



RATES AND FX OUTLOOK

POLISH FINANCIAL MARKETS

March 2016



Bank Zachodni WBK

 Grupa Santander

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Summary

- Uncertainty about global economic outlook has been growing. The OECD recently trimmed its world GDP forecasts and the IMF has signalled it may do the same in its April edition of the World Economic Outlook. The most recent indicators of business climate in the Euro zone have declined, signaling that the economic recovery may be stalling, even in Germany. Weak Euro zone data boosted expectations that the ECB will act decisively in March.
- Economic growth in Poland remains solid: it accelerated to 3.9%YoY in 4Q15 and in our view should remain close to 3.5% in 2016E. Private consumption is likely to be the main driver of growth in the coming quarters, supported by healthy labour income and new child benefits (the new government's 500+ plan). Meanwhile, fixed investment growth may decelerate (due to lower public spending and a more cautious mood in the private sector) and the continuation of rapid export growth may be under threat if Euro zone growth weakens. Inflation in Poland is still well below zero (-0.7%YoY in January) and we think it will remain negative until the end of 3Q16E, mainly due to very low commodity and food prices.
- The new Monetary Policy Council (MPC) is in a difficult situation at the start of its term, as it may have to decide whether to give priority to its main policy objective, ie meeting the inflation target (in which case more rate cuts could be justified), or to financial sector stability (in which case rate cuts could be dangerous). We think that a 25bp cut in March cannot be ruled out, especially if: (1) the ECB delivers large-scale monetary easing a day before the MPC decision; (2) the new National Bank of Poland (NBP) cuts its medium-term inflation forecast; and (3) the zloty appreciates further before the meeting. The Council may consider some other options, eg a cut in the mandatory reserve requirement rate. It is currently at 3.5% (relatively high level vs other countries) and a reduction would not be negative for banks' financial results.
- Polish debt has gained in recent weeks, helped by growing expectations of further ECB easing and by an improvement in foreign investors' perception of fiscal and political risk. This came after the Polish government signaled it may backtrack on some of its more controversial and costly proposals (lowering the retirement age, higher tax-free income, FX loan conversion). We think that yields are likely to remain low ahead of the ECB meeting, but we may see profit taking afterwards, as a bold ECB move has been already priced-in by the market. If the Polish MPC decides to cut its reference rate, this may support short-term securities most, resulting in a steepening of the curve. Meanwhile, a cut in reserve requirement could, to some extent, be beneficial for longer tenors (releasing liquid assets that may be reinvested in government debt).
- The zloty trimmed the losses it suffered after S&P downgraded Polish debt in January and we think it may gain a bit more if global confidence does not deteriorate. Investors' concern about the new government plans seems to have faded recently, but, until the impact of the FX loans conversion issue is clear, we think the room for PLN to appreciate remains limited.

Short- and Medium-Term Strategy: Interest Rate Market

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	1 March 2016	1M	3M
Reference rate	0	0	1.50	↓↓	↓↓
3M WIBOR	-5	-2	1.68	↓↓	↓↓
2Y bond yield	-14	-7	1.44	→	→
5Y bond yield	16	-17	2.20	↗	↗
10Y bond yield	28	-22	2.94	↗↗	↗↗
2/10Y curve slope	42	-15	150	↗↗	↗↗

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: We think that a 25bp rate cut in March cannot be ruled out and WIBORs may decrease significantly if it happens. If the Council trims the reserve requirement instead, it should have no significant impact on WIBORs, in our view, but FRA should go higher, as such a move would limit the odds of an interest rate cut in the near future (which is currently priced in by the FRA market).

Short end: High demand for short-term bonds should persist, as the banks' portfolio optimisation continues (the introduction of a bank tax provides an incentive for them to switch from NBP bills to Treasuries). An NBP rate cut would provide additional support. Thus, we see short-term yields remaining low in the coming weeks.

Long end: The global mood is likely to be crucial. While expectations for large-scale ECB easing in March may keep supporting European and Polish debt early next month, we could see profit taking after the central bank meeting. Another reason for a correction could be better data releases from the US, as we think the pricing in of the expected pace of Federal Reserve tightening (no hikes in 2017 now) has gone too far.

Risks to our view: It looks like fiscal risk has recently receded into the background, as a result of comments from government officials on the FX-mortgage proposal, higher tax-free income and lower retirement age. Should again we see a change in rhetoric, the perception of fiscal and market risk would change again. Note also that Polish media reported recently that Poland's finance minister Paweł Szalacha could be dismissed.

Short- and Medium-Term Strategy: FX Market

	Change (%)		Current Level	Expected Trend	
	Last 3M	Last 1M	1 March 2016	1M	3M
EUR/PLN	1.7	-1.7	4.34	→	→
USD/PLN	-0.8	-1.8	3.99	↘	↘
CHF/PLN	2.0	0.5	3.99	↘	↘↘
GBP/PLN	-8.2	-3.7	5.57	↗	↗
EUR/USD	2.5	0.1	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: The zloty trimmed the losses it suffered after the S&P downgrade and we think it may gain a bit more if the global mood improve. Investors' worries about government plans seem to have faded recently, but, until the FX loan conversion bill is clarified, the room for zloty to appreciate remains limited.

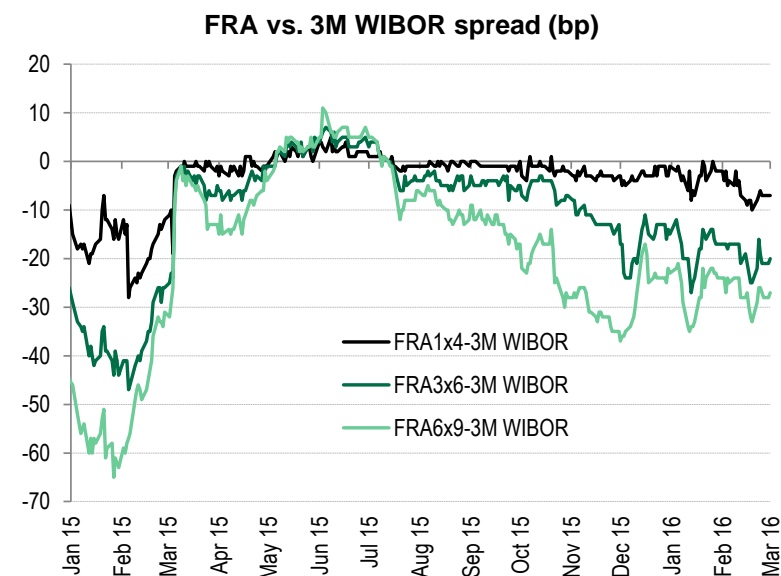
USD: We still think the euro may strengthen against dollar by the end of the year. However, additional euro gains over the next month may be harder to generate as the ECB appears set to ease monetary policy further, economic data are tending to surprise on the downside and the UK's Brexit risk may undermine EUR sentiment. We think USD/PLN may remain relatively stable in the short run.

CHF: The Swiss National Bank is still aiming to weaken its currency, but the risk is that a decisive ECB move in March may send EUR/CHF lower. The CHF may also be vulnerable to further decrease of the global risk appetite. We expect CHF/PLN to remain close to 4.0 in the nearest weeks and start to fall more noticeably from 2Q16.

Risks to our view: The biggest risk factor for the currency is the President's proposal to deal with FX-mortgage loans. In March the Financial Supervision Authority (KNF) is expected to show its estimates of proposal's costs. We doubt the proposal will be implemented in the shape presented by the President Andrzej Duda as it could undermine the financial sector's stability, but the uncertainty persists.

