



# RATES AND FX OUTLOOK

## POLISH FINANCIAL MARKETS

February 2015



Bank Zachodni WBK

 Grupa Santander

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# Summary

- The Monetary Policy Council kept interest rates on hold in January, but changes in the official statement and comments by the NBP governor at the press conference suggested, in our view, that the majority of the Council members could vote for more policy easing should new data confirm deeper and longer deflation and weaker economic growth. While we expect this scenario to materialise in the near future, the most recent data releases were still quite decent (showing a labour market recovery, strong industrial output, a surge in manufacturing PMI, relatively strong GDP in 2014), so there will probably not be enough arguments to convince the majority of MPC members to cut rates as early as February.
- Even though the most recent Polish data were surprisingly positive, the outlook for the global economy is uncertain, which is why many central banks around the world are considering further policy easing. We still think that an interest rate cut in Poland is likely in March, when the central bank's latest medium-term projections will be available, probably showing much lower inflation and meagre GDP growth ahead. New high-frequency data, to be released before the March MPC meeting, should also support the case for policy easing, as we predict a sharp drop in January's CPI and a weak industrial output reading. The Polish central bank recently signalled very clearly that some MPC members' key argument against further rate cuts is their concern about financial stability. In this context, a cut is also more likely in March, when the financial markets may have stabilised after the turmoil caused by the unexpected Swiss National Bank (SNB) decision and the Greek election.
- The Polish interest rate market has started betting aggressively on further monetary easing. The FRA market is currently pricing in a 75bp rate cut over the nearest six to nine months. If there is no cut in February, expectations of one in March will increase. The larger-than-expected scale of the ECB's QE and some disappointing US data, which softened the FOMC rhetoric, are likely to continue to support the global fixed income market. The new global environment has led us to lower our predicted yield paths for the rest of the year and we see scope for further yield reductions in the nearest months.
- The zloty has been highly volatile in recent weeks. The SNB's decision to drop the 1.20 floor for EURCHF caused a major depreciation of the Polish currency, especially versus the Swiss franc. EURPLN touched 4.33, its highest level since July 2013. At the end of the month, PLN was supported by the ECB's decision to start quantitative easing and the EURPLN exchange rate slid below 4.20. We think the Polish currency should appreciate gradually in the coming months on the back of stable rates in February, the still-relatively-decent performance of the Polish economy and larger-than-expected ECB QE, which boosts global appetite for risk. The moves in first half of the year should be relatively small and we expect the zloty appreciation to gain pace only in 2H15.

# Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Current level	Expected trend	
	Last 3M	Last 1M	2 Feb 2015	1M	3M
Reference rate	-50	0	2.00	↓↓	↓↓
3M WIBOR	3	-7	1.99	↓↓	↓↓
2Y bond yield	-13	-19	1.55	↓	↓
5Y bond yield	-31	-38	1.69	↓	↓
10Y bond yield	-54	-45	2.00	↓	↓
2/10Y curve slope	-41	-26	44	→	→

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

## PLN rates: our view and risk factors

**Money market:** Even though we think that scale of rate cuts now priced-in is excessive, our forecasts show deflation becoming more acute in January and a weak industrial output reading, which are likely to renew hopes for monetary easing and lead to a further fall in money market rates in the next few weeks. After no cut in February, the market is likely to bet strongly on a rate reduction in March.

**Short end:** No rate cut in February should be neutral for the market. Meanwhile, the data releases for January (low CPI, weak industrial output) should provide further support, fuelling hopes of more rate cuts in future.

**Long end:** The large scale of the ECB's quantitative easing and some disappointing US data, which softened the FOMC rhetoric, are likely to continue to support the global fixed income market. This has led us to lower our yield predictions for the rest of the year and we see scope for a further reduction in the nearest months.

**Risks to our view:** If Polish macro data are stronger than expected, it may be hard for the MPC to build a consensus, even despite the meagre global growth outlook. Rate cuts would also be less likely if there were persistent market turmoil and the zloty were negatively affected by rising global risk aversion.

# Short- and Medium-term Strategy: FX market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	2 Feb 2015	1M	3M
EURPLN	-0.7	-3.1	4.18	→	→
USDPLN	10.0	3.0	3.68	→	→
CHFPLN	13.5	10.4	3.96	→	→
GBPPLN	3.2	-0.2	5.52	→	→
EURUSD	-9.7	-5.9	1.13	→	→

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

## PLN FX Market: Our view and risk factors

**EUR:** We expect the zloty to gradually appreciate vs. the euro in the coming months, assuming no interest rate cut in February, a still relatively decent economic performance and an increase in global risk appetite thanks to the scope of the ECB's QE. The moves in first half of the year should be relatively small though, and we expect the zloty appreciation to gain pace only in 2H15.

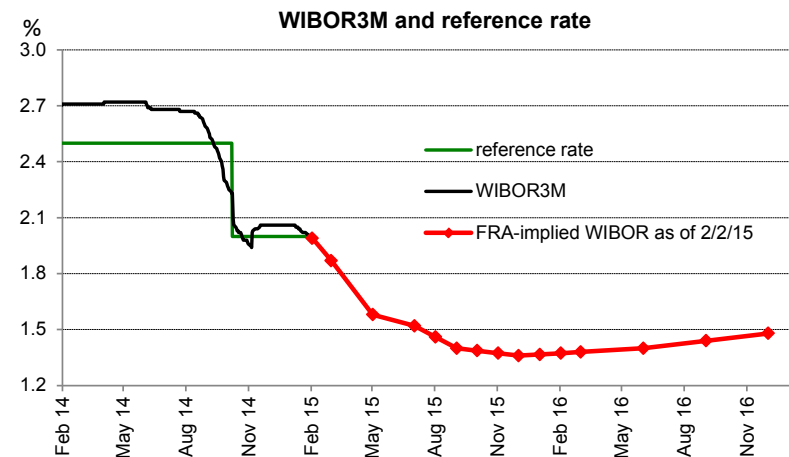
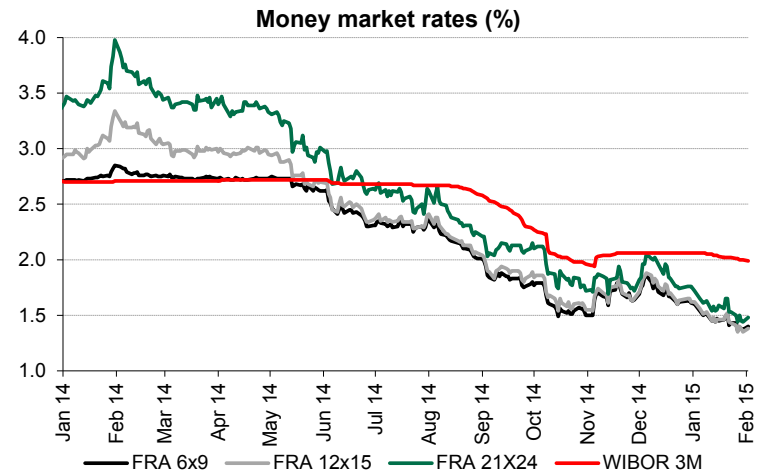
**USD:** The market still expects a stronger dollar over the coming months, so the zloty may weaken slightly against the USD before it starts to recover in the second half of the year.

**CHF:** The SNB's unexpected decision to abandon the 1.2 EURCHF floor triggered a sharp rise in the franc. However, the central bank has signalled that it will continue to intervene to counter CHF strength and we think EURCHF may rise gradually over time. This should result in the zloty gaining versus the Swiss currency, although a return to last year's levels is unlikely in the near future.

**Risks to our view:** Risk factors include: an escalation of the conflict in Ukraine, concern about the future of the Euro zone after Syriza's victory in the Greek elections and a deeper-than-expected rate cut in Poland if economic data prove very disappointing.

