

Rates and FX Outlook

Polish Financial Market

July 2013

Table of contents

Summary	3
Short- and Medium-term Strategy	4
Domestic Money Market	6
Domestic IRS and T-Bond Market	7
Demand Corner	8
Supply Corner	10
International Money Market and IRS	12
International Bond Market	13
Foreign Exchange Market	14
FX Technical Analysis Corner	15
Economic and Market Forecasts	17
Economic Calendar and Events	19
Annex	20

Summary

- ▶ **This month we expect the MPC to cut official interest rates by 25 bps, trimming the reference rate to 2.50% (a new historical low). In our view, the macro outlook and new CPI and GDP projections (known to the MPC at the meeting) should justify easing.** Recent macro data clearly show that the Polish economy has remained relatively weak. However, the May retail sales data and some rebound in PMI index for June seem promising, confirming improvement in the economic outlook for the second half of this year. As regards inflation, CPI has plunged to 0.5%YoY in May and probably it will bottom in June at 0.3%YoY. We still expect CPI to start to slowly rise over the second half of the year. Taking into account our relatively positive outlook for the Polish economy for the second half of the year we think that the July's cut will end the monetary easing cycle and rates will remain unchanged for some time (at least mid-2014). It is worth noting that comments of the MPC members (including M.Belka and J.Hausner) were suggesting that if in July the MPC decides that rates are at adequate level, then it will signal it in the statement. In our view a declaration of "neutral bias" would be premature, given still high uncertainty about the recovery.
- ▶ June brought sharp increase in yields (in particular on the mid and long ends of curves) and significant zloty weakening. An off-shore-driven sell-off has resulted in a further steepening of the curve, as well as a rise in asset swap spreads. **The July's cut by 25 bps is not fully priced-in by market players as well as shifting into "wait and see" mode. Therefore such decisions should support the front end of the curves, which might also benefit from low CPI reading and carry trade.** The longer term instruments have stayed under pressure of mood on the core markets. But, if global bonds sell-off stops, we expect consolidation at the elevated level in 5Y and 10Y sectors or even some improvement in market sentiment. On the other hand, the issuance plan for Q3 is also supportive for debt market (the Ministry of Finance can show no offer at all in summer months). As regards the zloty, we **predict the EURPLN to remain at elevated level in three months period with some risk of further depreciation in case of global moods deterioration. Still, a possibility of NBP FX intervention and the government's quasi-interventions to reduce market volatility should remain an important factor in curbing the scale of the PLN weakening. We maintain forecast for moderate zloty appreciation in the final quarter of the year.**
- ▶ **An additional risk factors for the Polish assets are planned changes in pension fund system.**

Short- and Medium-term Strategy: Interest rate market

	Change (bps)		Level	Expected trend	
	Last 3M	Last 1M	end-June	1M	3M
Reference rate	-0.50	-0.25	2.75	↘↘	↘↘
WIBOR 3M	-66	-1	2.73	↘	→
2Y bond yield	-12	31	3.02	→	→
5Y bond yield	32	63	3.73	→	→
10Y bond yield	42	77	4.34	→	↗
2/10Y curve slope	54	46	132	→	↗

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

PLN Rates Market: our view and risk factors

Money market: In June WIBOR rates showed decline slower than we expected due to changes in expectations on monetary policy path later this year. In our opinion rate cut by 25 bps in July seems as a done-deal scenario, which is more or less priced-in by market players. We still see limited decline in WIBOR (only 1M and 3M), which should be supported by upcoming CPI data.

Short end: Front ends of curves (both bonds and IRS) outperformed mid and long terms securities during June's sell-off. Short-term securities are well supported by rate cut expectations, low CPI and carry trade. From the market perspective rhetoric of statement and new CPI and GDP projections are crucial.

Long end: Sharp increase on the mid and long-ends of curves in June came mostly from foreign capital outflows. These securities will remain under pressure on core markets' mood and pace of QE3 tapering. Stabilisation of Bund yields might result in consolidation at the elevated level in 5Y and 10Y sectors. The main trading theme will also remain Fed's future monetary policy. Medium-term trend has remained upward.

Risk factors to our view: The main risk for the front end is that the MPC will keep interest rates unchanged (due to zloty weakening) and end the easing cycle. What is more further rapid weakening of Bunds might trigger selling in the mid and long end area of Polish bonds/IRS. Fed will also remain in the centre of attention, in short run labour market data will strongly influence investors mood.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-June	1M	3M
EURPLN	3.6	0.9	4.33	→	→
USDPLN	1.8	0.7	3.32	↘	↘
CHFPLN	2.2	1.5	3.51	→	→
GBPPLN	2.2	0.8	5.06	→	→
EURUSD	1.8	0.2	1.30	↗	↗

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

PLN FX Market: our view and risk factors

EUR: Zloty weakened significantly against the euro due to Fed's announcement about QE3 tapering and domestic bonds sell-off. We expect the EURPLN to remain at elevated level between 4.30 and 4.35. A possibility of NBP's intervention and/or state-owned BGK's activity on the FX market should limit domestic currency weakness.

