



# RATES AND FX OUTLOOK

## POLISH FINANCIAL MARKETS

June 2015



Bank Zachodni WBK

 Grupa Santander

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# Summary

- ❶ **Poland's economy started 2015 on a solid note, with GDP growth accelerating to 3.6%YoY in 1Q15, fuelled by strong private consumption, accelerating exports, and buoyant fixed investments.** Although a few high-frequency indicators (April production and retail sales, May PMI) disappointed recently, we still believe that economic growth will continue to speed up towards 4% at the end of the year. We still see no reason for the Euro zone's recovery to be derailed, so external demand should keep growing (especially when the zloty exchange rate is still competitive). At the same time, both consumption and investment growth are likely to remain strong, supported by record low interest rates and low commodity prices. **After 1Q15 data we raised our 2015 GDP forecast again, this time to 3.8%.**
- ❷ With economic growth increasing and inflation bottoming out (the CPI fell 1.1%YoY in May and we expect it to rise to 0.7%YoY by December) we do not expect monetary policy parameters to change in the near future. **We think it is highly likely that the Monetary Policy Council (MPC) will keep interest rates on hold until the end of its term of office (i.e. early 2016).** It is hard to speculate at this point on the line-up of the new rate-setting panel, as the result of the general election in October is now unclear. The surprising victory of the opposition candidate Andrzej Duda, who ousted the incumbent Bronisław Komorowski in May's presidential election, points to a significant risk of major changes on the Polish political scene.
- ❸ **Uncertainty was the name of the game on the financial markets in recent weeks.** Polish assets were negatively affected by several risk factors, including rising concern about Greece leaving the euro, as the deadline for a bailout agreement approached without any visible progress in negotiations, and the unexpected result of the presidential election, which raised questions about the future political situation in Poland. Yields of Polish bonds have surged in the last few weeks and the spread versus German Bunds rose to its highest since mid-2014. Such levels may seem attractive, especially if core Euro zone bonds keep strengthening in the nearest weeks amid a substantial demand-supply imbalance. However, the room for a Polish debt market recovery is likely to be limited by continuing concern about Greece and a higher risk premium, due to political uncertainty. Domestic macro data look likely to be unsupportive for bonds, as, despite several recent disappointments, we expect to see a continuation of decent GDP growth and an upward inflation trend.
- ❹ **The worries about Greece that pushed EUR/PLN higher in recent weeks are likely to remain the key factor preventing a zloty appreciation in June, as the risk of Grexit is rising, in our view.** Domestic political uncertainty is now a further negative factor. However, faster economic growth should help the Polish currency to strengthen at the end of the year.

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

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	1 June 2015	1M	3M
Reference rate	-50	0	1.50	→	→
3M WIBOR	-13	3	1.68	→	→
2Y bond yield	18	17	1.77	→	→
5Y bond yield	63	58	2.49	→	→
10Y bond yield	81	67	2.97	→	→
2/10Y curve slope	63	50	120	→	→

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

## PLN rates: our view and risk factors

**Money market:** In our view WIBORs will continue their gradual increase, with the 3M rate reaching 1.70% in three months' time. We think that the Monetary Policy Council meetings in the coming months should be neutral for the market as we see the MPC leaving rates unchanged until the end of its term in office.

**Short end:** The short end of the curve should perform better than the long end, given the high probability of interest rates staying unchanged until the end of the MPC's term in office. Inflation has started bottoming out but is still very low, so we think that even decent economic data are unlikely to bring forward the expected timing of the next interest rate hike.

**Long end:** Even though spreads over German Bunds may look attractive, the room for a debt market recovery is likely to be limited, in our view, by persisting concerns about Greece and a higher risk premium due to political uncertainty. Domestic macro data should be also unsupportive for bonds as, despite several recent disappointments, we expect to see a continuation of decent GDP growth and an upward inflation trend.

**Risks to our view:** Major disappointment from the next monthly data releases could prompt concern that Poland's economic recovery may be derailed, fuelling speculation that more monetary easing is still on the table. Another factor, which might lead to major market strengthening, would be an agreement of bailout terms between Greece and its creditors.

# Short- and Medium-Term Strategy: FX market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	1 June 2015	1M	3M
EURPLN	0.9	2.3	4.13	→	↘
USDPLN	-0.7	5.2	3.79	→	↘↘
CHFPLN	2.2	4.0	4.00	→	↘↘
GBPPLN	2.4	3.7	5.77	→	↘
EURUSD	1.6	-2.7	1.09	→	↗

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

## PLN FX Market: Our view and risk factors

**EUR:** Concern about Greece pushed EUR/PLN higher in recent weeks, as we expected, and we think it will remain the key factor preventing zloty appreciation in June, as the risk of Greece leaving the euro is rising. Additionally, the PLN will be negatively affected by political uncertainty at home after surprising result of presidential election. Accelerating economic growth should boost the Polish currency at the end of the year.

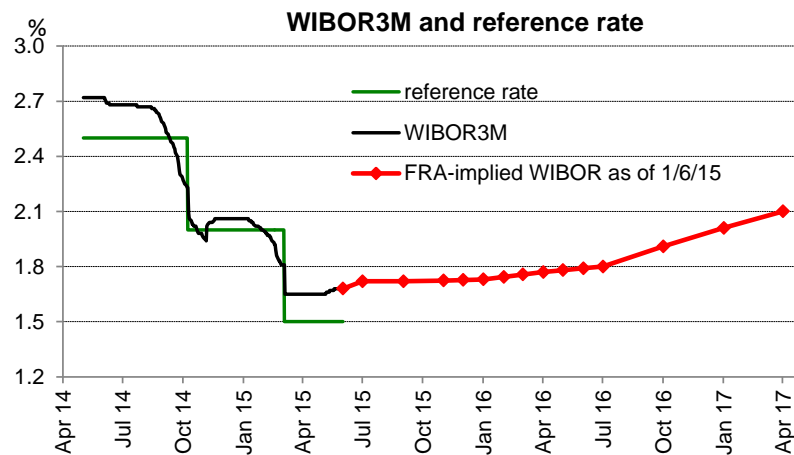
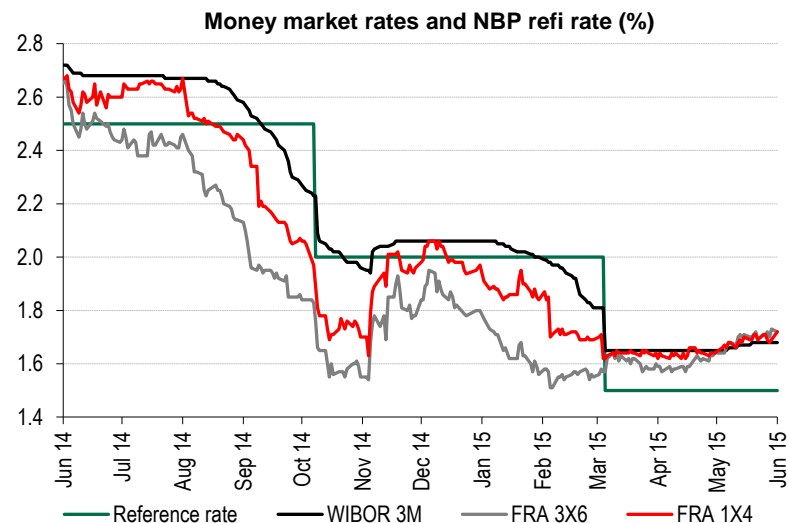
**USD:** In June the USD/PLN may remain under pressure from a growing 'Grexit' risk. However, later in the year we expect EUR/USD to move higher and this implies that the zloty should strengthen faster versus the dollar than against the euro in the second half of the year.

**CHF:** The SNB still views the CHF as significantly overvalued and we think the central bank may have to adopt additional stimulus measures to boost inflation and economic activity. Thus, we still predict a higher EUR/CHF and, while in the short run the zloty may stay close to 4.0 versus the franc, the end of the year should see a marked drop of CHF/PLN, in our view.

**Risks to our view:** Although an agreement on bailout terms for Greece does not look imminent, if and when it happens the mood in the financial markets would improve significantly, most likely triggering a notable appreciation of Polish zloty against major currencies. If, on the other hand, Greece defaults on its IMF payments in June, we would probably see a surge of global risk aversion and PLN depreciation.

# Domestic Money Market: Gradual increase in rates

- In May WIBOR rates increased slightly, pricing-in earlier monetary normalisation in Poland. Growth was muted at 2-12bp in the month, with the largest increase in 12M rate. Consequently, the WIBOR curve steepened visibly, with 1M-12M spread widening to 15bp (the highest since June 2014) at the end of May, up from 5bp at the end of April.
- FRA rates continued their gradual upward move. The curve shifted up by 5-13bp in May after rising 5-25bp in April. This resulted mainly from a sharp rise in IRS rates, while weaker-than-expected domestic economic data (industrial output, retail sales) brought the market a slight relief.
- Currently, FRAs imply the first interest rate hike in Poland would be approximately 25bp in 15 months' time.
- In our view, WIBORs should continue to edge higher, with the 3M rate reaching 1.70% in three months' time. We think the MPC's coming meetings should be neutral for the market as we see the council leaving rates unchanged until its term ends in early 2016. Investors are likely to focus mainly on domestic macro data releases. An improvement in the economic outlook (our forecasts of industrial output and retail sales for May are above market consensus) might slightly speed up growth of money market rates, in particular FRAs.