# Domestic Money Market: Rate cut hopes strengthen

- Money market rates continued downwards in January. While the decline in WIBORs was limited (to 6-7bp over the month), FRA rates fell significantly (by 24-32bp), supported by a visible strengthening in the IRS market.
- Expectations for decisive rate cuts strengthened in January, as investors expect a prolonged period of deflation in Poland. The market is currently pricing in a rate cut of 50bp in the next three months and by 75bp easing in total in the next six to nine months. After that, the market expects rates to remain roughly unchanged for quite a long period (FRA21x24 at 1.44%).
- In our view the MPC is likely to cut by less than is priced-in by the forward rates: by no more than 50bp this year. We think the Council will keep rates on hold in February. However, our forecasts show deflation intensifying sharply in January and a weak industrial output reading for that month, which is likely to renew hopes for additional monetary easing and lead to money market rates falling even further. Thus, if there is no cut in February, the market is likely to become more convinced there will be in March, when new central bank projections should be available.

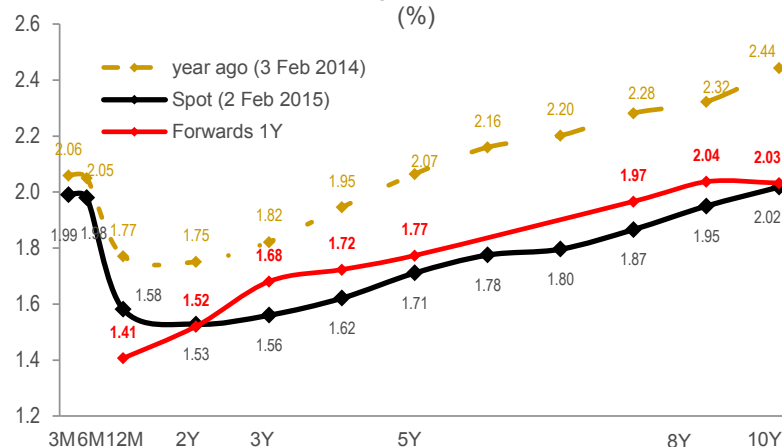


Source: Reuters, BZ WBK

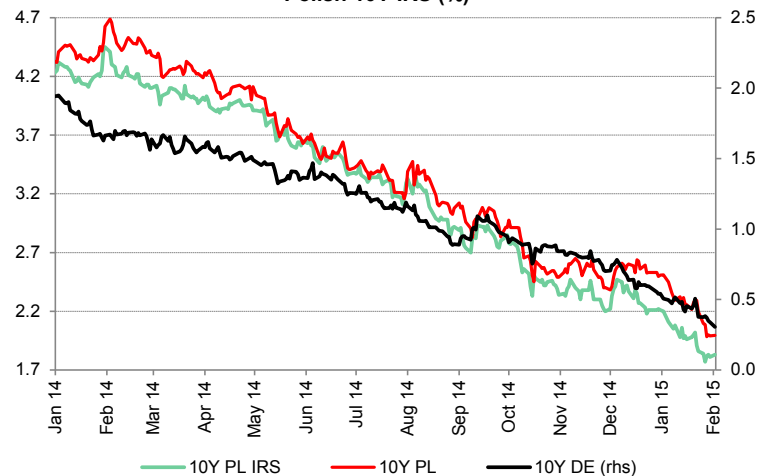
# Domestic IRS and the T-Bond Market: Further strengthening likely

- The Polish fixed income market gained sharply in January. The surprisingly large expansion of the ECB asset purchase programme had a very positive impact on Polish bonds and IRS, encouraging investors to accumulate assets rather than take profits. Yields and IRS rates dropped significantly (following a rally on core and peripheral Euro zone debt markets) to set new record lows across the curves. T-bond and IRS curves have continued to flatten (following the global trend), mainly due to the significant price strengthening in the belly and long ends, while the short ends moved less. Yields at the long end of the Polish curves fell below 2%, i.e. below the NBP reference rate.
- The scale of the ECB's QE and some disappointing US data, which softened the FOMC's tone, are likely to continue to support global fixed income markets. We have decided to lower our predictions for bond yields and IRS rates for Poland and are now looking for more gains across the curves (see details in table on page 16).
- We expect an MPC decision to leave rates unchanged in February to be neutral for the market. Meanwhile, January data due for release (low CPI, weak industrial output) should provide further support, fuelling hopes of further rate cuts ahead.

PLN bond curve analysis: historic and forecasts



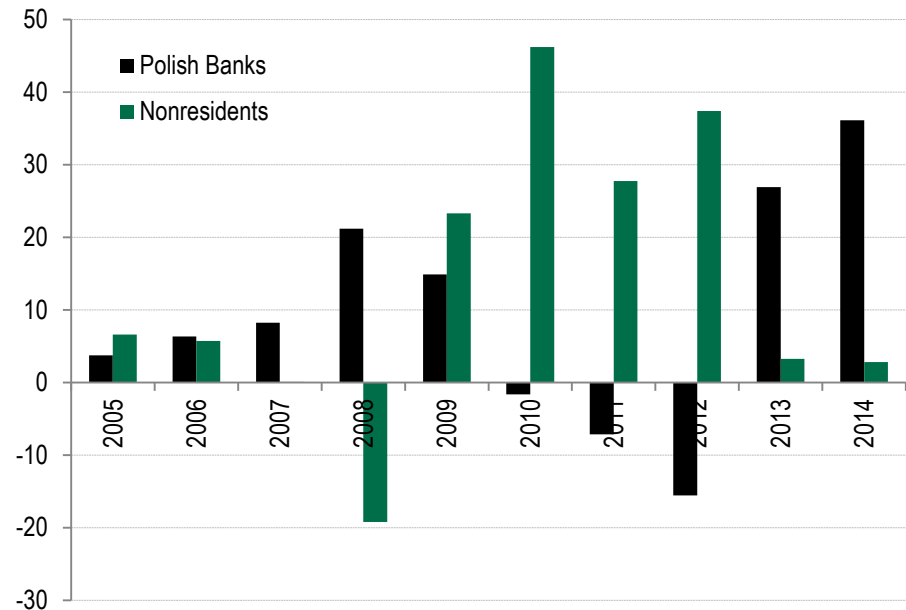
Yields of Polish and German 10Y Bonds and Polish 10Y IRS (%)



# Demand Corner: Asian central banks are still buyers

- Finance Ministry data show holdings of Polish, PLN, marketable bonds did not change much during December as foreign investors reduced their portfolios by a mere PLN623mn, while domestic banks sold debt worth PLN181mn in nominal value, or 0.12% of their total portfolio.
- Among non-residents, the most noticeable change in the holdings was for Asian central banks (excluding the Middle East). This group bought bonds worth more than PLN1.4bn (+12% MoM), the third biggest monthly purchase since data became available (May 2014).
- Summing up 2014: Polish banks purchased the most PLN marketable debt – over PLN36bn. Their share of the total increased to 31% from 20%, but this surge was largely the result of the transfer of Polish bonds held by private pension plans (OFE) to the state pension plan (ZUS). Non-residents increased their portfolios by nearly PLN3bn and there is a clear downtrend in annual purchases made by this group. However, Finance Ministry Director Piotr Marczak said the last 10 days of January 2015 saw one of the biggest inflows of foreign capital into the Polish bond market. This suggests that Polish bonds might be again heavily purchased by foreigners against a backdrop of substantial monetary policy easing in the Euro zone.

Annual purchases of Polish, PLN, marketable bonds by Polish banks and non-residents (PLN bn)



Source: Finance Ministry, BZ WBK.



# Supply Corner: Moderate supply of T-bonds in February

- In January the Polish Finance Ministry successfully launched T-bonds on the primary market. It sold long-term bonds (WZ0124, DS0725 and WS0428) worth PLN4.2bn, slightly less than planned (PLN5.0bn), and new 2Y and 5Y benchmarks (OK0717 and PS0420) worth PLN7bn (slightly more than assumed). Total sales in January accounted for c40% of the maximum supply planned for 1Q15 (PLN30bn). To date, the ministry has already secured c40% of its 2015 borrowing needs.
- In February the ministry plans to hold two standard auctions, with a total supply of PLN6-11bn. The structure on offer this month will be similar to January's. At the first auction, just after the MPC meeting, The ministry will offer long-term benchmarks (fixed rate DS0725 and WS0428 and WZ0124 floaters) worth PLN3-5bn. At the second (February 12, the day before January CPI data are due), supply will depend on market conditions. It is likely that the new series of 2Y (OK0717) and 5Y (PS0420) bonds will be offered.
- We think the primary market is still favourable for debt issues and, therefore, expect the ministry to meet healthy demand and have no problem selling the planned debt.

