ▶ The EUR/USD rate stayed in a horizontal range (1.236-1.26).
- ▶ The ADX oscillator confirms there is currently no strong trend in the market.
- ▶ In early November the exchange rate broke support at 1.246, opening the door for a further drop towards 1.226.
- ▶ Important levels to watch are at 1.26 and 1.236.

Source: Reuters, BZ WBK.

Macroeconomic Forecasts

Poland		2012	2013	2014E	2015E	1Q14	2Q14	3Q14	4Q14E	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLNbn	1,615.9	1,662.1	1,725.2	1,792.2	403.1	418.4	426.8	476.9	415.7	433.8	443.5	499.3
GDP	%YoY	1.8	1.7	3.2	3.2	3.4	3.5	3.3	2.9	2.8	3.1	3.2	3.5
Domestic demand	%YoY	-0.4	0.2	4.9	4.6	3.4	5.6	4.9	5.3	4.5	4.7	4.4	4.9
Private consumption	%YoY	1.0	1.1	3.2	3.6	2.9	3.0	3.2	3.6	3.7	3.6	3.6	3.5
Fixed investment	%YoY	-1.5	0.9	9.7	8.4	11.2	8.7	9.9	9.5	9.0	9.0	8.0	8.0
Unemployment rate ^a	%	13.4	13.4	11.5	10.9	13.5	12.0	11.5	11.5	11.7	10.4	10.3	10.9
Current account balance	EURmn	-13,697	-5,245	-7,482	-10,628	-1,403	-553.0	-1,803	-3,723	-2,374	-1,041	-3,021	-4,192
Current account balance	% GDP	-3.5	-1.3	-1.8	-2.4	-1.1	-1.2	-1.2	-1.8	-2.0	-2.1	-2.4	-2.4
General government balance	% GDP	-3.9	-4.3	5.7	-2.9	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	0.0	0.6	0.3	-0.3	-0.6	-0.6	-0.1	0.1	0.8
CPI ^a	%YoY	2.4	0.7	-0.6	1.0	0.7	0.3	-0.3	-0.6	-0.6	0.0	0.3	1.0
CPI excluding food and energy prices	%YoY	2.2	1.2	0.7	1.0	0.8	0.8	0.5	0.5	0.7	0.9	1.0	1.4

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

^a at the end of the period

Interest Rate and FX Forecasts

Poland		2012	2013	2014E	2015E	1Q14	2Q14	3Q14	4Q14E	1Q15E	2Q15E	3Q15E	4Q15E
Reference rate ^a	%	4.25	2.50	2.00	1.75	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75
WIBOR 3M	%	4.91	3.02	2.52	1.92	2.71	2.71	2.59	2.06	1.91	1.91	1.92	1.94
Yield on 2-year T-bonds	%	4.30	2.98	2.45	1.75	3.01	2.76	2.26	1.77	1.68	1.70	1.77	1.87
Yield on 5-year T-bonds	%	4.53	3.46	2.95	2.06	3.71	3.35	2.67	2.05	1.98	2.03	2.08	2.13
Yield on 10-year T-bonds	%	5.02	4.04	3.48	2.57	4.38	3.82	3.18	2.52	2.40	2.47	2.63	2.77
2-year IRS	%	4.52	3.10	2.50	1.83	3.07	2.82	2.32	1.81	1.73	1.75	1.82	2.00
5-year IRS	%	4.47	3.51	2.91	2.13	3.70	3.31	2.63	1.99	2.03	2.08	2.13	2.25
10-year IRS	%	4.56	3.86	3.33	2.47	4.16	3.73	3.07	2.36	2.28	2.41	2.53	2.66
EUR/PLN	PLN	4.19	4.20	4.18	4.13	4.19	4.17	4.18	4.20	4.18	4.15	4.11	4.06
USD/PLN	PLN	3.26	3.16	3.15	3.34	3.06	3.04	3.15	3.35	3.38	3.42	3.35	3.21
CHF/PLN	PLN	3.47	3.41	3.44	3.39	3.42	3.42	3.45	3.48	3.44	3.43	3.38	3.32
GBP/PLN	PLN	5.16	4.94	5.19	5.32	5.06	5.11	5.26	5.33	5.36	5.39	5.33	5.18