Domestic Money Market: Waiting for the MPC to Act

- In February WIBORs continued their gradual decline (by 1-3bp across the curve, with the highest drop in the 1M rate). FRAs remained more vulnerable to IRS market volatility but they proved immune to comments by new MPC members, suggesting there is no need to cut interest rates. Investors continue to expect monetary easing in the coming months.
- The end of February saw a significant drop of the POLONIA rate, thereby reflecting the price of overnight interbank deposits. The decline proved to be more persistent than in the previous months, when occasionally POLONIA fell way below the reference rate for only one or two days, just before the settlement of the obligatory reserve. This seems to reflect the fact that introduction of the bank tax has caused significant disturbances in the interbank market, and the central bank had problems with stabilising POLONIA near the reference rate (which is one of its goals set in the monetary policy guidelines).
- Currently, the market is pricing in over 80% chances of a 25bp rate cut in the next three months and a 100% chances of quarter-point reduction in six months (FRA6x9 at 1.40%). Moreover, market players do not rule out deeper easing in one year, with c70% odds of a 50bp rate cut during this period.
- We think a 25bp rate cut in March is still a possibility and WIBORs may decrease significantly if it happens. Alternatively, the Council could lower the reserve requirement ratio. This should have no significant impact on WIBORs, but it may push the FRA market higher, reducing the chances of an interest rate cut in the near future.

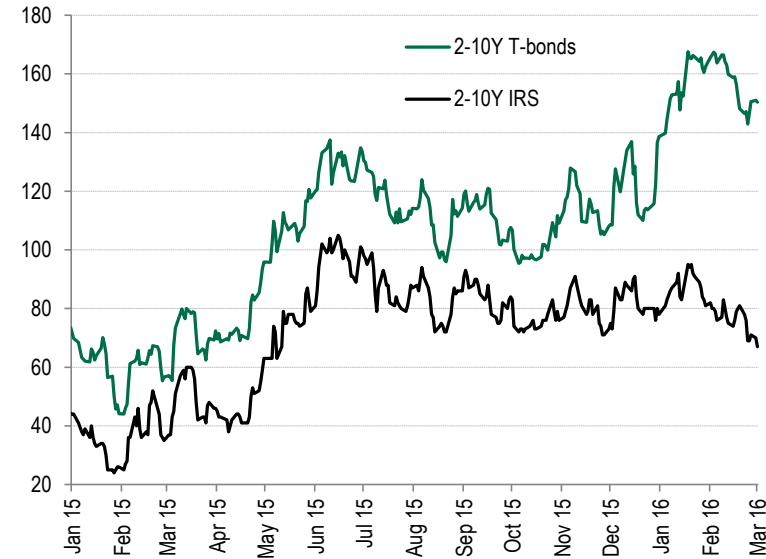


Source: Reuters, BZ WBK

Domestic IRS and the T-Bond Market: Central Banks in Focus

- Polish bond and IRS curves flattened noticeably in February, thanks to the belly and long end outperforming vs the short end. Polish 5Y and 10Y tenors gained, thanks to: further monetary policy easing in Japan; expectations the ECB would announce more measures; some concern about global growth; and investors taking advantage of lower prices after the sell-off triggered by the unexpected S&P rating downgrade.
- The Polish MPC's and the European Central Bank's decisions are likely to be the main drivers for Polish rates in March. Expectations for the ECB to extend its asset purchase programme are quite strong, perhaps even stronger than in December as Jens Weidman, a well-known opponent of significant monetary policy easing, will not participate in this month's meeting. Back in late 2015 the central bank extended the universe of assets eligible for purchases and time the programme will last. It now seems that it would need to increase the size of QE to satisfy the market. Given high expectations, a profit-taking and a weakening of the debt market is likely, similarly to the one we saw after the December decision. This is actually our base case scenario for March.
- In the short term, the market does not fully price-in a rate cut in March. Such a move could be a surprise and so we think there is scope for the 2Y yield to fall this month. The statement from the meeting might be of particular importance as it could show whether (more) easing is likely later in the year and to what extent new MPC members view the NBP's CPI and GDP forecasts as crucial when making decisions on rates.

Slope of the Polish curves (bp)

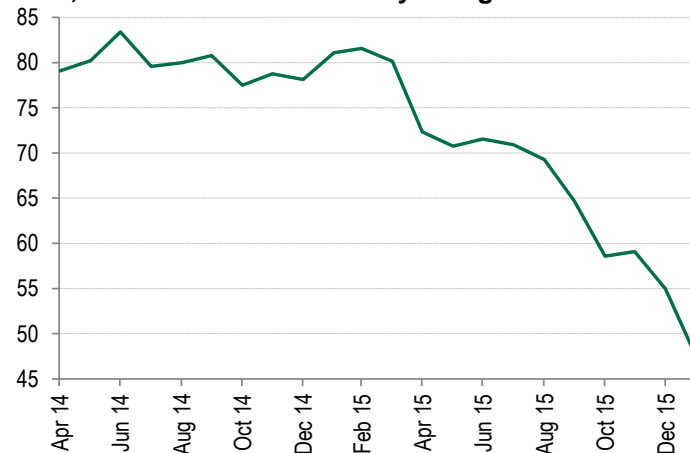


Source: Reuters, BZ WBK.

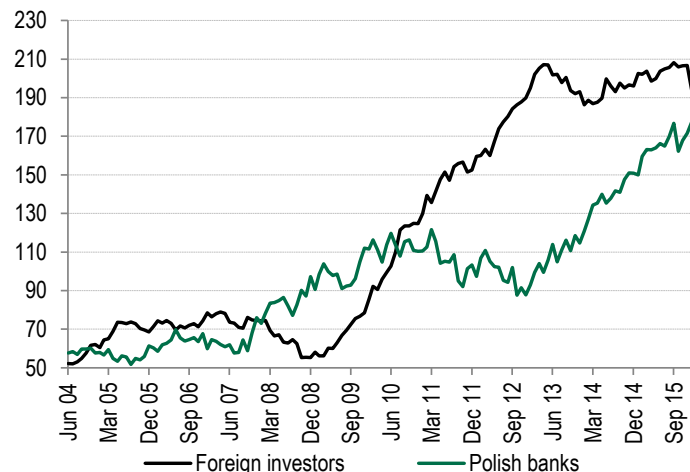
Demand Corner: Foreign Mutual Funds Continue to Sell Polish Bonds

- The nominal value of non-residents' bond portfolio fell by more than PLN13bn in January (the biggest monthly outflow since data are available, ie since June 2004) and the nominal value of Polish, marketable, PLN-denominated portfolio was the lowest since August 2014 (PLN193.7bn).
- Such a sharp outflow was triggered by the S&P downgrade and by maturity of the OK0116 issue, of which non-residents held PLN8bn at the end of the year. Mutual funds lowered their exposure by PLN7.5bn (including PLN4.8bn of OK0116) while foreign commercial banks raised their holdings by PLN3.8bn.
- In the recent past, there have been two cases in which non-residents held similar amounts of a maturing bond. At the end of March 2015 foreign investors held cPLN9.5bn of PS0415. When this bond matured in late April, the non-residents rolled over a good part of this and their portfolio fell by PLN5.2bn. At the end of September, foreign investors held nearly PLN10bn of DS1015 and the nominal value of their portfolio was only PLN2.2bn lower after it matured at the end of October. In both cases, the biggest holders of the maturing bond were foreign mutual funds, whose holdings kept falling.
- Geographically, the biggest outflow was recorded for North America (more than PLN4bn).
- Polish commercial banks purchased nearly PLN6bn of bonds (the biggest monthly increase since September 2015) taking their portfolio to an all-time high of nearly PLN177.5bn at the end of January.

Polish PLN, marketable bonds held by foreign mutual funds (PLNbn)



Polish PLN, marketable bonds held by foreign investors and Polish banks (PLNbn)



Source: Finance Ministry. BZ WBK.