Source: Reuters, BZ WBK

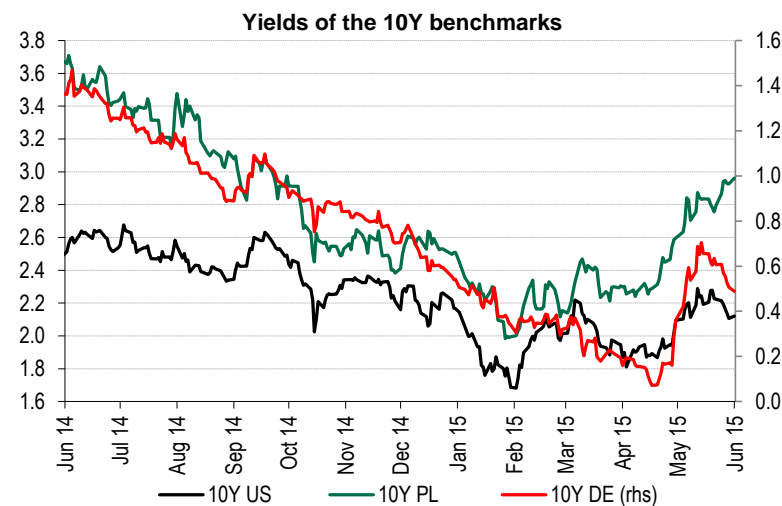
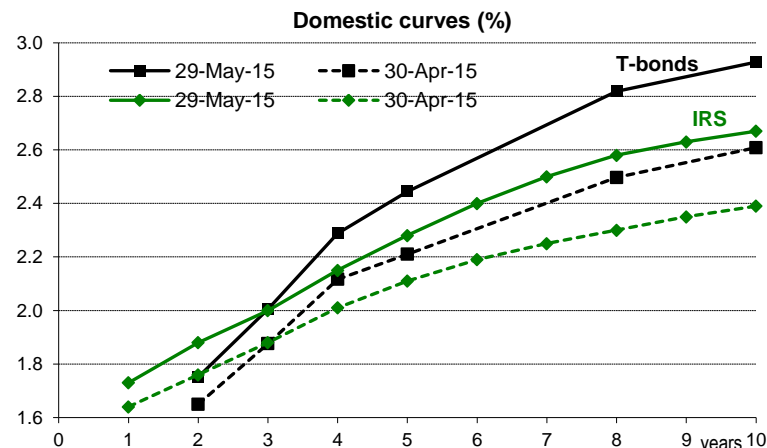
# Domestic IRS and the T-Bond Market: Risk premium rises on political situation in Poland and Greece

Contrary to our expectations, Poland's T-bond and IRS suffered from adverse market conditions in May. This stemmed from concerns about the political situation in Poland, following Andrzej Duda's victory in the presidential election, and from fears about a possible Greek default. As a result, the Polish 10Y benchmark yield approached 3%. What is more, the yield curve has steepened quite noticeably over the past month. The 2-10Y spread widened temporarily above 120bp for T-bonds and to nearly 90bp for IRS. The 10Y spread over Bunds increased above 240bp, the highest since May 2014.

Global events are likely to play the main role in the market this month. June's ECB meeting, which takes place on the same day as Poland's MPC, will be closely watched, but the US macro data will probably be more important. A further improvement in macroeconomic data in the US could strengthen expectations for a rate hike later this year (we expect the first hike in September). Consequently, an increase in UST yields may translate into higher domestic yields as the correlation of the US Treasury 10Y and the Polish 10Y yield has been around 0.63 in the last five months. The unsolved situation in Greece is likely to continue to weigh on Polish assets, keeping yields and IRS rates high (the 10Y bond could test 3% again).

Domestic macro data for May should confirm healthy economic growth, but are unlikely to bring first interest rate hike closer. As a consequence, the front end of the curves should perform better than the long end.

In the medium term, investors will be pricing-in an increase in political risk in Poland ahead of the parliamentary election in the autumn. This should add to the risk premium and increase volatility on the debt market, keeping yields/rates elevated in the coming months.

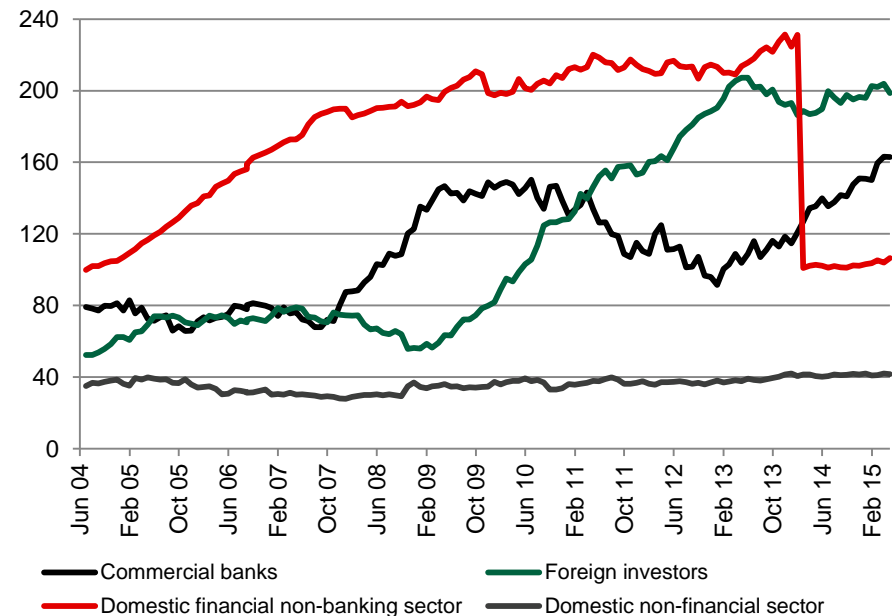


Source: Reuters, Bloomberg, BZ WBK.

# Demand Corner: Foreign investors' Polish bond holdings fall because of redemptions

- Foreign investors were the main sellers of Polish marketable bonds in April, reducing their holdings by PLN5.2bn, the biggest sell-off by this group of investors since January 2014, but it resulted mainly from redemptions of PS0415. Foreign investment funds reduced their holdings by as much as PLN7.8bn (or 9.8%), to PLN72.3bn, the lowest level since comparable data are available (April 2014). On the other hand, foreign commercial and central banks were buyers and increased their exposure by PLN2.5bn and PLN1.9bn, respectively.
- Asian central banks (ex Middle East) purchased bonds worth PLN1.8bn, bringing their holdings to PLN19.4bn, which quadruples their exposure in the last year. Total holdings of foreign central banks reached PLN22.2bn, the highest level since comparable data are available (April 2014).
- Domestic investors increased their Polish bond holdings by PLN2.0bn, with the largest swing seen in investment funds (+PLN1.9bn) and insurance companies (+PLN0.9bn). Holdings of other investor groups, including banks, were fairly stable.
- In general, the April portfolio reshuffle moved Polish bonds into the hands of Polish investors (their share jumped to 61%, the highest level since pension funds were obliged to transfer their portfolios to the state budget) and more stable holders (central banks). We expect this trend to have continued in May.

The main holders of Poland's marketable T-bonds



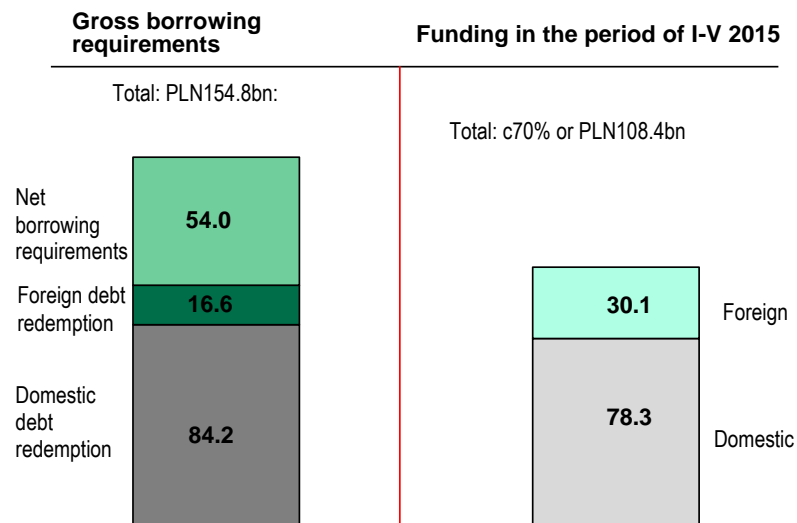
Source: Finance Ministry, BZ WBK.



