



RATES AND FX OUTLOOK

POLISH FINANCIAL MARKETS

June 2016



Bank Zachodni WBK

 Grupa Santander

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Summary

- ▶ The GDP growth slowdown to 3.0% y/y in 1Q16 was stronger than expected, but we see growing evidence that the following quarters should be better, as economic growth should be supported by strong external demand (growth in the Euro zone, particularly in Germany, is doing fine) and accelerating private consumption (boosted by solid labour income and new child subsidies). Thus, we expect GDP growth in Poland to gradually accelerate, reaching nearly 3.5% on average in 2016. Deflation is surprisingly persistent, but we think that the CPI has already passed the trough, and over the coming months there should be a gradual pickup towards 0.5% y/y at the end of this year and 1.5% y/y at the end of 2017.
- ▶ The MPC meeting in June, the last one chaired by Marek Belka, is unlikely to surprise. The main message should remain unchanged – deflation has shown no negative effects, the GDP slowdown in 1Q16 was temporary and interest rates are at optimal levels. Just after that meeting, we expect Adam Glapiński to be approved as the new NBP governor by the Sejm (vote scheduled on Friday, June 10). Mr Glapiński, ex MPC member, received a positive recommendation from Marek Belka, who appointed him to the NBP board in March, just after his MPC term ended. He is an advocate of conservative monetary policy. He also suggested recently that the current level of interest rates is adequate, and the central bank should leave them stable for as long as possible. Investors have recently scaled back their expectations for interest rate cuts in Poland, and we expect no significant change in monetary policy outlook after Adam Glapiński takes over the NBP chair. Further monetary easing seems unlikely, as long as economic growth does not slow further below 3% in the coming quarters.
- ▶ The Polish financial market has been under pressure recently, due to both internal (FX loans issue) and external risk factors (next FOMC decisions and the EU membership referendum in the UK). We think those uncertainties may continue affecting market sentiment in the coming weeks. On June 7 the team of experts working on the new FX loan proposal concluded their work, but we think it may take at least several more weeks until Poland's president decides about the final shape of his new proposal.
- ▶ In the bond market, the spread vs German bunds for 10Y paper rose above 300bp, and we think it may remain elevated at least while key uncertainty factors remain. At the short end of the curve, the room for yield declines seems to be limited, as the structural excess liquidity of the banking system has been gradually drying up (the value of outstanding NBP bills went down to PLN65bn in early June from over PLN90bn at the start of the year) and it seems that bank demand for short-term treasury securities is reaching its limits.
- ▶ We expect the FX market to remain volatile in the coming weeks, waiting for the key uncertainties to be resolved: outcome of the EU membership referendum in the UK and the new proposal on how to deal with FX loans from the Polish president. We do not rule out a temporary zloty strengthening at the end of June. But the zloty may remain volatile in the next months, as new uncertainties will arise (the details of the 2017 budget, the decisions by rating agencies and the government decision on retirement age).

Short- and Medium-Term Strategy: Interest rate market

	Change (bp)		Current Level	Expected Trend	
	Last 3M	Last 1M	7 June 2016	1M	3M
Reference rate	0	0	1.50	→	→
3M WIBOR	1	1	1.68	→	→
2Y bond yield	23	16	1.67	→	→
5Y bond yield	15	11	2.34	→	→
10Y bond yield	20	7	3.15	→	↗
2/10Y curve slope	-3	-9	148	→	↗

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: Investors have recently scaled back their expectations for interest rate cuts in Poland, and we expect no significant change in monetary policy outlook after Adam Glapiński takes over the NBP chair in mid-June. Further monetary easing seems unlikely, as long as economic growth does not slow further below 3% in the coming quarters. Meanwhile, we expect a slight acceleration of GDP growth. Consequently, money market rates should remain relatively stable in the coming weeks.

Short end: Structural excess liquidity of the banking system has been gradually drying up (the value of the outstanding NBP bills went down to PLN65bn in early June from over PLN90bn at the start of the year), and it seems that bank demand for short-term treasury securities is reaching its limits. We see little room for yields to decline at the short end of the curve.

Long end: Spread vs German Bunds for 10Y bonds rose above 300bp, and we think it may remain elevated at least until key uncertainty factors remain. Investors have either turned bearish or at best refrained from buying. Risk factors both internal (FX loans issue) and external (FOMC decision, EU referendum in the UK) are still valid, and we expect these issues to add to market volatility, putting upward pressure on yields until later this month.

Risks to our view: Major disappointment in the next economic data from Poland could raise the probability of interest rate cuts later this year. It would probably imply bullish steepening of the curve. Key risk factors for the Polish debt market also include the outcome of EU referendum in the UK and expectations for Fed rate hikes.

Short- and Medium-Term Strategy: FX market

	Change (%)		Current Level	Expected Trend	
	Last 3M	Last 1M	7 June 2016	1M	3M
EUR/PLN	0.6	-1.6	4.35	→	↗
USD/PLN	-3.1	-1.1	3.83	↗	↗
CHF/PLN	0.3	-1.0	3.96	↘	↘
GBP/PLN	0.0	-0.3	5.59	↗	↗↗
EUR/USD	3.8	-0.5	1.14	↘	→

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: We expect the market to be volatile in the upcoming weeks, waiting for conclusions in key areas of uncertainty: the outcome of the EU membership referendum in the UK and the new proposal on how to deal with FX loans from the Polish president. We do not rule out a temporary zloty strengthening at the end of June. But the zloty may remain volatile in the next months.

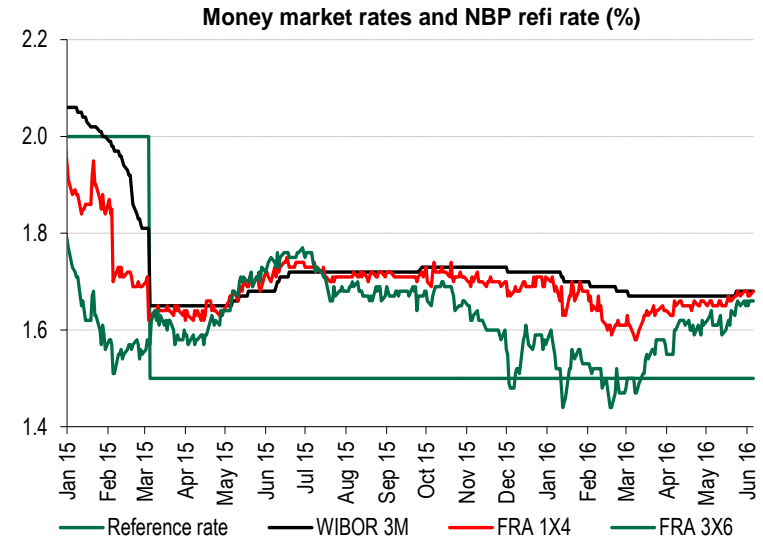
USD: Although the downside risks for the EUR/USD exchange rate may dominate in the near term due to the UK's referendum on EU membership and a possible US rate hike in June or July, we retain a positive outlook on the EUR through to the end of 2016. Thus, the USD/PLN should be trending lower in the coming months, in our view.