Supply Corner: No Pressure to Cover 50% of 2016 Target

- ▶ Poland's Ministry of Finance successfully tapped the domestic primary market, selling 2Y, 5Y and 10Y fixed rate benchmarks and floater WZ0120, worth PLN16.2bn in total. Two regular auctions attracted solid demand (slightly above PLN23bn in total) from both domestic and foreign investors, with an average bid-to-cover ratio of 1.75 (up from 1.53 in January).
- ▶ Healthy demand confirms that the rating downgrade did not have a significant long-lasting impact on foreign investor demand for Polish debt. It may also show that after the significant outflow of foreign capital in January, February might see a stabilisation. Deputy Finance Minister Piotr Nowak said that in February a further outflow was visible at the front of the curve, but demand for longer papers was solid.
- ▶ At the end of February, the Finance Ministry had covered 39% of its gross borrowing requirements for 2016. Deputy Finance Minister Piotr Nowak said that reaching the 50% mark at the end of 1Q16 was likely, but the ministry will not aim to achieve this at any price.
- ▶ On March 3 at the standard auction the Finance Ministry is due to offer PLN4-7bn of OK0118/DS0726. In late March, it holds a switch auction to repurchase PS0416, OK0716 and PS1016. The mid-March T-bill tender will offer PLN1-2bn of 37-week paper.

Auction plan for March 2016

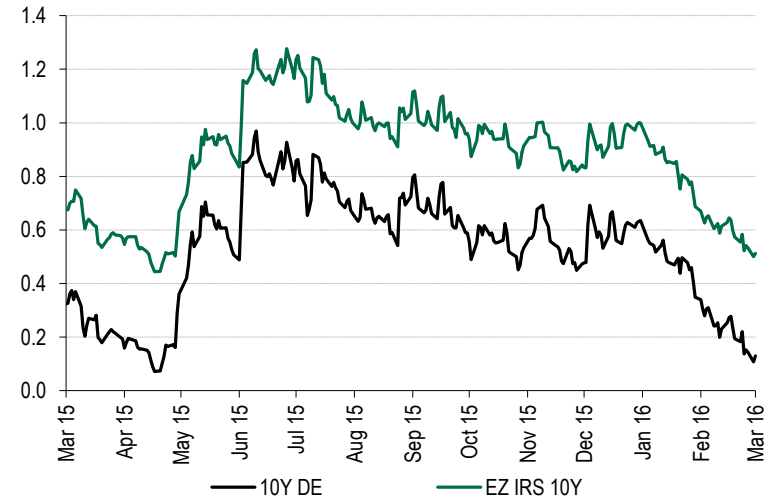
Auction Date	Settlement Date	T-bond/T-bills to Be Offered	Offer (PLN m)
3 Mar 2016	7 Mar 2016	OK1018/DS0726	4,000-7,000
14 Mar 2016	16 Mar 2016	37-week T-bills	1,000 – 2,000
24 Mar 2016	29 Mar 2016	Switch auction (repurchase of PS0416, OK0716 and PS1016)	-

Source: Finance Ministry, BZ WBK.

International Interest Rate Market: ECB Action Priced-in Already

- European money market rates, IRS and bond yields fell in February on mounting expectations the ECB would announce more monetary policy easing in March.
- We expect the central bank to announce some additional measures this month (including a 10bp depo rate cut to -0.40%) but, given that the market is already pricing in such a move, it may be hard for the bank to surprise to the upside again. That is why we see a room for some profit taking across the European market, as happened after the December ECB decision.
- US IRS and bond curves flattened in February, amid falling long-term yields/rates. Market expectations for Fed rate hikes were pretty volatile last month. According to Bloomberg, in early February the market was giving an 18% chance of a 25bp hike in March, 40% of a hike in July and 63% in December. By mid month, however, investors were seeing a 0% chance of a March hike, less than 8% for a rate raise in July and 30% for December. After some positive US macro data, market expectations returned to around the levels of early February.
- We still expect two 25bp Fed rate hikes later in the year (in 3Q and 4Q) as economic growth is still decent and we think short-term US are too low.

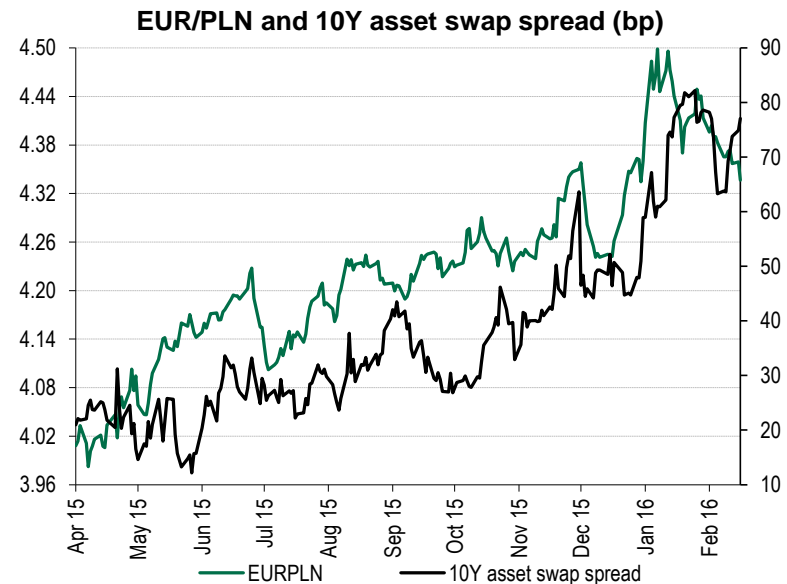
10Y Bund yield and EUR IRS



Source: Reuters, ECB, Fed, BZ WBK.

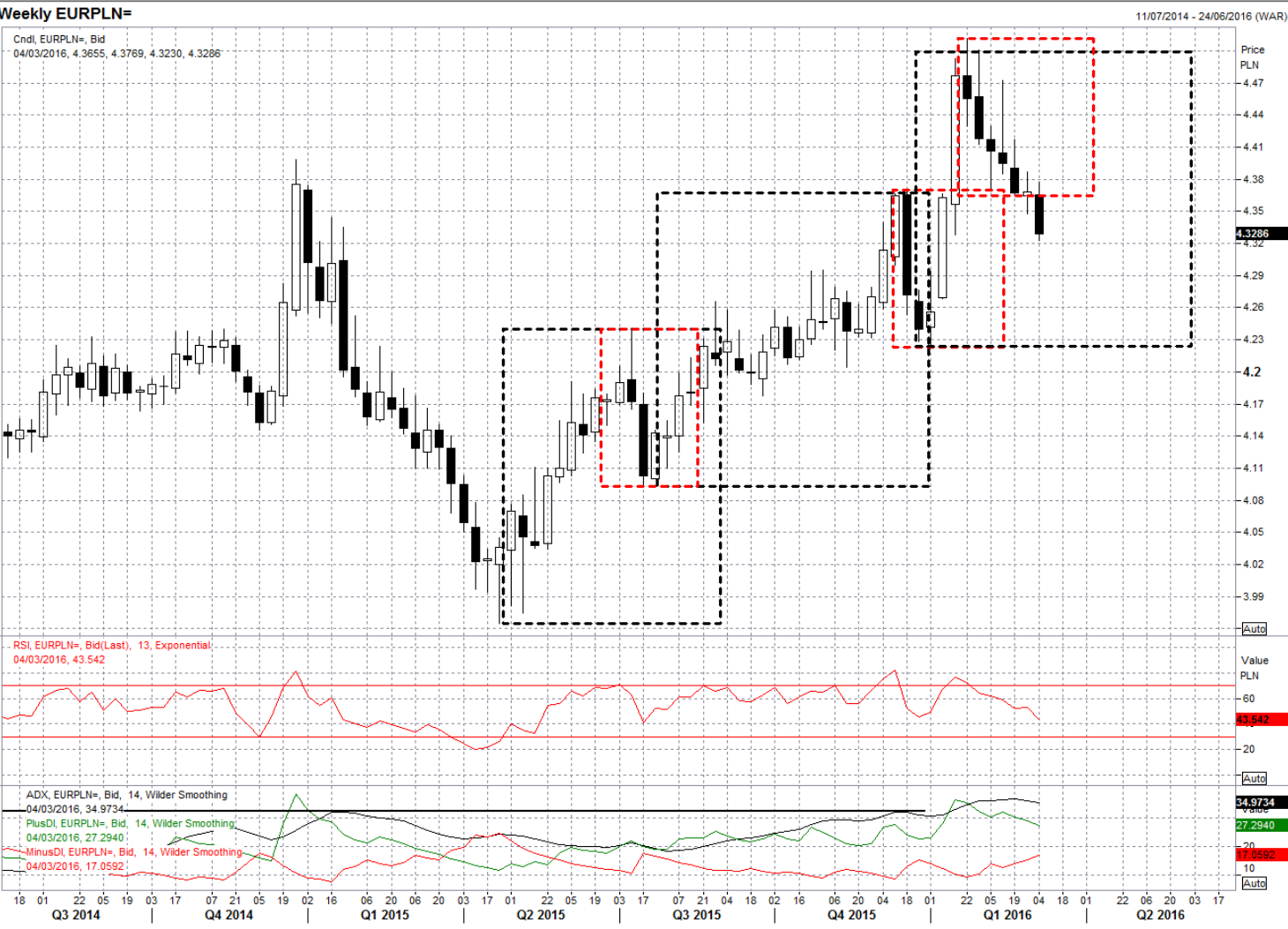
Foreign Exchange Market: Limited Scope for Appreciation