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

^a at the end of period

Economic Calendar and Events

Date		Event:	Note:
3-Dec	PL	MPC Meeting – interest rate decision	We expect the Council to keep official rates unchanged
4-Dec	PL	Switch tender	T-bonds to be redeemed: WZ0115, PS0415, OK0715
	EZ	ECB Meeting – interest rate decision	
11-Dec	EZ	TLTRO auction	
15-Dec	PL	CPI for November	Our forecast of -0.5% YoY is in line with market consensus
16-Dec	PL	Core CPI excluding food and energy prices for November	Our forecast: of 0.5% YoY is in line with market expectations
	PL	Employment and wages for November	We expect employment to increase by 0.9% YoY and wages to grow 3.5% YoY, more or less in line with market consensus
	HU	NBH meeting - interest rate decision	
17-Dec	PL	Industrial output and PPI for November	Our forecast for industrial output at -1.4%YoY is more pessimistic than consensus (which is +0.5%YoY). We predict PPI at -1.3% YoY.
	US	FOMC meeting – interest rate decision	
	CZ	CNB meeting – interest rate decision	
18-Dec	PL	Minutes from November’s MPC meeting	
TBA	PL	Retail sales for November	We forecast 2.4% YoY. Market consensus is 1.9% YoY.
2-Jan	PL	PMI manufacturing for December	
	EZ	PMI manufacturing for December	
14-Jan	PL	MPC Meeting – interest rate decision	
22-Jan	EZ	ECB Meeting – interest rate decision	

Source: CB, Markit, CSO, Finance Ministry

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

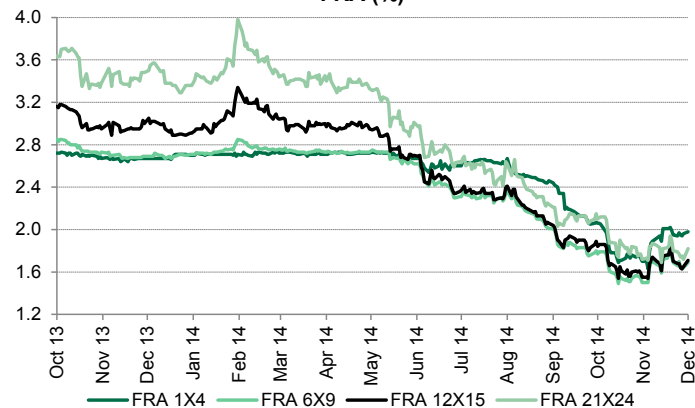
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of November	2.00	1.80	2.08	2.06	2.05	2.03	1.79	1.75	1.68	1.65	1.96	1.78	1.64	1.64
Last 1M change (bp)	0	12	6	8	8	7	11	14	14	13	20	18	8	7
Last 3M change (bp)	-50	-82	-51	-54	-56	-61	-62	-48	-36	-33	-48	-36	-38	-38
Last 1Y change (bp)	-50	-71	-52	-59	-65	-72	-61	-65	-72	-81	-71	-88	-105	-116

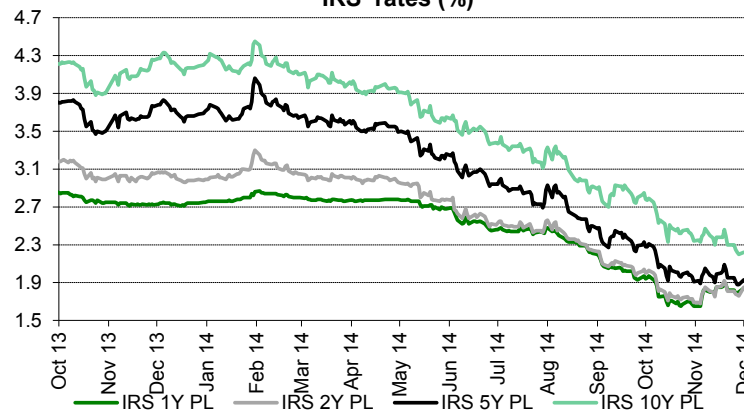
Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of November	1.74	1.96	2.37	1.76	1.88	2.20	-2	8	17
Last 1M change (bp)	3	-9	-15	3	-10	-23	0	1	8
Last 3M change (bp)	-44	-58	-73	-49	-62	-71	5	4	-2
Last 1Y change (bp)	-110	-179	-215	-130	-189	-206	20	11	-9