CHF: We are still negative on the CHF versus the EUR and believe the EUR/CHF will strengthen throughout the rest of 2016, although global risks imply downside pressure in the coming weeks. The SNB views the CHF as 'heavily overvalued' and remains willing to intervene to weaken it. In this environment, the zloty should strengthen vs the Swiss frank in coming months.

Risks to our view: Although we believe the solution to the FX loans issue will not be damaging for financial system stability, the risk is that the next president's proposal will be costly again, provoking higher market volatility and a temporary market sell-off. The UK's referendum outcome is another potential source of market weakness.

Domestic Money Market: Lower expectations for rate cuts

- In May and early June, WIBOR rates were quite stable (1M and 3M rates increased by 3bp and 1bp compared with the end of April), while FRAs climbed markedly by 5bp-15bp across the board, with the long-term rates increasing the most. The FRA market suffered from weakening of the IRS market and hawkish comments from the MPC members despite weak 1Q16 GDP growth and a slower-than-expected rebound in the headline CPI in May.
- The FRA market clearly suggests that investors scaled back their expectations on monetary policy easing later this year. Currently, investors see c30% chance that rates will be lower by 25pb in the next 12 months (vs 70% expected early May). What is more, FRA rates also suggest WIBOR 3M will remain quite stable over the next 21 months.
- As we mentioned in our previous report, the MPC pays more attention to economic growth than to CPI inflation. Minutes from May's MPC meeting confirmed that the MPC members thought that the economic slowdown in 1Q was temporary, and future quarters would bring a slight rebound. It is similar to our baseline scenario, assuming a rebound of GDP to c3.5% y/y on average in 2016.
- In our view, the outcome of MPC meeting in June will be neutral for the money market. FRA valuation will be strongly data-dependent. Further improvement in the labour market (with strong wage growth acceleration), together with quite decent growth of industrial output and retail sales, might result in some upward pressure on FRA, in particular on longer tenors (over 12M). At the same time, we expect WIBORs to remain quite stable in the coming weeks/months.



Source: Reuters, BZ WBK

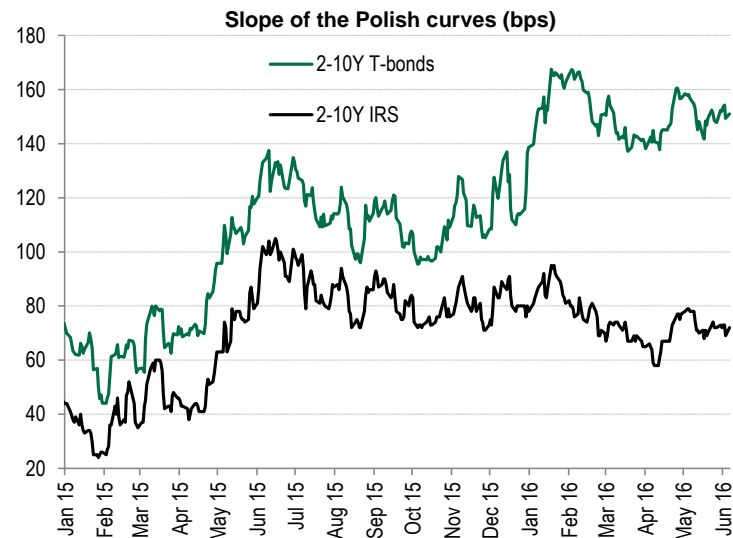
Domestic IRS and the T-Bond Market: Upward pressure and high volatility may continue

May and early June saw a gradual increase in both T-bond yields and IRS rates. This stemmed mainly from a growing probability of imminent interest rate hikes by the Fed, Fitch suggesting it could change Poland's ratings outlook to negative in mid-July and hawkish statements by the MPC members. As a consequence, the yield of the 10Y benchmark increased above 3.18% for the first time since early February. The T-bond market trimmed part of earlier losses after disappointing US labour market data for May, but it proved to be only short-lived, and yields and IRS rates have returned to an upward trend.

Both yield and IRS curves flattened over the past month as a bear flattener developed in the market. What is more, the risk premium inched higher with the spread over bunds for the 10Y tenor widening over 300bp for the first time since January 2014. At the same time, the assets swap spread widened as the T-bond market underperformed IRS.

Investors have either turned bearish or at best refrained from buying. Risk factors both internal (in particular news about FX-loan conversions) and external (including the FOMC decision and the outcome of the EU referendum in the UK) are still valid for Poland's interest rate market. We expect them to add to market volatility, creating upward pressure until their solution later this month. As a consequence, the spread vs bunds could remain quite wide as political and fiscal risks remain elevated in Poland.

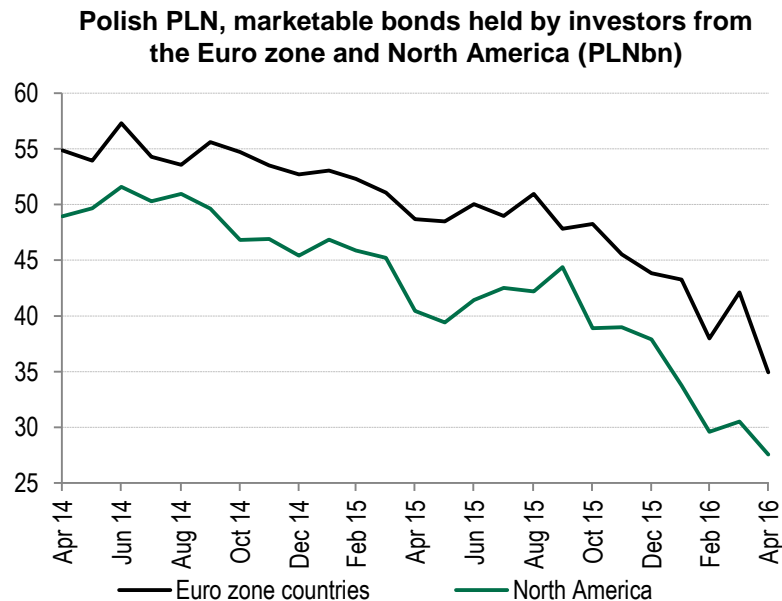
Overall, the Polish IRS and bond curves might continue to flatten in the very short term, though more as a result of weakening at the short end. We remain less optimistic about the FI market in the months to come and expect the yields and IRS to rise later in the year, driven mainly by the Fed's rate hikes and stable economic growth in the Euro zone.



Source: Reuters, BZ WBK.