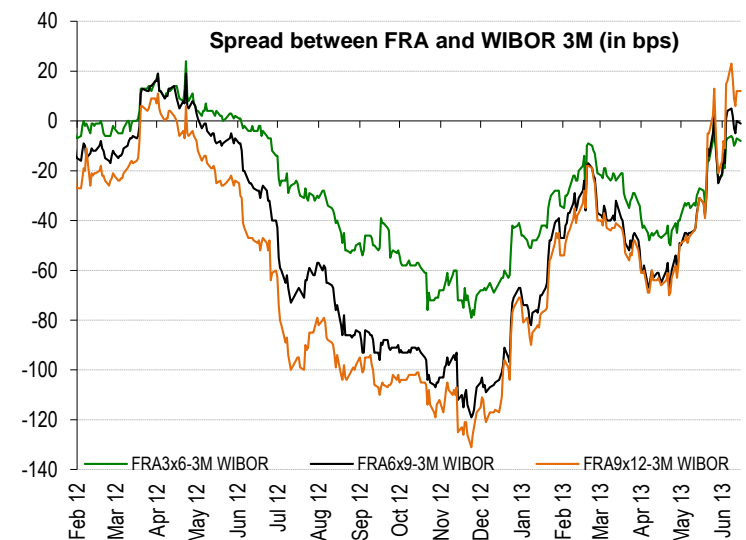
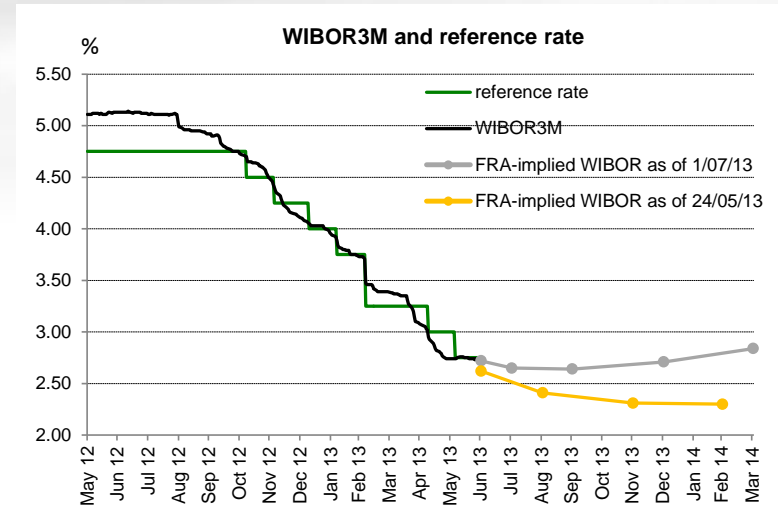
USD: The US dollar was well supported by dovish signals from the ECB and the risk that the Fed would soon reduce the scale of quantitative easing. We think that Fed's official might further calm down the market nerves, showing that the QE3 tapering is not tightening monetary policy. It should be supportive for euro strengthening. Consequently, zloty might strengthened against the US dollar.

CHF: The zloty weakened more significantly against the CHF than we previously expected due to global mood deterioration. Outlook is still fragile, therefore we foresee rather horizontal trend of the CHFPLN driven by EURPLN moves.

Risk factors to our view: The US data and still dovish statement of ECB will favour the US dollar. Return to downward trend of the EURUSD and further increase in yields of both Bunds and UST might put negative pressure on the emerging market currencies, including zloty.

Domestic Money Market: Moderate increase of WIBOR (and FRA)

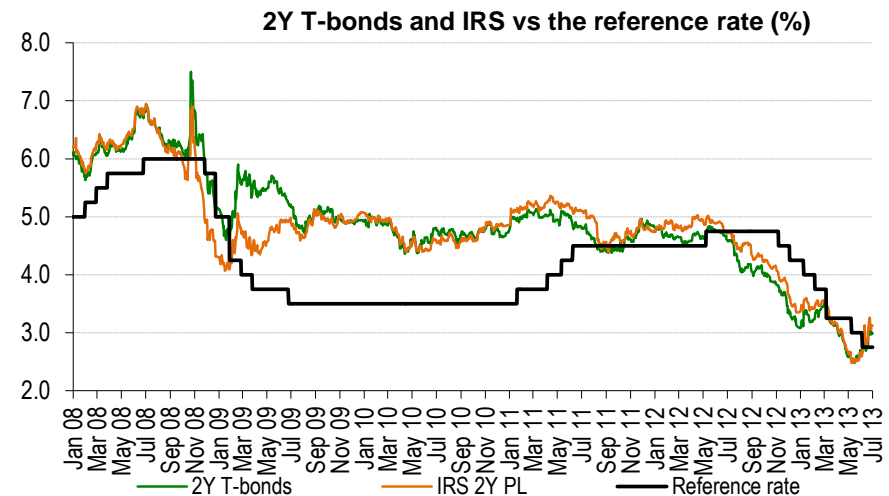
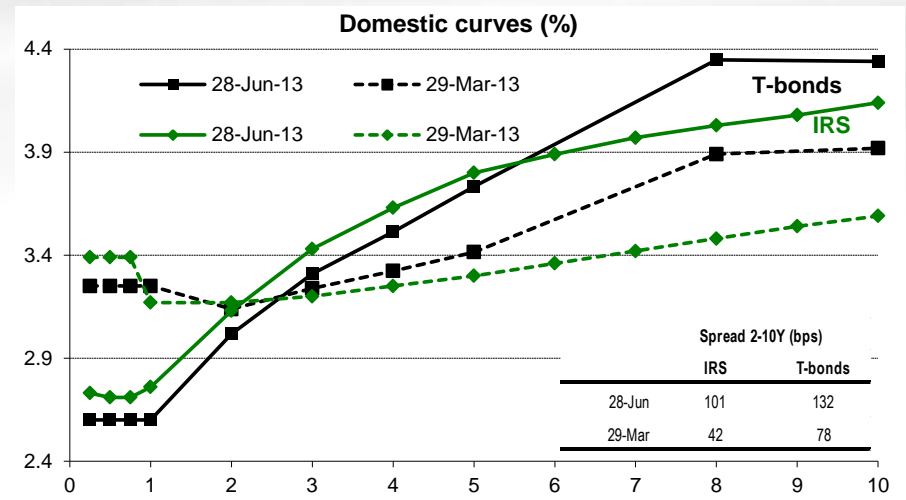
- ▶ The June's rate cut and still weak macro data have supported downward trend of WIBOR rates with maturities up to 3M. The scope of decline was significantly lower in comparison with previous months. What is more, June brought a gradual increase of WIBOR rates between 6M and 12M (by 5-6bps in monthly terms).
- ▶ The abrupt upward adjustment seen on the IRS and bond yield curve was a response to global trends as well as the MPC rhetoric. As the scope for rates cuts has been limited by MPC members, FRA rates for longer tenors (starting from 9x12) climbed above WIBOR 3M, discounting interest rate hikes in 9 month horizon.
- ▶ The 25 bps rate cut in July still seems to us as a done-deal scenario, but is not fully priced-in by market players. We foresee decrease in WIBOR rates up to 3M though in a limited scale. However, the MPC's comment will be crucial. If the Council shifts into neutral bias we predict more visible increase in WIBOR and FRA rates for longer tenors.



