



RATES AND FX OUTLOOK

POLISH FINANCIAL MARKETS

July 2015



Bank Zachodni WBK

 Grupa Santander

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Summary - Closedown?

"I'm running out of time
I'm out of step and
Closing down and
Never sleep for wanting hours
The empty hours of greed
And uselessly
Always the need
To feel again the real belief
Of something more than mockery (...)"

Closedown, Robert Smith, from the album *Disintegration* by The Cure

■ **We find that the lyrics to *Closedown* by Robert Smith (see above) fairly depict the state of affairs between Greece and its creditors in the last few weeks; interestingly, the song was published on the album *Disintegration*.** The holiday season started on a very nervous note, with the situation in Greece becoming increasingly tense. Instead of continuing the talks, the Greek PM announced a referendum to ask Greeks whether they support the bailout package proposed by the creditors. The idea of a referendum is nothing strange but, surprisingly, the Greek government decided to hold it during the last phase of talks, when they had already run out of time. The referendum is to take place on July 5th, so Greece's default on the IMF debt is a reality. A referendum would have been a good idea and would have enabled the Greek government to 'save face' – had it been held a few weeks/months earlier. The Eurogroup's reaction to the news was obvious: the bailout package cannot be extended. Moreover, the ECB decided it will not increase the liquidity assistance (ELA) for Greek banks, so the government decided to close the banks and impose capital controls. Theoretically, there is a possibility of a return to talks should the Greeks vote favourably in the referendum. The ECB also hints at hope by stating that the support terms could be revisited. Even if the Greeks vote "yes" in the weekend referendum and accept the terms of a bailout extension, which should imply some strengthening of the zloty, the scope for a short-term PLN rebound is relatively small, as even with such an outcome to the referendum, there will be many hurdles for Greece to overcome, and the uncertainty on the Euro zone's future will remain high.

■ **The new wave of concerns triggered a risk-off mood in the market, which translated into a higher EUR/PLN and higher Polish yields (10Y at record-high this year). What happens in the coming weeks will obviously depend on the referendum vote.** Also, domestic politics remain an additional risk factor ahead of elections in October. However, even if the Polish government changes in the autumn, we do not expect a U-turn in terms of fiscal policy, and the proposed adjustments will probably not be extremely important for the market. Therefore, we still expect some strengthening of the Polish zloty in 4Q, albeit less than previously expected. Positive economic fundamentals (eg, over 4% GDP growth, current account surplus, strong fiscal position) should help.

Short- and Medium-Term Strategy: Interest Rate Market

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	30 June 2015	1M	3M
Reference rate	0	0	1.50	→	→
3M WIBOR	7	4	1.72	→	→
2Y bond yield	39	22	1.97	→	→
5Y bond yield	81	30	2.75	→	→
10Y bond yield	100	38	3.31	→	→
2/10Y curve slope	61	16	134	→	→

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: After climbing a few basis points in June, WIBORs should continue edging higher in coming months, with the 3M rate growing towards 1.75% till the end of the year, amid no significant change in sight of expectations regarding monetary policy outlook in Poland. We still think that the Monetary Policy Council will not change the main interest rates until the last quarter of 2016.

Short end: We see limited room for a rebound in the short end of the yield curve, with Poland's inflation trending up and the next economic data releases likely to confirm, in our view, that GDP growth is strong and robust. The central bank's new inflation and GDP projections to be revealed in July should be higher than predicted in March, but not to the extent that would require a change in monetary policy stance.

Long end: Risk aversion may decrease slightly if Greece votes "yes" in the referendum. However, reaching a compromise agreement may still take time, and uncertainty may remain high for weeks. Also, in this scenario the Fed will probably stay on course to hike rates in September. Therefore, we think that long-term yields are likely to remain close to current levels in the next few weeks.

Risks to our view: A "Grexit" scenario would likely trigger a surge in risk aversion, driving non-core yields higher. However, the scale of selloff in the Polish debt market should be limited by the fact that such a scenario would probably trigger a response from global policymakers, in particular prompting the FOMC to delay a US rate hike. Also, the supply of Polish debt will probably be trimmed in the event of market turbulence, as the government has a large liquidity cushion that could help to limit a spike in yields.

Short- and Medium-Term Strategy: FX Market

	Change (%)		Current Level	Expected trend	
	Last 3M	Last 1M	30 June 2015	1M	3M
EURPLN	2.6	1.6	4.19	→	↘
USDPLN	-1.3	-0.1	3.76	→	↘
CHFPLN	3.3	1.3	4.04	→	↘
GBPPLN	5.1	2.8	5.92	→	↘
EURUSD	3.9	1.6	1.11	→	↗

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: The focus remains on Greece. We see higher odds for a “yes” vote in the weekend referendum on accepting the terms of the bailout extension, which should imply some strengthening of the zloty. However, we think the scope for a short-term PLN rebound is relatively small as, even with such an outcome, there will be many hurdles for Greece to overcome, the uncertainty on the Euro zone’s future will remain high, and the risk of a “Grexit” scenario will be just postponed, not eliminated. Domestic politics remain an additional risk factor for the zloty.

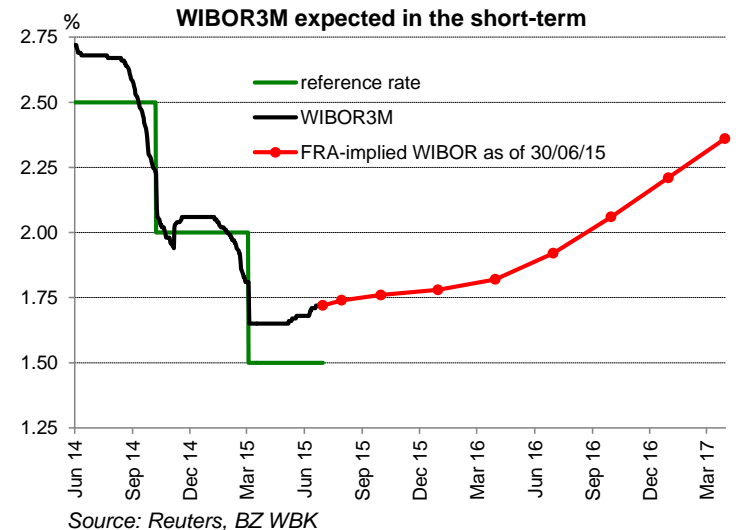
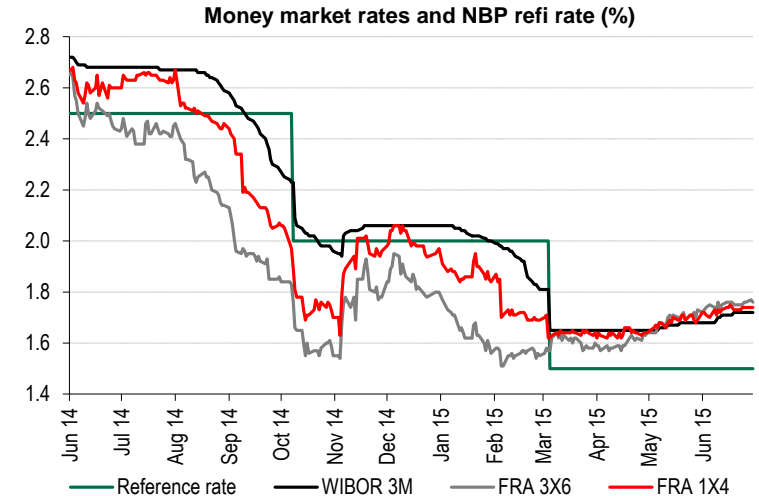
USD: A “yes” vote in Greece could provide some limited euro support (however, much will depend on the details of the following compromise deal). With the EUR/USD slightly higher, the possible appreciation of the zloty vs the dollar should be stronger than vs the euro. A further downward move of USD/PLN is possible in the coming months, in our view.

CHF: We are still negative on the CHF vs the EUR, and expect the EUR/CHF to end 3Q15 at 1.06 and be at 1.10 by the end of year. This should imply the CHF/PLN falling towards 3.68 by year-end. However, in the short run the rate is likely to stay close to 4.0, amid high risk aversion.

Risks to our view: A “no” vote in the Greek referendum would probably imply Greece leaving the Euro zone, with a strong negative impact on global risk aversion, at least in the short run. That would be very likely to send the EUR/PLN higher. The factors that could somewhat limit the scale of the zloty’s weakening would be a strong performance of Poland’s economy and a threat of NBP interventions.