Demand Corner: Euro zone and the US sell Polish bonds

- In April, the PS0416 bond matured, and this was one of the reasons why the nominal value of the nonresidents portfolio of Polish marketable bonds fell PLN1.9bn on a monthly basis. At the end of March, foreigners held PLN4.6bn of PS0416 and in April were much less active in the market to neutralize the bond maturity effect on their holdings. Polish banks were net buyers last month, with the nominal rise in their portfolio by PLN2.9bn to the new all-time high at cPLN215bn. Elsewhere, Polish mutual funds bought bonds for PLN1.9bn and the nominal value of their portfolio rose above PLN50bn for the first time since November 2015.
- Although non-residents' holdings did not change much, pretty significant activity was recorded within this group. Commercial banks sold PLN6.9bn of Polish bonds and the nominal value of their portfolio was the lowest since November 2015. At the same time, omnibus accounts bought debt for PLN8bn.
- Taking the geographical point of view, Euro zone countries sold Polish bonds for more than PLN7bn (with Austria being the biggest seller – PLN5.3bn), and the nominal value of their portfolio reached the lowest level (PLN34.9bn) since the available comparable data (April 2014). US investors sold PLN2.9bn of Polish bonds, and the portfolio of investors from North America fell to PLN27.5bn, its lowest since available comparable data (April 2014).

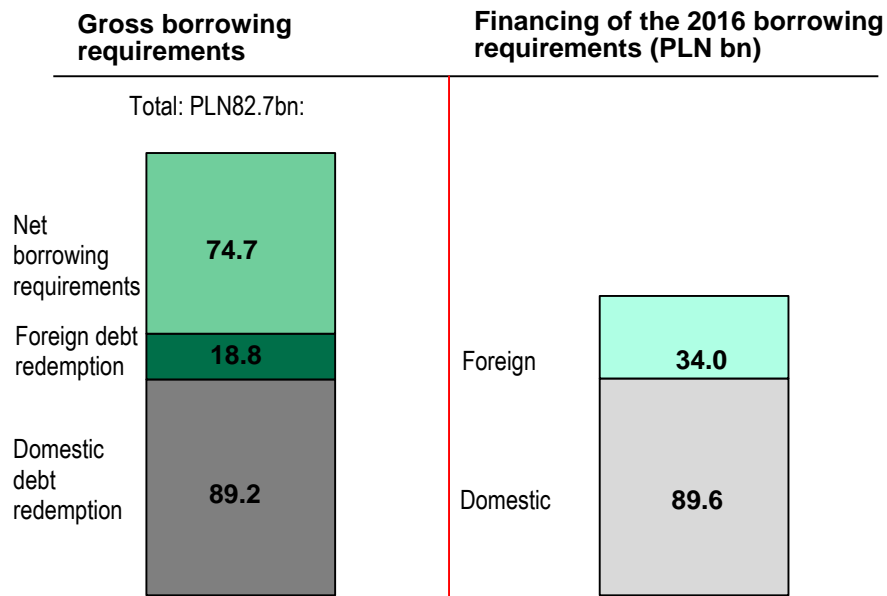


Source: Finance Ministry. BZ WBK.

Supply Corner: Moderate issuance plan for June

- May's T-bond auction on the primary market proved very successful. Poland's bond market has attracted healthy demand from investors both domestic and non-residents, who submitted purchase offers worth over PLN18bn. The ministry sold bonds for the total amount of PLN9.3bn, above the upper limit of the planned offer on tenders in May. Deputy Finance Minister Piotr Nowak said that after May the borrowing needs were 68% covered.
- Poland's Ministry of Finance assumes in its issuance plan to hold two auctions in June. The ministry will offer 2Y benchmark OK1018 and 10Y benchmark DS0726 worth PLN3-6bn at regular auction on June 9. Later this month it will organize the switch tender, repurchasing OK0716, IZ0816 and PS1016. The choice of offered securities will depend on the market situation.
- In our view, the quite moderate offer in June should attract healthy demand from both domestic and foreign investors. What is more, the likely reduction of the Poland's T-bond supply in upcoming months (as a consequence of the high level of financing for the 2016 gross borrowing needs) should also support bids.

Background of borrowing requirements' financing at the end of May



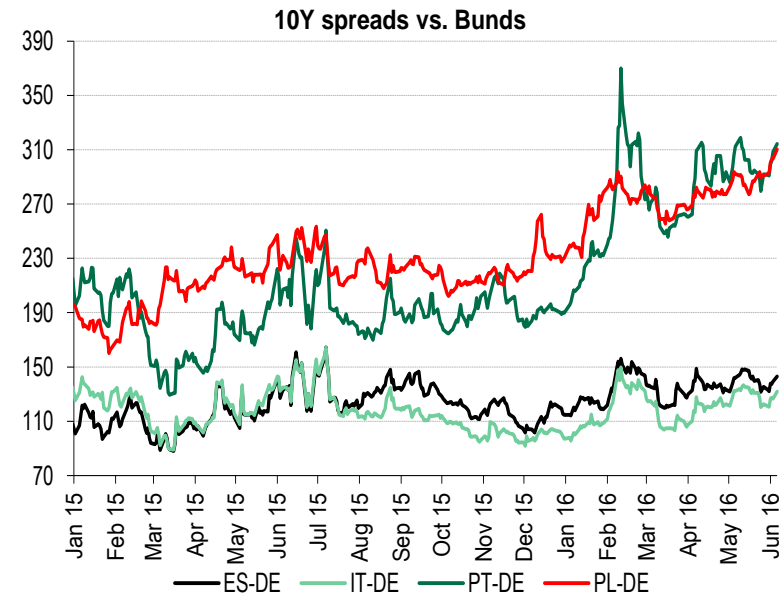
Auction plan for June 2016

Auction Date	Settlement Date	T-bond/T-bills to Be Offered	Initial offer (PLN mn)
9 June 2016	13 June 2016	OK1018/DS0726	3,000-6,000
27 June 2016	29 June 2016	Switch auction (repurchase of OK0716, IZ0816 and PS1016)	-

Source: Finance Ministry, BZ WBK.