Sources: Reuters, BZ WBK

Domestic IRS and T-Bond Market: Major correction after long rally

- In June the Polish FI market has remained under huge pressure of global events. Significant outflows from domestic assets pushed curves up to local highs, with 10Y IRS and 10Y yield trading well above 4%. As a consequence of Fed's comment about possible withdrawal of QE3 stimulus, yield of 10Y bonds soared by almost 40bps in one day and yield of 5Y bonds temporarily increased above 4%.
- The domestic curves (both IRS and T-bond) became even more steep, with the short-end relatively well supported by rate cut expectations and longer-dated maturities under heavy selling pressure, coming mostly from off-shore accounts.
- We think that the market will remain strongly vulnerable to external factors as market has been trading on news about QE3 tapering. If global bonds sell-off stops, we expect consolidation at the elevated level in 5Y and 10Y sectors or even some rebound. The front end of curves should be well supported by low CPI and carry trade.

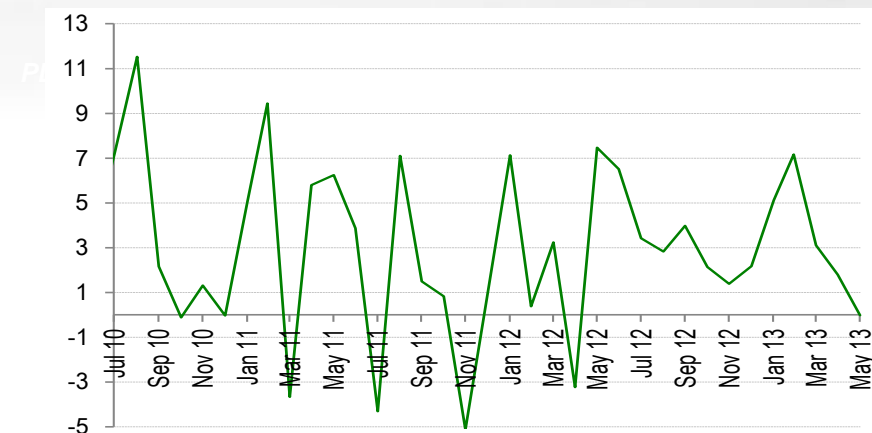


Sources: Reuters, CB, BZ WBK

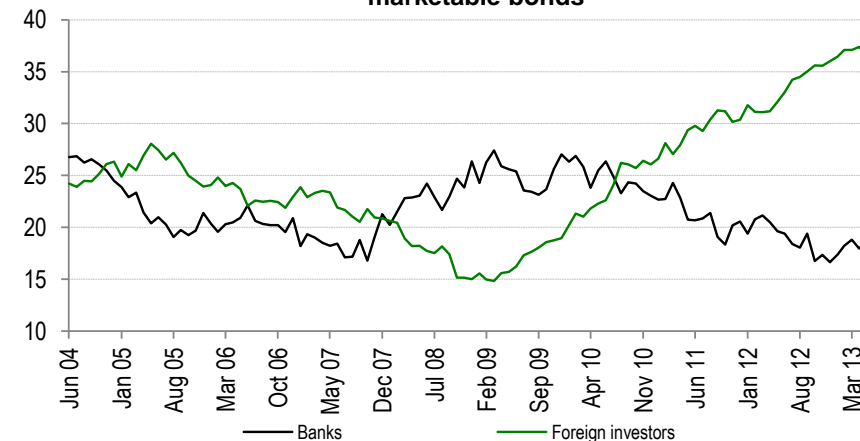
Demand Corner: Foreigners on standby in May, before June's sell-off

- ▶ Portfolio of Polish marketable bonds held by foreign investors was stable at the end of May (PLN207.2bn vs. PLN207.3bn in April). The share of foreigners in total marketable securities (both T-bills and T-bonds) slightly declined to 36.3% (slightly down from historical high of 36.9% in April). While foreign investors were on standby in May, in June they were on the supply side, reducing their holdings in June (by ca. 2%, according to the FinMin). This represents outflow of PLN4bn
- ▶ In May foreign investors bought mainly long term (DS1023 for PLN2.8bn) and medium term bonds (new 5Y benchmark PS0718 worth PLN1.3bn and PS0418 worth PLN0.9bn) and reduced holdings of short-term securities (OK0114 by PLN0.9bn).
- ▶ As regards the domestic side, commercial banks were most active in May. In monthly terms their portfolio increased by PLN5bn to nearly PLN109bn. Domestic banks took advantage of rising yield to cumulate mainly very short (DS1013 by PLN1.8bn) and medium term bonds (PS0718 by PLN1.2bn).