Domestic Money Market: Moving Up Slowly

- June brought only modest growth of WIBORs, with rates increasing by 1-4bp after rising by 2-12bp in May. The curve remained quite steep; 1M-12M spreads slightly widened to 16bp. Macroeconomic data releases, including May's CPI, which showed a slower pace of bottoming out, were neutral for WIBORs, as the market finally seems to have adjusted to the view that the current level of interest rates is adequate and there is no further monetary easing on the agenda.
- FRA rates were more vulnerable to changes in moods in the IRS market over the past month. FRAs grew gradually throughout June and increased sharply at the end of the month. This stemmed from a significant rise in IRS rates due to higher risk aversion after Greece broke negotiations with its creditors.
- Currently, FRAs imply the first interest rate hike in Poland in 12 months, coming earlier than previously expected.
- We uphold our view that the MPC will keep the NBP's rates unchanged in the coming months. Stable monetary policy supports our view that WIBORs should continue edging higher in the coming months, with the 3M rate growing towards 1.75% till the end of the year. The FRA market may see some relief should worries about Greece dissipate a bit, easing pressure on IRS rates.



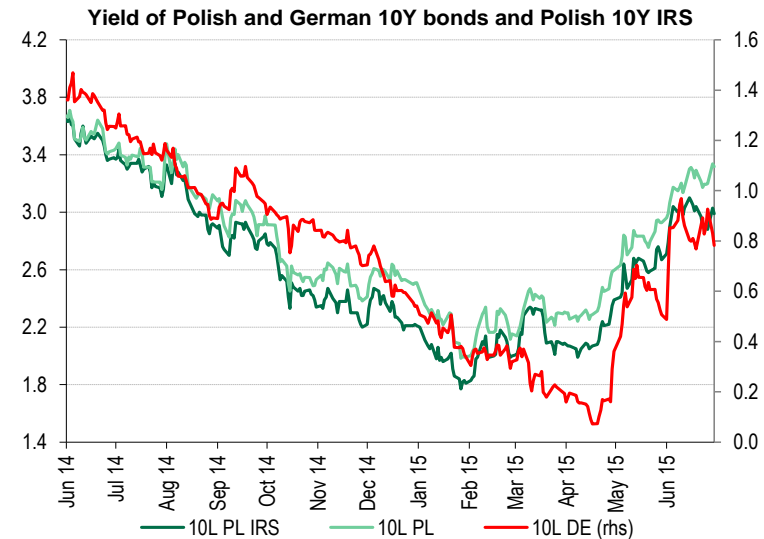
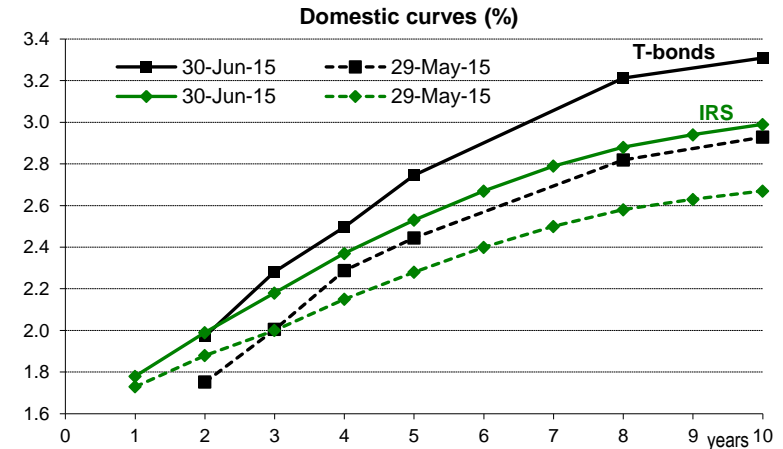
Domestic IRS and the T-Bond Market: Under Pressure from Global Factors

In June yield curves in bond and IRS markets shifted up, and the pace of the move accelerated at the end of month as negotiations between Greece and its creditors broke down. On a monthly basis, yields surged by 22-41bp, while IRS grew by 6-36bp. What is more, both curves steepened considerably as their long ends lost the most. The spread over Bunds also increased, to above 250bp (up from 240bp at the end of May), implying higher risk aversion.

Global factors are still likely to play the main role in the domestic debt market this month. Muted market reaction so far (the yield of the 10Y benchmark only temporarily rose to 3.36% and then stabilised near 3.30%) to the sudden change in the Greek situation suggests that the market still believes Greece will stay in the euro. The “yes” vote in the referendum may bring some limited relief, but the risk-off mode is likely to continue as Greek problems are far from being solved. Thus we expect yields rates to stay close to this year’s peaks in coming weeks. Strong data from the U.S. economy, supporting our view that the Fed will start monetary tightening in September, will also add to higher yields/rates.

Central bank meetings this month seem to be more or less neutral for the market as meetings will be held in the shadow of the Greek situation. In our view, statements by the ECB, Fed, and Polish MPC will not change significantly compared with previous meetings. New projections for the CPI and GDP in Poland are likely to move upwards, but not to the extent that would require any change in monetary policy.

Domestic macro data releases should confirm that Poland’s economy is on the recovery track. All in all, yields/IRS rates should move sideways in the one to three month period.

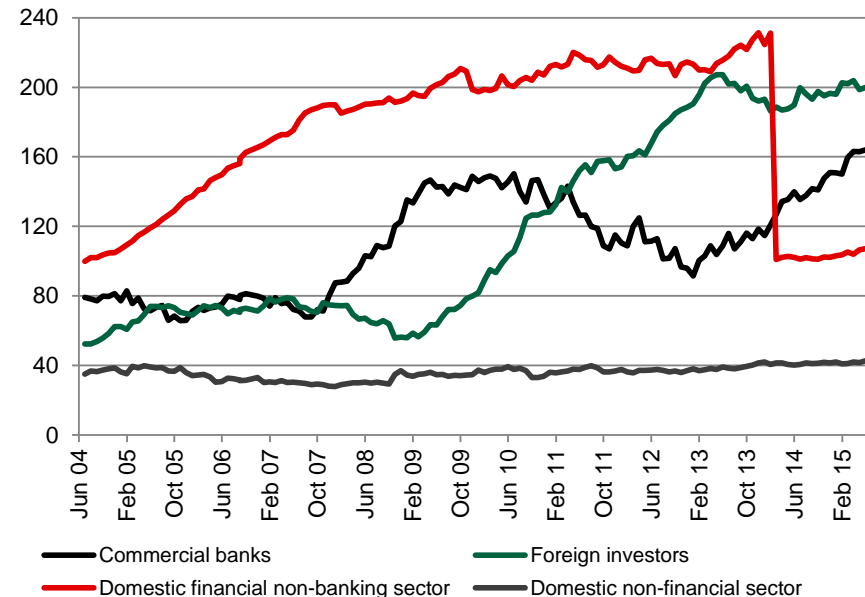


Source: Reuters, Bloomberg, BZ WBK.

Demand Corner: Foreign Investors on the Buy-Side

- In May, foreign investors increased their holdings in Polish marketable bonds by PLN1.3bn to PLN199.9bn, keeping their share at 39.6% (roughly stable compared to April). Foreigners purchased mainly 5Y and 10Y benchmarks (ie, PS0430 and DS1025) worth PLN1.6bn in total. Foreign investment funds continued to reduce their holdings by cPLN1.6bn to PLN70.8bn. At the same time, central banks, insurance companies and the non-financial sector were the main buyers, increasing their exposure by PLN2.3bn in total.
- Foreign central banks' holdings reached PLN23.1bn, the highest level since comparable data is available (April 2014). Asian central banks (ex Middle East), as in previous months, were the main buyers. They purchased bonds worth nearly PLN1bn, taking their holdings to PLN20.4bn.
- As regards domestic investors, most were on the buy-side, with the largest swing seen in commercial banks (+PLN1.1bn). At the end of May, their portfolio reached cPLN164bn, the highest level since comparable data is available (June 2004).
- Piotr Marczak, the head of the Debt Department in Poland's Ministry of Finance, said that foreign investors also increased their T-bond holdings in June, one of the largest such increases in the last 12 months.