International Interest Rate Market: Horizontal trend short term

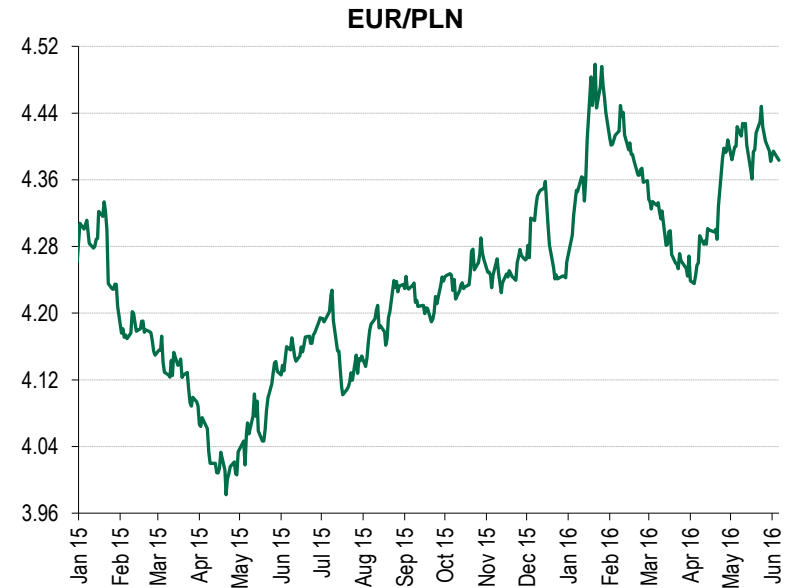
- In May, the situation in the global bond market was mixed. Yields of the US Treasuries increased markedly (by 3bp-13bp, with the highest increase on the front end over the past month due to the increasingly hawkish tone from FOMC speakers and the possibility of a Fed hike as early as in June. On the other hand, both Germany and peripheral country debt strengthened as a consequence of quite soft macro data from the Euro zone, which supported expectations for dovish rhetoric from the ECB. Contrary to this, the CEE debt weakened moderately, with yields rising by 5bp-9bp.
- Early June brought gradual strengthening in the bond market globally as weak the US labour market data reduced the chances of Fed' monetary tightening in June. But it was only short-lived and the spread over Bund widen due to fears of the referendum outcome in the UK.
- The ECB has remained its dovish rhetoric. This, together with economic data, suggest yields will stay at low levels in the upcoming months. Yields will be very vulnerable to macro data releases, in particular inflation data. However, we still see modest upward pressure on the long end of the Euro rate curves in upcoming months, as we still expect upward pressure on the long-end of US yields later in 2016.
- In our view, the Fed is ready to tighten its monetary policy in upcoming months. Therefore in recent weeks we have seen yields of the US Treasuries moving sideways. We also expect some re-pricing of debt market valuations after both the June FOMC meeting (as new CPI, GDP and interest rate paths will be released) and the outcome of the referendum in the UK.



Source: Reuters, ECB, Fed, BZ WBK.

Foreign Exchange Market: FX loan issue may still weigh on mood

- ▶ In May we wrote that we were rather pessimistic regarding room for the zloty to continue to appreciate, and this proved correct as the EUR/PLN's drop after the Poland's outlook downgrade by Moody's did not persist.
- ▶ Although the summer hasn't started yet, the next couple of weeks may be a hot period for the Polish currency, in our view, due to both internal and external factors.
- ▶ Advisors to President Andrzej Duda presented an outline of their recommendations on the FX mortgage conversion bill, but this did not dispel doubts regarding its final shape and its possible impact on the economy and the financial sector. The President's Office is to take over the work and will prepare a final draft to be submitted to Parliament in the early summer. We think that uncertainty about the final solution will continue weighing on the financial markets in the weeks to come.
- ▶ At the same time, the next data releases should be moderately supportive for the PLN, in our view, confirming a gradual acceleration in GDP growth and thus lowering the chance of interest rate cuts.
- ▶ On the external front, the uncertainty regarding the timing of Fed rate hikes weighs on EMs. Also, worries related to the EU referendum in the UK might also limit the scope for risky assets to appreciate in the very short term.



Source: Reuters, BZ WBK

FX Technical Analysis Corner: Little room for a decline



- ▶ EUR/USD did not manage to continue the upside trend and fell in May, contrary to our expectations.
- ▶ Technical analysis does not give any new clear hints but the last large white candle indicates that it may be difficult to resume the down trend.
- ▶ The bottom of this candle is now the first crucial support to watch.

Source: Reuters, BZ WBK.

Macroeconomic Forecasts

Poland		2013	2014	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E	3Q16E	4Q16E
GDP	PLNbn	1,656.3	1,719.1	1,790.1	1,857.0	413.1	431.0	437.1	508.4	426.2	444.8	453.7	532.3
GDP	%YoY	1.3	3.3	3.6	3.4	3.6	3.1	3.4	4.3	3.0	3.4	3.5	3.7
Domestic demand	%YoY	-0.7	4.9	3.3	3.6	2.9	3.0	3.0	4.5	4.1	2.7	3.7	4.0
Private consumption	%YoY	0.2	2.6	3.1	4.0	3.1	3.1	3.1	3.0	3.2	3.5	4.6	4.8
Fixed investment	%YoY	-1.1	9.8	6.1	1.9	11.8	5.8	4.4	4.4	-1.8	0.5	3.0	3.5
Unemployment rate ^a	%	13.4	11.4	9.8	8.6	11.5	10.2	9.7	9.8	10.0	8.8	8.4	8.6
Current account balance	EURmn	-5,031	-8,303	-1,011	66	900	864	-2,348	-427	150	1,483	-1,923	355
Current account balance	% GDP	-1.3	-2.0	-0.2	0.0	-1.3	-0.4	-0.4	-0.2	-0.4	-0.3	-0.2	0.0
General government balance (ESA 2010)	% GDP	-4.0	-3.3	-2.6	-2.8	-	-	-	-	-	-	-	-
CPI	%YoY	0.9	0.0	-0.9	-0.7	-1.5	-0.9	-0.7	-0.6	-0.9	-1.0	-0.8	0.0
CPI ^a	%YoY	0.7	-1.0	-0.5	0.3	-1.5	-0.8	-0.8	-0.5	-1.1	-0.8	-0.5	0.3
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	-0.4	-0.4	0.1

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	1Q16	2Q16E	3Q16E	4Q16E
Reference rate ^a	%	2.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
WIBOR 3M	%	3.02	2.52	1.75	1.68	1.87	1.67	1.72	1.73	1.69	1.67	1.68	1.69
Yield on 2-year T-bonds	%	2.98	2.46	1.70	1.58	1.61	1.75	1.80	1.65	1.45	1.56	1.65	1.65
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.31	1.90	2.35	2.43	2.19	2.23	2.28	2.35	2.38
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.16	2.24	2.79	2.93	2.77	2.98	3.05	3.22	3.38
2-year IRS	%	3.10	2.51	1.72	1.62	1.65	1.85	1.78	1.58	1.54	1.64	1.67	1.64
5-year IRS	%	3.51	2.92	2.02	1.95	1.80	2.23	2.17	1.89	1.85	1.91	1.99	2.07
10-year IRS	%	3.86	3.34	2.41	2.52	2.06	2.57	2.62	2.38	2.32	2.38	2.60	2.78
EUR/PLN	PLN	4.20	4.18	4.18	4.37	4.20	4.09	4.19	4.26	4.37	4.36	4.41	4.33
USD/PLN	PLN	3.16	3.15	3.77	3.88	3.72	3.70	3.77	3.90	3.96	3.87	3.90	3.77
CHF/PLN	PLN	3.41	3.45	3.92	3.84	3.93	3.93	3.90	3.93	3.98	3.95	3.82	3.63
GBP/PLN	PLN	4.94	5.19	5.77	5.78	5.64	5.67	5.84	5.91	5.67	5.63	5.92	5.90