- EUR/PLN fell to 4.35 in February on dovish signals from the ECB and more easing launched by the Bank of Japan.
- At the beginning of 2016 the zloty underperformed its CEE peers, but since late January it has recovered a large part of its losses. However, the 10Y bond yield spread vs Bunds and asset swap spreads remain wide. This suggests a higher risk premium for Polish assets, which may limit the scope for further zloty appreciation, even if global market sentiment improves, suggesting that recent internal issues may have influenced investors' perception of Polish assets.
- The key uncertainty is government policy. In March, the Financial Supervision Authority (KNF) is expected to show its estimates for banks' losses if the FX mortgage conversion plan is implemented in the shape presented by the president. According to the NBP, the president's proposal could cost banks PLN44bn and would be a threat to the sector's stability. Concern about the banking system has been an important factor driving EUR/PLN up in January and it may limit the scope for the zloty to gain until the situation is clarified.
- In March the Polish MPC will announce its decision on rates the day after the ECB. Recent comments by the new MPC members made us less convinced that Polish rates will fall, and we do not rule out the Council cutting the reserve requirement instead of the main interest rates. Meanwhile, the ECB is widely expected to deliver more easing in March. On balance, those two decisions may be positive for the zloty, in our view.



Source: Reuters, BZ WBK

FX Technical Analysis Corner: Major Support Broken



- ▶ Last month we wrote that EUR/PLN may reach 4.36 in the near future and the exchange rate broke this level in late February.
- ▶ The current downward move is longer than the previous two, making a more sustainable zloty recovery more likely. Thus, we do not expect the currency to depreciate in the near term and EUR/PLN may stay around 4.30-4.35 at the turn of the quarter.
- ▶ ADX is still close to its 2012 peak, which also provides hope of a somewhat more sustainable zloty strengthening.

Source: Reuters, BZ WBK.

FX Technical Analysis Corner: EUR/USD May Fall Further



- ▶ EUR/USD broke c1.10 first to the upside and then to the downside.
- ▶ The current downward move is already much longer than the correction seen in December/January and this suggests there is more potential for the downside.
- ▶ c1.08 and 1.07 are now important support levels to watch.

Source: Reuters, BZ WBK.

Macroeconomic Forecasts

Poland		2013	2014	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLNbn	1,656.3	1,719.1	1,790.1	1,854.1	414.6	432.2	438.6	504.8	426.0	444.7	452.5	530.9
GDP	%YoY	1.3	3.3	3.6	3.5	3.7	3.3	3.5	3.9	3.4	3.3	3.6	3.6
Domestic demand	%YoY	-0.7	4.9	3.3	4.0	2.9	3.1	3.2	4.0	4.7	3.8	4.0	3.6
Private consumption	%YoY	0.2	2.6	3.1	4.1	3.1	3.1	3.1	3.1	3.1	3.8	4.6	4.8
Fixed investment	%YoY	-1.1	9.8	6.1	3.5	11.5	6.1	4.6	4.9	4.5	4.0	3.0	3.0
Unemployment rate ^a	%	13.4	11.4	9.8	9.0	11.5	10.2	9.7	9.8	10.0	9.1	8.8	9.0
Current account balance	EURmn	-5,031	-8,303	-754	-3,045	900	864	-2,527	9	-404	-109	-3,044	513
Current account balance	% GDP	-1.3	-2.0	-0.2	-0.7	-1.3	-0.4	-0.5	-0.2	-0.5	-0.7	-0.8	-0.7
General government balance (ESA 2010)	% GDP	-4.0	-3.2	-3.1	-3.0	-	-	-	-	-	-	-	-
CPI	%YoY	0.9	0.0	-0.9	-0.2	-1.5	-0.9	-0.7	-0.6	-0.6	-0.5	-0.4	0.5
CPI ^a	%YoY	0.7	-1.0	-0.5	0.9	-1.5	-0.8	-0.8	-0.5	-0.6	-0.4	-0.1	0.9
CPI excluding food and energy prices	%YoY	1.2	0.6	0.3	0.2	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.5

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

^a at the end of the period

Interest Rate and FX Forecasts

Poland		2013	2014	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16E	2Q16E	3Q16E	4Q16E
Reference rate ^a	%	2.50	2.00	1.50	1.25	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25
WIBOR 3M	%	3.02	2.52	1.75	1.50	1.87	1.67	1.72	1.73	1.63	1.45	1.45	1.46
Yield on 2-year T-bonds	%	2.98	2.46	1.70	1.47	1.61	1.75	1.80	1.65	1.44	1.43	1.45	1.55
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.45	1.90	2.35	2.43	2.19	2.25	2.35	2.53	2.67
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.24	2.24	2.79	2.93	2.77	3.04	3.15	3.30	3.45
2-year IRS	%	3.10	2.51	1.72	1.50	1.65	1.85	1.78	1.58	1.51	1.48	1.47	1.54
5-year IRS	%	3.51	2.92	2.02	2.11	1.80	2.23	2.17	1.89	1.87	1.98	2.22	2.37
10-year IRS	%	3.86	3.34	2.41	2.62	2.06	2.57	2.62	2.38	2.38	2.54	2.70	2.85
EUR/PLN	PLN	4.20	4.18	4.18	4.34	4.20	4.09	4.19	4.26	4.39	4.31	4.36	4.32
USD/PLN	PLN	3.16	3.15	3.77	3.87	3.72	3.70	3.77	3.90	4.00	3.88	3.86	3.76
CHF/PLN	PLN	3.41	3.45	3.92	3.79	3.93	3.93	3.90	3.93	4.00	3.82	3.73	3.62
GBP/PLN	PLN	4.94	5.19	5.77	5.79	5.64	5.67	5.84	5.91	5.71	5.70	5.85	5.88