# Supply Corner: Cautious offer due to fragile market mood

- May was mixed on the Polish primary market. The Finance Ministry decided to cancel the first auction of the month due to adverse market conditions. However, the second T-bond auction attracted healthy demand. The ministry sold 2Y OK0717 and 5Y PS0719 benchmarks worth nearly PLN4.1bn and, at the end of May, it had financed nearly 70% of this year's borrowing needs and increased its reserve of liquid assets and foreign exchange to approximately PLN65bn.
- In line with expectations, the ministry is preparing a cautious offer of T-bonds in June. The monthly issuance plan contains two auctions: the standard and the switch. At the first auction, on June 11, it will offer fixed rate bonds, 2Y benchmark OK0717 and 10Y benchmark DS0725, and floating rate WZ0120 worth PLN1-4bn in total. At the second (June 25) it plans to buy back OK0715/DS1015 bonds in exchange for bonds selected depending on the market situation, with no bonds offered at the first auction.
- The final offer of T-bonds at auction will depend on market conditions. Piotr Marczak, head of the Public Debt Department, said that if market conditions were weaker in June, there was a possibility the ministry would not issue 10-year bonds.

## Gross borrowing requirements and financing in 2015



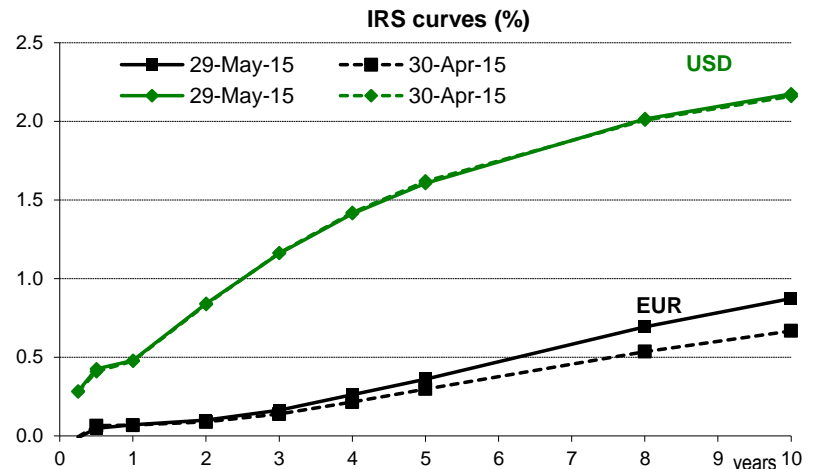
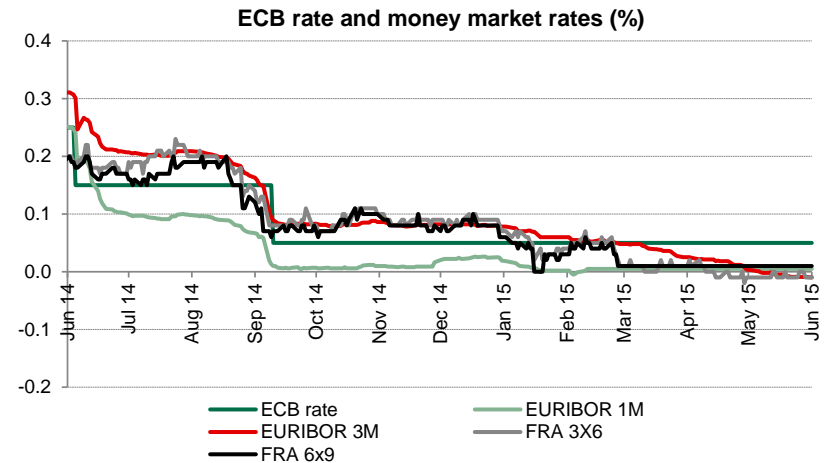
## Auction plan for June 2015

Auction date	Settlement date	Series	Planned offer (PLN mn)
11 Jun 2015	15 Jun 2015	OK0717, WZ0120 and DS0725	1,000 – 4,000

Source: Finance Ministry, BZ WBK.

# International Money Market and IRS: Central bank meetings take centre stage

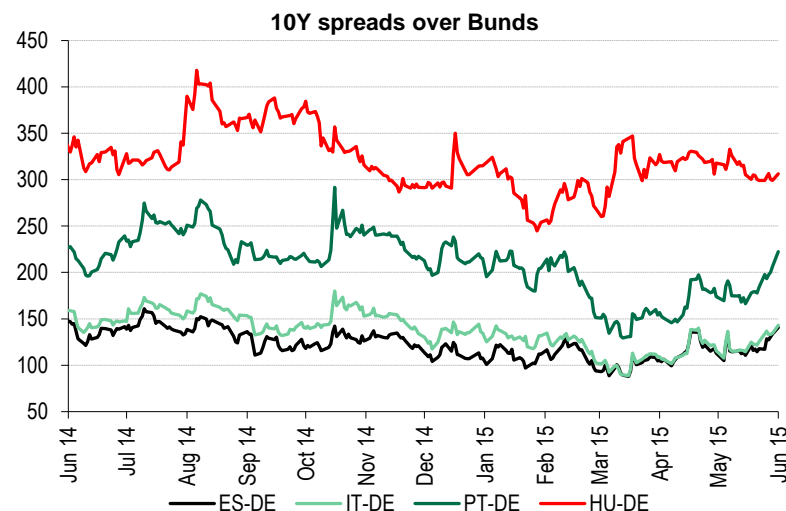
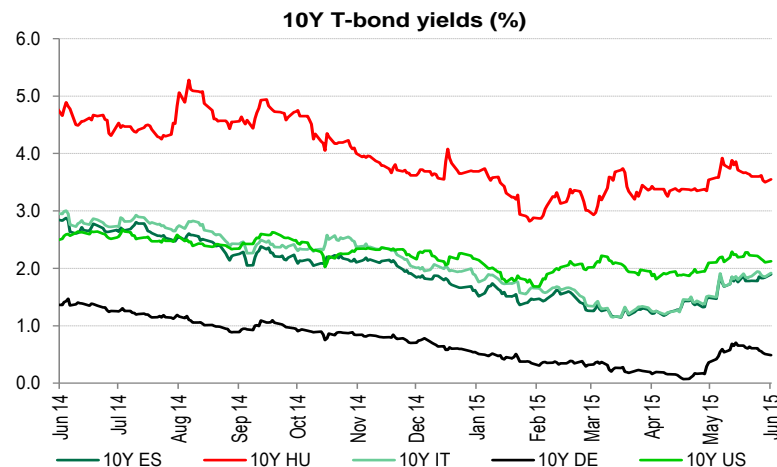
- European money market rates were mixed in May. In some countries (Switzerland, the UK) they remained more or less stable, while in the Euro zone and Hungary they continued to shift down. Hungarian rates dropped quite significantly (by 15-16bp) due to a 15bp interest rate cut in May and the announcement that rate cuts would continue as long as they support achievement of the medium-term inflation target. The 3M Euribor rate continued to decline, reaching nearly -1.5bp, a new all-time low, while USD money market rates edged up by another 1-2bp across the curve.
- As regard the IRS market, both EUR and USD rates continued their upward trend. EUR rates climbed more significantly than rates in the US due to increased risk of Grexit and the continued sell-off on core markets. Consequently, the curves shifted up, by 1-21bp for EUR and 1-5bp for USD, and both steepened visibly as the long ends increased the most.
- This month, macro data from Europe and the US and central bank meetings look set to be the main market drivers. We think Euro zone releases could confirm a slight softening in the economic outlook, while the ECB should reconfirm that its QE programme will be fully implemented. This should keep IRS rates near current levels, while EUR money market rates might continue their gradual decline. As regards the USD market, we expect IRS rates to rise progressively as the US macro data are likely to continue to be strong and the Fed should confirm the start of monetary tightening later this year.



Source: Reuters, ECB, Fed, BZ WBK.

# International Bond Market: Central bank meetings and Greece determine the direction

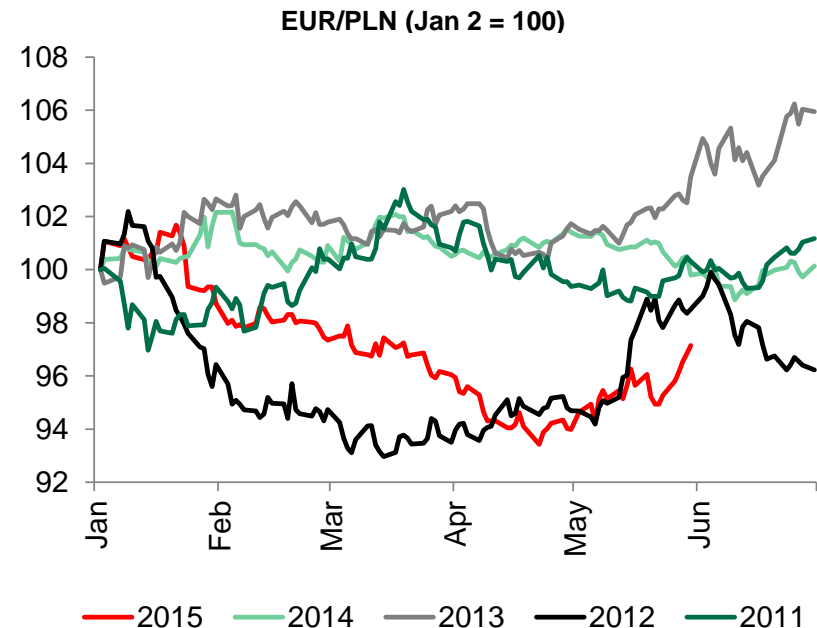
- May brought high volatility on both the European and US bond markets. Yields on core and peripheral markets initially increased sharply (with the 10Y Bund approaching 0.80% and the 10Y UST going up to nearly 2.30%), while the second half of the month brought a gradual rebound in prices. Core markets performed better than peripheral ones as investors shifted money to lower risk assets because of concern about Greece.
- Peripheral Euro zone debt continued a sharp sell-off in May, due to the still-unresolved question of Greek financial aid. As a result, peripheral countries' yields rose by between 29bp (for Ireland) and 47bp (for Portugal) and the spread over Bunds widened visibly, in particular for Portugal (by another 32bp compared with the end of April). In contrast, some CEE debt strengthened (Hungary, Romania) as central banks continued monetary easing.
- This month investors are likely to focus on macroeconomic data in Europe and the US and central bank meetings. We think US debt will probably underperform European paper as macro data should be strong and the FOMC should confirm the start of monetary tightening later this year. The accumulated QE programme before the holiday period should help to lower yields in Germany and some peripheral countries. Prolonged talks between Greece and its creditors would curb the strengthening of peripheral bonds.
- The Hungarian central bank's (NBH) announcement of further monetary easing should also support its debt market this month. In our view, the NBH could cut rates by another 15bp in June.