The main holders of Poland's marketable T-bonds

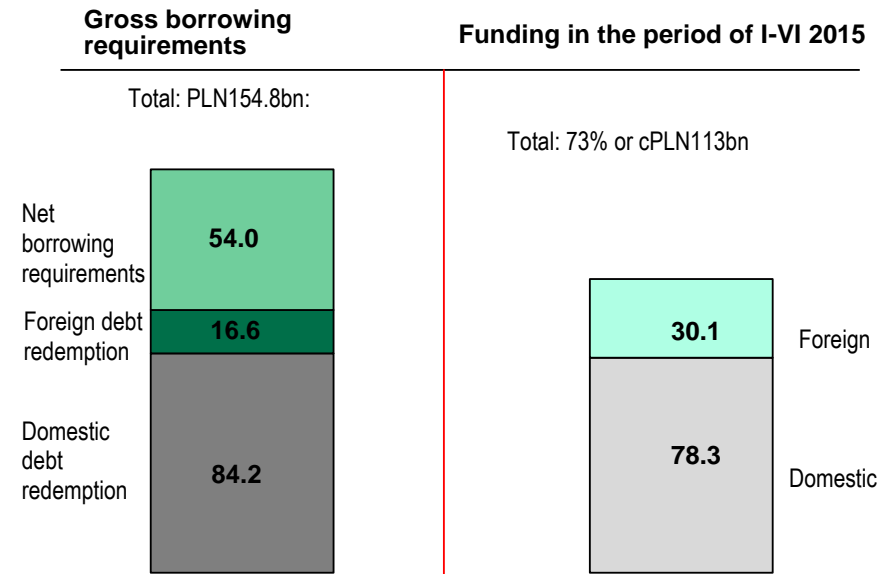


Source: Finance Ministry, BZ WBK.

Supply Corner: Lower Issuance Activity in the Summer

- The sale of Poland's Treasury Securities in June was quite favourable despite market turbulence. The Ministry sold T-bonds worth PLN6.3bn in total via regular and switch tenders. Investor demand was mainly concentrated on short and medium term instruments (i.e OK0717, WZ0120 and PS0420) rather than on long-maturity bonds (DS0725). All in all, Poland's Ministry of Finance managed to complete 73% of this year's borrowing needs at the end of 1H15 and collected cPLN58bn in PLN and FX liquidity cushions.
- Given the current completions of the 2015 gross borrowing requirements, the Ministry of Finance decided to limit T-bond supply on the primary market during the summer months. The issuance plan for July–August contains three standard auctions worth PLN4-12bn in total. At the first auction, on July 9, it will only offer floating rate bonds WZ0120/WZ0124 worth PLN1-2bn in total. In our view, the liquidity situation in July will be supportive for auction results – there will be quite significant inflows of cPLN7.7bn from the OK0715 redemption and cPLN3.2bn from interest payments of WZ and PS series.
- In July-August, the Ministry is also considered tapping T-bonds on foreign markets. According to the Ministry, foreign issues are becoming increasingly attractive taking into account higher yields on the domestic market and the zloty weakening.

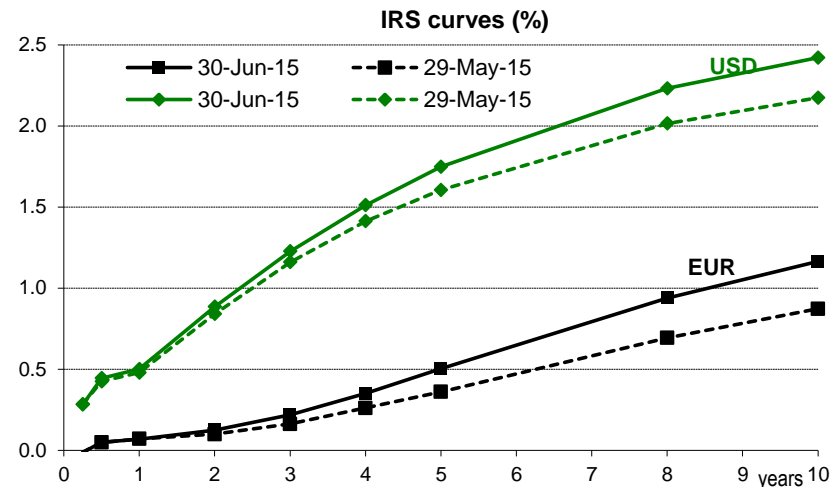
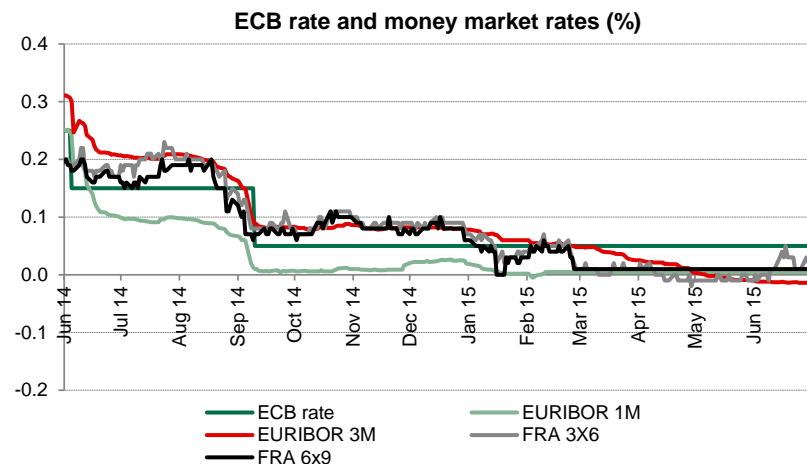
Gross borrowing requirements and financing in 2015



Source: Finance Ministry, BZ WBK.

International Money Market and IRS: Central Banks Keep Money Market Rates Low, but IRS Still Increasing

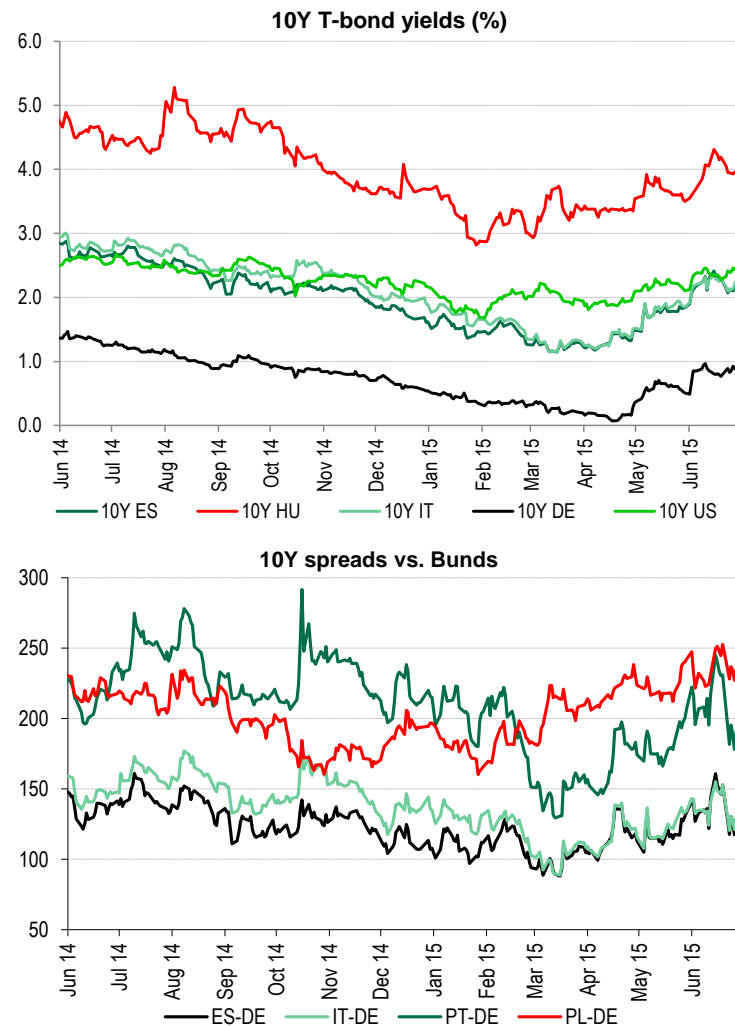
- The situation in the European money market has not changed significantly over the past month. In June, the rates up to 3M remained more or less stable (Switzerland, the UK, the euro zone), while longer tenors rose gradually. In Hungary, money market rates dropped across the curve (by 12-16bp) due to a 15bp interest rate cut in June and the announcement that rate cuts could continue in 3Q15. At the same time, USD money market rates were quite stable as the Fed's statements were interpreted as less hawkish than expected.
- As regard the IRS market, both EUR and USD rates trended upwards. The pace of this increase was similar in Europe and the US despite increasing fears about Greece and the final breakdown in negotiations between Greece and its creditors. On a monthly basis, curves shifted upwards, by 3-30bp for the EUR and 2-25bp for the USD, and both steepened visibly as their long ends increased the most.
- In our view, ECB and Fed meetings in July will bring no changes in their monetary policies. As a consequence, we expect both EUR and USD money market rates to remain largely unchanged. However, we think upcoming macro data will confirm a further improvement in both the European and US economies. As a consequence, IRS rates in EUR and USD should continue to increase.



Source: Reuters, ECB, Fed, BZ WBK.