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

Economic Calendar and Events

Date		Event:	Note:
3-Mar	PL	T-bond auction: OK1018, DS0726	Offer: PLN4.0-7.0bn
10-Mar	EZ	ECB meeting – interest rate decision	We expect the deposit rate to be cut by 10bp and a further extension of the QE programme
11-Mar	PL	MPC meeting – interest rate decision	We expect the MPC to cut rates by 25bp or to lower reserve requirement ratio
14-Mar	PL	37-week T-bill auction	Offer: PLN1.0-2.0bn
	PL	M3 money supply for February	We expect 10.2%YoY, in line with consensus
15-Mar	PL	C/A Balance of payments for January	We expect quite a big surplus (€1398mn), strongly above the consensus (€109mn)
	PL	CPI for February	We expect a rise to -0.6%YoY vs market expectations at -0.7%YoY. New basket weights will be released.
16-Mar	PL	Wages and employment for February	We expect employment growth at 2.4%YoY and wage growth at 4.3%YoY, more or less in line with the consensus
	PL	Core CPI for January and February	We expect 0.1%YoY in both months vs market consensus at 0.0%YoY for January and 0.1%YoY for February
	US	Fed meeting – interest rate decision	We expect rates to stay unchanged at 0.25-0.50%, in line with consensus
17-Mar	PL	Minutes from January MPC meeting	
	PL	Industrial output for February	We expect 5.3%YoY, close to consensus(5.5%YoY)
	PL	Construction output for February	We expect -6.1%YoY, below consensus(-4.9%YoY)
	PL	Real retail sales for February	We expect 4.6%YoY, below consensus (5.6%YoY)
	PL	PPI inflation for February	We expect -1.4%YoY, below consensus (-1.2%YoY)
22-Mar	HU	HNB meeting – interest rate decision	We expect rates to stay unchanged at 1.35%, in line with consensus
24-Mar	PL	T-bond switching auction	Bonds bought back: PS0416, OK016, PS1016
23-Mar	PL	Registered unemployment rate for February	We expect 10.3% in line with consensus
31-Mar	PL	Flash CPI for March	We expect -0.6%YoY, no consensus yet
	CZ	CNB meeting – interest rate decision	We expect rates to stay unchanged at 0.05%, in line with consensus

Source: CB, Markit, CSO, Finance Ministry

Annex

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

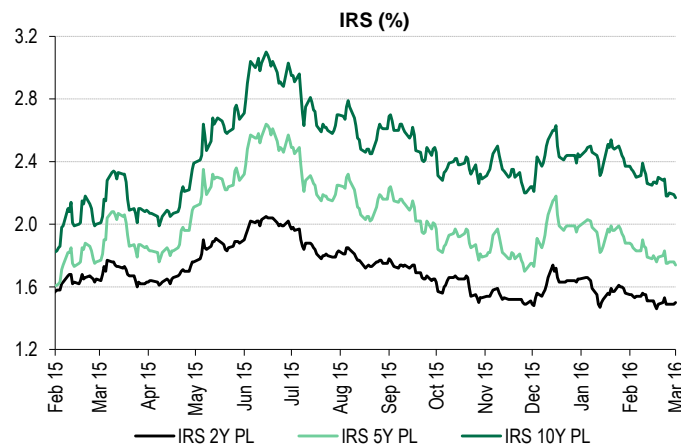
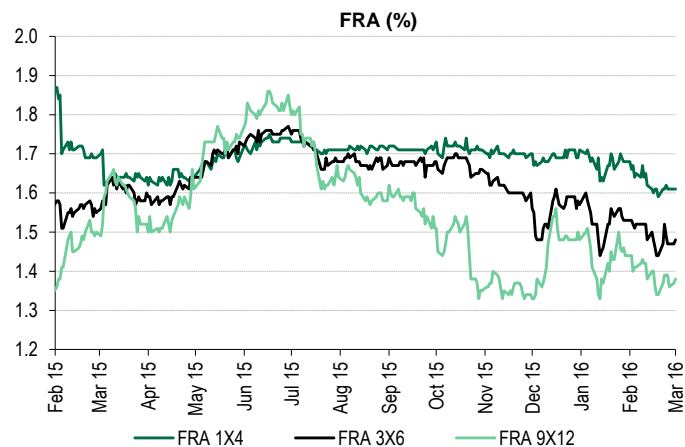
1. Domestic Market Performance

Money market rates (%)

	Reference	Poland	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of February	1.50	1.53	1.56	1.68	1.74	1.76	1.24	1.24	1.21	1.15	1.61	1.47	1.40	1.37
Last 1M change (bp)	0	25	-4	-2	-1	-1	-15	-9	0	0	-7	-6	-6	-7
Last 3M change (bp)	0	8	-11	-5	-6	-6	-23	-18	-13	-11	-8	-11	2	3
Last 1Y change (bp)	-50	5	-33	-13	-6	-3	-52	-36	-28	-31	-8	-8	-10	-13

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of February	1.43	2.20	2.94	1.49	1.76	2.19	-6	44	75
Last 1M change (bp)	-9	-17	-20	-7	-12	-18	-2	-5	-2
Last 3M change (bp)	-13	20	33	0	5	-1	-13	15	34
Last 1Y change (bp)	-16	34	79	-16	0	19	0	34	60



Source: Reuters, BZ WBK

2. Polish Bonds: Supply Recap

Total issuance in 2016 by instrument (in PLN mn, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bond auctions	12,629	16,221	10,000	9,500	7,000	8,500	7,500	3,600	4,000	10,000	3,000		91,950
T-bill auctions	2,400	2,390	1,000	1,000	1,000	700	500		700				9,690
Retail bonds	200	600	175	167	160	192	200	215	200	250	1100	250	3,709
Foreign bonds/credits	7,700		7,525		5,238					3,106	4,900		28,468
Pre-financing and financial resources at the end of 2015	36,500												36,500
Total	59,429	19,211	18,700	10,667	13,398	9,392	8,200	3,815	4,900	13,356	9,000	250	170,318
Redemption	13,680	11,645	153	18,494	146	124	8,795	8,688	2,590	23,573	6,884	910	95,683
Net inflows	45,749	7,566	18,547	-7,827	13,252	9,268	-595	-4,873	2,310	-10,218	2,116	-660	74,635
Rolled-over T-bonds													0
Buy-back of T-bills/ FX-denominated bonds													0
Total	45,749	7,566	18,547	-7,827	13,252	9,268	-595	-4,873	2,310	-10,218	2,116	-660	74,635
Coupon payments from domestic debt	1,084			3,767			3,306		1,295	5,487			14,940

Note: Our forecasts = shaded area

Source: MF, BZ WBK

2. Polish Bonds: Supply Recap (cont.)

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

	Bonds	Bills	Retail bonds	Total domestic redemption	Foreign bonds/credits	Total redemptions
January	13,451		229	13,680	0	13,680
February	0		647	647	10,999	11,645
March	0		153	153	0	153
April	17,443		136	17,579	915	18,494
May	0		146	146	0	146
June	0		124	124	0	124
July	7,658		226	7,884	911	8,795
August	3,689	2,400	199	6,288	0	6,288
September	0	2,390	200	2,590	0	2,590
October	22,420		242	22,662	911	23,573
November	0		1,056	1,056	1,628	2,684
December	0		210	210	0	210
Total 2016	64,662	4,790	3,567	73,019	15,364	88,383
Total 2017	72,603		2,485	75,087	11,728	86,815
Total 2018	93,864		1,313	95,176	12,977	108,153
Total 2019	63,811		1,237	65,048	23,512	88,559
Total 2020	58,711		634	59,345	21,805	81,150
Total 2021+	191,885		1,749	193,634	116,866	310,500