FRA (%)



IRS rates (%)



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	5,694	4,990	8,418		3,595	6,062	4,496		84,294
T-bills auction													0
Retail bonds	256	475	151	121	155	116	169	176	168	170	170		2,297
Foreign bonds/credits	16,724	1,150								3,753			21,627
Prefinancing and financial resources at the end of 2013	25,000												25,000
Total	60,123	10,445	6,724	17,624	5,849	5,106	8,587	176	3,763	9,985	4,666	170	133,218
Redemption	16,497	5,613	2,230	16,035	116	60	9,470	1,793	2,796	83	816	91	55,599
Net inflows	43,626	4,832	4,495	1,589	5,733	5,046	-883	-1,617	967	9,902	3,850	79	77,619
Rolling over T-bonds			4,807			6,117			3,508	3,743	6,926		25,101
Buy-back of T-bills/ FX-denominated bonds										1,170			1,170
Total	43,626	4,832	9,302	1,589	5,733	11,163	-883	-1,617	4,475	14,814	10,776	79	103,889
Coupon payments from domestic debt	1,546			5,596			2,775		1,298	7,910			19,125

Note: our forecasts = shaded area

Source: MF, BZ WBK

2. Polish Bonds: Supply Recap (cont.)

Schedule of Treasury security redemptions by instrument (in PLN mn)

	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	8,145		89	8,234	1,236	9,470
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	37,773		1,677	39,450	16,149	55,599
Total 2015	63,846		1,710	65,556	14,789	80,344
Total 2016	86,607		1,273	87,881	17,262	105,142
Total 2017	58,543		917	59,460	12,566	72,026
Total 2018	66,317		911	67,228	14,396	81,624
Total 2019+	205,169		3,233	208,402	135,784	344,186

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

Scheduled wholesale bond redemptions by holders (data at the end of October 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	0	0	0	0
Q3 2014	0	0	0	0	0	0	0	0	0
Q4 2014	0	0	0	0	0	56	7	14	77
Total 2014	0	0	0	0	0	56	7	14	77
	0%	0%	0%	0%	0%	73%	8%	19%	100%
Total 2015	27,494	23,039	9,028	601	3,633	215	226	6,752	70,989
	39%	32%	13%	1%	5%	0%	0%	10%	100%
Total 2016	42,532	18,676	8,880	729	10,980	104	174	5,559	87,634
	49%	21%	10%	1%	13%	0%	0%	6%	100%
Total 2017	23,118	17,095	6,110	556	6,690	65	230	4,679	58,543
	39%	29%	10%	1%	11%	0%	0%	8%	100%
Total 2018	18,670	30,002	3,842	378	8,415	82	550	4,378	66,317
	28%	45%	6%	1%	13%	0%	1%	7%	100%
Total 2019+	83,224	58,742	25,264	1,116	16,196	248	816	8,514	194,119
	43%	30%	13%	1%	8%	0%	0%	4%	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 October			Share of TOTAL (%) in October
	End Oct14	End Sep'14	End Aug'14	End 1Q 2014	End 4Q 2013	End 3Q 2013	MoM	3-mth	YoY	
Domestic investors	291.8	283.2	284.2	277.9	381.2	377.3	3.05	1.99	-23.34	59.9 (1.0pp)
Commercial banks	147.6	140.9	141.7	134.3	114.7	116.2	4.72	7.06	33.24	30.3 (1.0pp)
Insurance companies	53.1	53.4	53.6	52.9	52.0	52.8	-0.58	-0.58	3.23	10.9 (-0.2pp)
Pension funds	3.4	3.5	3.4	3.5	125.8	122.7	-4.04	-2.59	-97.33	0.7
Mutual funds	45.9	44.1	44.3	45.8	46.7	46.1	4.12	1.82	-7.35	9.4 (0.3pp)
Others	41.8	41.2	41.1	41.4	42.0	39.5	-1.5	-1.0	1.3	8.6
Foreign investors*	195.1	197.5	193.1	186.9	193.2	200.6	-1.25	-0.53	0.74	40.1 (-1.0pp)
Banks	14.3	12.1	10.0	n.a.	n.a.	n.a.	21.0	-4.4	n.a.	2.9 (0.4pp)
Central banks	21.1	19.3	18.4	n.a.	n.a.	n.a.	5.0	7.0	n.a.	4.3 (0.3pp)
Public institutions	0.5	0.5	0.7	n.a.	n.a.	n.a.	-23.4	-23.7	n.a.	0.1
Insurance companies	10.4	10.9	10.7	n.a.	n.a.	n.a.	2.4	14.8	n.a.	2.1 (-0.1pp)
Pension funds	12.4	12.7	12.2	n.a.	n.a.	n.a.	4.0	3.4	n.a.	2.5 (-0.1pp)
Mutual funds	77.5	80.8	80.0	n.a.	n.a.	n.a.	1.0	-3.1	n.a.	15.9 (-0.9pp)
Hedge funds	0.4	0.1	0.1	n.a.	n.a.	n.a.	-1.7	-9.2	n.a.	0.1 (0.1pp)
Non-financial sector	11.4	12.2	12.3	n.a.	n.a.	n.a.	-0.6	-13.9	n.a.	2.3 (-0.2pp)
Others	14.8	17.7	18.6	4.5	4.7	5.2	-5.1	6.9	n.a.	3.0 (-0.6pp)
TOTAL	486.8	480.7	477.3	464.8	574.3	577.9	1.3	3.7	-15.2	100