International Bond Market: Yields Trending Upwards

- June was the second straight month of negative returns in international bond markets, as yields of both core and peripheral bonds soared to their highest levels this year. The move was supported by economic data, signalling economic recovery in the US and euro zone economies, and signs of inflation and credit growth in the euro zone bottoming out.
- Over the last few days, the performance of European bonds has been dictated by fluctuating confidence in a last-minute deal between Greece and its official creditors aimed at preventing a worst-case scenario.
- If a deal between Greece and its creditors is struck, it should push core EUR rates a bit higher and sovereign spreads narrower.
- Over the longer run, we expect core bond yields to go higher, as the economic recovery in the euro zone should continue, and the Fed is likely to start normalising monetary policy in September. However, in the summer period the upward trend in yields in Europe should be curbed somewhat by a negative net supply of bonds (thanks to large redemptions and coupon payments, plus ECB buying).
- For the euro zone periphery, the Greek issue remains crucial. Finding a last-minute solution for Greece would support narrowing spreads versus Bunds, especially as fiscal and external balances in the periphery have improved greatly and economies continue to recover. However, if no agreement is reached, there is a risk of substantial widening of spreads.



Source: Reuters, BZ WBK.

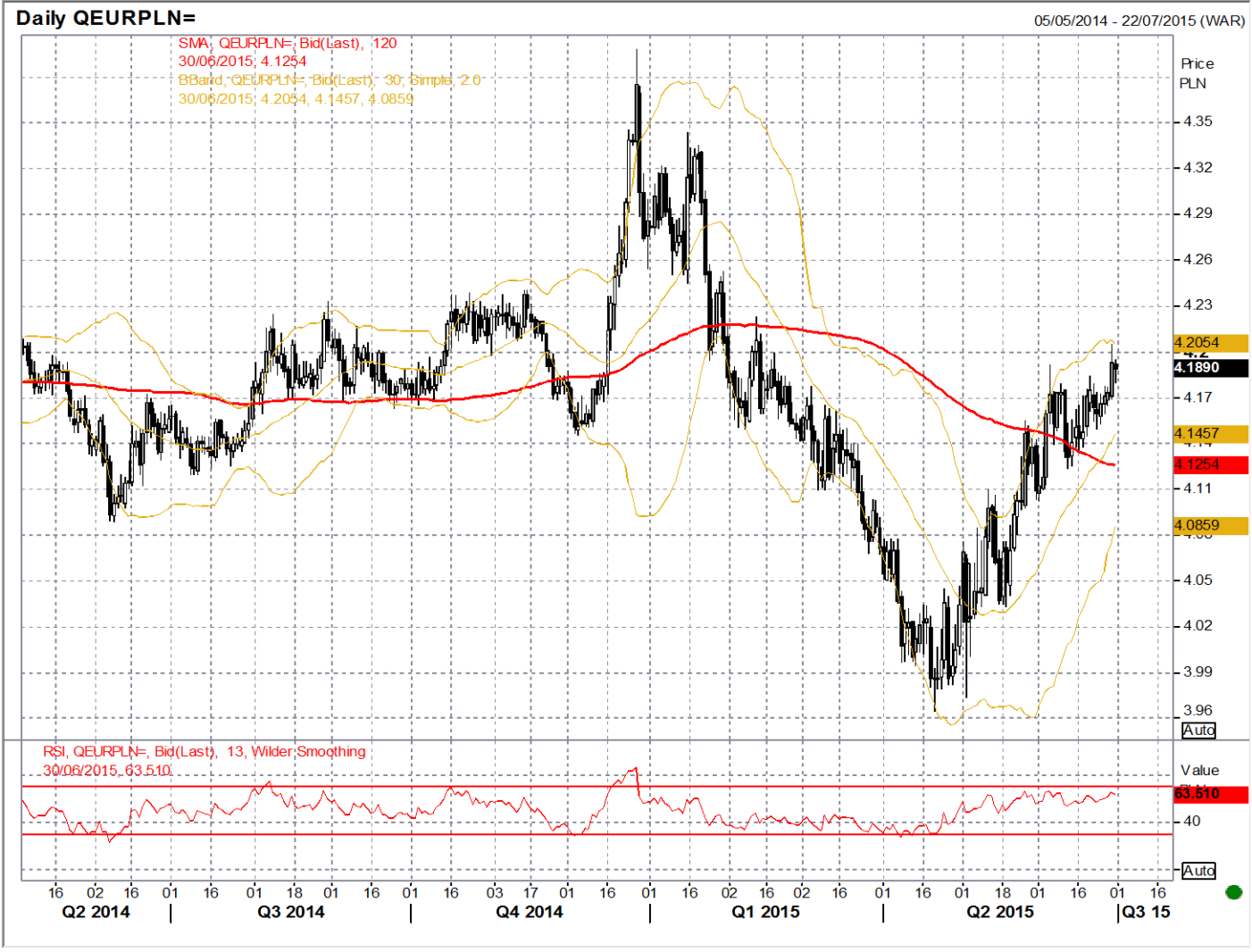
Foreign Exchange Market: Greece to Weigh on PLN

- Throughout June, the EUR/PLN has been heavily impacted by news about negotiations between Greece and its creditors. The rate climbed from 4.11 at the start of the month to the 4.15-4.17 range, where it stayed for a few weeks, going down on optimistic news and up on pessimistic news. The announcement that negotiations had failed and the Greek Prime Minister had decided to hold a referendum on whether or not to accept the bailout conditions (“Greferendum”) has sent the rate towards 4.20.
- Greece is likely to remain the main driver of the Polish currency in the coming weeks. We see a slightly higher chance of a “Yes” vote in the Greferendum, although the Greek government is campaigning for a “No” vote, so the situation is hard to predict. A “Yes” vote could trigger some strengthening of the zloty and increase the chance of an agreement between Greece and its creditors. However, we think the scope for a short-term PLN rebound is relatively small, as, even in such a scenario, there would be many hurdles for Greece to overcome, the uncertainty about the euro zone’s future would remain high, and the risk of a “Grexit” would only be postponed, not eliminated.
- A “No” vote in the Greek referendum would probably imply Greece leaving the euro zone, with a strong negative impact on global risk aversion, at least in the short run. That would be very likely to send the EUR/PLN higher. Factors that would limit a zloty weakening would be a strong performance by Poland’s economy and a threat of NBP intervention.



Source: Bloomberg, BZ WBK

FX Technical Analysis Corner: RSI Signals Decline in EUR/PLN



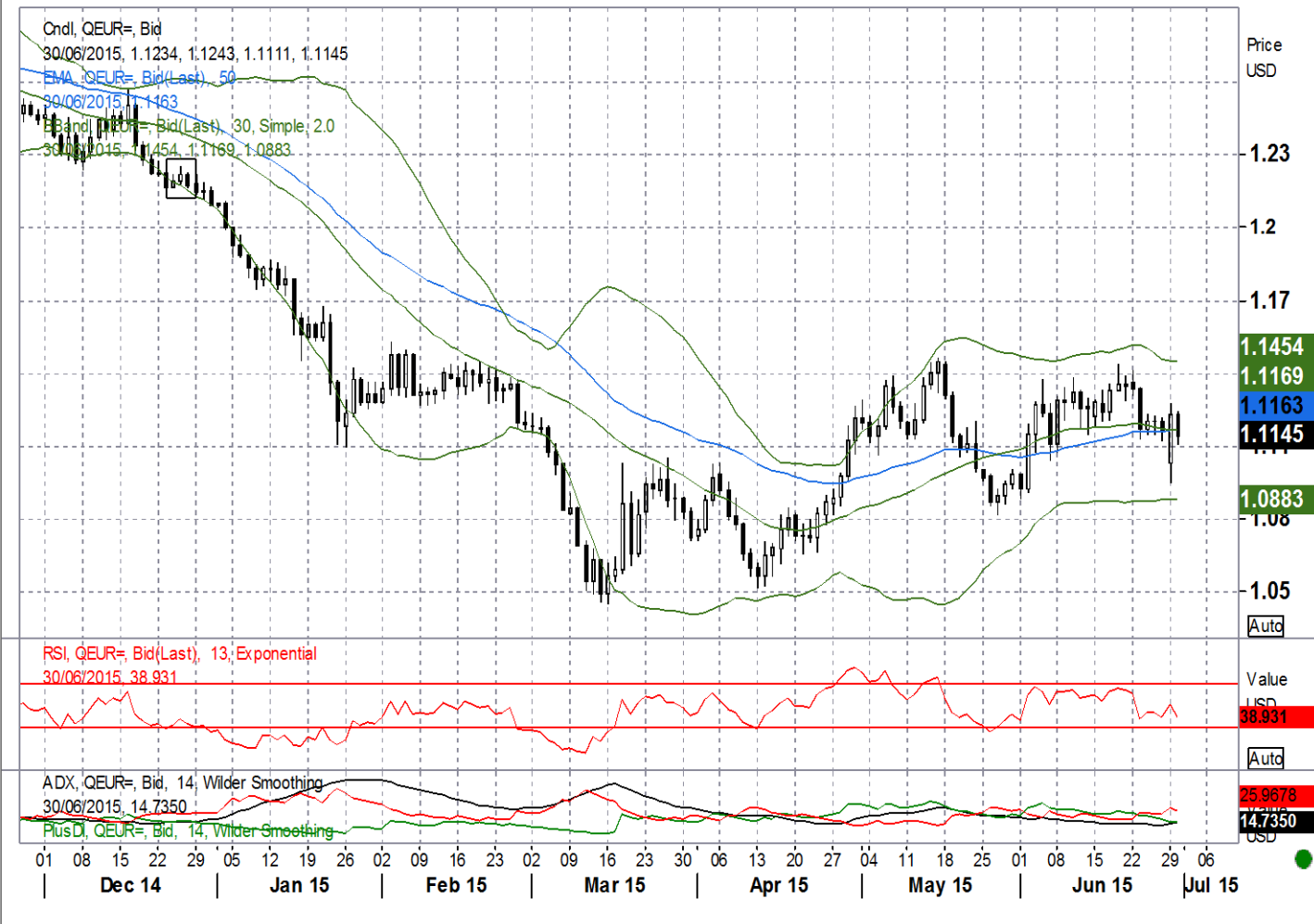
- ▶ The EUR/PLN moved up following the increase in risk aversion. The move was supported by the technical upward move in the RSI.
- ▶ Currently, the RSI factor is approaching the overbought area, which means that further pressure to accumulate long positions in the EUR/PLN will diminish.
- ▶ That seems to be consistent with the Bollinger Bands further limiting the scope of the zloty's depreciation. The 4.12-4.14 zone seems to be the first target if the signal proves to be correct.
- ▶ Global fundamental factors will be decisive, however.