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

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

	Foreign investors	Domestic banks	Insurance funds	Pension funds	Mutual funds	Individuals	Non-financial sector	Other	Total
Q1 2016	8,007	2,151	2,027	54	579	26	42	459	13,346
Q2 2016	9,706	3,305	1,650	187	493	16	54	2,033	17,443
Q3 2016	5,564	5,518	1,551	104	2,407	38	531	695	16,408
Q4 2016	11,585	7,269	2,282	128	895	25	43	1,759	23,985
Total 2016	34,862	18,242	7,511	474	4,373	104	670	4,946	71,182
	49%	26%	11%	1%	6%	0%	1%	7%	100%
Total 2017	26,246	25,959	7,644	607	5,775	106	162	5,837	72,338
	36%	36%	11%	1%	8%	0%	0%	8%	100%
Total 2018	19,626	28,415	4,542	397	6,943	86	195	6,205	66,409
	30%	43%	7%	1%	10%	0%	0%	9%	100%
Total 2019	21,018	26,474	5,511	426	5,925	82	168	4,220	63,825
	33%	41%	9%	1%	9%	0%	0%	7%	100%
Total 2020	24,227	17,198	4,048	187	7,191	49	68	3,527	56,494
	43%	30%	7%	0%	13%	0%	0%	6%	100%
Total 2021+	80,765	55,211	22,877	416	16,869	251	269	6,479	183,137
	44%	30%	12%	0%	9%	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 January			Share of total in January (%)
	End Jan'16	End Dec'15	End Nov'15	End 3Q 2015	End 2014	End 2013	MoM	3-mth	YoY	
Domestic investors	321.2	316.9	316.9	325.5	295.9	381.2	1.3	0.1	9.1	62.4 (1.9)
Commercial banks	177.4	171.5	167.8	176.7	150.8	114.7	3.5	9.4	18.3	34.5 (1.7pp)
Insurance companies	51.6	52.1	51.6	52.5	52.8	52.0	-1.0	2.6	-0.3	10.0 (0.1pp)
Pension funds	2.0	2.5	2.8	3.0	3.3	125.8	-19.8	-29.5	-38.5	0.4 (-0.1pp)
Mutual funds	46.6	47.1	50.2	49.7	46.9	46.7	-1.1	-8.5	-4.0	9.0 (0.1pp)
Others	43.6	43.7	44.5	43.7	42.0	42.0	-0.4	3.6	6.5	8.5 (0.1pp)
Foreign investors*	193.7	206.8	206.6	208.2	196.0	193.2	-6.3	-5.9	-4.4	37.6 (-1.9pp)
Banks	16.5	12.7	11.5	13.5	9.9	n.a.	30.0	6.2	24.3	3.2 (0.8pp)
Central banks	29.3	30.1	29.1	28.3	16.4	n.a.	-2.8	2.4	68.3	5.7 (-0.1pp)
Public institutions	9.4	9.4	10.0	9.7	8.1	n.a.	0.7	-2.2	16.1	1.8
Insurance companies	12.2	12.4	11.6	11.6	10.7	n.a.	-1.5	12.1	15.8	2.4
Pension funds	13.2	14.1	13.6	13.0	13.0	n.a.	-6.3	1.4	3.8	2.6 (-0.1pp)
Mutual funds	47.4	54.9	59.1	64.7	78.1	n.a.	-13.7	-19.0	-41.5	9.2 (-1.3pp)
Hedge funds	0.04	0.04	0.04	0.1	1.1	n.a.	0.0	1.6	-94.5	0.0
Non-financial sector	6.4	9.1	9.3	12.2	8.2	n.a.	-29.3	-30.7	-44.7	1.2 (-0.5pp)
Others	17.8	19.0	19.1	19.5	14.3	n.a.	-6.6	-1.3	12.6	3.4 (-0.2)
TOTAL	514.9	523.7	523.5	533.7	491.8	574.3	-1.7	4.2	3.6	100

*Total for foreign investors does not match the 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: 2016 net and gross supply by country vs 2015 (€ bn)

	2016 gross issuance	% change (vs 2015)	2016 net issuance	% change (vs 2015)	YTD bond issuance completion
Austria	19.4	14	5.6	50	41%
Belgium	33.6	3	8.0	84	23%
Finland	15.8	58	5.9	169	13%
France	187.0	0	60.5	-14	23%
Germany	168.6	16	0.0	-100	18%
Greece	-	-	-	-	-
Ireland	10.8	-20	2.7	-76	50%
Italy	221.9	-10	38.6	-9	19%
Netherlands	36.8	-23	8.5	5	5%
Portugal	11.9	-34	5.1	-55	21%
Spain	138.8	0	45.5	6	21%
Total	844.5	-1	180.3	-1	20%

* YTD is supply since January 1, 2016

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	3.5	3.5	-0.7	0.6	-0.2	-0.7	-3.0	-2.8	51.4	52.5
Czech Republic	4.5	2.3	0.3	0.4	-2.4	-2.0	-1.6	-1.1	40.9	40.7
Hungary	2.7	2.1	0.1	1.7	5.0	5.6	-2.1	-2.0	75.8	74.3
EU	1.9	1.9	0.0	0.5	2.1	2.1	-2.5	-2.2	87.2	86.9
Euro zone	1.6	1.7	0.0	0.5	3.7	3.6	-2.2	-1.9	93.5	92.7
Germany	1.7	1.8	0.1	0.5	8.8	8.6	0.5	0.1	71.6	69.2

Main market indicators (% , end of period)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y spread vs Bund (bp)		CDS 5Y	
	2015	End-Feb 2016	2015	End-Feb 2016	2015	End-Feb 2016	2015	End-Feb 2016	2015	End-Feb 2016
Poland	1.50	1.50	1.72	1.68	2.94	2.94	230	281	75	91
Czech Republic	0.05	0.05	0.29	0.28	0.60	0.43	-4	24	50	46
Hungary	1.35	1.35	1.35	1.34	3.42	3.37	279	323	164	159
Euro zone	0.05	0.05	-0.13	-0.205						
Germany					0.63	0.11			12	23

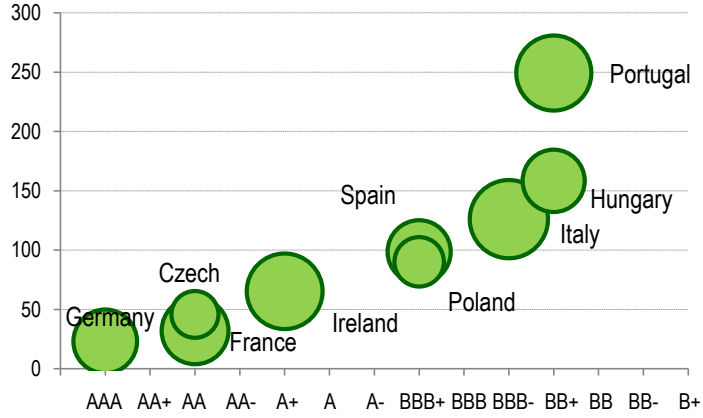
Source: EC – Winter 2016, statistics offices, central banks, Reuters, BZ WBK.

5. Poland vs. Other Countries (cont.)

Sovereign ratings

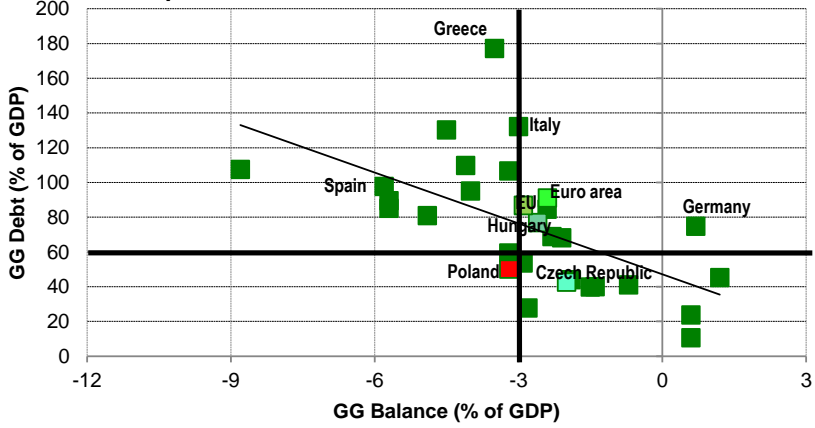
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	BBB+	negative	A2	stable	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	positive	BB+	positive
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa2	stable	AA	stable
UK	AAA	negative	Aa1	stable	AA+	stable
Greece	B-	stable	Caa3	stable	CCC	stable
Ireland	A+	stable	Baa1	positive	A	stable
Italy	BBB-	stable	Baa2	stable	BBB+	stable
Portugal	BB+	stable	Ba1	stable	BB+	positive
Spain	BBB+	stable	Baa2	positive	BBB+	stable