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

Economic Calendar and Events

Date		Event:	Note:
7 June	PL	MPC meeting – interest rate decision	We expect the MPC to keep NBP rates on hold
10 June	PL	Sejm's vote on Adam Glapiński's appointment as new NBP governor	We expect the candidate to be approved by parliament
13 June	PL	CPI for May	We expect inflation at -1.0% y/y, in line with the flash estimate
	PL	Balance of payments for April	We expect a current account surplus of €397m and an acceleration of export growth to 3.7% y/y
14 June	PL	Money supply for May	We expect solid 11% y/y growth
	PL	Core inflation for May	We predict drop to -0.5% y/y, new all-time low
15 June	US	FOMC decision	
16 June	PL	Wages and employment for May	We expect acceleration of wages to 4.8% y/y and stable employment growth of 2.8%
17 June	PL	Industrial production for May	We predict a slight deceleration of output growth to 5.0% y/y
	PL	Retail sales for May	We expect solid growth of 5.6% y/y in constant prices
	PL	PPI for May	We expect -0.7% y/y
21 June	HU	Central bank decision	
22/23 June	PL	Registered unemployment rate for May	We expect a drop in the jobless rate to 9.1%
23 June	PL	Minutes of June MPC meeting	
23 June	UK	EU membership referendum	

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 May	1.50	1.11	1.59	1.68	1.74	1.76	1.42	1.40	1.35	1.33	1.68	1.65	1.61	1.58
Last 1M change (bp)	0	-38	2	1	0	0	0	3	6	9	2	4	7	9
Last 3M change (bp)	0	-19	3	0	0	0	18	16	14	18	7	18	21	21
Last 1Y change (bp)	0	-26	-6	0	-2	-4	-3	-7	-14	-18	-1	-8	-10	-16

Bond and IRS Market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of May	1.59	2.31	3.11	1.67	1.96	2.39	-8	35	72
Last 1M change (bp)	10	6	5	5	4	0	5	2	5
Last 3M change (bp)	16	10	17	18	20	20	-2	-10	-3
Last 1Y change (bp)	-16	-14	18	-21	-32	-28	5	18	46

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	8,387	14,891	9,506	5,500	7,500	3,600	5,000	10,000	3,000		96,234
T-bill auctions	2,400	2,390	1,000			700	500		700				7,690
Retail bonds	200	600	175	167	160	192	200	200	200	250	1100	250	3,694
Foreign bonds/credits	7,700			9,883						3,206			20,788
Pre-financing and financial resources at the end of 2015	36,500												36,500
Total	59,429	19,211	9,562	24,941	9,666	6,392	8,200	3,800	5,900	13,456	4,100	250	164,907
Redemption	13,680	11,645	153	13,688	146	124	11,067	8,688	2,590	23,572	4,884	910	91,149
Net inflows	45,749	7,566	9,409	11,253	9,519	6,268	-2,867	-4,888	3,310	-10,117	-784	-660	73,758
Rolled-over T-bonds			8,590										8,590
Buy-back of T-bills/ FX-denominated bonds													0
Total	45,749	7,566	17,999	11,253	9,519	6,268	-2,867	-4,888	3,310	-10,117	-784	-660	82,348
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	12,637		136	12,773	915	13,688
May	0		146	146	0	146
June	0		124	124	0	124
July	9,931		226	10,156	911	11,067
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	22,661	911	23,572
November	0		1,056	1,056	1,628	2,684
December	0		210	210	0	210
Total 2016	62,127	4,790	3,567	70,485	15,364	85,848
Total 2017	72,603		2,485	75,087	11,728	86,815
Total 2018	80,642		1,313	81,955	12,977	94,931
Total 2019	63,811		1,237	65,048	23,512	88,559
Total 2020	65,481		634	66,115	21,805	87,920
Total 2021+	229,439		1,749	231,187	134,266	365,453

Source: MF, BZ WBK.

2. Polish Bonds: Supply Recap (cont.)

Scheduled Wholesale Bond Redemptions by Holders (data at the end of April 2016, in PLN mn)

	Foreign Investors	Domestic Banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial Dector	Other	Total
Q1 2016	8,007	2,151	2,027	54	579	26	42	459	13,346
Q2 2016	4,631	4,876	1,710	180	361	15	45	820	12,637
Q3 2016	3,998	6,215	2,041	65	1,581	24	8	633	14,566
Q4 2016	5,589	11,961	2,000	40	825	7	30	1,968	22,420
Total 2016	9,587	18,176	4,041	105	2,406	31	37	2,601	36,986
	26%	49%	11%	0%	7%	0%	0%	7%	100%
Total 2017	22,666	30,844	7,958	573	5,045	108	97	5,293	72,583
	31%	42%	11%	1%	7%	0%	0%	7%	100%
Total 2018	17,278	41,239	4,355	526	8,099	68	169	7,143	78,877
	22%	52%	6%	1%	10%	0%	0%	9%	100%
Total 2019	17,209	30,861	5,595	176	5,074	84	148	4,663	63,811
	27%	48%	9%	0%	8%	0%	0%	7%	100%
Total 2020	24,216	26,166	4,339	136	6,517	69	63	3,989	65,497
	37%	40%	7%	0%	10%	0%	0%	6%	100%
Total 2021+	97,289	68,049	24,354	273	23,460	376	312	7,943	222,056
	44%	31%	11%	0%	11%	0%	0%	4%	100%

Source: MF, BZ WBK.

3. Polish Bonds: Demand Recap

Holder of Marketable PLN Bonds

	Nominal Value (PLN bn)			Nominal Value (PLN bn)			%Change in April			Share of Total in April (%)
	End Apr'16	End Mar'16	End Feb'16	End 3Q 2015	End 2014	End 2013	MoM	3-mth	YoY	
Domestic investors	362.3	358.0	352.6	325.5	295.9	381.2	1.2	6.9	16.5	65.8 (0.5)
Commercial banks	215.3	212.5	206.2	176.7	150.8	114.7	1.4	21.4	32.1	39.1 (0.4pp)
Insurance companies	50.6	51.1	52.0	52.5	52.8	52.0	-0.8	-1.9	-4.8	9.2 (-0.1pp)
Pension funds	1.8	1.9	1.9	3.0	3.3	125.8	-7.6	-11.0	-38.2	0.3
Mutual funds	50.6	48.7	48.6	49.7	46.9	46.7	3.9	8.7	0.3	9.2 (0.3pp)
Others	43.9	43.8	43.9	43.7	42.0	42.0	0.3	0.9	5.7	8.0
Foreign investors*	188.3	190.2	186.5	208.2	196.0	193.2	-1.0	-2.8	-5.2	34.2 (-0.5pp)
Banks	12.4	19.3	14.8	13.5	9.9	n.a.	-35.9	-25.2	0.0	2.2 (-1.3pp)
Central banks	28.2	27.7	29.2	28.3	16.4	n.a.	1.8	-3.5	27.2	5.1 (0.1pp)
Public institutions	8.9	9.5	9.4	9.7	8.1	n.a.	-6.5	-6.1	-1.2	1.6 (-0.1pp)
Insurance companies	10.8	11.9	11.4	11.6	10.7	n.a.	-8.9	-11.8	9.8	2.0 (-0.2pp)
Pension funds	13.7	13.8	13.4	13.0	13.0	n.a.	-0.3	4.3	5.1	2.5
Mutual funds	40.7	41.7	41.1	64.7	78.1	n.a.	-2.5	-14.2	-43.7	7.4 (-0.2pp)
Hedge funds	0.06	0.04	0.04	0.1	1.1	n.a.	48.2	57.8	-94.1	0.0
Non-financial sector	6.2	6.7	6.6	12.2	8.2	n.a.	-7.2	-3.2	-20.2	1.1 (-0.1pp)
Others	16.9	17.2	17.7	19.5	14.3	n.a.	-1.8	-4.7	0.3	3.1 (-0.1)
TOTAL	550.6	548.1	539.2	533.7	491.8	574.3	0.4	12.8	8.0	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 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	60%
Belgium	33.6	3	8.0	84	62%
Finland	15.8	58	5.9	169	59%
France	187.0	0	60.5	-14	61%
Germany	168.6	16	0.0	-100	46%
Greece	-	-	-	-	-
Ireland	10.8	-20	2.7	-76	71%
Italy	221.9	-10	38.6	-9	54%
Netherlands	36.8	-23	8.5	5	40%
Portugal	11.9	-34	5.1	-55	58%
Spain	138.8	0	45.5	6	51%
Total	844.5	-1	180.3	-1	54%