Source: Reuters, BZ WBK.

FX Technical Analysis Corner: EUR/USD – Sideways or Rising?

Daily QEUR=

26/11/2014 - 10/07/2015 (WAR)



- The EUR/USD has trended sideways despite worries over Greece.
- The technical situation is somewhat steady (as suggested by the Bollinger Bands). However, the RSI shows that the market has moved towards a slightly oversold area. This suggests we might be more likely to see an upward move in the EUR/USD.
- The EUR/USD needs a strong fundamental signal to break out of the recent channel; namely the resolution of the Greece stalemate or/and a change in the market's view of the Fed's policy.

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	1,796.2	403.7	419.5	427.1	478.3	417.8	433.5	443.1	501.8
GDP	%YoY	1.8	1.7	3.4	3.8	3.5	3.6	3.3	3.3	3.6	3.6	3.8	4.0
Domestic demand	%YoY	-0.4	0.2	4.9	3.4	3.6	6.1	5.1	5.0	2.6	3.4	3.4	3.9
Private consumption	%YoY	1.0	1.1	3.1	3.3	3.0	3.0	3.2	3.0	3.1	3.3	3.4	3.5
Fixed investment	%YoY	-1.5	0.9	9.2	9.0	11.4	8.7	9.2	8.6	11.4	9.0	9.0	8.0
Unemployment rate ^a	%	13.4	13.4	11.5	10.4	13.5	12.0	11.5	11.5	11.7	10.4	10.1	10.4
Current account balance	EURmn	-13,226	-5,148	-5,250	-364	-1,222	-601.0	-1780.0	-1647.0	1,648	494	-1,556	-950
Current account balance	% GDP	-3.4	-1.3	-1.3	-0.1	-1.1	-1.2	-1.2	-1.3	-0.6	-0.3	-0.2	-0.1
General government balance (ESA 2010)	% GDP	-3.7	-4.0	-3.2	-2.7	-	-	-	-	-	-	-	-
CPI	%YoY	3.7	0.9	0.0	-0.7	0.6	0.3	-0.3	-0.7	-1.5	-0.9	-0.6	0.3
CPI ^a	%YoY	2.4	0.7	-1.0	0.7	0.7	0.3	-0.3	-1.0	-1.5	-0.7	-0.4	0.7
CPI excluding food and energy prices	%YoY	2.2	1.2	0.6	0.5	0.8	0.8	0.5	0.4	0.4	0.4	0.5	0.9

Source: CSO, NBP, Finance Ministry, BZ WBK estimates. ^a 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 ^a	%	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	1.76	2.71	2.71	2.59	2.06	1.87	1.67	1.73	1.75
Yield on 2-year T-bonds	%	4.30	2.98	2.46	1.82	3.01	2.76	2.26	1.80	1.61	1.75	1.96	1.95
Yield on 5-year T-bonds	%	4.53	3.46	2.96	2.42	3.71	3.35	2.67	2.11	1.90	2.35	2.73	2.70
Yield on 10-year T-bonds	%	5.02	4.04	3.49	2.93	4.38	3.82	3.18	2.58	2.24	2.79	3.32	3.35
2-year IRS	%	4.52	3.10	2.51	1.89	3.07	2.82	2.32	1.83	1.65	1.85	2.06	2.02
5-year IRS	%	4.47	3.51	2.92	2.30	3.70	3.31	2.63	2.02	1.80	2.23	2.61	2.57
10-year IRS	%	4.56	3.86	3.34	2.74	4.16	3.73	3.07	2.40	2.06	2.57	3.14	3.20
EUR/PLN	PLN	4.19	4.20	4.18	4.12	4.19	4.17	4.18	4.21	4.20	4.09	4.14	4.07
USD/PLN	PLN	3.26	3.16	3.15	3.65	3.06	3.04	3.15	3.37	3.72	3.70	3.67	3.52
CHF/PLN	PLN	3.47	3.41	3.45	3.88	3.42	3.42	3.45	3.50	3.93	3.93	3.92	3.74
GBP/PLN	PLN	0.00	0.00	0.00	0.00	5.06	5.11	5.26	5.33	5.64	5.67	5.76	5.57

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

Economic Calendar and Events

Date		Event:	Note:
2-Jul	US	Non-farm payrolls / Unemployment rate	Key number for monetary policy prospects; market expectations are rather low
7-Jul	EZ	Greek referendum on bailout proposal	A “yes” vote would mean higher chances for an agreement with creditors than a “no” vote.
8-Jul	PL	MPC meeting – interest rate decision	We expect no change in policy parameters; new inflation and GDP projections due for release are likely to be higher than in March
14-Jul	PL	Balance of payments for May	We expect a C/A surplus of €0.4bn, close to consensus
15-Jul	PL	CPI for May	We expect inflation at -0.7%YoY, slightly above market consensus (-0.8%YoY)
16-Jul	PL	Core CPI measures for June	We expect to see core inflation, excluding food and energy prices, at 0.3%YoY, broadly in line with consensus
	PL	Wages and employment for June	We expect stable employment growth at 1.1%YoY and acceleration in wages to c4%YoY
	EZ	ECB meeting – interest rate decision	We expect no change in monetary policy
17-Jul	PL	Industrial output for June	We expect a visible rebound to 7.9% YoY (consensus at 6.9%YoY), partly due to calendar effects
	PL	Construction output for June	We expect a rather weak reading, close to 4% YoY, in line with market consensus
	PL	Retail sales for June	We expect an acceleration to 4.2% YoY in nominal terms, consensus at 3.5%YoY
21-Jul	HU	NMB meeting – interest rate decision	The central bank is likely to suggest that more easing is possible
22-Jul	PL	Unemployment rate for June	We expect a further slide in unemployment to 10.4%, in line with consensus
29-Jul	US	FOMC meeting – interest rate decision	We expect no change in policy parameters