Source: Reuters, BZ WBK.

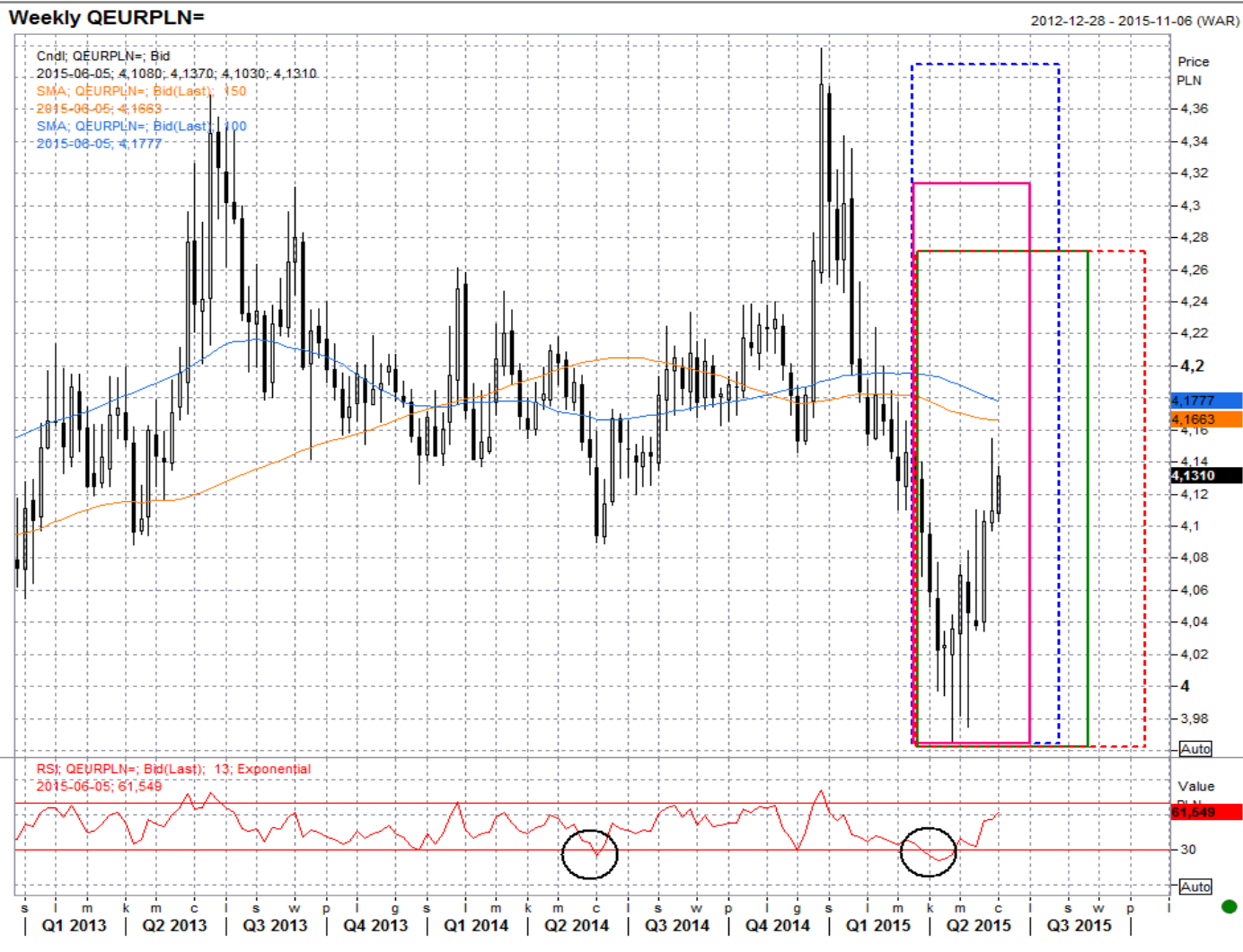
# Foreign Exchange Market: Possible further zloty weakening

- EUR/PLN has been rising gradually since late April on the back of a sharp deterioration in global market sentiment fuelled by concern over Greece. The additional factor that negatively affected the currency was the surprising result of presidential election, as the opposition candidate Andrzej Duda ousted the incumbent Bronisław Komorowski, which raised questions about Poland's future political situation. EUR/PLN reached 4.15, its highest since mid-March.
- We think Polish political issues should now retreat to the background, at least until late summer, as most of the surprise has already been priced-in. However, greater uncertainty about the outcome of the autumn general election may be mildly negative for the zloty, especially if opinion polls show declining support for the ruling coalition.
- The main factor preventing the zloty from strengthening in the coming weeks will be, in our view, persistent concern about the finale of the Greek drama. Talks between Greece and its external creditors could drag on into late June and we see decreasing chances of a happy end. Expectations about the timing of the first FOMC rate hike will be another important factor for Polish currency and any evidence of strength in the US economy in 2Q15 may hurt the zloty.
- Thus, we expect the zloty to remain under pressure in the short term, and EUR/PLN may even edge higher from the current 4.13. Strong economic growth should be positive for the currency in the medium term, but we think it unlikely to have much influence in the next few months.



Source: Bloomberg, BZ WBK

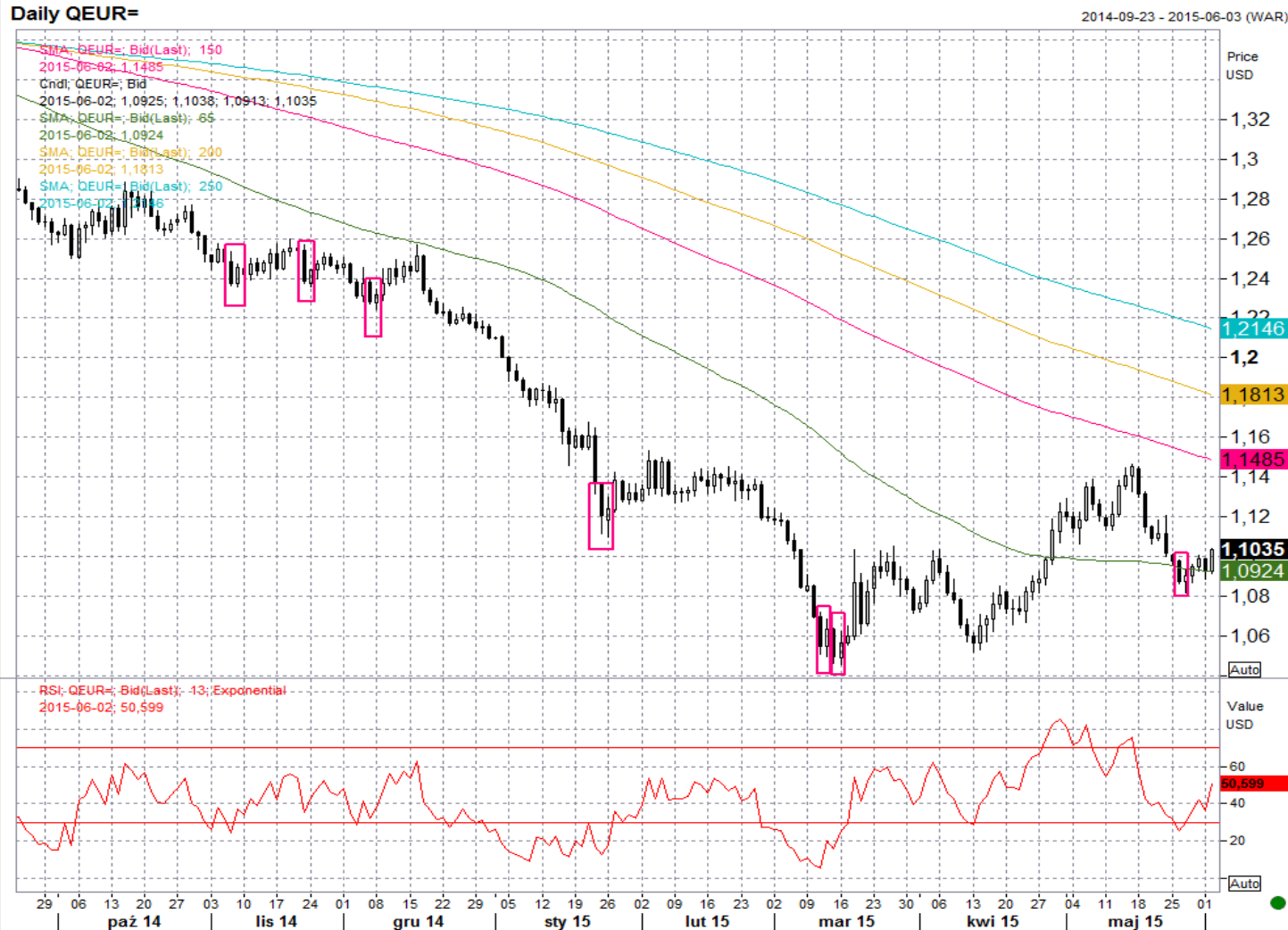
# FX Technical Analysis Corner: EUR/PLN rises after RSI signal



- ▶ The RSI buy signal we explained last month proved quite good as EUR/PLN has moved to 4.15 from 4.05 since then.
- ▶ Given the scale of gains after previous buy signals, there is still room for a higher EUR/PLN.
- ▶ Also, any stronger hopes of a reversal should wait until the RSI gives a sell signal, which may take some time as it still below 70pts.