*Total for foreign investors does not match sum of values presented for sub-categories due to omission of irrelevantly small group of investors. Detailed data on foreign investors is available only since April 2014 .

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	88.0
Belgium	21.8	9.8	31.6	30.0	108.0
Finland	6.9	4.8	11.7	11.7	120.0
France	105.0	70.2	175.2	174.0	115.0
Germany	144.0	-	144	144.0	96.0
Greece	16.8	5.6	-	-	-
Ireland	6.9	7.7	14.6	14.6	118.0
Italy	187.8	27.6	235.4	235.4	112.0
Netherlands	32.0	15.9	47.9	45.9	101.0
Portugal	11.4	7.4	18.8	7.2	102.0
Spain	68.2	36.7	141.3	141.3	100.0
Total	624.2	189.9	848.2	828.8	106.0

*/ 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
Poland	1.7	3.0	0.8	0.2	-1.6	-2.0	-4.0	-3.4	55.7	49.1
Czech Republic	-0.7	2.5	1.4	0.5	-1.2	-1.3	-1.3	-1.4	45.7	44.4
Hungary	1.5	3.2	1.7	0.1	3.1	4.3	-2.4	-2.9	77.3	76.9
EU	0.0	1.3	1.5	0.6	1.6	1.4	-3.2	-3.0	87.1	88.1
Euro area	-0.5	0.8	1.3	0.5	2.6	2.5	-2.9	-2.6	93.1	94.5
Germany	0.1	1.3	1.6	0.9	7.4	7.1	0.1	0.2	76.9	74.5

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bp)		CDS 5Y	
	2013	end of November	2013	end of November	2013	end of November	2013	end of November	2013	end of November
Poland	2.50	2.00	2.71	2.06	4.32	2.37	238	168	79	64
Czech Republic	0.05	0.05	0.05	0.04	2.53	0.73	58	2	60	47
Hungary	3.00	2.10	2.99	2.10	5.71	3.62	377	292	256	164
Euro area	0.25	0.05	0.29	0.08						
Germany					1.94	0.70			26	17

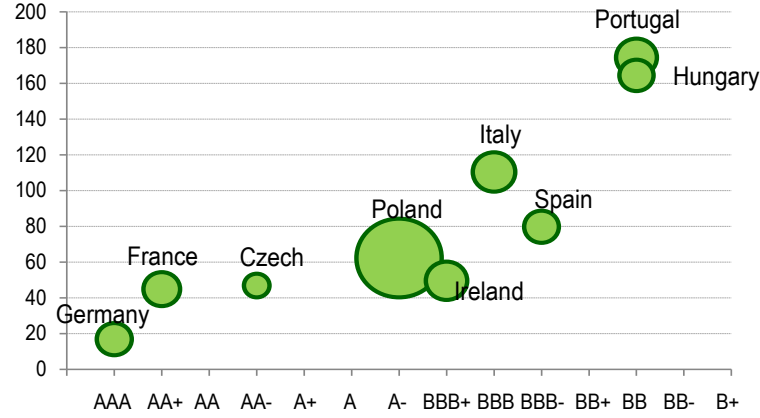
Source: EC – Autumn 2014, stat offices, central banks, Reuters, BZ WBK.