Monthly change of bond holdings of foreign investors (in PLNbn)



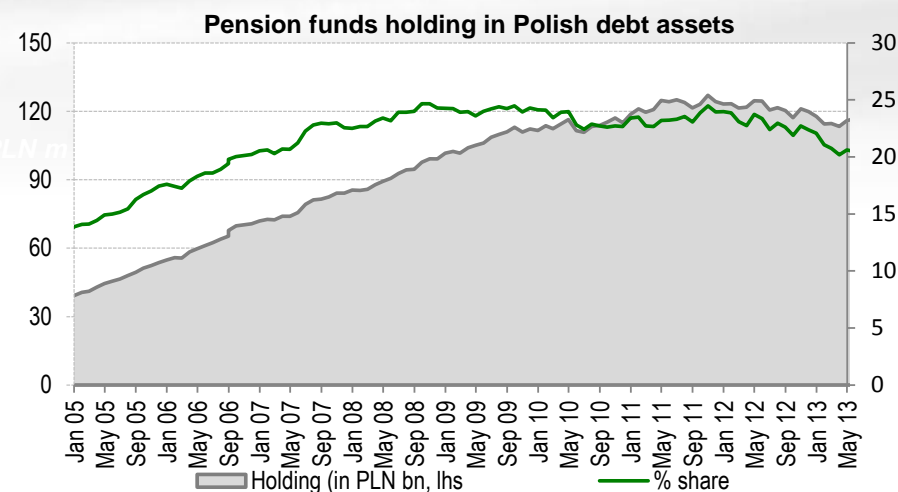
Shares of Polish banks and foreign investors in Polish marketable bonds



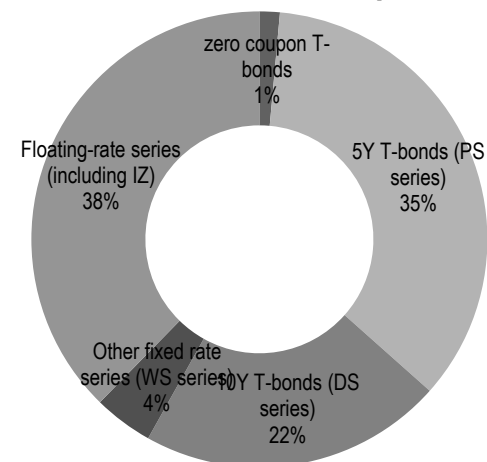
Sources: MF, BZ WBK

Demand Corner (2): Changes in pension fund system

- ▶ Two ministries (Finance and Labour) presented three recommendations for changes in the structure of the Polish pension system.
- ▶ The first recommendation assumes transfer of Treasury portfolio held by pension funds (OFE) to the public sector. As a result, liquidity of bond market would decrease significantly, as the second biggest investor on the debt market (with portfolio of PLN117bn at the end of May) would disappear. It will also cause a significant change in Polish debt ownership structure, increasing the role of non-residents. As a result it would increase the dependence of the Polish bond market on changes in global sentiment.
- ▶ Debt-to-GDP ratio would be reduced immediately (automatic redemption of all bonds held by OFE), but safety level in the Public Finance Act (e.g. 55% GDP) would be adjusted accordingly, so it is hard to argue that the aim of the transfer is to make a room for more public spending.
- ▶ Two other options of the ministries propose a free choice for people (public or private pillar) and the effect on bond/equity would depend on how many people move to the public system.



Structure of Pension funds portfolio

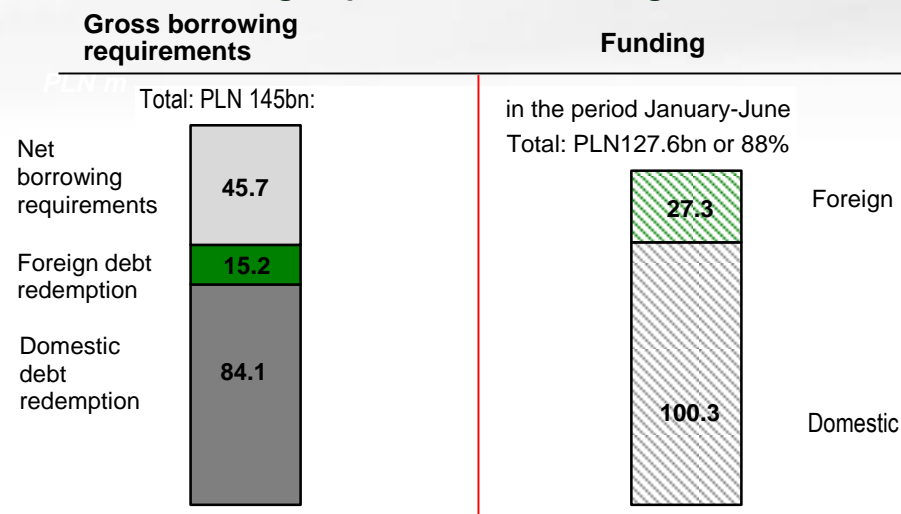


Sources: MF, BZ WBK

Supply Corner: Light auction calendar for Q3 2013

- Despite market turbulences, in June the Ministry of Finance has continued launching T-bonds on the domestic market. Average auction yields slightly increased, but the demand remained very solid. Consequently, the ministry exceeded its quarterly plan of PLN35bn in Q2.
- At the end of June the Ministry completed 88% (PLN127.6bn) of its 2013 borrowing requirements (PLN145bn).
- Issuance plan for Q3 2013 is in line with expectations and earlier FinMin's officials announcements. The Ministry plans to suspend auctions in July and August, but they might be held if market situation stabilises and investors declare high demand. In September a switch auction is very likely, but depending on market conditions.
- As regards foreign financing, Poland will receive loans from international financial institutions worth up to €2bn. The Ministry might be also active on foreign markets. It allows the Ministry to secure 94% of borrowing requirements target at the end of Q3 (without selling securities).