* 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)	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Poland	3.7	3.6	0.0	1.6	-0.3	-0.9	-2.6	-3.1	52.0	52.7
Czech Republic	2.1	2.6	0.5	1.4	-1.5	-1.3	-0.7	-0.6	41.3	40.9
Hungary	2.5	2.8	0.4	2.3	5.0	4.5	-2.0	-2.0	74.3	73.0
EU	1.8	1.9	0.3	1.5	2.2	2.1	-2.1	-1.8	86.4	85.5
Euro zone	1.6	1.8	0.2	1.4	3.7	3.6	-1.9	-1.6	92.2	91.1
Germany	1.6	1.6	0.3	1.5	8.5	8.3	0.2	0.1	68.6	66.3

Main Market Indicators (% , end of period)

	Reference Rate (%)		3M Market Rate (%)		10Y Yields (%)		10Y Sspread vs Bund (bp)		CDS 5Y	
	2015	End-May 2016	2015	End-May 2016	2015	End-May 2016	2015	End-May 2016	2015	End-May 2016
Poland	1.50	1.50	1.72	1.68	2.94	3.11	230	293	75	85
Czech Republic	0.05	0.05	0.29	0.29	0.60	0.54	-4	37	50	41
Hungary	1.35	0.90	1.35	1.01	3.42	3.51	279	333	164	139
Euro zone	0.05	0.00	-0.13	-0.261						
Germany					0.63	0.18			12	18

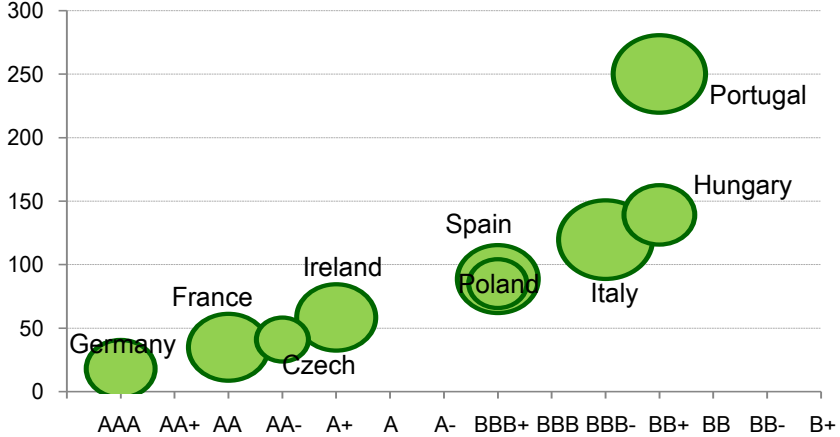
Source: EC – Spring 2016, statistics offices, central banks, Reuters, BZ WBK.

5. Poland vs Other Countries (cont.)

Sovereign ratings

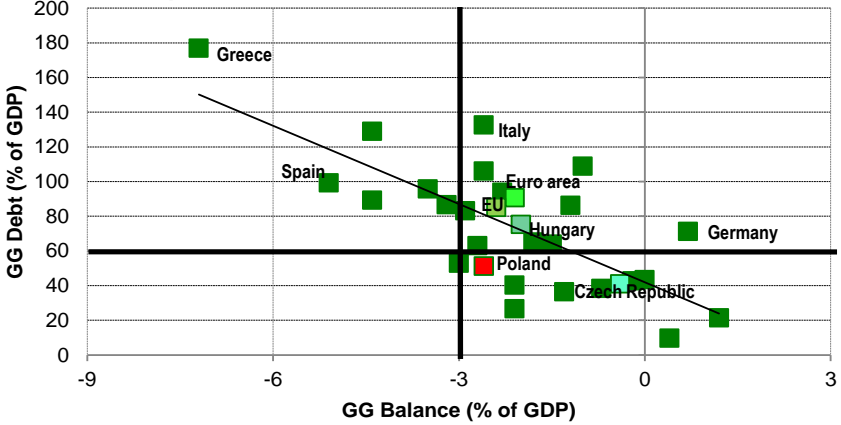
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	BBB+	negative	A2	negative	A-	stable
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB+	stable	Ba1	positive	BBB-	stable
Germany	AAA	stable	Aaa	stable	AAA	stable
France	AA	negative	Aa2	stable	AA	stable
UK	AAA	negative	Aa1	stable	AA+	stable
Greece	B-	stable	Caa3	stable	CCC	stable
Ireland	A+	stable	A3	positive	A	stable
Italy	BBB-	stable	Baa2	stable	BBB+	stable
Portugal	BB+	stable	Ba1	stable	BB+	stable
Spain	BBB+	stable	Baa2	stable	BBB+	stable

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



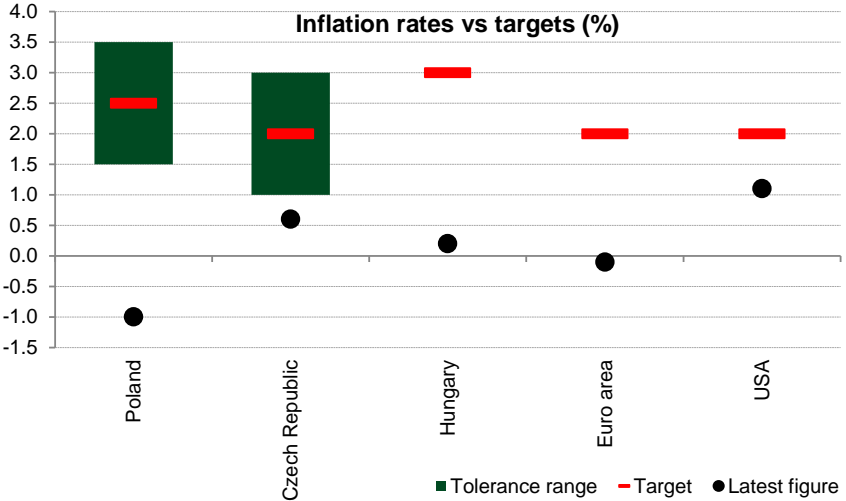
Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries at the end of 2015