Source: Reuters, BZ WBK.

# FX Technical Analysis Corner: Upside potential for EUR/USD



- ▶ Last month we suggested there is an upside bias for EUR/USD and the exchange rate rose above 1.14 from c1.11.
- ▶ Despite the recent pull-back, we still think that there is a upside bias for EUR/USD.
- ▶ The 'reversal day' formation emerged on the daily chart in late May – marked in a pink rectangle – when EUR/USD fell below the local low, but managed to end the day above the previous close.
- ▶ The chart shows how this formation worked in previous months.

Source: Reuters, BZ WBK.

# Macroeconomic Forecasts

Poland		2012	2013	2014	2015E	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E
GDP	PLNbn	1,615.9	1,662.1	1,728.7	1,799.6	403.7	419.5	427.1	478.3	417.8	434.9	443.8	503.0
GDP	%YoY	1.8	1.7	3.4	3.8	3.5	3.6	3.3	3.3	3.6	3.7	3.8	4.0
Domestic demand	%YoY	-0.4	0.2	4.9	3.3	3.6	6.1	5.1	5.0	2.6	3.4	3.2	3.8
Private consumption	%YoY	1.0	1.1	3.1	3.2	3.0	3.0	3.2	3.0	3.1	3.3	3.3	3.3
Fixed investment	%YoY	-1.5	0.9	9.2	8.9	11.4	8.7	9.2	8.6	11.4	8.8	8.9	8.0
Unemployment rate <sup>a</sup>	%	13.4	13.4	11.5	10.2	13.5	12.0	11.5	11.5	11.7	10.5	10.0	10.2
Current account balance	EURmn	-13,697	-5,148	-5,762	1,563	-1,222	-789.0	-1780.0	-1971.0	2,200	645	-772	-510
Current account balance	% GDP	-3.5	-1.3	-1.4	0.4	-1.1	-1.2	-1.3	-1.4	-0.6	-0.2	0.0	0.4
General government balance (ESA 2010)	% GDP	-3.7	-4.0	-3.2	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	-0.6	0.6	0.3	-0.3	-0.7	-1.5	-0.8	-0.4	0.4
CPI <sup>a</sup>	%YoY	2.4	0.7	-1.0	0.8	0.7	0.3	-0.3	-1.0	-1.5	-0.6	-0.2	0.8
CPI excluding food and energy prices	%YoY	2.2	1.2	0.6	0.6	0.8	0.8	0.5	0.4	0.4	0.4	0.5	1.0

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	1.50	2.50	2.50	2.50	2.00	1.50	1.50	1.50	1.50
WIBOR 3M	%	4.91	3.02	2.52	1.74	2.71	2.71	2.59	2.06	1.87	1.67	1.69	1.72
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.73	3.01	2.76	2.26	1.80	1.61	1.70	1.78	1.85
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.28	3.71	3.35	2.67	2.11	1.90	2.26	2.45	2.53
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.73	4.38	3.82	3.18	2.58	2.24	2.71	2.97	2.98
2-year IRS	%	4.52	3.10	2.51	1.81	3.07	2.82	2.32	1.83	1.65	1.79	1.88	1.92
5-year IRS	%	4.47	3.51	2.92	2.18	3.70	3.31	2.63	2.02	1.80	2.16	2.35	2.39
10-year IRS	%	4.56	3.86	3.34	2.55	4.16	3.73	3.07	2.40	2.06	2.51	2.81	2.83
EUR/PLN	PLN	4.19	4.20	4.18	4.05	4.19	4.17	4.18	4.21	4.20	4.09	4.02	3.92
USD/PLN	PLN	3.26	3.16	3.15	3.61	3.06	3.04	3.15	3.37	3.72	3.72	3.59	3.41
CHF/PLN	PLN	3.47	3.41	3.45	3.82	3.42	3.42	3.45	3.50	3.93	3.93	3.81	3.63
GBP/PLN	PLN	5.16	4.94	5.19	5.55	5.06	5.11	5.26	5.33	5.64	5.64	5.46	5.37

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



# Economic Calendar and Events

Date		Event:	Note:
3-Jun	PL	MPC meeting – interest rate decision	We expect the MPC to leave monetary conditions unchanged
	EZ	ECB meeting – interest rate decision	The ECB should keep monetary conditions unchanged
11-Jun	PL	Auction of T-bonds OK0717/WZ0120/DS0725	Offer: PLN1.0-4.0bn
12-Jun	PL	M3 money supply for May	Our forecast is 7.6%YoY
15-Jun	PL	CPI inflation for May	We expect the headline rate to increase to -0.7%YoY, in line with market consensus
	PL	Current account for April	We expect a C/A surplus of €1.54bn (vs consensus at €1.27bn) and a trade surplus of €0.5bn
16-Jun	PL	Core CPI measures for May	We expect to see core inflation, excluding food and energy prices, at 0.5%YoY, broadly in line with consensus
17-Jun	PL	Wages in the corporate sector for May	We expect an increase of 4.1%YoY, above market consensus
	PL	Employment in the corporate sector for May	Our forecast of employment growth is 1.1%YoY, in line with market expectations
	US	FOMC meeting – interest rate decision	-
18-Jun	PL	Industrial output for May	Our forecast of industrial output growth is more optimistic than market consensus (4.5%YoY vs 3.9%YoY)
	PL	Retail sales for May	We predict retail sales up 2.1%YoY vs a market consensus of 1.5%YoY
23-Jun	HU	MNB meeting – interest rate decision	We expect a rate cut of 15bp
25-Jun	PL	Switch auction	Bonds due to be bought back: OK0715, DS1015
	CZ	CNB meeting – interest rate decision	We expect monetary policy to remain unchanged
TBA	PL	Unemployment rate for May	Likely to decline to 10.8% for seasonal reasons

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

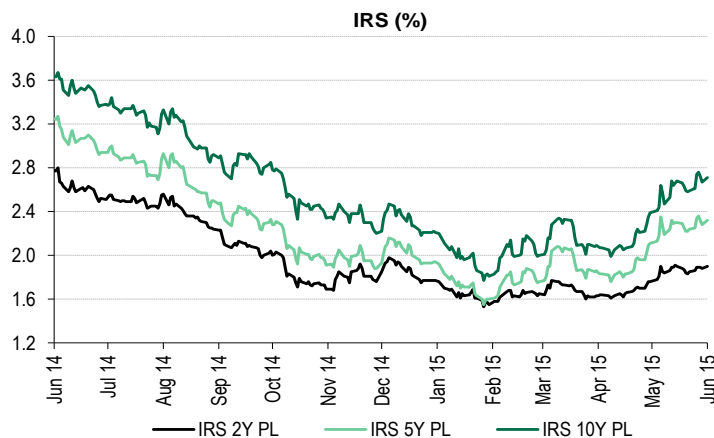
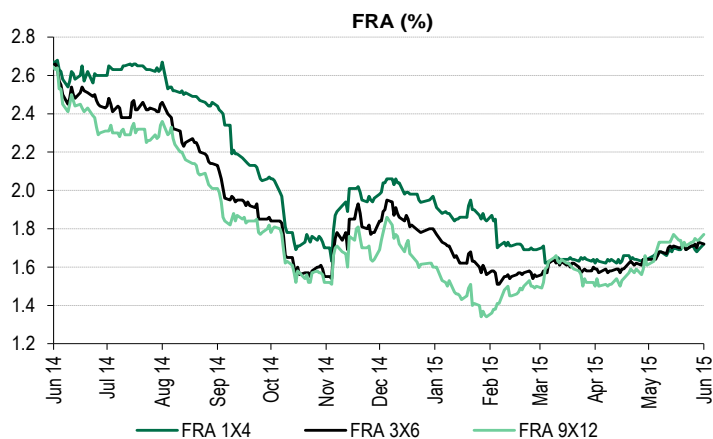
# 1. Domestic Market Performance

## Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of May	1.50	1.53	1.65	1.68	1.76	1.80	1.45	1.47	1.49	1.51	1.69	1.73	1.71	1.74
Last 1M change (bp)	0	11	2	3	10	12	0	3	6	8	5	9	10	13
Last 3M change (bp)	-50	5	-24	-13	-4	1	-31	-13	0	5	0	18	21	24
Last 1Y change (bp)	-100	-98	-97	-104	-98	-100	-98	-95	-91	-89	-98	-93	-92	-89

## Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of May	1.75	2.44	2.93	1.88	2.28	2.67	-13	16	26
Last 1M change (bp)	10	23	32	12	17	28	-2	6	4
Last 3M change (bp)	16	58	77	23	52	67	-7	6	10
Last 1Y change (bp)	-95	-78	-69	-89	-93	-94	-6	15	25



Source: Reuters, BZ WBK

## 2. Polish Bonds: Supply Recap

### Total issuance in 2015 by instrument (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	10,908	4,639	11,442	4,056	4,000	8,000		5,000	15,000	6,000		80,249
<b>T-bill auctions</b>													0
<b>Retail bonds</b>	97	126	127	129	150	150	150	150	150	150	150	150	1,679
<b>Foreign bonds/credits</b>				4,127	2,278		1700						8,105
<b>Pre-financing and financial resources at the end of 2014</b>	38,700												38,700
<b>Total</b>	<b>50,001</b>	<b>11,034</b>	<b>4,766</b>	<b>15,698</b>	<b>6,484</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>128,732</b>
<b>Redemption</b>	6,071	159	98	14,774	5,858	110	14,049	1,597	446	26,596	213	241	70,214
<b>Net inflows</b>	<b>43,930</b>	<b>10,875</b>	<b>4,668</b>	<b>924</b>	<b>626</b>	<b>4,040</b>	<b>-4,199</b>	<b>-1,447</b>	<b>4,704</b>	<b>-11,446</b>	<b>5,937</b>	<b>-91</b>	<b>58,519</b>
<b>Rolled-over T-bonds</b>			6,502										6,502
<b>Buy-back of T-bills/ FX-denominated bonds</b>													0
<b>Total</b>	<b>43,930</b>	<b>10,875</b>	<b>11,170</b>	<b>924</b>	<b>626</b>	<b>4,040</b>	<b>-4,199</b>	<b>-1,447</b>	<b>4,704</b>	<b>-11,446</b>	<b>5,937</b>	<b>-91</b>	<b>65,021</b>
<b>Coupon payments from domestic debt</b>	3,454			4,267			2,008		946	7,762			18,438

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	14,679		95	14,774	0	14,774
May	0		116	116	5,742	5,858
June	0		110	110	0	110
July	9,110		136	9,247	4,802	14,049
August	0		184	184	1,412	1,597
September	0		162	162	284	446
October	22,961		146	23,107	3,440	26,547
November	0		213	213	0	213
December	0		241	241	0	241
<b>Total 2015</b>	<b>52,773</b>		<b>1,710</b>	<b>54,484</b>	<b>15,681</b>	<b>70,165</b>
<b>Total 2016</b>	<b>87,607</b>		<b>2,034</b>	<b>89,641</b>	<b>13,886</b>	<b>103,527</b>
<b>Total 2017</b>	<b>66,569</b>		<b>1,032</b>	<b>67,601</b>	<b>11,759</b>	<b>79,360</b>
<b>Total 2018</b>	<b>66,317</b>		<b>1,103</b>	<b>67,420</b>	<b>10,844</b>	<b>78,264</b>
<b>Total 2019+</b>	<b>63,811</b>		<b>972</b>	<b>64,783</b>	<b>22,248</b>	<b>87,032</b>
<b>Total 2020+</b>	<b>186,808</b>		<b>2,383</b>	<b>189,192</b>	<b>119,836</b>	<b>309,028</b>

Source: MF, BZ WBK.

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

Scheduled wholesale bond redemptions by holders (data at the end of April 2015, in PLN mn)

	Foreign investors	Domestic banks	Insurance funds	Pension funds	Mutual funds	Individuals	Non-financial sector	Other	Total
Q1 2015	0	0	0	0	0	0	0	0	0
Q2 2015	0	0	0	0	0	0	0	0	0
Q3 2015	2,429	3,711	1,199	108	177	39	9	1,439	9,110
Q4 2015	10,737	4,164	4,421	94	1,254	26	169	2,144	23,010
<b>Total 2015</b>	<b>13,165</b>	<b>7,875</b>	<b>5,620</b>	<b>202</b>	<b>1,431</b>	<b>65</b>	<b>178</b>	<b>3,583</b>	<b>32,120</b>
	41%	25%	17%	1%	4%	0%	1%	11%	100%
Total 2016	41,673	24,519	7,923	550	7,404	125	99	6,302	88,596
	47%	28%	9%	1%	8%	0%	0%	7%	100%
Total 2017	25,293	23,120	6,465	442	5,673	73	183	4,278	65,527
	39%	35%	10%	1%	9%	0%	0%	7%	100%
Total 2018	20,356	27,621	4,112	309	8,566	75	166	5,111	66,317
	31%	42%	6%	0%	13%	0%	0%	8%	100%
Total 2019+	19,131	26,978	5,630	542	7,415	77	158	3,933	63,863
	30%	42%	9%	1%	12%	0%	0%	6%	100%
Total 2020+	78,959	52,857	23,473	849	19,936	179	234	7,795	184,283
	43%	29%	13%	0%	11%	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 March			Share of total in April (%)
	End Apr'15	End Mar'15	End Jan'15	End 4Q 2014	End 3Q 2014	End 2013	MoM	3-mth	YoY	
<b>Domestic investors</b>	311.1	309.1	294.5	295.9	283.2	381.2	0.6	2.5	11.6	61.0 (0.8pp)
<b>Commercial banks</b>	163.0	163.1	150.0	150.8	140.9	114.7	-0.1	8.6	20.3	32.0 (0.2pp)
<b>Insurance companies</b>	53.2	52.4	51.8	52.8	53.4	52.0	1.7	2.8	-0.1	10.4 (0.2pp)
<b>Pension funds</b>	2.9	3.1	3.3	3.3	3.5	125.8	-7.8	-11.4	-17.8	0.6
<b>Mutual funds</b>	50.4	48.5	48.5	46.9	44.1	46.7	4.0	3.9	9.5	9.4 (0.2pp)
<b>Others</b>	41.6	42.0	40.9	42.0	41.2	42.0	-1.0	1.7	2.7	8.2
<b>Foreign investors*</b>	198.6	203.8	202.5	196.0	197.5	193.2	-2.6	-1.9	5.8	39.0 (-0.8pp)
<b>Banks</b>	12.4	9.9	13.3	9.9	12.1	n.a.	24.9	-7.0	4.3	2.4 (0.5pp)
<b>Central banks</b>	22.2	20.3	17.4	16.4	19.3	n.a.	9.2	27.6	53.9	4.4 (0.4pp)
<b>Public institutions</b>	9.0	8.8	8.1	8.1	0.5	n.a.	1.7	10.3	1218.4	1.8
<b>Insurance companies</b>	9.8	11.0	10.6	10.7	10.9	n.a.	-10.6	-6.9	8.2	1.9 (-0.2pp)
<b>Pension funds</b>	13.1	13.2	12.7	13.0	12.7	n.a.	-0.9	2.9	9.4	2.6
<b>Mutual funds</b>	72.3	80.2	81.1	78.1	80.8	n.a.	-9.8	-10.8	-8.5	14.2 (-1.4pp)
<b>Hedge funds</b>	1.1	1.1	0.7	0.6	0.8	n.a.	-0.2	46.1	1064.9	0.2
<b>Non-financial sector</b>	7.8	8.2	11.6	12.1	11.6	n.a.	-5.0	-32.9	-35.4	1.5 (-0.1pp)
<b>Others</b>	16.9	17.0	15.8	14.3	17.7	5.2	-0.8	7.1	-6.1	3.3
<b>TOTAL</b>	509.7	512.9	497.0	491.8	480.7	574.3	-0.6	5.6	9.3	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*)
<b>Austria</b>	24.7	91.4	13.3	17.0	33
<b>Belgium</b>	31.8	102.2	28.1	32.5	65
<b>Finland</b>	10.0	119.6	7.6	11.4	64
<b>France</b>	173.0	117.4	116.5	187.0	56
<b>Germany</b>	161.0	100.0	155.0	147.0	44
<b>Greece</b>	-	-	-	-	-
<b>Ireland</b>	10.0	117.5	2.3	7.5	70
<b>Italy</b>	235.4	111.8	205.2	252.9	50
<b>Netherlands</b>	50.0	101.7	39.9	48.0	54
<b>Portugal</b>	16.7	101.7	7.2	13.9	65
<b>Spain</b>	129.3	105.4	86.4	130.0	48
<b>Total</b>	<b>841.9</b>	<b>108.1</b>	<b>661.5</b>	<b>847.3</b>	<b>51</b>