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



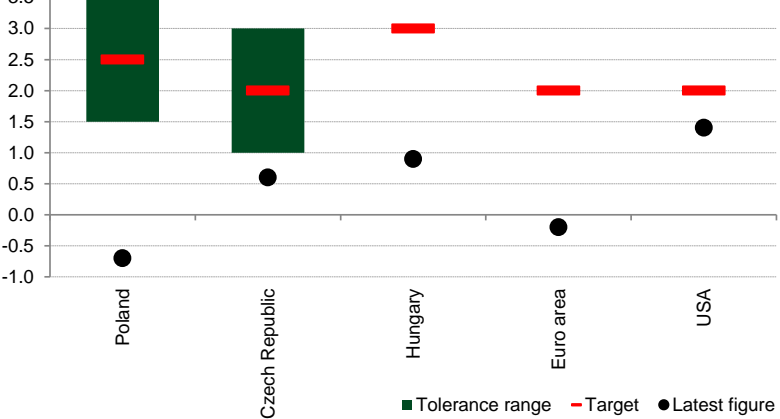
Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries at the end of 2014

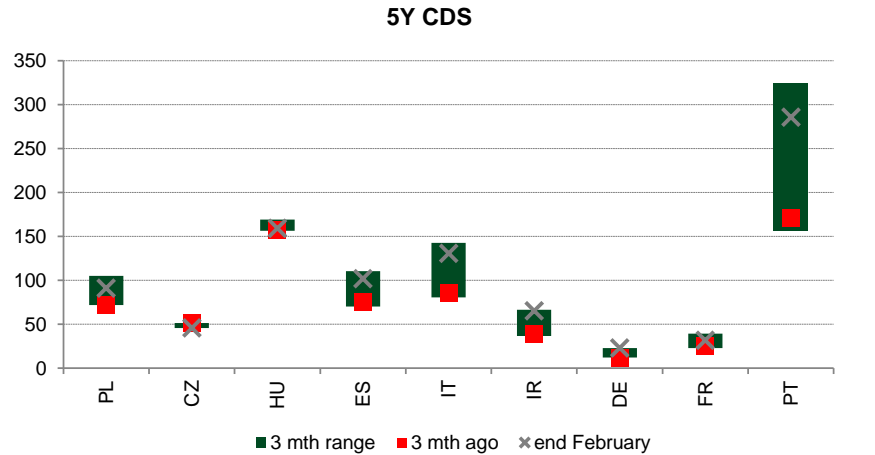
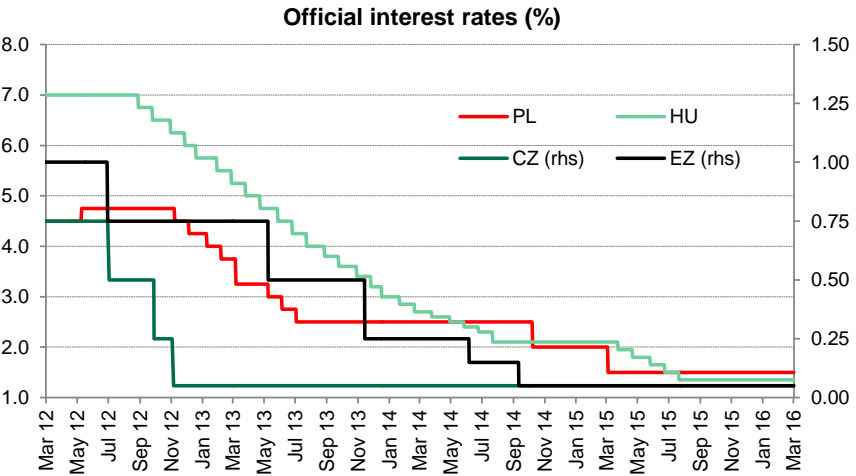
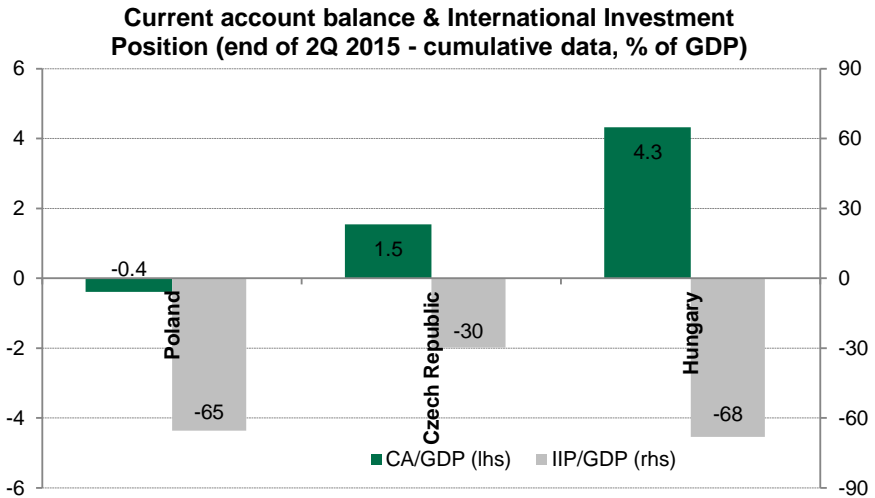
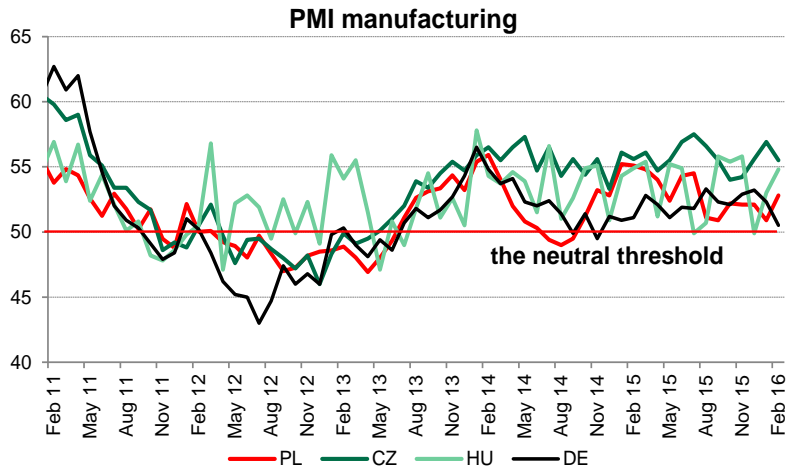


Source: Rating agencies, Reuters, EC, BZ WBK.

Inflation rates vs targets (%)