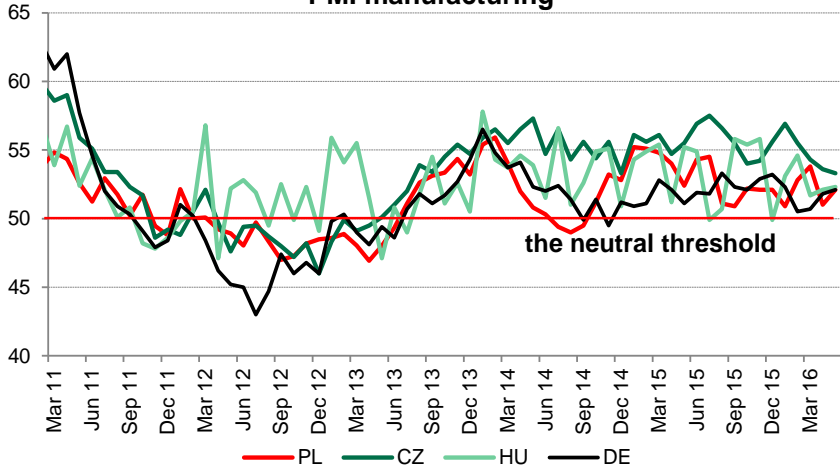
Source: Rating agencies, Reuters, EC, BZ WBK.

Inflation rates vs targets (%)

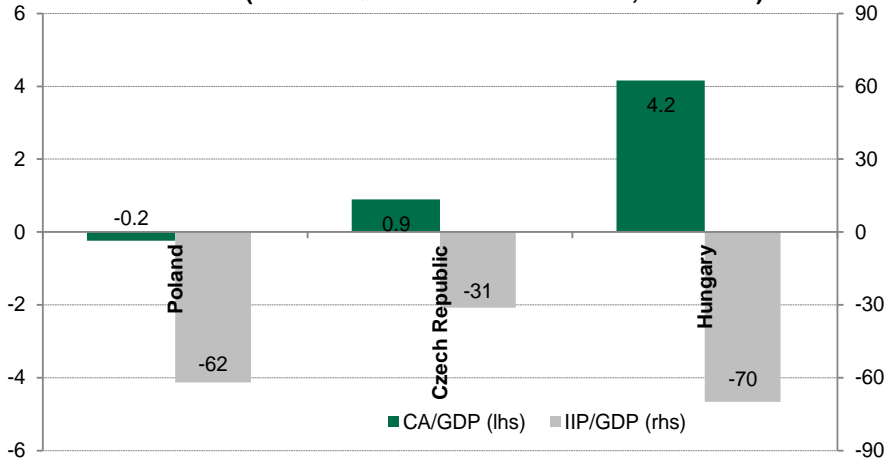


5. Poland vs Other Countries (cont.)

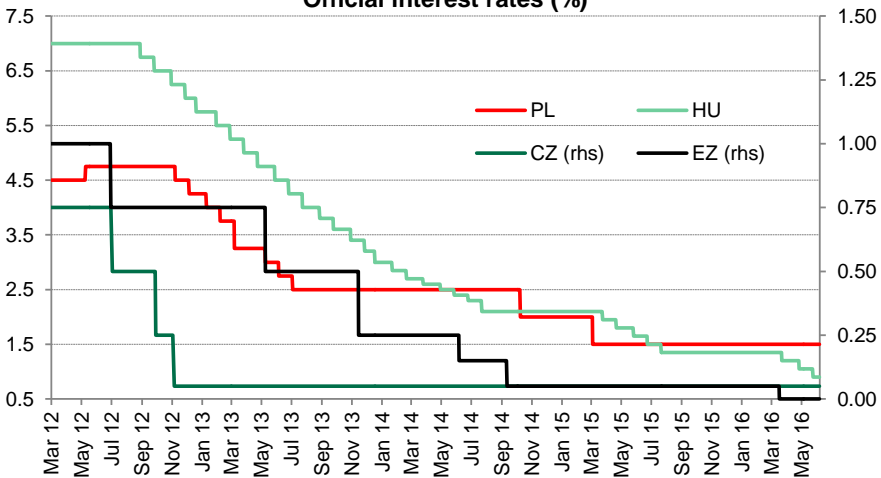
PMI manufacturing



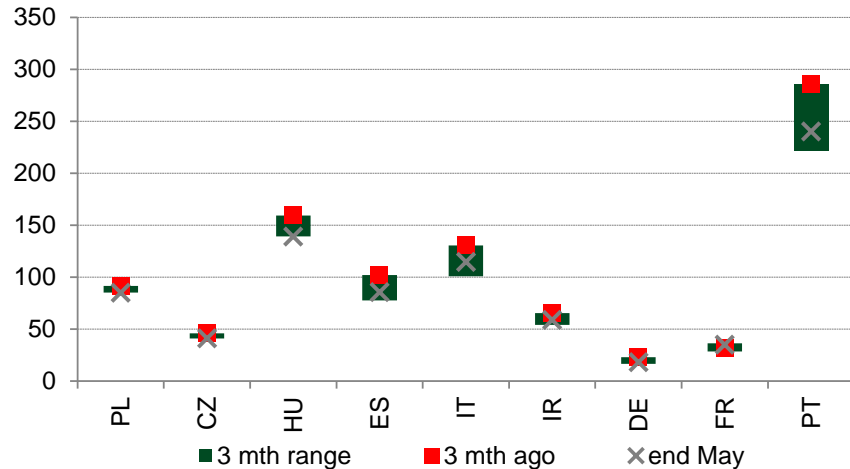
Current account balance & International Investment Position (end of 3Q 2015 - cumulative data, % of GDP)



Official interest rates (%)