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

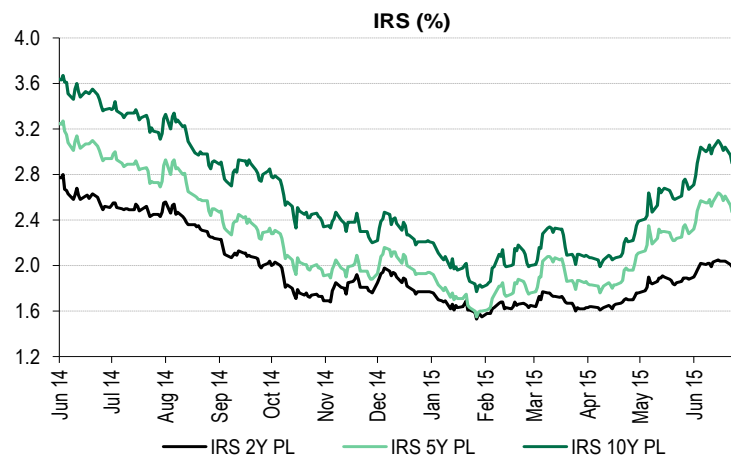
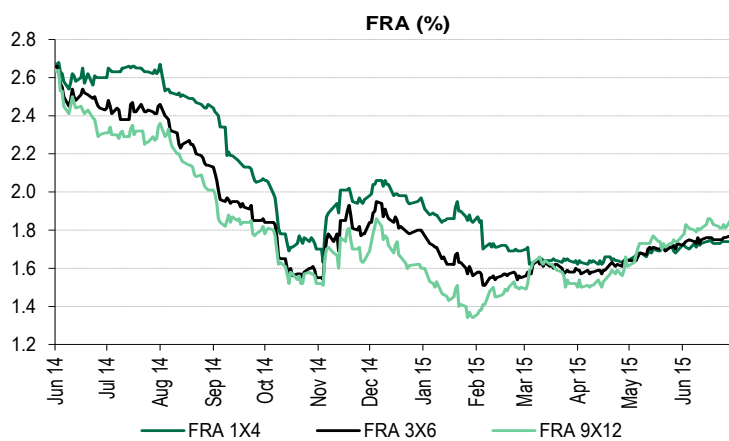
1. Domestic Market Performance

Money market rates (%)

	Reference	Poland	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of June	1.50	1.53	1.66	1.72	1.79	1.82	1.45	1.47	1.49	1.52	1.74	1.76	1.78	1.82
Last 1M change (bp)	0	16	1	4	3	2	0	0	0	1	5	3	7	8
Last 3M change (bp)	0	4	2	7	13	14	0	5	7	10	10	16	26	30
Last 1Y change (bp)	-100	-100	-95	-96	-90	-92	-96	-86	-74	-66	-86	-67	-53	-49

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of June	1.97	2.75	3.31	1.99	2.53	2.99	-2	22	32
Last 1M change (bp)	22	30	38	11	25	32	11	5	6
Last 3M change (bp)	39	81	100	36	67	90	3	14	10
Last 1Y change (bp)	-51	-27	-13	-52	-41	-39	1	14	27



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
T-bond auctions	11,204	10,908	4,639	11,442	4,056	4,237	8,000	3,000	2,000	12,000	6,000		77,485
T-bill auctions													0
Retail bonds	97	126	127	129	150	150	150	150	150	150	150	150	1,679
Foreign bonds/credits				4,127	2,278		1700						8,105
Pre-financing and financial resources at the end of 2014	38,700												38,700
Total	50,001	11,034	4,766	15,698	6,484	4,387	9,850	3,150	2,150	12,150	6,150	150	125,969
Redemption	6,071	159	98	14,774	5,858	110	14,049	1,597	446	26,547	213	241	70,165
Net inflows	43,930	10,875	4,668	924	626	4,276	-4,199	1,553	1,704	-14,397	5,937	-91	55,804
Rolled-over T-bonds			6,502			2,082							8,585
Buy-back of T-bills/ FX-denominated bonds													0
Total	43,930	10,875	11,170	924	626	6,358	-4,199	1,553	1,704	-14,397	5,937	-91	64,389
Coupon payments from domestic debt	3,454			4,267			3,306		946	7,762			19,736

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	7,658		136	7,794	4,802	12,597
August	0		184	184	1,412	1,597
September	0		162	162	284	446
October	22,420		146	22,567	3,440	26,007
November	0		213	213	0	213
December	0		241	241	0	241
Total 2015	50,781		1,710	52,491	15,681	68,172
Total 2016	87,607		2,034	89,641	13,886	103,527
Total 2017	67,997		1,032	69,029	11,759	80,788
Total 2018	66,317		1,103	67,420	10,844	78,264
Total 2019+	63,811		972	64,783	22,248	87,032
Total 2020+	191,699		2,383	194,082	119,836	313,918

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

Scheduled wholesale bond redemptions by holders (data at the end of May 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	2,436	4,068	1,050	108	118	39	9	1,283	9,110
Q4 2015	10,444	4,433	4,351	94	1,289	26	169	2,155	22,961
Total 2015	12,880	8,501	5,401	202	1,406	65	178	3,438	32,071
	40%	27%	17%	1%	4%	0%	1%	11%	100%
Total 2016	41,419	24,209	7,960	501	7,580	124	102	6,709	88,605
	47%	27%	9%	1%	9%	0%	0%	8%	100%
Total 2017	25,415	22,381	6,680	442	6,913	75	163	4,499	66,569
	38%	34%	10%	1%	10%	0%	0%	7%	100%
Total 2018	20,579	27,959	3,961	300	8,386	84	170	4,880	66,317
	31%	42%	6%	0%	13%	0%	0%	7%	100%
Total 2019+	19,592	26,755	5,534	546	7,158	76	144	4,005	63,811
	31%	42%	9%	1%	11%	0%	0%	6%	100%
Total 2020+	79,996	54,184	24,219	829	19,115	183	253	8,420	187,199
	43%	29%	13%	0%	10%	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 May (%)
	End May'15	End Apr'15	End Feb'15	End 1Q 2015	End 2014	End 2013	MoM	3-mth	YoY	
Domestic investors	313.7	311.1	305.8	309.1	295.9	381.2	0.8	1.1	11.1	61.1 (0.1pp)
Commercial banks	164.0	163.0	159.5	163.1	150.8	114.7	0.6	2.8	17.2	31.9 (-0.1pp)
Insurance companies	53.8	53.2	52.1	52.4	52.8	52.0	1.0	3.2	2.1	10.5 (0.1pp)
Pension funds	2.8	2.9	3.2	3.1	3.3	125.8	-2.6	-11.6	-15.5	0.5 (-0.1pp)
Mutual funds	50.6	50.4	50.0	48.5	46.9	46.7	0.3	1.2	9.4	9.8 (-0.1pp)
Others	42.6	41.6	41.0	42.0	42.0	42.0	2.5	3.9	5.9	8.2
Foreign investors*	199.9	198.6	202.1	203.8	196.0	193.2	0.7	-1.1	5.4	38.9 (-0.1pp)
Banks	12.7	12.4	11.1	9.9	9.9	n.a.	2.6	13.9	21.2	2.5 (0.1pp)
Central banks	23.1	22.2	18.5	20.3	16.4	n.a.	3.9	24.5	33.2	4.5(0.1pp)
Public institutions	9.3	9.0	8.5	8.8	8.1	n.a.	4.2	9.7	1248.6	1.8
Insurance companies	10.6	9.8	10.2	11.0	10.7	n.a.	7.7	4.3	13.2	2.1 (0.2pp)
Pension funds	12.2	13.1	13.3	13.2	13.0	n.a.	-6.3	-8.0	0.7	2.4 (-0.2pp)
Mutual funds	70.8	72.3	81.6	80.2	78.1	n.a.	-2.2	-13.3	-11.8	13.8 (-0.4pp)
Hedge funds	0.6	1.1	1.1	0.1	1.1	n.a.	-45.5	-47.6	549.7	0.2
Non-financial sector	8.5	7.8	8.1	12.6	8.2	n.a.	9.3	5.5	-32.1	1.7 (0.2pp)
Others	16.5	16.9	17.3	17.0	14.3	n.a.	-2.3	-5.0	3.6	3.2 (-0.1pp)
TOTAL	513.6	509.7	507.9	512.9	491.8	574.3	0.8	2.6	8.8	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	63
Belgium	31.8	102.2	28.1	32.5	75
Finland	10.0	119.6	7.6	11.4	57
France	173.0	117.4	116.5	187.0	67
Germany	161.0	100.0	155.0	147.0	52
Greece	-	-	-	-	-
Ireland	10.0	117.5	2.3	7.5	84
Italy	235.4	111.8	205.2	252.9	57
Netherlands	50.0	101.7	39.9	48.0	65
Portugal	16.7	101.7	7.2	13.9	67
Spain	129.3	105.4	86.4	130.0	58
Total	841.9	108.1	661.5	847.3	60

* 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
Poland	3.3	3.4	-0.4	1.1	-1.8	-2.2	-2.8	-2.6	50.9	50.8
Czech Republic	2.5	2.6	0.2	1.4	0.4	0.7	-2.0	-1.5	41.5	41.6
Hungary	2.8	2.2	0.0	2.5	5.5	6.2	-2.5	-2.2	75.0	73.5
EU	1.8	2.1	0.1	1.5	1.9	1.9	-2.5	-2.0	88.0	86.9
Euro zone	1.5	1.9	0.1	1.5	3.5	3.4	-2.0	-1.7	94.0	92.5
Germany	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-Jun 2015	2014	end-Jun 2015	2014	end-Jun 2015	2014	end-Jun 2015	2014	end-Jun 2015
Poland	2.00	1.50	2.06	1.72	2.51	3.32	197	253	71	71
Czech Republic	0.05	0.05	0.04	0.03	0.75	1.26	2	48	55	78
Hungary	2.10	1.65	2.10	1.41	3.69	3.98	315	320	178	148
Euro zone	0.05	0.05	0.08	-0.014						
Germany					0.54	0.78			17	15