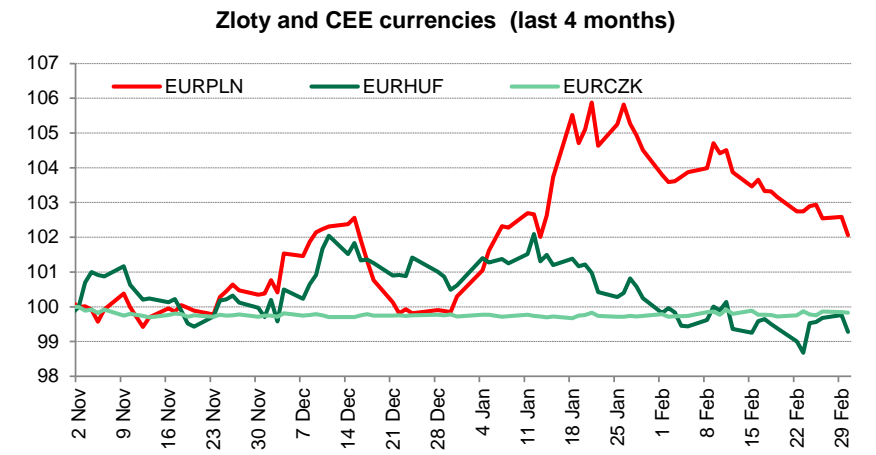
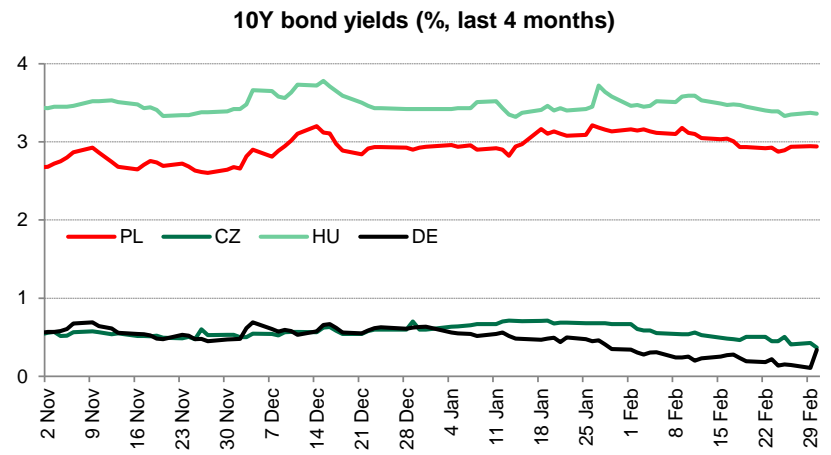
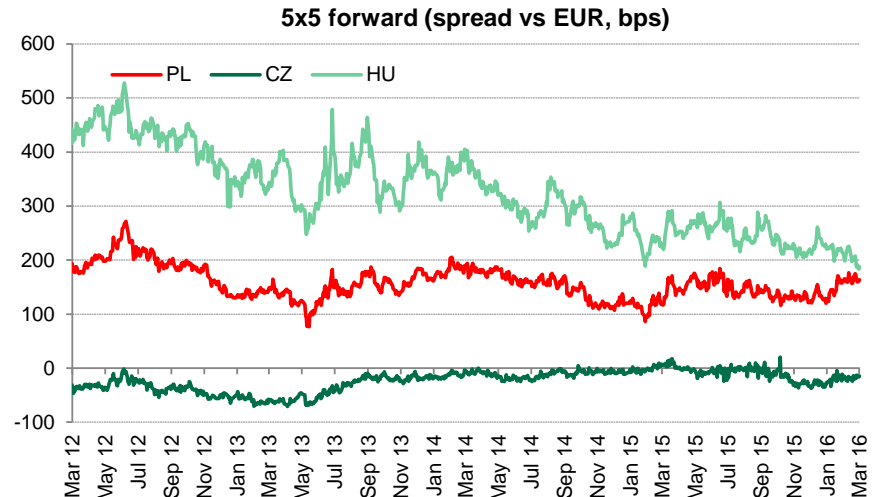
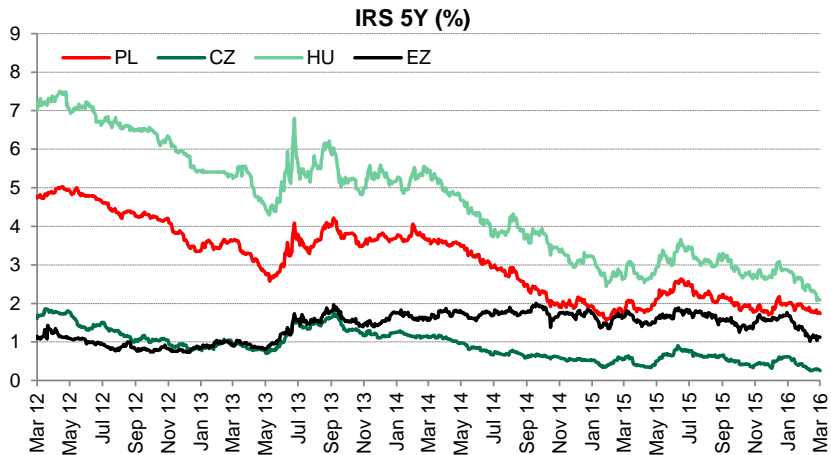


5. Poland vs. Other Countries (cont.)



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

5. Poland vs. Other Countries (cont.)



Source: Reuters, BZ WBK.

6. Central Bank Watch

		Last	2015	2016E	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.05	0.05	0.05				We expect the ECB to ease monetary policy further as economic data surprised on the downside and risk of deflation increased. In our view the scale of loosening will depend on new macro forecasts (CPI, GDP) presented by ECB staff.
	Market implied »				-9	-13	-17	
UK	Forecast	0.50	0.50	0.75				In our view, the UK economy should still perform well in 2016, and we still expect the BoE to hike rates sooner than other central banks. However, the main risk factor is UK's EU membership – the referendum will take place on 23 June. Until this time we expect stable monetary conditions in the UK.
	Market implied »				1	1	0	
US	Forecast	0.25-0.50	0.25-0.50	1.00				In our view FOMC will leave rates unchanged at its March meeting, despite some positive surprises in the US macro data. Investors will focus on new economic projections and expected path of the federal funds rate in the long run. We think that the US economic outlook could still allow for a USD-positive Fed rate hike in H2 2016.
	Market implied »				44	63	89	
Poland	Forecast	1.50	1.50	1.25				Recent comments of the new MPC members show they remain sceptical about the need to cut main interest rates in Poland. However, a rate cut of 25bps in March still remains our base-case scenario because we expect the central bank to revise down its inflation path. More easing in the euro zone could be additional factor, which may encourage the MPC to cut rates. In our view, even if the MPC does not to cut the reference rate, it may lower the reserve requirement ratio (now at 3.50%).
	Market implied »				-7	-21	-28	
Czech Republic	Forecast	0.05	0.05	0.05				As we expected, the Czech National Bank (CNB) left its key interest rate unchanged and decided to prolong its FX commitment. The bank also discussed the possibility of negative interest rates. However, CNB governor Miroslav Singer said that further decisions on monetary policy will depend on market conditions, and mainly on ECB actions, without mentioning any particular trigger. But we expect the CNB to keep rates unchanged this month.
	Market implied »				-2	-10	-19	
Hungary	Forecast	1.35	1.35	1.35				The NBH in its February statement said that the Council may ease monetary conditions further after seeing the March inflation report. Further loosening by the ECB would create room for some easing in Hungary, but, in our view, the NBH is more likely to use 'unconventional' measures than cut rates.
	Market implied »				-6	-20	-29	

This analysis is based on information available through March 1, 2016 and has been prepared by:

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EXPLANATION OF THE RECOMMENDATION SYSTEM

DIRECTIONAL RECOMMENDATIONS IN BONDS		DIRECTIONAL RECOMMENDATIONS IN SWAPS	
	Definition		Definition
Long / Buy	Buy the bond for an expected average return of at least 10bp in 3 months (decline in the yield rate), assuming a directional risk.	Long / Receive fixed rate	Enter a swap receiving the fixed rate for an expected average return of at least 10bp in 3 months (decline in the swap rate), assuming a directional risk.
Short / Sell	Sell the bond for an expected average return of at least 10bp in 3 months (increase in the yield rate), assuming a directional risk.	Short / Pay fixed rate	Enter a swap paying the fixed rate for an expected average return of at least 10bp in 3 months (increase in the swap rate), assuming a directional risk.
RELATIVE VALUE RECOMMENDATIONS			
	Definition		
Long a spread / Play steepeners	Enter a long position in a given instrument vs a short position in another instrument (with a longer maturity for steepeners) for an expected average return of at least 5bp in 3 months (increase in the spread between both rates).		
Short a spread / Play flatteners	Enter a long position in given an instrument vs a short position in other instrument (with a shorter maturity for flatteners) for an expected average return of at least 5bp in 3 months (decline in the spread between both rates).		
FX RECOMMENDATIONS			
	Definition		
Long / Buy	Appreciation of a given currency with an expected return of at least 5% in 3 months.		
Short / Sell	Depreciation of a given currency with an expected return of at least 5% in 3 months.		

NOTE: Given the recent volatility seen in the financial markets, the recommendation definitions are only indicative until further notice.

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