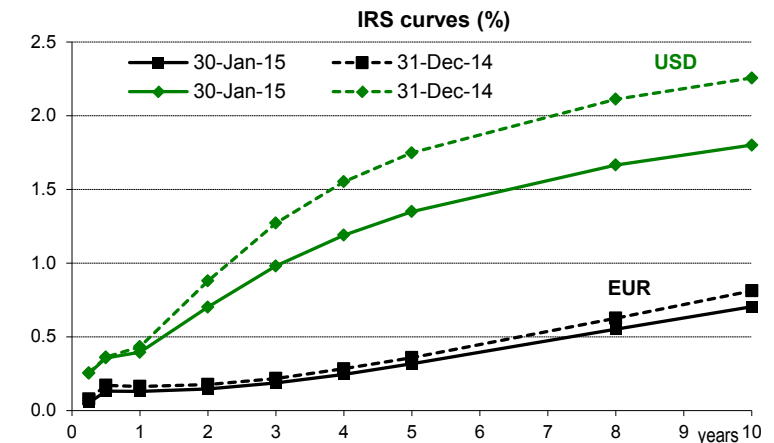
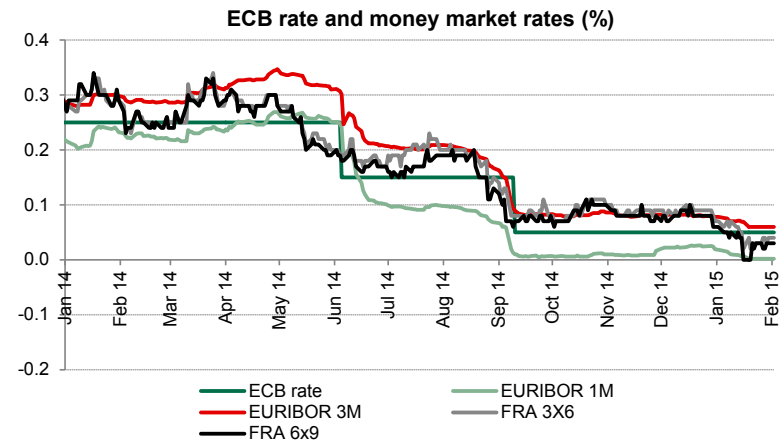
## Auction plan for February 2015

Auction date	Settlement date	Series	Planned offer (PLN m)
5 Feb 2015	9 Feb 2015	WZ0124/DS0725/WS0428	3,000 – 5,000
12 Feb 2015	16 Feb 2015	Choice will depend on market conditions, excluding bonds offered at the first auction	3,000 – 6,000

Source: Finance Ministry, BZ WBK.

# International Money Market and IRS: Room for further gains

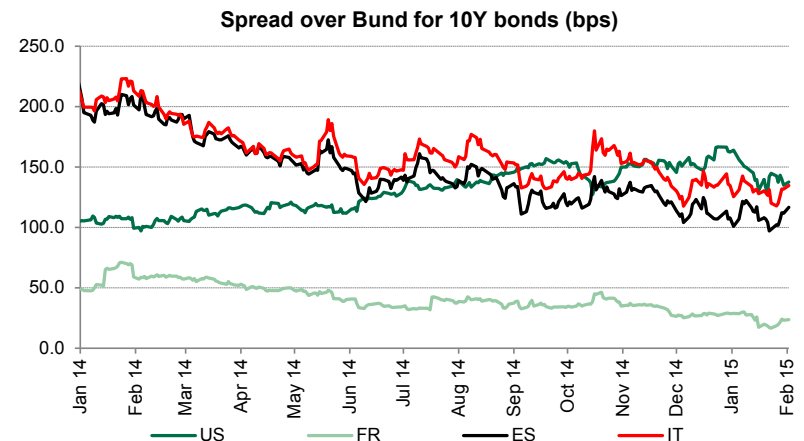
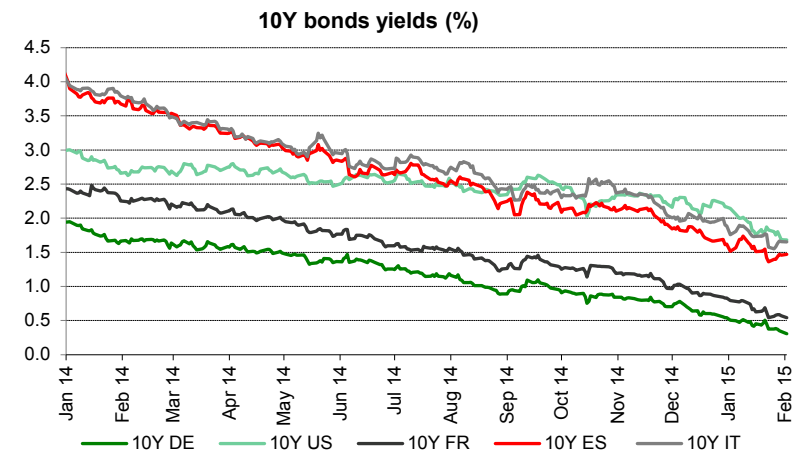
- In January, the key event was the ECB meeting. The European central bank announced a much larger-than-expected QE asset purchase programme, which will expand the ECB balance sheet to above EUR 3trn. The EUR money market reaction was muted, with a slight decline in EURIBOR rates (by only c2bp across the curve on a monthly basis). The EUR IRS market reacted bullishly and with curve flattening. The 2-10Y EUR IRS spread narrowed to 56bp (down from 64bp at the end of 2014).
- USD Libor rates were little changed in the past month, while USD IRS (as in Europe) fell by 18-46bp, with a steeper decline in the belly and long end of curve (10Y USD IRS fell to 1.80%, the lowest level since April 2013). In our view, this is mainly due to expectations that the first Fed rate hike may now occur later than the market was previously expecting (mid-2015).
- We see room for further gains in both EUR and USD IRS markets. However, the pace of strengthening will depend on the macro data in the short term. We believe that a further decline in both headline and core CPI in the Euro zone, and a still-moderate rebound in economic activity in Europe, should justify a further gradual drop in EUR money market rates and IRS.
- As regards the USD IRS market, we expect further curve flattening. Much stronger-than-expected US labour market data for January could allow investors to take some profits. In the medium term, the most important event will be the March FOMC meeting, when new forecasts, including interest rate projections, should be released.



Source: Reuters, ECB, Fed, BZ WBK.