Gross borrowing requirements' financing in 2013



Auction schedule for Q3 2013

Auction date	Settlement date	Series
23 Jul 2013*	25 Jul 2013	conditional auction - offer depending on market situation
7 Aug 2013	9 Aug 2013	
5 Sep 2013**	9 Sep 2013	offer depending on market situation

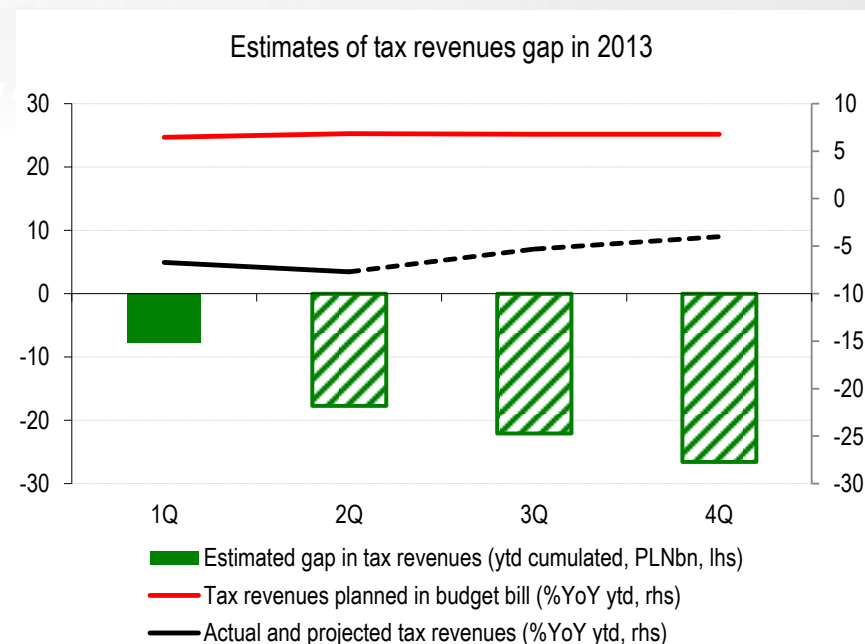
* Auction on Tuesday

** Auction on Thursday

Sources: MF, BZ WBK

Supply Corner: Is government closer to budget amendment?

- ▶ As we highlighted in June's report, it is difficult to amend the budget this year, as the Polish debt/GDP ratio was above 50% in 2011. However, the government officials have been recently repeating that the budget amendment is quite possible.
- ▶ It seems that the amendment to the public finance act, which will implement the new spending rule, would also introduce changes to austerity measures, which in some way will replace mandatory limits on spending if debt/GDP ratio exceeds the safety level of 50%. For us, it is still unclear whether such a change in the Public Finance Act would work for deficit/revenues limit already in 2013.
- ▶ The spending rule aims at smoothing path of public spending over the economic cycle. According to the Ministry "the purpose of the proposed fiscal rule is to provide more stability in public finances in Poland" as current system does not ensure sufficient fiscal discipline.
- ▶ We still see risk of higher public sector deficit (not necessarily central budget), which to some extent might be reflected in higher supply of Treasuries (e.g. more borrowing of central budget to increase transfer to Social Security Fund).



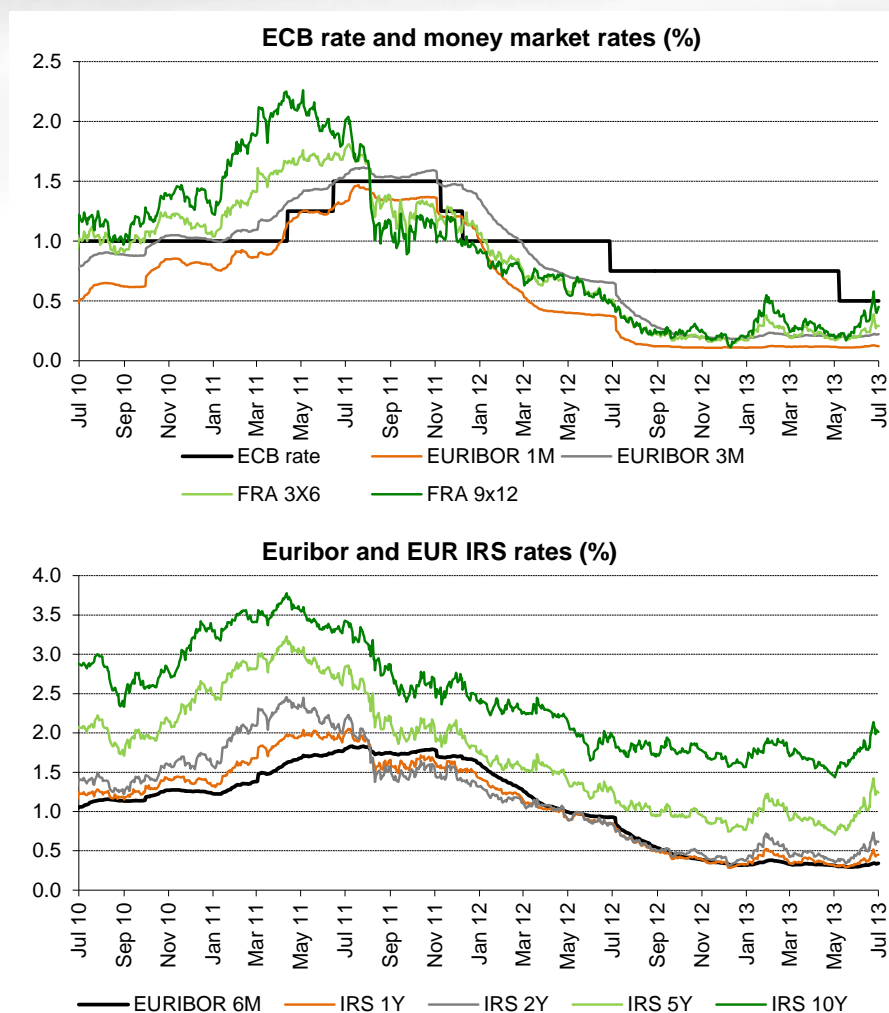
Note: projections assume %YoY growth recorded in May to be continued