\*/ YTD is supply since January 1, 2015

Source: European Commission, Euro zone 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)	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
<b>Poland</b>	3.3	3.4	-0.4	1.1	-1.8	-2.2	-2.8	-2.6	50.9	50.8
<b>Czech Republic</b>	2.5	2.6	0.2	1.4	0.4	0.7	-2.0	-1.5	41.5	41.6
<b>Hungary</b>	2.8	2.2	0.0	2.5	5.5	6.2	-2.5	-2.2	75.0	73.5
<b>EU</b>	1.8	2.1	0.1	1.5	1.9	1.9	-2.5	-2.0	88.0	86.9
<b>Euro zone</b>	1.5	1.9	0.1	1.5	3.5	3.4	-2.0	-1.7	94.0	92.5
<b>Germany</b>	1.9	2.0	0.3	1.8	7.9	7.7	0.6	0.5	71.5	68.2

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

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2014	end-May 2015	2014	end-May 2015	2014	end-May 2015	2014	end-May 2015	2014	end-May 2015
<b>Poland</b>	2.00	1.50	2.06	1.68	2.51	2.93	197	242	71	60.8
<b>Czech Republic</b>	0.05	0.05	0.04	0.03	0.75	0.84	2	33	55	47.8
<b>Hungary</b>	2.10	1.65	2.10	1.54	3.69	3.50	315	299	178	140.3
<b>Euro zone</b>	0.05	0.05	0.08	-0.012						
<b>Germany</b>					0.54	0.51			17	15.1

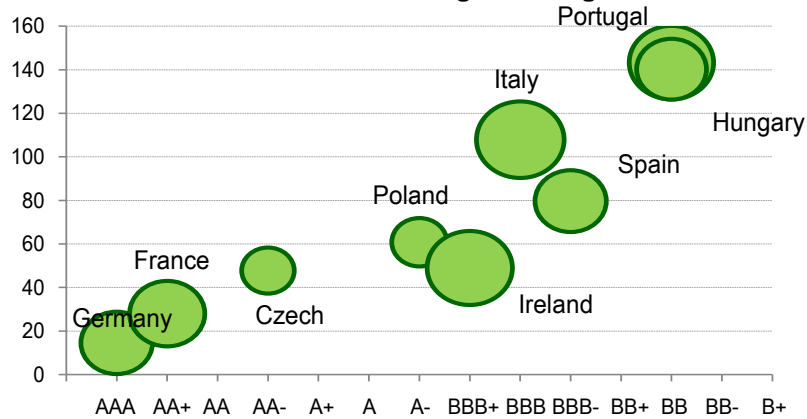
Source: EC – Spring 2015, statistics offices, central banks, Reuters, BZ WBK.

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

**Sovereign ratings**

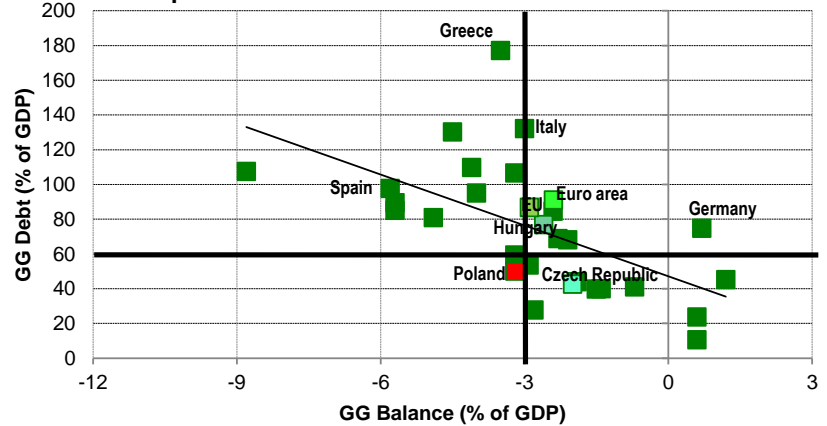
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	positive	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	CCC+	negative	Caa2	negative	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**



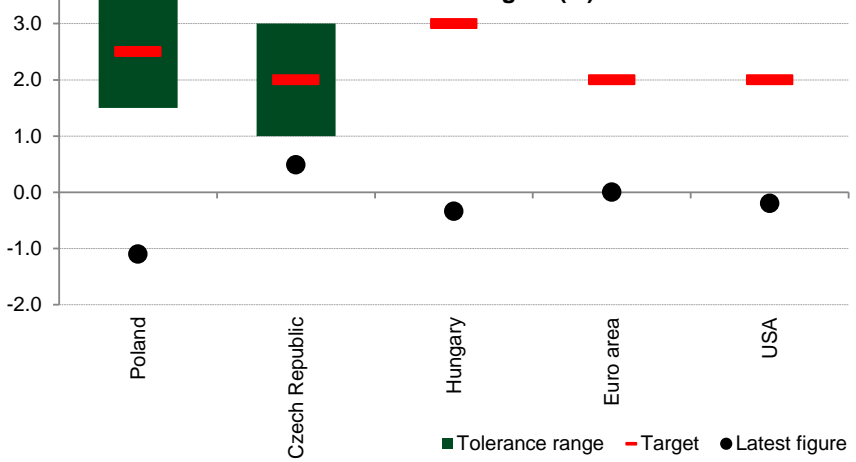
Note: Size of bubbles reflects the debt/GDP ratio

**Fiscal position of the EU countries at the end of 2014**

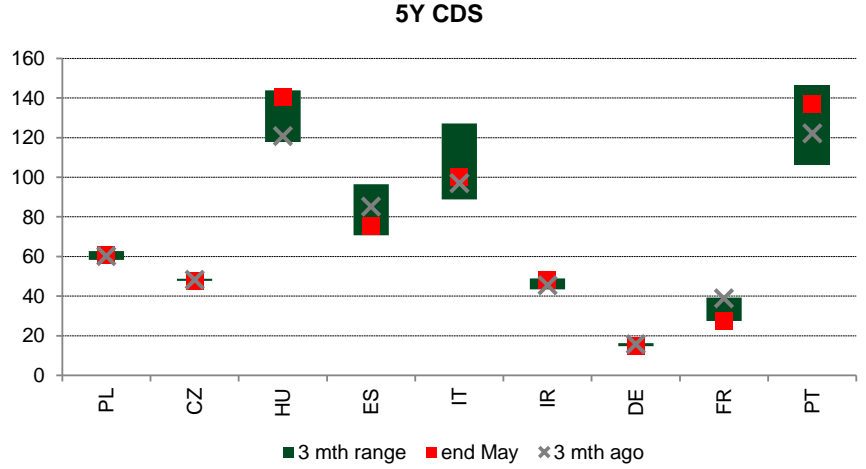
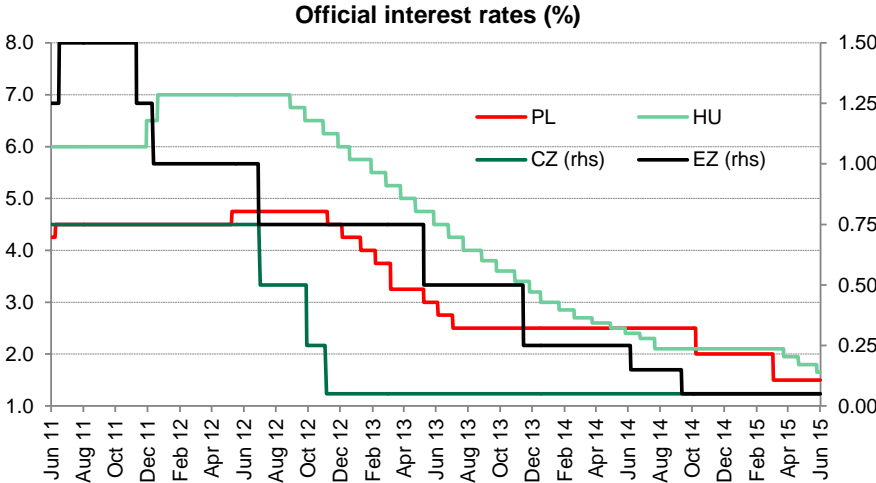
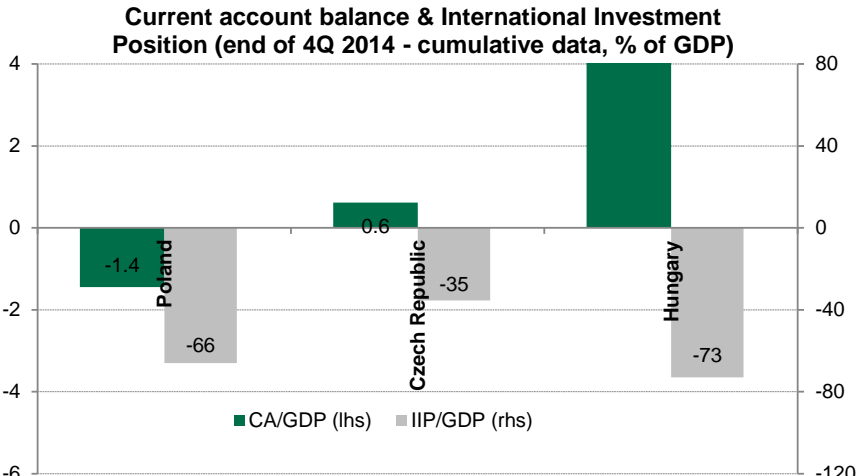
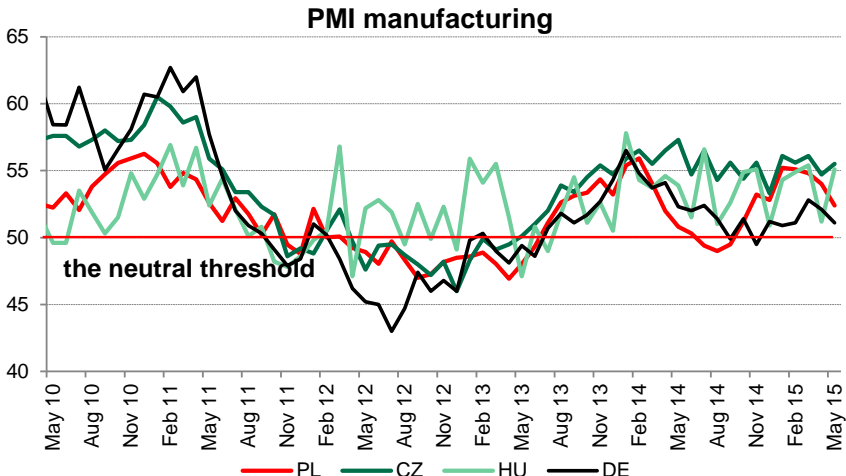


Source: Rating agencies, Reuters, EC, BZ WBK.