# International Bond Market: Core market should benefit from QE in medium term

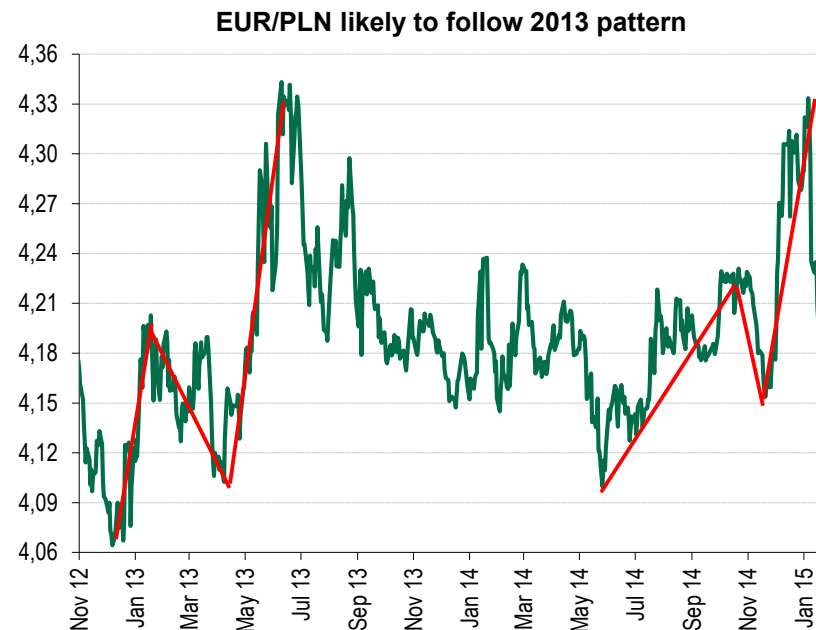
- January was definitely an interesting month on core and peripheral debt markets, mainly due to: (1) a further slide in oil prices, (2) deflation in the Euro zone, (3) the ECB launching a significant QE programme, and (4) renewed uncertainty about the timing of the Fed's first hike. All these factors caused a significant rally on core markets, with the yield of 10Y Bunds reaching a fresh record low of 0.33%. The 10Y UST yield dropped slightly below 1.80%, the lowest level since May 2013.
- Peripheral debt also benefited from the ECB decision, with both Spanish and Italian 10Y bond yields reaching record lows of 1.36% and 1.55%, respectively. The spread over Bunds also narrowed quite significantly. However, the Greek election result sent peripheral yields back up at the end of January.
- The ECB's QE programme is a game changer and is likely to impact the market significantly due to the decline in net government bond supply in the Euro zone. Therefore, we expect core markets to remain strong, particularly as uncertainty about Greece is likely to exert more downward pressure on yields of German Bunds. In our view, only strong macro data from the US could result in profit taking and, if it happens, this would likely be only short lived.
- As regards peripheral countries, their debt should remain attractive for investors seeking yields or relative value.



Source: Reuters, BZ WBK.

# Foreign Exchange Market: High volatility in the PLN market

- The zloty has been very volatile since late 2014 and into early 2015. First, it depreciated sharply in December, amid very low liquidity, as expectations of more rate cuts by the MPC strengthened. In January, it was the surprise SNB decision that hit the zloty. In the second half of the month, the zloty started to recover fast, as the ECB extended its asset purchase programme by more than expected.
- We expect the zloty to gradually appreciate vs the euro in the coming months, with fundamental factors offering support. First, we do not expect the MPC to cut interest rates in February. Second, we think the latest ECB decision is likely to continue to provide support for riskier assets in the coming months, as well as for the zloty. Third, recent Polish macro data (labour market, industrial output) have surprised on the upside and this should also work in favour of a stronger zloty.
- We think the zloty's late-2014 depreciation resembles the situation in 1H13, when it also fell sharply. Back then, the subsequent weeks saw a gradual recovery and we expect the same this time round.
- Given the 2014/2015 market turmoil, we have raised our 1Q and 2Q EUR/PLN forecasts, but still expect the zloty's appreciation to speed up in 2H15. Risks on the upside to our forecasts include a larger-than-expected rate cut in Poland, the escalation of the Ukraine-Russia conflict and developments following Syriza's victory in the Greek election.



Source: Bloomberg, BZ WBK

# FX Technical Analysis Corner: Next support at 4.146



- ▶ Last month we suggested that recent developments in the EUR/PLN market resemble the situation in 1H13 and that the zloty could try to recover in the coming weeks/months. So far, this has proved correct.
- ▶ EUR/PLN broke the 100-day and 150-day SMA. The first major support is now at 4.146 (December's bottom) and the next at 4.12.
- ▶ There is resistance at 4.25 and 4.34.

Source: Reuters, BZ WBK.

# FX Technical Analysis Corner: Some rebound is possible



- ▶ EUR/USD tested support at c1.12, indicated by the 61.8% Fibonacci retracement of an up-wave created in 2001-08.
- ▶ On the weekly chart, we have a “reversal day” formation. The last week in January saw a fresh local minimum, but then EUR/USD returned to above the previous week’s close. This suggests some rebound, but the last series of black candles may make any increases sluggish.
- ▶ At the same time, negating the “reversal day” will be a strong sell signal.

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	1,725.4	1,777.0	403.1	418.4	426.8	477.1	412.0	429.9	438.7	496.4
GDP	%YoY	1.8	1.7	3.3	3.2	3.4	3.5	3.3	3.1	2.8	3.1	3.2	3.5
Domestic demand	%YoY	-0.4	0.2	4.6	4.6	3.4	5.6	4.9	4.6	4.5	4.7	4.4	4.8
Private consumption	%YoY	1.0	1.1	3.0	3.6	2.9	3.0	3.2	3.0	3.7	3.6	3.6	3.5
Fixed investment	%YoY	-1.5	0.9	9.4	8.4	11.2	8.7	9.9	8.8	9.0	9.0	8.0	8.0
Unemployment rate <sup>a</sup>	%	13.4	13.4	11.5	10.8	13.5	12.0	11.5	11.5	11.6	10.3	10.2	10.8
Current account balance	EURmn	-13,697	-5,245	-5,265	-8,257	-1,403	-808.0	-1777.0	-1276.5	-2,394	-1,309	-2,810	-1,744
Current account balance	% GDP	-3.5	-1.3	-1.3	-1.9	-1.1	-1.2	-1.3	-1.3	-1.5	-1.6	-1.8	-1.9
General government balance (ESA 2010)	% GDP	-3.9	-4.3	-3.4	-2.9	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	-0.8	0.6	0.3	-0.3	-0.7	-1.5	-1.1	-0.8	0.2
CPI <sup>a</sup>	%YoY	2.4	0.7	-1.0	0.7	0.7	0.3	-0.3	-1.0	-1.6	-0.9	-0.6	0.7
CPI excluding food and energy prices	%YoY	2.2	1.2	0.6	0.7	0.8	0.8	0.5	0.4	0.5	0.6	0.7	1.2

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

# Interest Rate and FX Forecasts

Poland		2012	2013	2014	2015E	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
Reference rate <sup>a</sup>	%	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	1.87	2.71	2.71	2.59	2.06	1.96	1.79	1.83	1.88
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.47	3.01	2.76	2.26	1.80	1.52	1.44	1.44	1.48
Yield on 5-year T-bonds	%	4.53	3.46	2.96	1.64	3.71	3.35	2.67	2.11	1.68	1.53	1.58	1.78
Yield on 10-year T-bonds	%	5.02	4.04	3.49	1.96	4.38	3.82	3.18	2.58	2.03	1.85	1.88	2.08
2-year IRS	%	4.52	3.10	2.51	1.57	3.07	2.82	2.32	1.83	1.57	1.49	1.49	1.74
5-year IRS	%	4.47	3.51	2.92	1.56	3.70	3.31	2.63	2.02	1.52	1.41	1.48	1.82
10-year IRS	%	4.56	3.86	3.34	1.87	4.16	3.73	3.07	2.40	1.94	1.88	1.81	1.86
EUR/PLN	PLN	4.19	4.20	4.18	4.13	4.19	4.17	4.18	4.21	4.21	4.15	4.11	4.06
USD/PLN	PLN	3.26	3.16	3.15	3.60	3.06	3.04	3.15	3.37	3.70	3.67	3.57	3.47
CHF/PLN	PLN	3.47	3.41	3.45	3.89	3.42	3.42	3.45	3.50	3.97	3.93	3.86	3.78
GBP/PLN	PLN	5.16	4.94	5.19	5.53	5.06	5.11	5.26	5.33	5.57	5.53	5.51	5.49