5. Poland vs. Other Countries (cont.)

Sovereign ratings

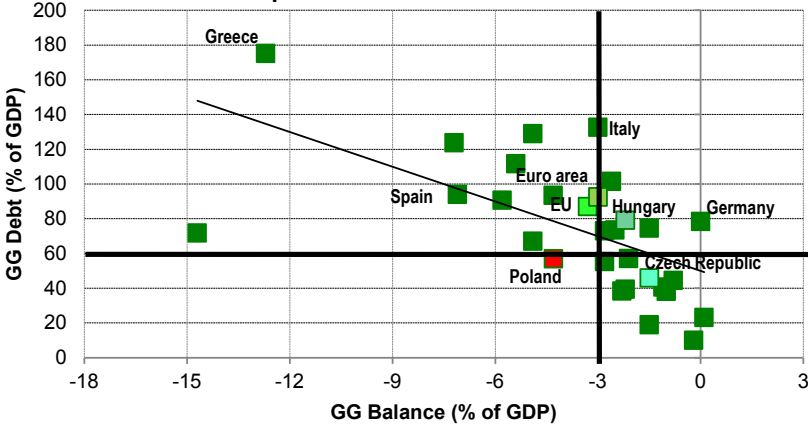
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA	stable	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	stable	Caa1	stable	B	stable
Ireland	BBB+	positive	Baa3	positive	A-	stable
Italy	BBB	negative	Baa2	stable	BBB+	negative
Portugal	BB	stable	Ba1	stable	BB+	negative
Spain	BBB	stable	Baa3	stable	BBB	stable

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



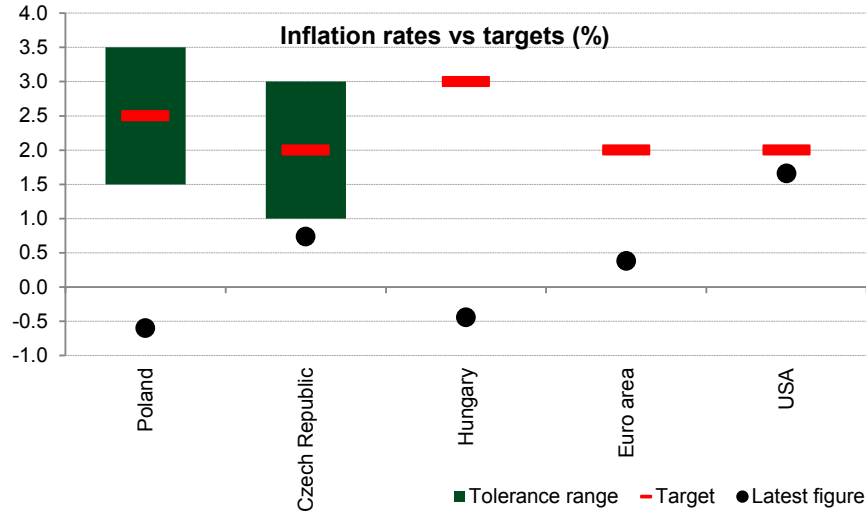
Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