**Inflation rates vs targets (%)**

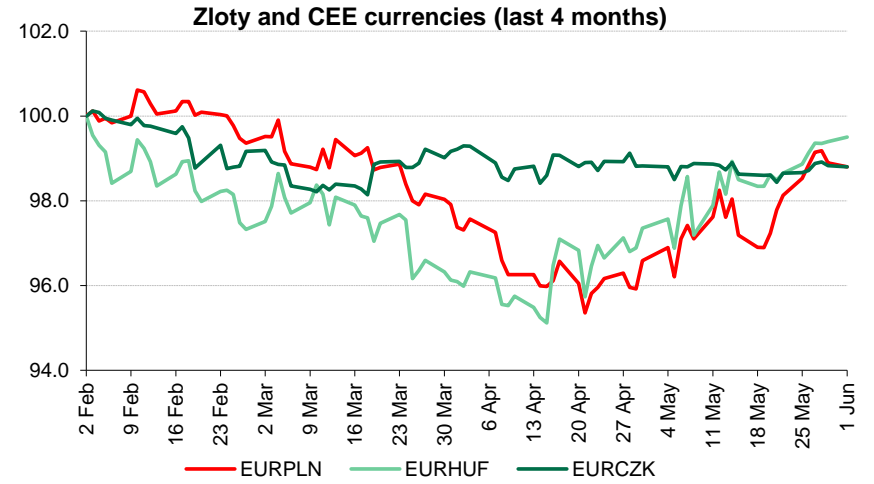
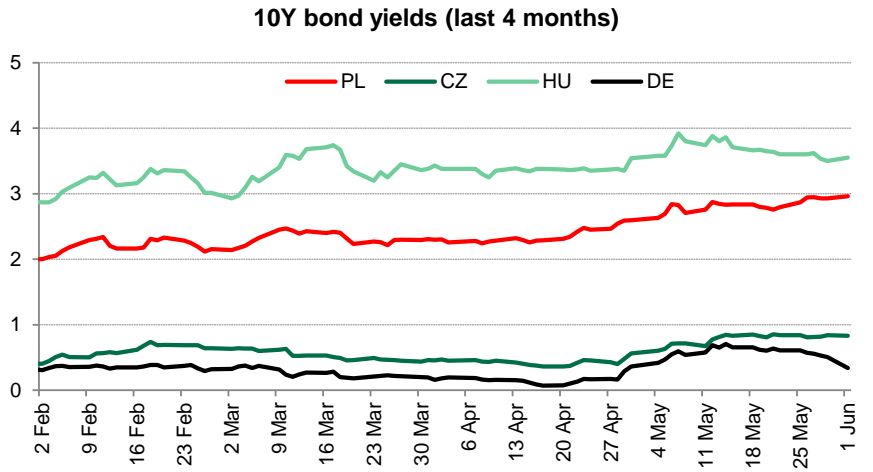
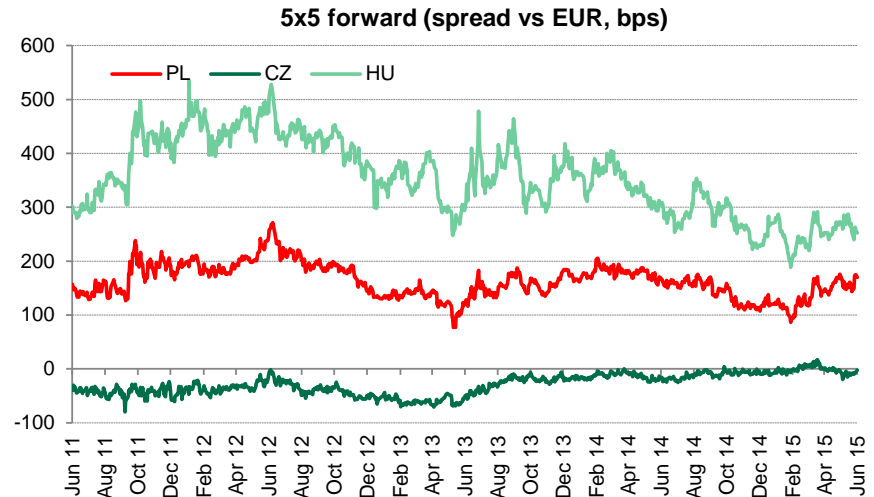
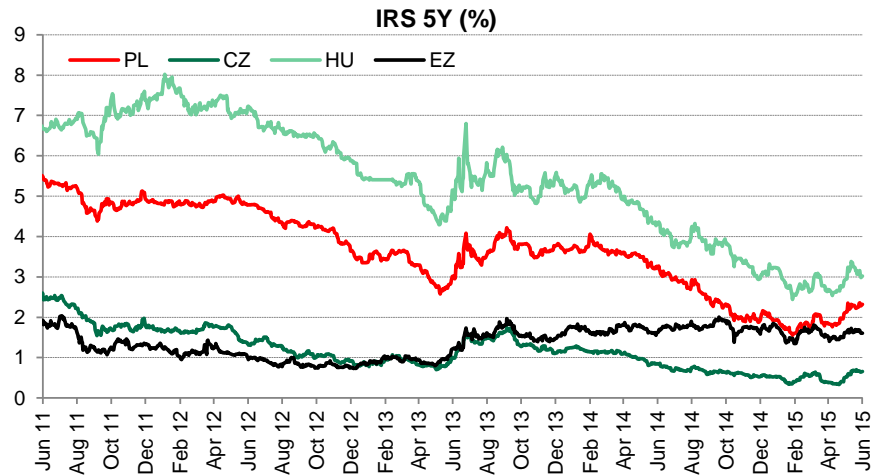


# 5. Poland vs Other Countries (cont.)



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	
<b>Euro zone</b>	Forecast	0.05	0.05	0.05				We expect no change to the ECB's monetary policy stance at its June meeting. In our view, the ECB will reconfirm its commitment to 'fully implement' its expanded asset purchase programme. Investors will mainly focus on the bank's new macro projections.
	Market implied »				-6	-6	-4	
<b>UK</b>	Forecast	0.50	0.50	0.75				We expect the MPC to leave policy on hold at its June meeting. The May Inflation Report gave a neutral policy message, in which the committee retained a near-term downside risk to its inflation fan chart.
	Market implied »				1	4	11	
<b>US</b>	Forecast	0-0.25	0-0.25	0.50				In our view, the FOMC will keep monetary conditions unchanged in June. Investors are likely to focus on the Fed's new projections for CPI, GDP and interest rates. We think that these forecasts will confirm that the Fed will start monetary tightening later this year. We expect the first hike in September 2015.
	Market implied »				18	28	42	
<b>Poland</b>	Forecast	1.50	2.00	1.50				We think that the June MPC meeting is set to be rather uneventful with the council's monetary conditions and rhetoric unchanged.
	Market implied »				4	4	5	
<b>Czech Republic</b>	Forecast	0.05	0.05	0.05				As expected, the CNB decided to leave its repo rate at 0.05% and confirmed the current EUR/CZK floor at 27.00 as changes in the CNB's economic forecasts were fairly minor. In our view, further monetary policy loosening, through a higher FX floor or other unconventional tools, cannot be ruled out. However, we see a low probability of such a decision.
	Market implied »				28	32	28	
<b>Hungary</b>	Forecast	1.65	2.10	1.50				As expected, the NBH trimmed the base rate by 15bp to a new historical low of 1.65%. The Hungarian central bank signalled a continuation of rate cuts as long as they support the achievement of the medium-term inflation target. Therefore, further cautious easing is likely in June to 1.50%, as suggested by NBH representatives.
	Market implied »				-5	-10	-6	

Source: Reuters, BZ WBK.

This analysis is based on information available through June 1, 2015 and has been prepared by:

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The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga\***, **Piotr Bielski\***, **Agnieszka Decewicz\***, **Marcin Luziński\***, **Marcin Sulewski\***.

### 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.

## Important Disclosures (cont.)

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