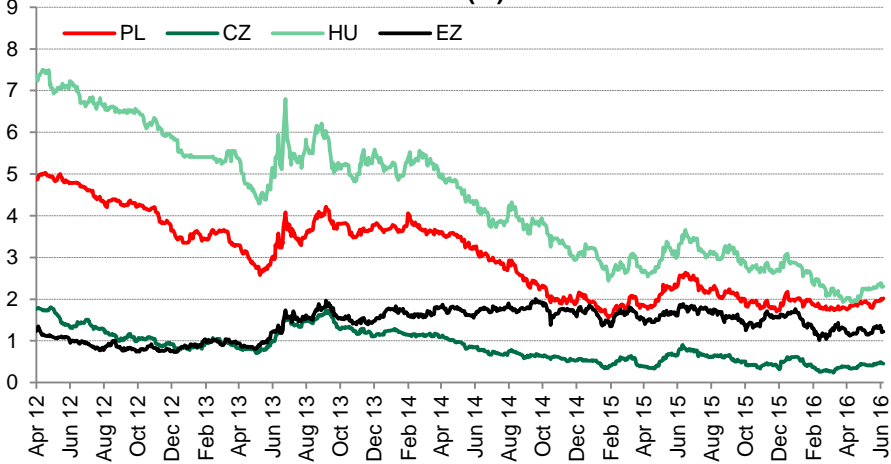
5Y CDS



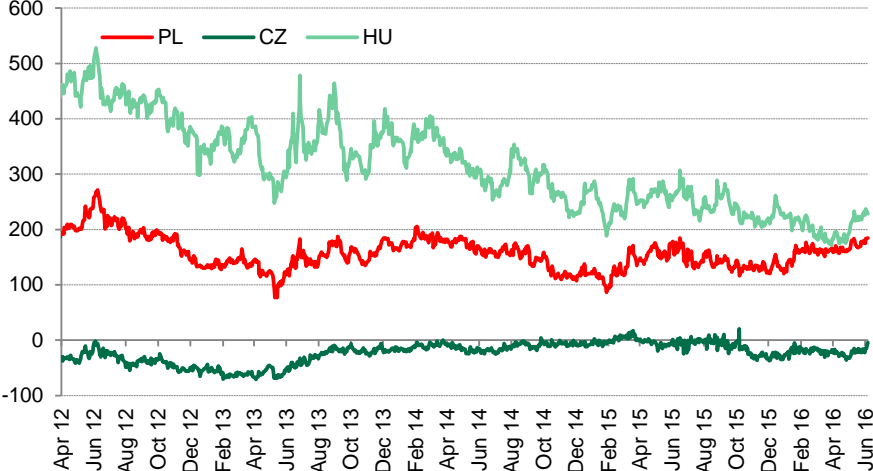
Source: Markit, Eurostat, central banks, Reuters, BZ WBK, EC.

5. Poland vs Other Countries (cont.)

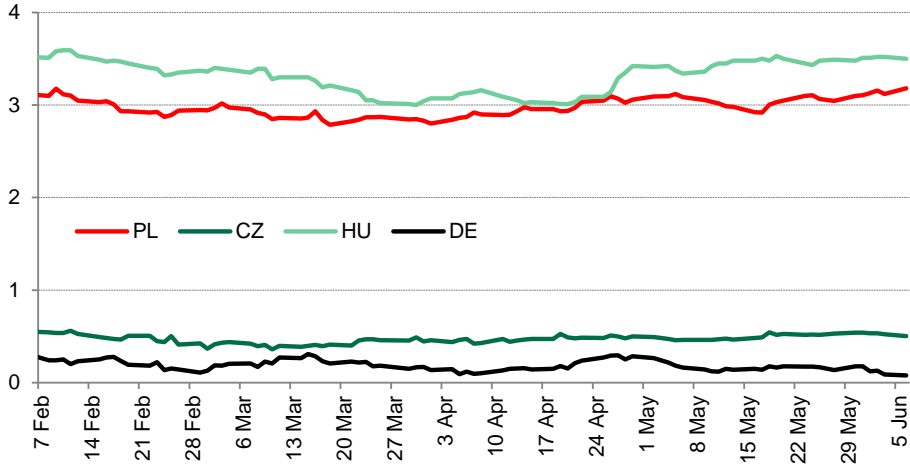
IRS 5Y (%)



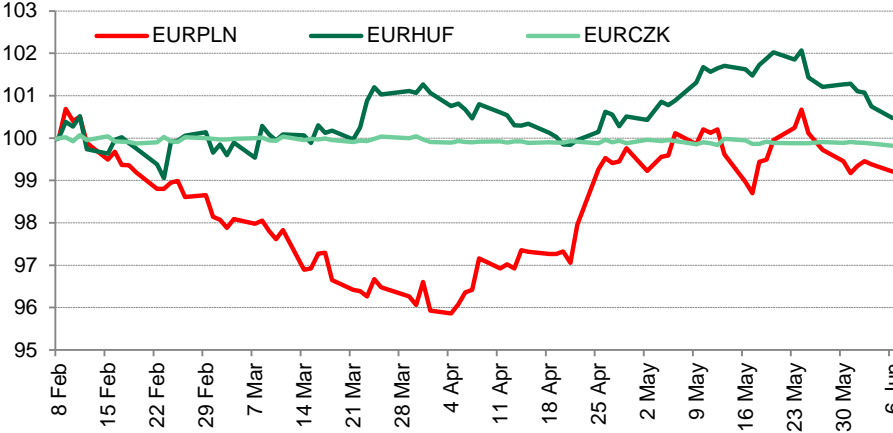
5x5 forward (spread vs EUR, bps)



10Y bond yields (% , last 4 months)



Zloty and CEE currencies (last 4 months)



Source: Reuters, BZ WBK.

6. Central Bank Watch

		Last	2015	2016E	Expected changes (bp)			Comments
					1M	3M	6M	
Euro zone	Forecast	0.00	0.05	0.00				In line with expectations, the ECB kept monetary policy unchanged at its June meeting. The Council uphold wait-and- see stance and highlighted that the ECB will spend the next few months implementing the policy measures adopted in March. In our view, the monetary policy in the Euro zone will remain stable in upcoming months.
	Market implied »				-1	-1	-2	
UK	Forecast	0.50	0.50	0.75				We expect the BoE to keep rates unchanged until post-referendum outlook clears up. We uphold our view that rates will remain stable until the year-end. We expect the first rate hike by the BoE in February 2017.
	Market implied »				0	-2	-4	
US	Forecast	0.25-0.50	0.25-0.50	1.00				In our view disappointed the US labour market in May almost certainly rules out a June rate hike from the Fed and opens the question whether the Fed could shift again. According to Bloomberg now the probability of Fed's interest rate hike by 25bp in June is close to 6%. Investors will focus on Fed's new macroeconomic forecasts (CPI, GDP, interest rate path), which could influence FOMC decision this month.
	Market implied »				45	66	95	
Poland	Forecast	1.50	1.50	1.50				In our view, the Council will keep interest rates stable (with the reference rate at 1.50%) and also remain the rhetoric unchanged. In our view Poland's macro data still point to decent economic activity with strong domestic demand, following tight labour market conditions.
	Market implied »				0	-2	-4	
Czech Republic	Forecast	0.05	0.05	0.05				We uphold our stance that the Czech National Bank (CNB) kept monetary conditions unchanged in June. In mid-May, the President of the Czech Republic, M. Zeman, appointed Mr. Benda and Mr. Nidetzky as the new CNB Board members for a six-year term. He also confirmed J. Rusnok as the new governor. This is positive for continuity of CNB policy.
	Market implied »				0	-4	-6	
Hungary	Forecast	0.90	1.35	0.90				As expected, the Hungarian National Bank (MNB) cut interest rates by 15bp on May 24, trimming the reference rate to 0.90%, a new historical low. The MNB clearly pointed out that this decision ends its monetary easing cycle, re-started in March 2016.
	Market implied »				-4	-8	-15	

This analysis is based on information available through June 7, 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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