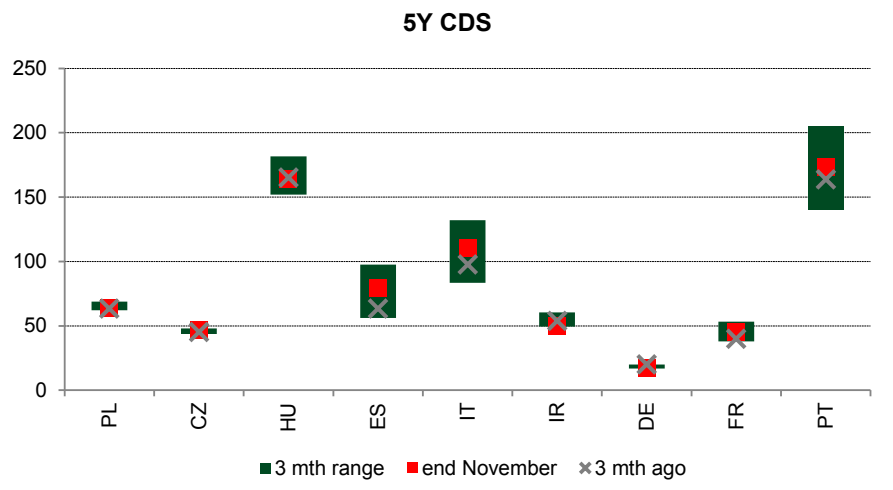
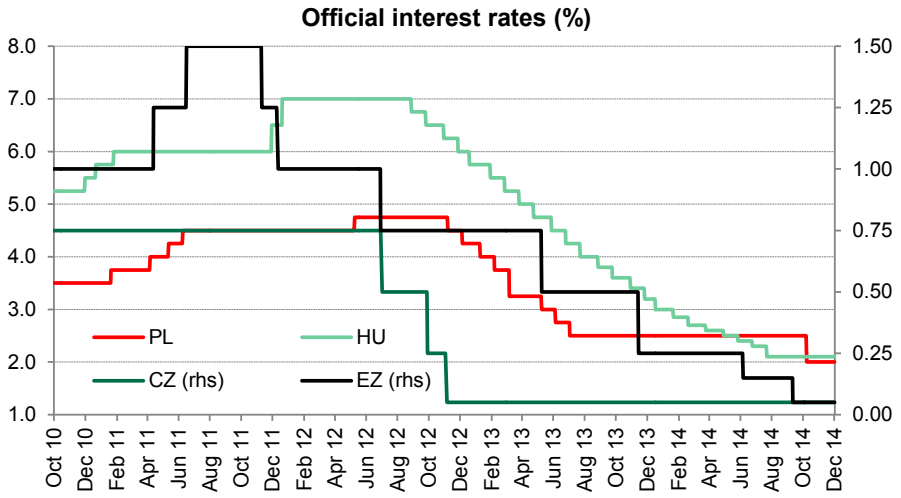
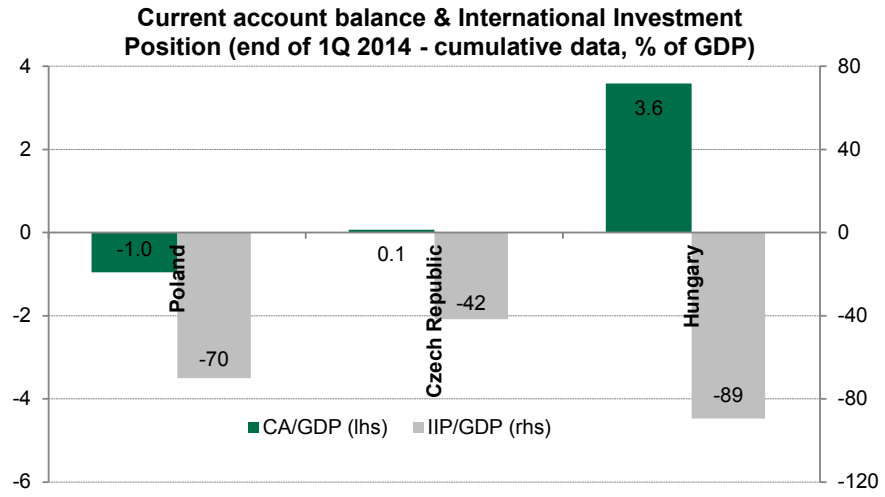
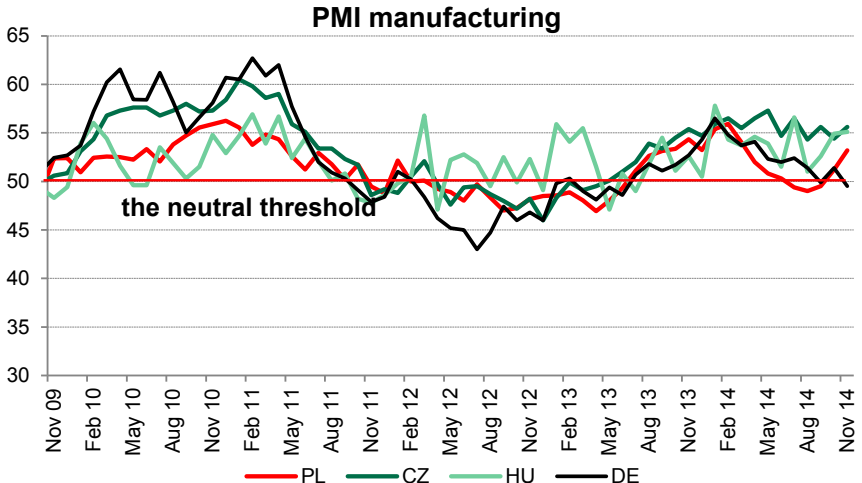