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



# Economic Calendar and Events

Date		Event:	Note:
4-Feb	PL	<b>MPC meeting – interest rate decision</b>	<b>We expect the MPC to leave rates unchanged</b>
5-Feb	CZ	CNB meeting – interest rate decision	-
	PL	<b>Auction of long-term T-bonds WZ0124/DS0725/WS0428</b>	<b>Offer: PLN3.0-5.0bn</b>
12-Feb	PL	<b>Auction of T-bonds (probably 2Y and 5Y)</b>	<b>Offer: PLN3.0-6.0bn</b>
13-Feb	PL	<b>Flash 4Q14 GDP</b>	<b>Our forecast of 3.1%YoY is in line with market expectations</b>
	PL	<b>CPI for January</b>	<b>Our forecast of -1.4%YoY is below the market consensus of -1.2%YoY</b>
17-Feb	PL	<b>Employment and wages for January</b>	<b>We expect employment to increase by 1.4%YoY (vs the market forecast of 1.5%YoY) and wages to grow 3.3%YoY, in line with median expectations</b>
18-Feb	PL	<b>Industrial output and PPI for January</b>	<b>Our forecast for industrial output at -0.5%YoY is one of the most pessimistic (consensus: 1.8%). We predict PPI at -3.4%YoY (vs consensus -2.9%).</b>
19-Feb	PL	<b>Minutes from February's MPC meeting</b>	-
24-Feb	HU	NBH meeting – interest rate decision	-
27-Feb	PL	<b>Detailed 4Q14 GDP data</b>	<b>We expect GDP growth of 3.1%YoY with private consumption up 3.5%YoY and fixed investment increasing 8.8%YoY (in line with consensus)</b>
TBA	PL	<b>Retail sales for January</b>	<b>Our forecast of 1.3%YoY is one of the most optimistic in the market. Consensus is 0.6%YoY.</b>
2-Mar	PL	<b>PMI manufacturing for February</b>	-
	EZ	PMI manufacturing for February	-
4-Mar	PL	<b>MPC meeting – interest rate decision</b>	-
5-Mar	EZ	ECB meeting – interest rate decision	-

Source: CB, Markit, 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

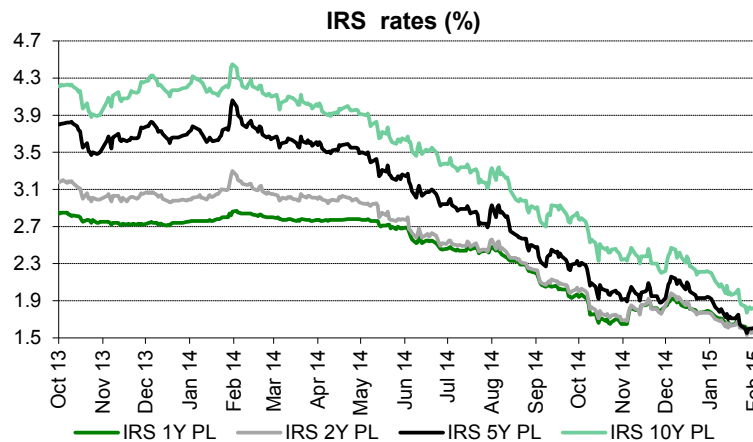
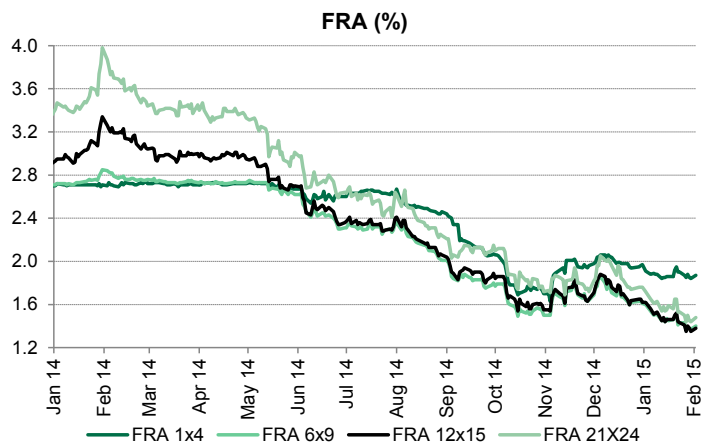
# 1. Domestic Market Performance

## Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of January	2.00	1.80	2.01	2.00	1.99	1.97	1.80	1.57	1.42	1.38	1.84	1.56	1.37	1.34
Last 1M change (bp)	0	8	-7	-6	-6	-7	-8	-23	-28	-28	-12	-24	-26	-28
Last 3M change (bp)	0	-20	0	3	3	2	9	-6	-14	-16	11	-3	-17	-22
Last 1Y change (bp)	-50	-173	-60	-70	-73	-78	-60	-83	-101	-115	-85	-116	-145	-167

## Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of January	1.52	1.65	1.96	1.55	1.60	1.81	-3	5	15
Last 1M change (bp)	-25	-48	-54	-22	-34	-41	-3	-14	-13
Last 3M change (bp)	-20	-40	-54	-18	-36	-58	-2	-4	4
Last 1Y change (bp)	-164	-226	-264	-170	-239	-261	6	13	-3



Source: Reuters, BZ WBK

## 2. Polish Bonds: Supply Recap

Total issuance in 2015 by instruments (in PLN mn, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>T-bond auctions</b>	11,204	9,000	5,000	15,000	5,000	4,000	8,000		5,000	15,000	6,000		83,204
<b>T-bill auctions</b>													0
<b>Retail bonds</b>	100	100	100	150	150	150	150	150	150	150	150	150	1,650
<b>Foreign bonds/credits</b>					4200		1700						5,900
<b>Pre-financing and financial resources at the end of 2014</b>	38,700												38,700
<b>Total</b>	<b>50,004</b>	<b>9,100</b>	<b>5,100</b>	<b>15,150</b>	<b>9,350</b>	<b>4,150</b>	<b>9,850</b>	<b>150</b>	<b>5,150</b>	<b>15,150</b>	<b>6,150</b>	<b>150</b>	<b>129,454</b>
<b>Redemption</b>	6,071	159	98	18,191	5,273	110	14,244	1,452	431	28,764	213	241	75,249
<b>Net inflows</b>	<b>43,932</b>	<b>8,941</b>	<b>5,002</b>	<b>-3,041</b>	<b>4,077</b>	<b>4,040</b>	<b>-4,394</b>	<b>-1,302</b>	<b>4,719</b>	<b>-13,614</b>	<b>5,937</b>	<b>-91</b>	<b>54,204</b>
<b>Rolled-over T-bonds</b>													0
<b>Buy-back of T-bills/ FX-denominated bonds</b>													0
<b>Total</b>	<b>43,932</b>	<b>8,941</b>	<b>5,002</b>	<b>-3,041</b>	<b>4,077</b>	<b>4,040</b>	<b>-4,394</b>	<b>-1,302</b>	<b>4,719</b>	<b>-13,614</b>	<b>5,937</b>	<b>-91</b>	<b>54,204</b>
<b>Coupon payments from domestic debt</b>	1,416			4,204			2,810		1,298	7,910			17,638

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	6,023		48	6,071	0	6,071
February	0		159	159	0	159
March	0		98	98	0	98
April	18,097		95	18,191	0	18,191
May	0		116	116	5,157	5,273
June	0		110	110	0	110
July	9,506		136	9,642	4,602	14,244
August	0		184	184	1,267	1,452
September	0		162	162	269	431
October	25,370		146	25,516	3,248	28,764
November	0		213	213	0	213
December	0		241	241	0	241
<b>Total 2015</b>	<b>58,995</b>		<b>1,710</b>	<b>60,705</b>	<b>14,544</b>	<b>75,249</b>
<b>Total 2016</b>	<b>87,607</b>		<b>2,034</b>	<b>89,641</b>	<b>13,808</b>	<b>103,449</b>
<b>Total 2017</b>	<b>62,789</b>		<b>1,032</b>	<b>63,821</b>	<b>10,687</b>	<b>74,508</b>
<b>Total 2018</b>	<b>66,317</b>		<b>1,103</b>	<b>67,420</b>	<b>10,040</b>	<b>77,460</b>
<b>Total 2019+</b>	<b>63,863</b>		<b>972</b>	<b>64,835</b>	<b>20,336</b>	<b>85,171</b>
<b>Total 2020+</b>	<b>153,068</b>		<b>2,383</b>	<b>155,452</b>	<b>110,914</b>	<b>266,366</b>

Source: MF, BZ WBK.