Shortage of tax revenues of ca. PLN25bn might be covered by higher than planned non-tax revenues (NBP profit, dividends), some cut in spending and shift of spending outside the central budget (e.g. FUS).

Sources: MF, BZ WBK

International Money Market and IRS: Gradual increase in IRS

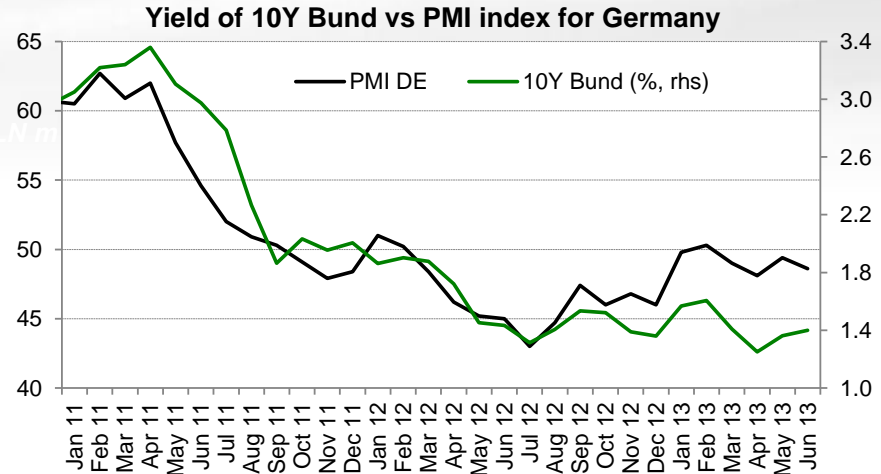
- Short-term rates not only in Europe, but also in the US have remained at low levels. Both ECB and Fed repeated that official rates would stay at record-low levels at least until end of 2014. However, FRA market in both cases has started to price-in a monetary policy tightening or lower liquidity on the market due to possible QE3 tapering later this year.
- EUR IRS rates have continued upward move after reaching the bottom at the end of May. However, increase in rates was more visible after Fed's announcement that it will slow down QE3 and probably exit in mid-2014. One should notice that 10Y EUR IRS increased above 2%.
- The upcoming macro data will be in focus. We expect both EUR IRS and USD IRS to continue gradual increase in coming months due to rebound in economic activity (if economic numbers confirm a stable growth in the US and a bottoming out in the euro zone). Recent leading economic indicators are better than forecast, which should support steepening of the IRS curve.



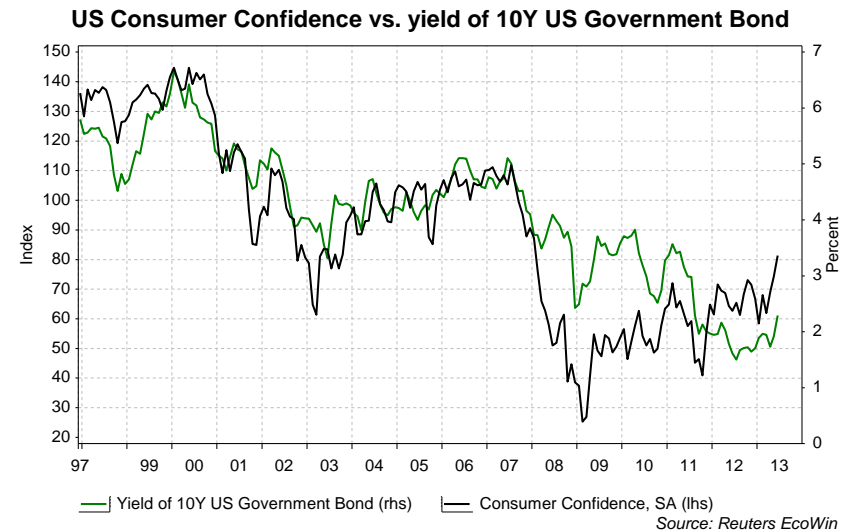
Sources: Thomson Reuters, ECB, BZ WBK

International Bond Market: Are higher bond yields justified?