Source: Rating agencies, Reuters, EC, BZ WBK.

Inflation rates vs targets (%)

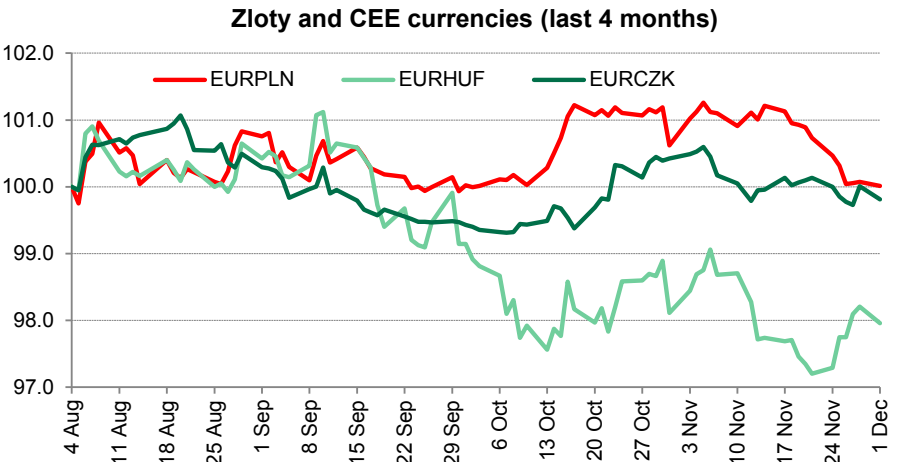
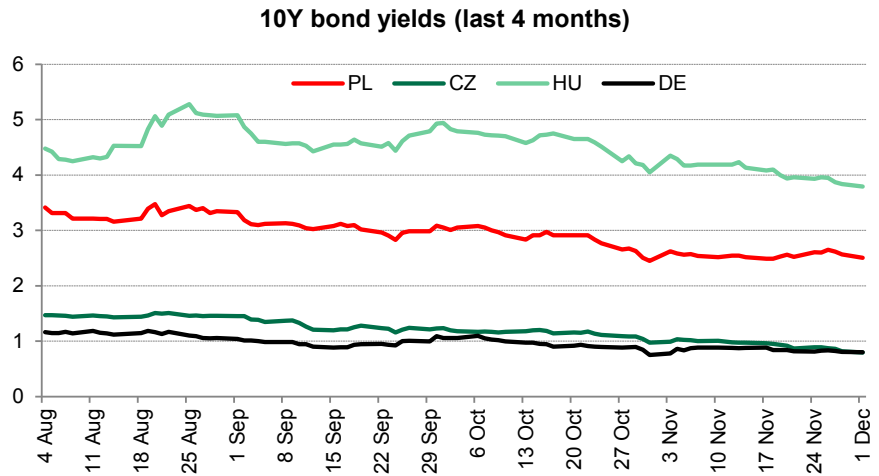
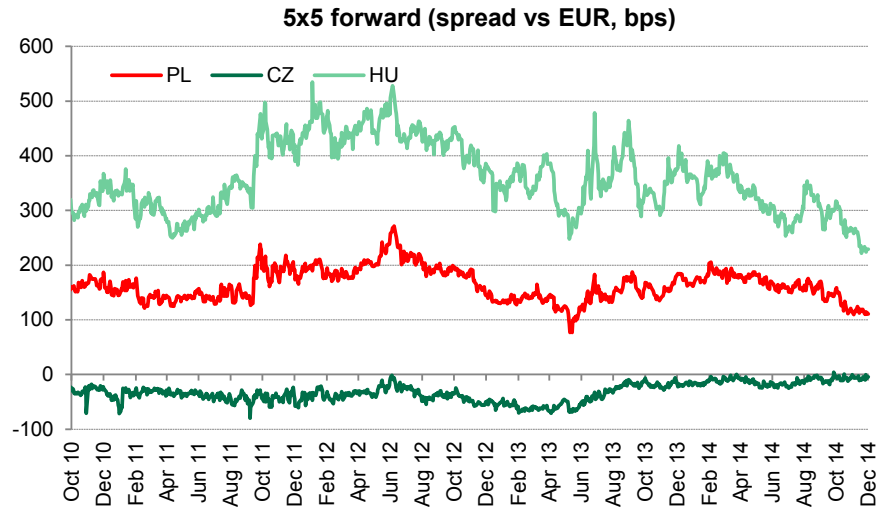
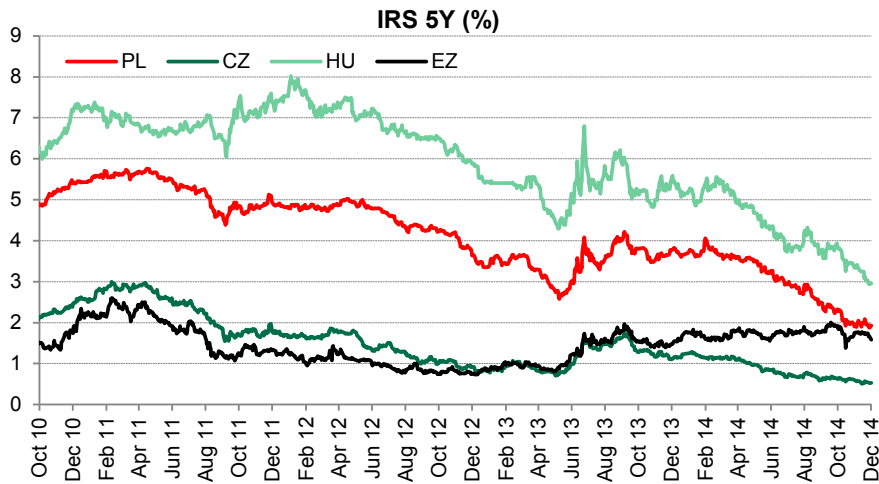