## 2. Polish Bonds: Supply Recap (cont.)

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

	Foreign investors	Domestic banks	Insurance funds	Pension funds	Mutual funds	Individuals	Non-financial sector	Other	Total
<b>Q1 2015</b>	328	3,998	775	121	233	80	15	544	6,093
<b>Q2 2015</b>	10,194	3,843	1,884	145	377	39	37	1,578	18,097
<b>Q3 2015</b>	2,977	3,385	863	159	606	65	9	1,443	9,506
<b>Q4 2015</b>	11,326	5,143	4,341	116	1,968	27	226	2,190	25,337
<b>Total 2015</b>	<b>24,825</b>	<b>16,368</b>	<b>7,863</b>	<b>541</b>	<b>3,184</b>	<b>211</b>	<b>287</b>	<b>5,754</b>	<b>59,033</b>
	<b>42%</b>	<b>28%</b>	<b>13%</b>	<b>1%</b>	<b>5%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>100%</b>
Total 2016	43,895	20,051	7,205	657	9,815	121	134	5,943	87,821
	50%	23%	8%	1%	11%	0%	0%	7%	100%
Total 2017	22,026	17,538	6,599	599	6,420	72	170	5,118	58,543
	38%	30%	11%	1%	11%	0%	0%	9%	100%
Total 2018	18,778	29,030	4,482	382	8,416	83	588	4,558	66,317
	28%	44%	7%	1%	13%	0%	1%	7%	100%
Total 2019+	17,364	29,271	5,130	451	8,036	72	225	3,314	63,863
	27%	46%	8%	1%	13%	0%	0%	5%	100%
Total 2020+	69,082	37,542	21,541	701	11,014	167	587	5,731	146,366
	47%	26%	15%	0%	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 December			Share of total in December (%)
	End Dec14	End Nov'14	End Oct'14	End 2Q 2014	End 1Q 2014	End 2013	MoM	3-mth	YoY	
<b>Domestic investors</b>	295.9	294.6	291.8	277.2	277.9	381.2	0.43	2.32	-22.38	60.2 (0.2pp)
<b>Commercial banks</b>	150.8	151.0	147.6	135.4	134.3	114.7	-0.12	7.02	31.49	30.7 (-0.1pp)
<b>Insurance companies</b>	52.8	52.2	53.1	53.1	52.9	52.0	1.18	-1.15	1.64	10.7 (0.1pp)
<b>Pension funds</b>	3.3	3.4	3.4	3.3	3.5	125.8	-2.85	-5.45	-97.35	0.7
<b>Mutual funds</b>	46.9	46.5	45.9	44.8	45.8	46.7	0.85	6.32	0.29	9.5 (0.1pp)
<b>Others</b>	42.0	41.5	41.8	40.6	41.4	42.0	1.3	2.0	0.0	8.5 (0.1pp)
<b>Foreign investors*</b>	196.0	196.6	195.1	199.8	186.9	193.2	-0.32	-0.77	1.46	39.8 (-0.2pp)
<b>Banks</b>	9.9	9.9	14.3	12.6	n.a.	n.a.	0.4	-17.6	n.a.	2.0
<b>Central banks</b>	16.4	15.6	21.1	18.0	n.a.	n.a.	5.4	-15.0	n.a.	3.3 (0.2pp)
<b>Public institutions</b>	8.1	8.8	0.5	0.7	n.a.	n.a.	-8.3	1369.4	n.a.	1.6 (-0.2pp)
<b>Insurance companies</b>	10.7	10.5	10.4	9.5	n.a.	n.a.	1.9	-2.0	n.a.	2.2
<b>Pension funds</b>	13.0	12.8	12.4	12.3	n.a.	n.a.	1.9	2.2	n.a.	2.6
<b>Mutual funds</b>	78.1	78.8	77.5	83.4	n.a.	n.a.	-0.8	-3.3	n.a.	15.9 (-0.1pp)
<b>Hedge funds</b>	0.8	0.6	0.4	0.1	n.a.	n.a.	25.7	808.0	n.a.	0.2
<b>Non-financial sector</b>	11.6	12.1	11.4	12.1	n.a.	n.a.	-3.7	-4.8	n.a.	2.4 (-0.1pp)
<b>Others</b>	14.3	14.8	14.8	16.5	4.7	5.2	-3.6	-19.2	n.a.	2.9 (-0.1)
<b>TOTAL</b>	491.8	491.2	486.8	477.0	464.8	574.3	0.1	4.5	-14.4	100

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

Source: MF, BZ WBK.

## 4. Euro Zone Bonds: Supply Recap

Euro zone: 2014 issuance completion and 2015 estimated gross borrowing requirements and redemptions (€ bn)

	2014 bond supply	% of completion	2015 total redemption	2015 bond supply	% of completion (YtD*)
Austria	24.7	91.4	13.3	17.0	6
Belgium	31.8	102.2	28.1	32.5	15
Finland	10.0	119.6	7.6	11.4	-
France	173.0	117.4	116.5	187.0	13
Germany	161.0	100.0	155.0	147.0	12
Greece	-	-	-	-	-
Ireland	10.0	117.5	2.3	7.5	30
Italy	235.4	111.8	205.2	252.9	10
Netherlands	50.0	101.7	39.9	48.0	10
Portugal	16.7	101.7	7.2	13.9	42
Spain	129.3	105.4	86.4	130.0	13
<b>Total</b>	<b>841.9</b>	<b>108.1</b>	<b>661.5</b>	<b>847.3</b>	<b>12</b>

\*/ YTD (year calendar) data for 2015

Source: European Commission, EZ countries' debt agencies, 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)	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Poland	3.0	2.9	0.2	1.1	-2.0	-2.4	-3.4	-2.9	49.1	50.2
Czech Republic	2.5	2.7	0.5	1.4	-1.3	-0.9	-1.4	-2.1	44.4	44.7
Hungary	3.2	2.5	0.1	2.5	4.3	4.3	-2.9	-2.8	76.9	76.4
EU	1.3	1.1	0.6	1.0	1.4	1.5	-3.0	-2.7	88.1	88.3
Euro zone	0.8	1.1	0.5	0.8	2.5	2.6	-2.6	-2.4	94.5	94.8
Germany	1.3	1.5	0.9	1.2	7.1	7.1	0.2	0.0	74.5	72.4

### Main market indicators (% , end of period)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2014	end-Jan 2015	2014	end-Jan 2015	2014	end-Jan 2015	2014	end-Jan 2015	2014	end-Jan 2015
Poland	2.00	2.00	2.06	2.00	2.51	1.96	197	166	71	68
Czech Republic	0.05	0.05	0.04	0.04	0.75	0.40	2	7	55	50
Hungary	2.10	2.10	2.10	2.10	3.69	2.88	315	254	178	156
Euro zone	0.05	0.05	0.08	0.05						
Germany					0.54	0.34			17	16

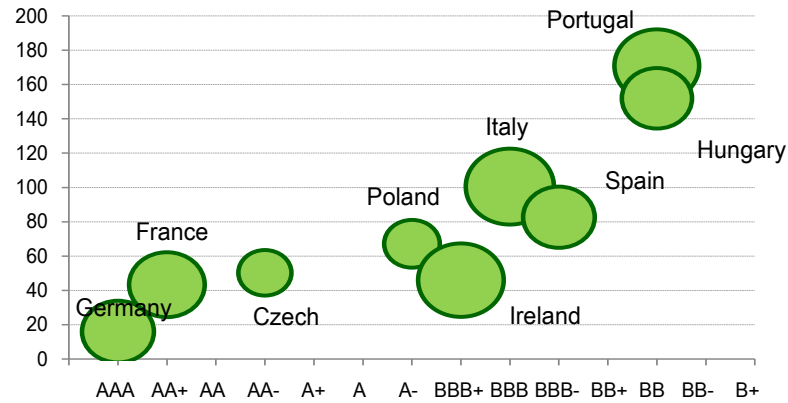
Source: EC – Autumn 2014, statistics offices, central banks, Reuters, BZ WBK.