- ▶ Global bond yields have continued their upward trend in June. Sharp yield increase was fuelled by market intensified expectations of soon exit from QE by the Fed. In the first reaction to Fed's announcement yield of 10Y UST increased by 40 bps, while yield of 10Y Bund increased by nearly 30 bps. The end of H1 2013 brought some rebound.
- ▶ We think that yields are unlikely to return to their prior lows. While prospects for the US economy, but also for the euro zone, are still fragile and sharp movements in yields reflected quite panicky market reaction, it is still hard to argue that current (or even higher) yields are not relevant to the economic situation (see chart).
- ▶ Peripheral bonds have responded to the increase in US rates with some re-pricing. Yield of 10Y Spanish and Italian bonds increased by 40 bps on average in June.
- ▶ We uphold our stance of moderate yield increases till year-end due to expectation of a moderate economic recovery in the US and a slow bottoming out in the euro zone.



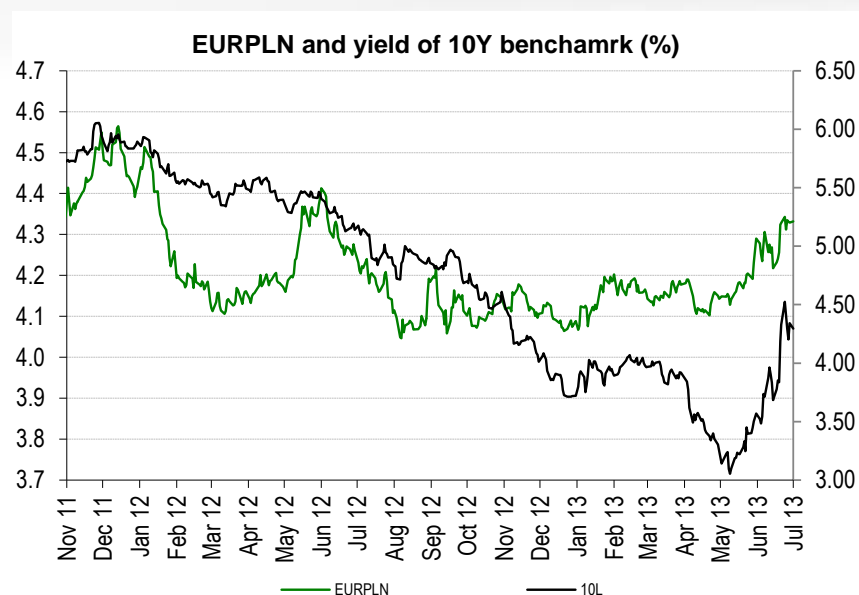
Sources: Thomson Reuters, BZ WBK



Source: Reuters EcoWin

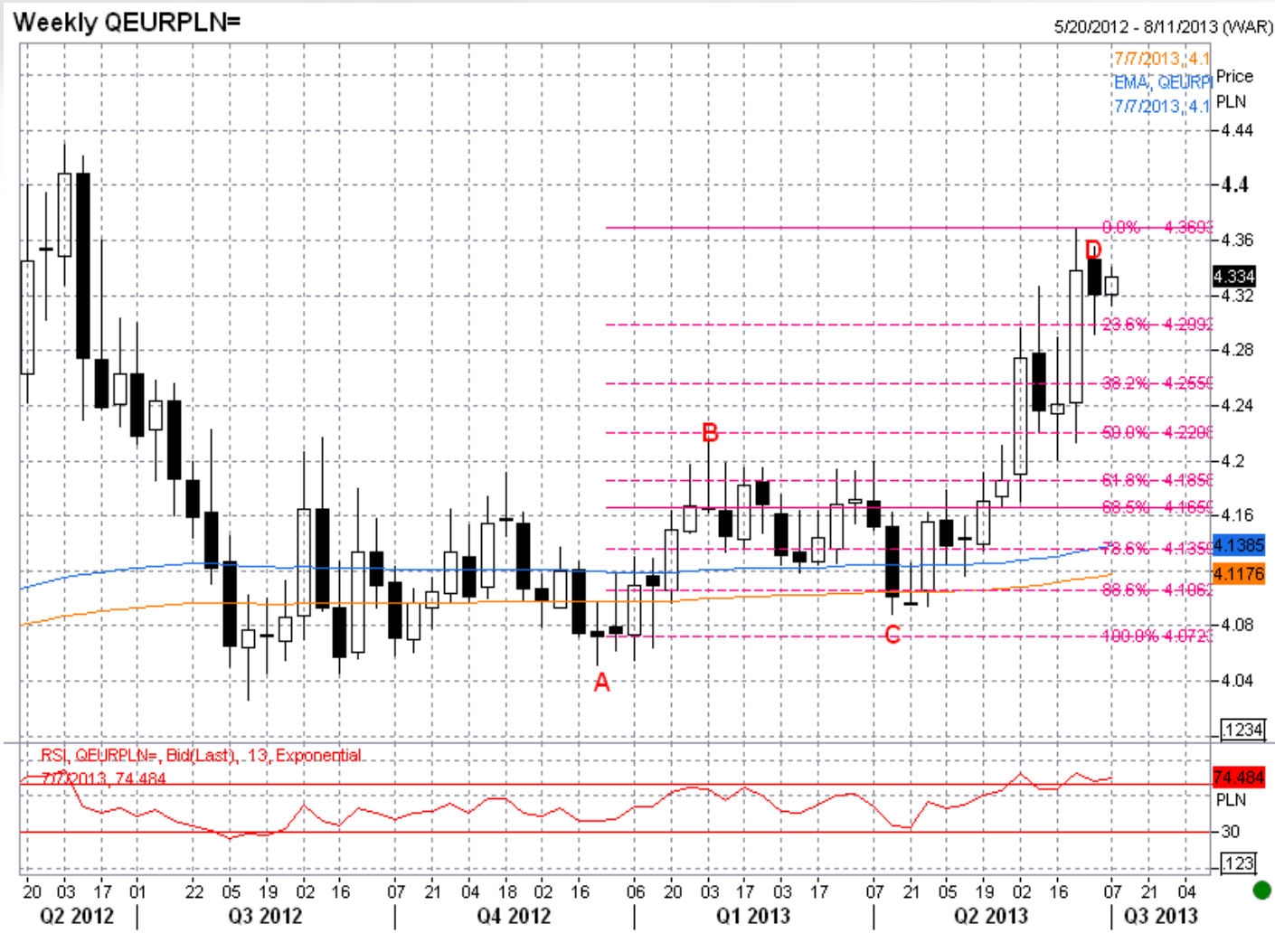
Foreign Exchange Market: Weaker zloty and active authorities