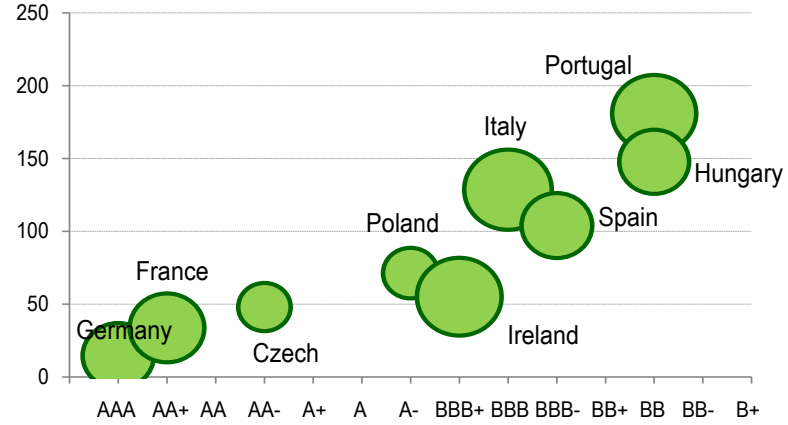
Source: EC – Spring 2015, statistics offices, central banks, Reuters, BZ WBK.

5. Poland vs. Other Countries (cont.)

Sovereign ratings

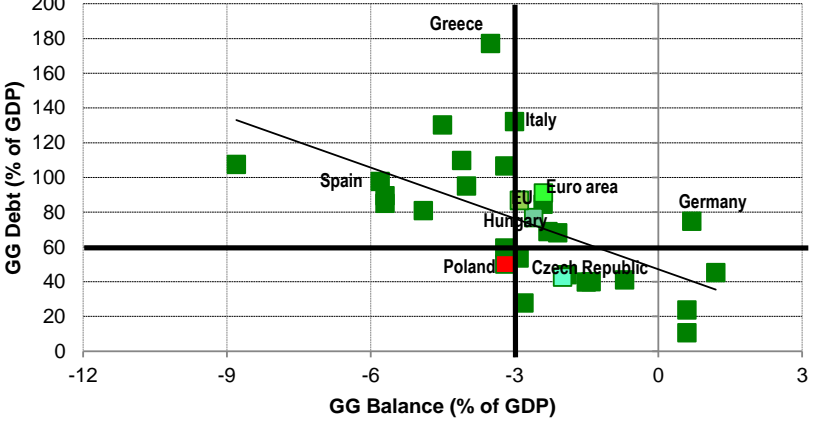
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	positive	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	negative	BB+	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa1	negative	AA+	stable
UK	AAA	negative	Aa1	negative	AA+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



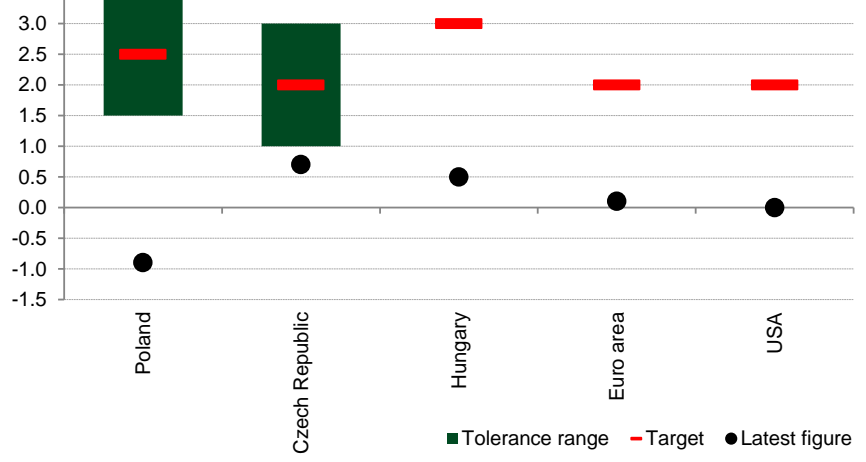
Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries at the end of 2014



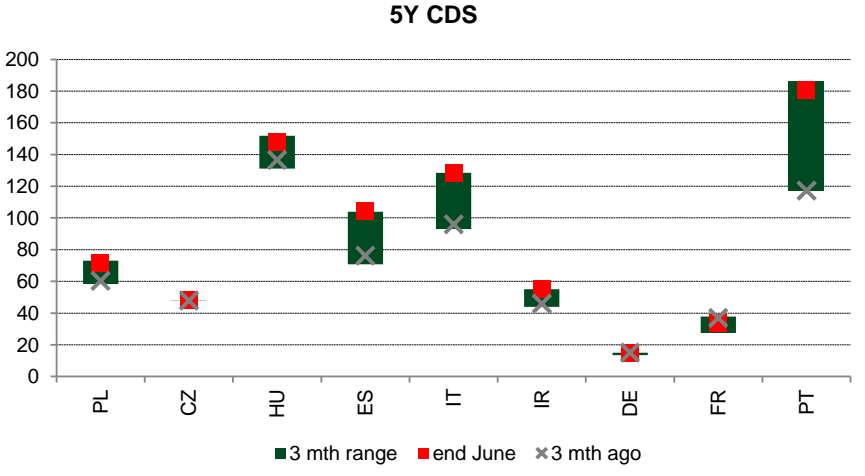
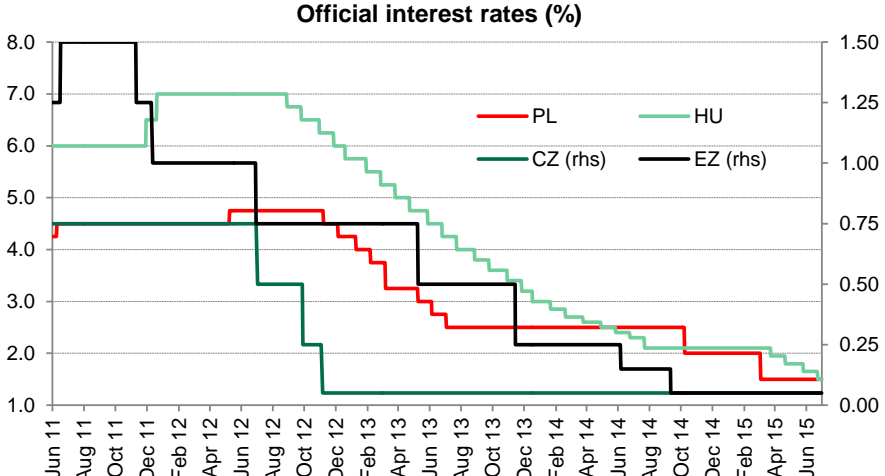
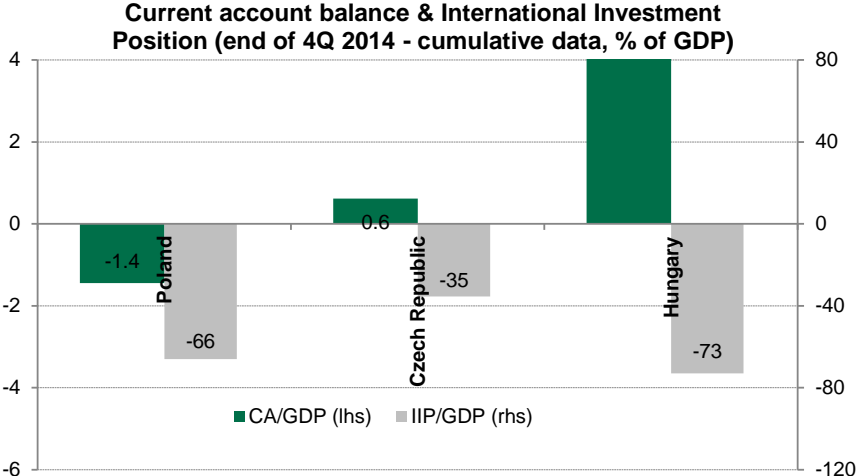
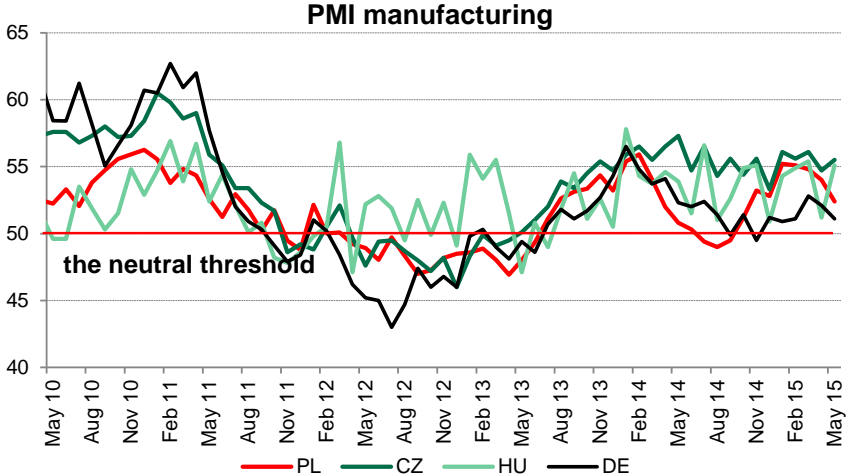
Source: Rating agencies, Reuters, EC, BZ WBK.