# 5. Poland vs. Other Countries (cont.)

**Sovereign ratings**

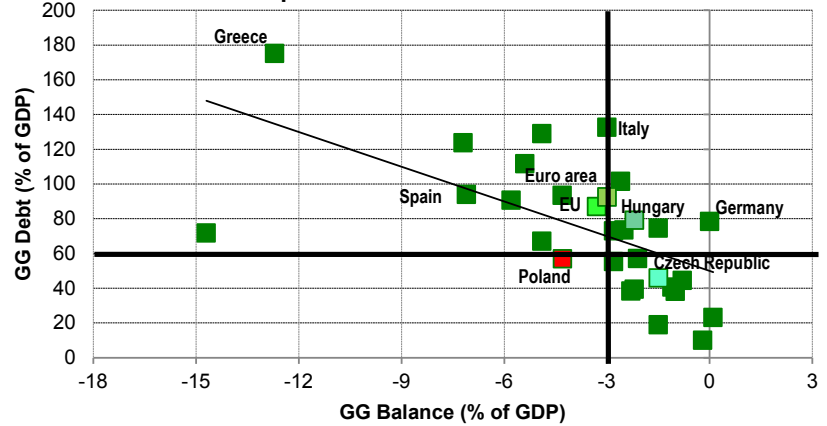
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B	stable	Caa1	stable	B	stable
Ireland	A	stable	Baa1	stable	A-	stable
Italy	BBB	stable	Baa2	stable	BBB+	negative
Portugal	BB	stable	Ba1	stable	BB+	negative
Spain	BBB	stable	Baa2	positive	BBB+	stable

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



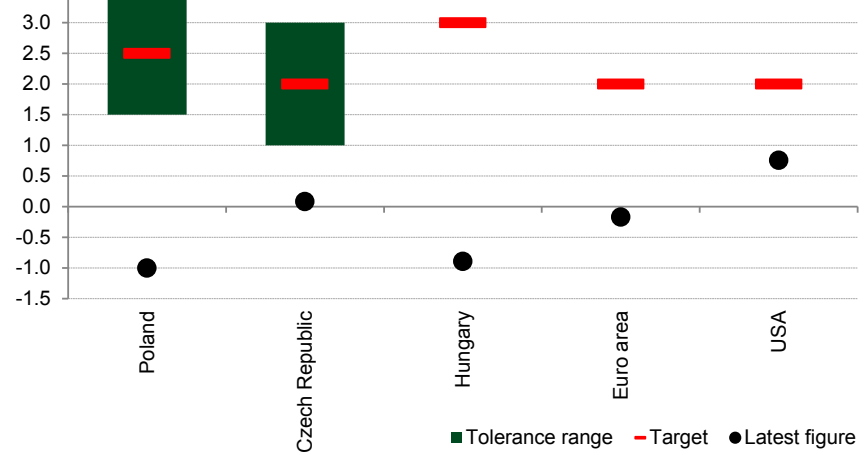
Note: Size of bubbles reflects the debt/GDP ratio

**Fiscal position of the EU countries**

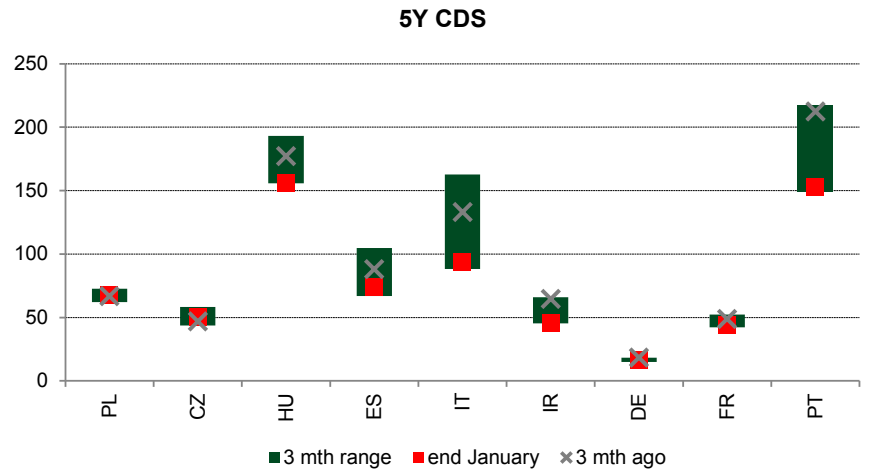
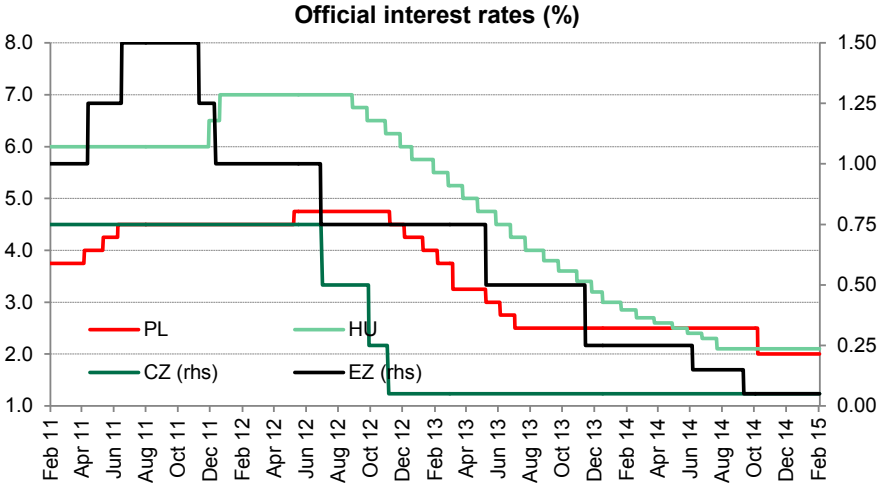
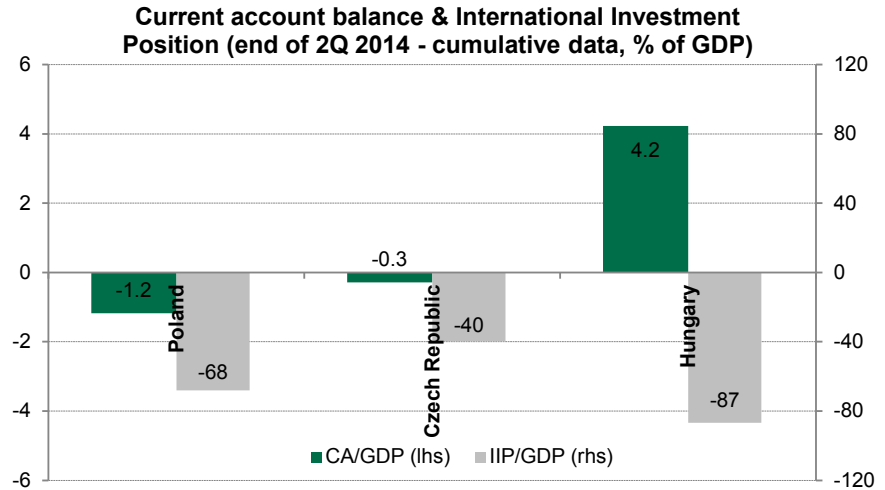
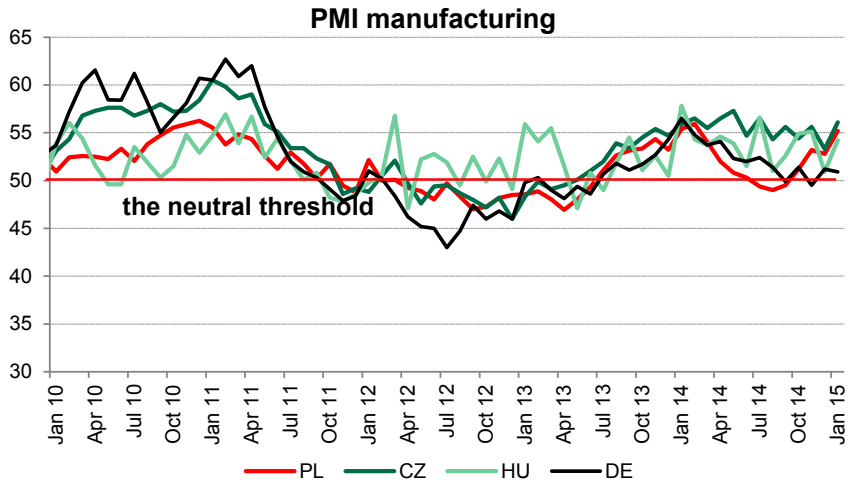


Source: Rating agencies, Reuters, EC, BZ WBK.