5. Poland vs Other Countries (cont.)



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	2014	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.05	0.25	0.05				We expect no change in monetary policy stance this month. However, the ECB will need to deploy some additional measures or revamp the existing ones in 1Q15, probably as soon as January.
	Market implied »				9	9	8	
UK	Forecast	0.50	0.50	0.50				In our view, the BoE will keep official rates unchanged and maintain the stock of asset purchases this month. Earlier, the MPC indicated that its outlook for UK monetary policy is sensitive to the near-term outlook for the Euro zone
	Market implied »				2	5	10	
US	Forecast	0-0.25	0-0.25	0-0.25				We expect no change in monetary policy in December. The main focus will be on a Summary of Economic Projections and a press conference by the Chair.
	Market implied »				15	23	33	
Poland	Forecast	2.50	2.50	2.00				We do not expect a rate cut in December, we think there is still room for at least slight monetary policy easing, as – despite better –than- expected data on economic activity – inflation forecasts are still falling.
	Market implied »				-8	-22	-37	
Czech Republic	Forecast	0.05	0.05	0.05				In our opinion the CNB will keep official rates unchanged and maintain the EURCZK floor at 27. Recent macro data (some rebound in industrial production, relatively healthy GDP growth) and a gradual increase in the headline CPI support our view.
	Market implied »				28	26	26	
Hungary	Forecast	2.10	3.00	2.10				The NBH should keep its monetary policy unchanged, in line with expectations. Although the Hungarian economy is doing fairly well ,the MPC members remain concerned about extremely low inflation. As a result, the NBH could resume its policy of small rate cuts in early-2015.
	Market implied »				-2	-13	-18	

Source: Reuters, BZ WBK.

This analysis is based on information available through December 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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