Inflation rates vs targets (%)



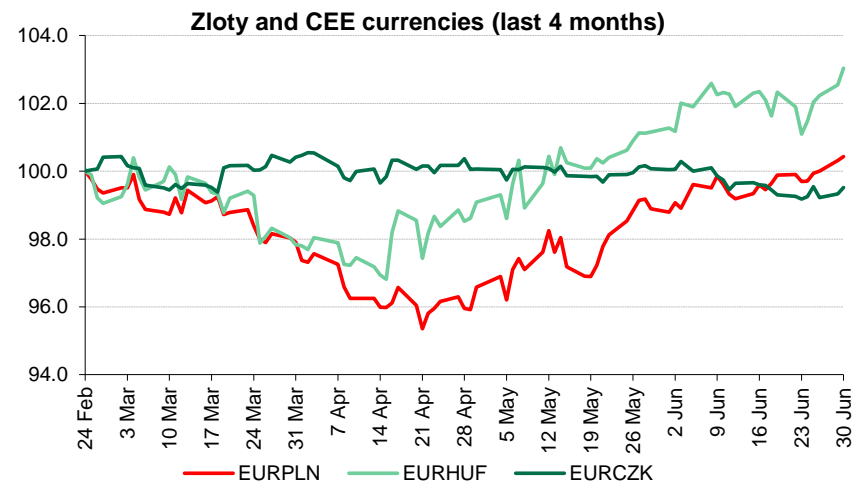
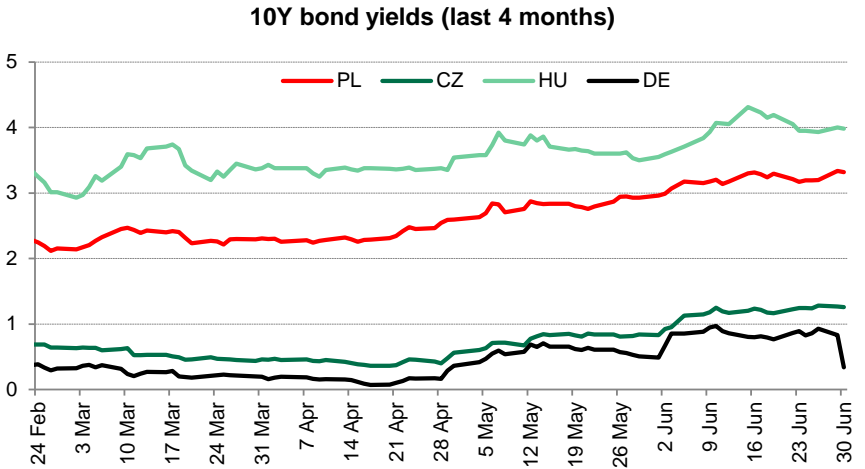
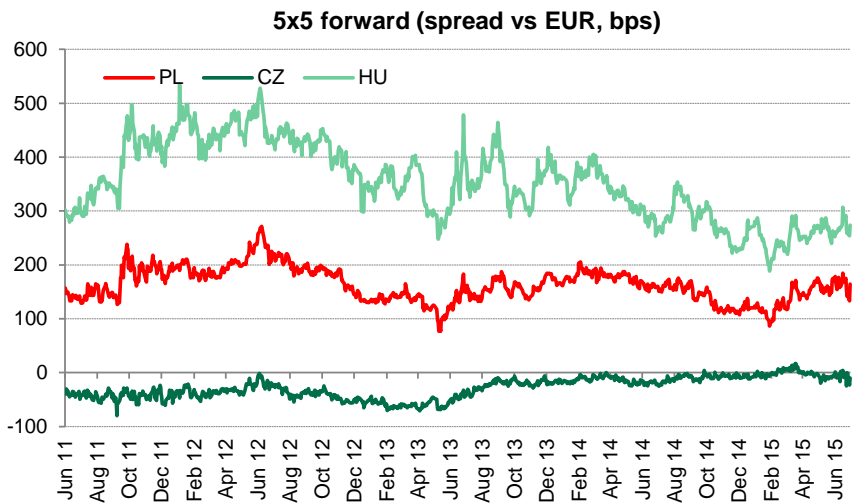
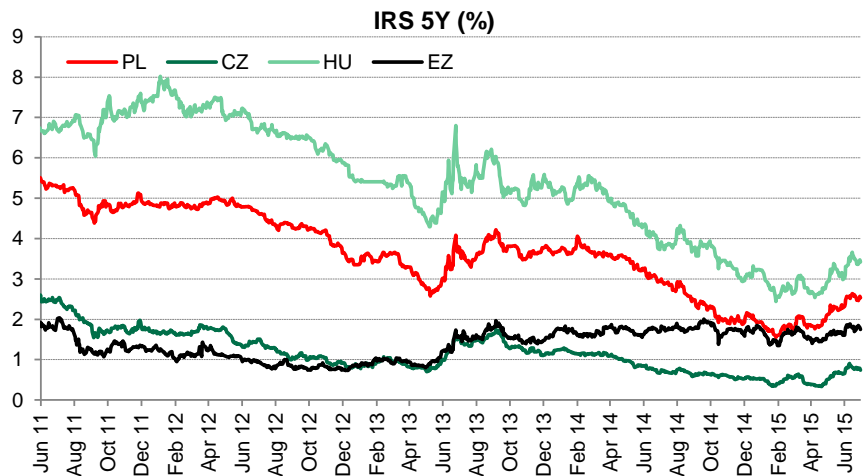
■ Tolerance range - Target ● Latest figure

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				We expect status quo in ECB monetary policy. In our view, the ECB will continue its asset purchases until September 2016 despite a little stronger macro data and a gradual increase in the headline HICP. In our view, in July the ECB will mainly concentrate on Greece.
	Market implied »				-3	-4	-4	
UK	Forecast	0.50	0.50	0.75				Recent macroeconomic data, including the headline CPI increasing to positive territory, are becoming more and more hawkish. They suggest the Bank of England could hike rates later this year (we expect the start of monetary tightening in 4Q15). As regard July's meeting, we expect monetary conditions to remain unchanged.
	Market implied »				1	7	18	
US	Forecast	0-0.25	0-0.25	0.50				The FOMC meeting in June contained little new compared to the previous meeting except the relatively small change to interest rate projections for the end of 2016. We continue to expect the first rate hike in September due to further improvement in the US labour market.
	Market implied »				19	28	44	
Poland	Forecast	1.50	2.00	1.50				We still think it highly likely that key interest rates will remain stable and meetings could be of little interest until the end of the current MPC's term of office. The July meeting may be a bit more interesting, as new inflation and GDP projections are due for release. Higher forecasts look likely, but will probably not be enough to encourage the central bank to act.
	Market implied »				2	4	6	
Czech Republic	Forecast	0.05	0.05	0.05				In June, the CNB decided to keep monetary conditions unchanged. The Council pointed out that risks are balanced for its inflation forecast. What is more, the CNB confirmed its willingness to move the level of the exchange rate commitment if necessary, but the probability of such a scenario has decreased since the last meeting.
	Market implied »				28	32	26	
Hungary	Forecast	1.50	2.10	1.50				As broadly expected, the NBH trimmed the key rate by 15bp to 1.50% in June. The MPC signaled that the easing cycle should soon come to an end, but that there is still room for further cuts in 3Q15. In our view, the easing cycle might end earlier and we expect key rate to remain unchanged in upcoming months.
	Market implied »				-3	-5	1	

Source: Reuters, BZ WBK.

This analysis is based on information available through June 30, 2015 and has been prepared by:

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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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