**Inflation rates vs targets (%)**

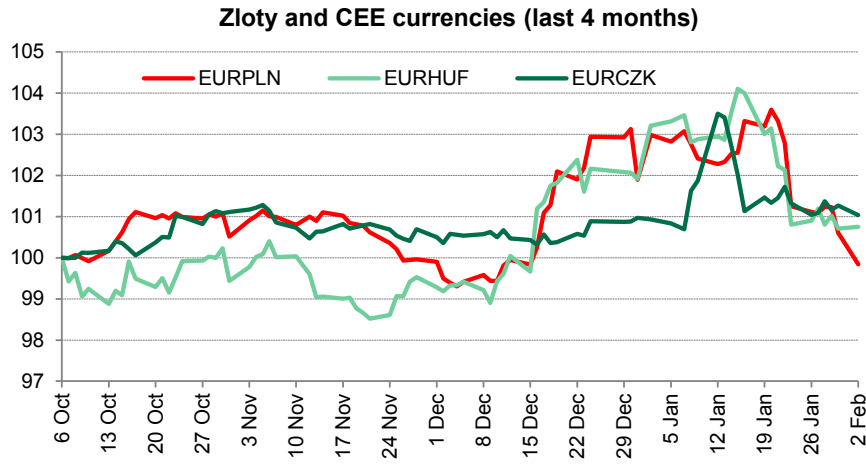
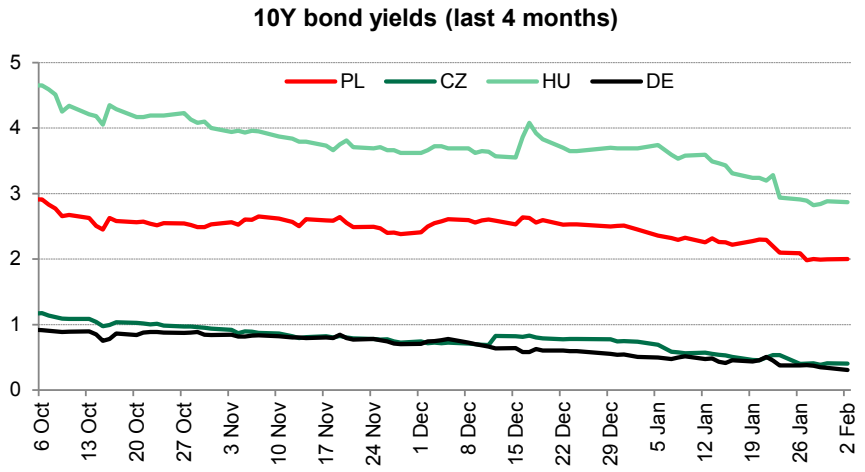
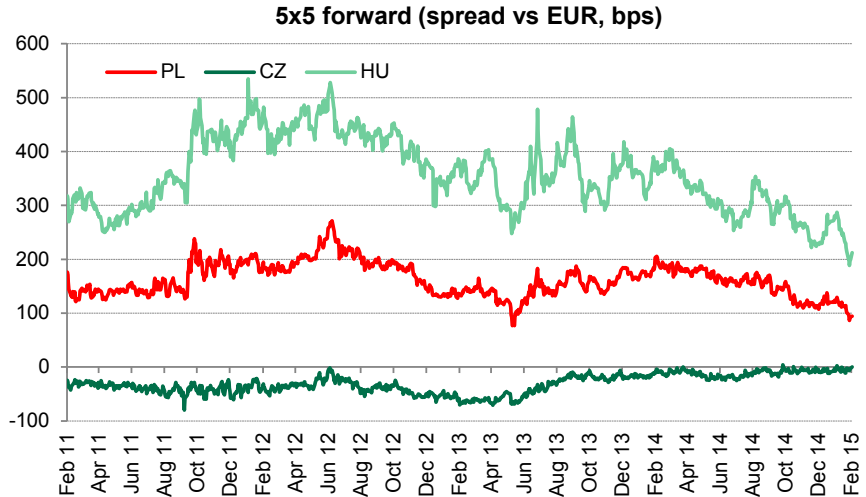
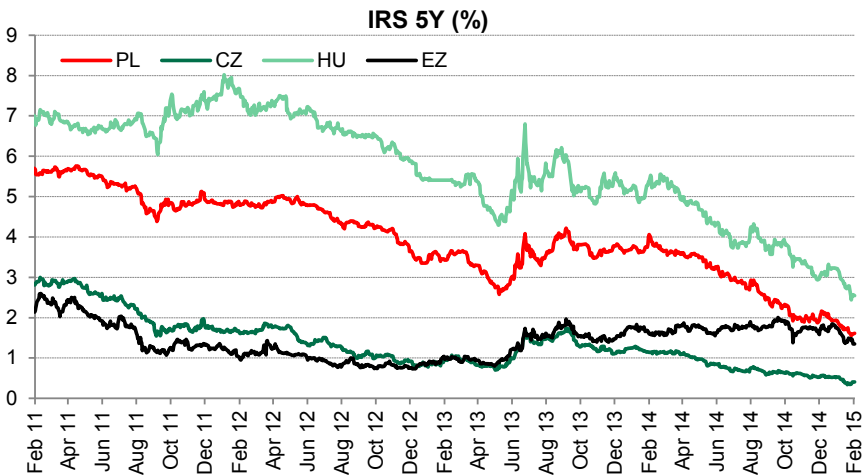


# 5. Poland vs Other Countries (cont.)



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

# 5. Poland vs Other Countries (cont.)



Source: Reuters, BZ WBK.

## 6. Central Bank Watch

		Last	2014	2015	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.05	0.05	0.05				In January, the ECB announced a much bigger than expected QE plan . Purchases of government bonds will be vital for the ECB to achieve its balance sheet goal. This month there is no ECB monetary meeting. Investors will have to wait for March, when new economic forecasts are due.
	Market implied »				1	-1	-1	
UK	Forecast	0.50	0.50	1.00				It is widely expected that the BoE will keep monetary conditions unchanged this month. The board will closely monitor inflation, which might shift down, delaying the moment of the first rate hike, in particular taking into account the action of other central banks.
	Market implied »				2	4	9	
US	Forecast	0-0.25	0-0.25	0.75				As expected, the FOMC made no changes to monetary policy and maintained the newly introduced “patient” forward guidance, but the overall tone of the statement was a touch more dovish. Moreover, Fed will take into account international developments in the FX market. The next meeting should be more interesting as new forecasts are due.
	Market implied »				17	25	36	
Poland	Forecast	2.00	2.00	1.75				It is broadly expected that the MPC will leave rates unchanged in February. We believe March to be a good time to reduce rates and think that is when the MPC will likely deliver a cut of 25bp. We think the MPC will wait until it has new forecasts to provide it with a better view of the outlook for 2015.
	Market implied »				-12	-41	-59	
Czech Republic	Forecast	0.05	0.05	0.05				We think that the CNB will likely keep the peg and rates unchanged at its next meeting. The Council will have the latest revisions to the macro outlook . In our view, the CNB is not yet ready to move on the peg or on rates.
	Market implied »				27	27	23	
Hungary	Forecast	2.10	2.10	2.10				As expected, the NBH left interest rates unchanged at its January meeting. We think that the Council will closely monitor upcoming macro data and the impact of the fall in oil prices on inflation. We uphold our view that the base rate will remain unchanged until year-end.
	Market implied »				-3	-22	-33	

Source: Reuters, BZ WBK.

This analysis is based on information available through February 2, 2015 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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