- ▶ Zloty has remained under pressure of global events and central banks' decision. Poland's currency was hit the most due to foreign investors' outflows after Fed's announcement that it plans to scale back quantitative easing more rapidly than previously expected.
- ▶ The Polish central bank's interventions on the FX market reduced the zloty volatility. What is more, the state-owned bank BGK has been selling euros from the government's account.
- ▶ The possibility of NBP FX intervention and the government's quasi-interventions to reduce market volatility should remain a key factor in curbing the scale of the PLN weakening. At the same time, we foresee EUR/PLN staying at elevated levels in the summer months (with a risk of further weakening if the global mood deteriorates), but we maintain forecast for zloty appreciation in the medium term.



Sources: Reuters, BZ WBK

FX Technical Analysis Corner: The EURPLN stays at elevated level



- ▶ The EURPLN easily broke several resistance levels and reached a new local high at 4.369. It returned quickly below 4.35 due to NBP's intervention and BGK's activity.
- ▶ Divergence between the EURPLN and RSI oscillator suggests some decline of the EURPLN or even further consolidation above 4.30, which is a strong support level currently.
- ▶ We expect the EURPLN to stay at elevated level due to global factors, predicting the rate at 4.33 on average in July.

Sources: Reuters, BZ WBK

FX Technical Analysis Corner: The EURUSD is likely to increase



- In contrast to our expectations EURUSD continued to increase. The upward momentum halted nearly exactly at 68.5% retracement of downward wave observed since February 2013. Interestingly, the decline from peak at 1.338 also stopped at 68.5% retracement.
- A line of the upward trend is running close to local low supporting a scenario of a rebound from current level. Oscillator does not give any precise signals.
- Resistance is at 200-day MA.

Sources: Reuters, BZ WBK

Macroeconomic Forecasts

Poland		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
GDP	PLNbn	1,416.6	1,523.2	1,595.3	1,627.2	370.1	389.1	393.8	442.2	377.8	396.6	400.6	452.3
GDP	%YoY	3.9	4.5	1.9	1.0	3.5	2.3	1.3	0.7	0.5	0.8	1.0	1.6
Domestic demand	%YoY	4.6	3.6	-0.2	-0.8	2.2	-0.4	-0.8	-1.6	-0.9	-1.3	-0.4	-0.7
Private consumption	%YoY	3.2	2.6	0.8	0.6	1.7	1.3	0.2	-0.2	0.0	0.5	0.9	1.2
Fixed investments	%YoY	-0.4	8.5	-0.8	-3.5	6.8	1.4	-1.7	-4.1	-2.0	-5.0	-4.0	-3.0
Unemployment rate ^a	%	12.4	12.5	13.4	13.9	13.3	12.3	12.4	13.4	14.3	13.2	13.3	13.9
Current account balance	EURm	-18,129	-17,977	-13,332	-4,585	-4,515	-2,203	-3,285	-3,329	-2,055	-208	-1,326	-997
Current account balance	% GDP	-5.1	-4.9	-3.5	-1.2	-5.1	-4.6	-4.1	-3.5	-2.8	-2.3	-1.8	-1.2
General government balance	% GDP	-7.9	-5.0	-3.9	-3.9	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	0.9	4.1	4.0	3.9	2.9	1.3	0.5	0.7	1.1
CPI ^a	%YoY	3.1	4.6	2.4	1.2	3.9	4.3	3.8	2.4	1.0	0.3	0.9	1.2
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.1	2.5	2.5	2.1	1.7	1.2	1.0	0.9	1.2

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates;

^a at the end of period

Interest Rate and FX Forecasts

Poland		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Reference rate ^a	%	3.50	4.50	4.25	2.50	4.50	4.75	4.75	4.25	3.25	2.75	2.50	2.50
WIBOR 3M	%	3.94	4.54	4.91	3.05	4.97	5.04	5.06	4.57	3.77	2.96	2.70	2.74
Yield on 2-year T-bonds	%	4.72	4.81	4.30	3.02	4.66	4.71	4.22	3.61	3.29	2.77	3.00	3.03
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.53	5.02	4.93	4.43	3.75	3.49	3.09	3.71	3.82
Yield on 10-year T-bonds	%	5.74	5.98	5.02	4.05	5.58	5.38	4.91	4.22	3.95	3.58	4.24	4.42
2-year IRS	%	4.73	4.98	4.52	2.94	4.83	4.91	4.47	3.85	3.43	2.81	3.07	3.13
5-year IRS	%	5.25	5.24	4.47	3.21	4.82	4.86	4.37	3.84	3.52	3.08	3.74	3.77
10-year IRS	%	5.40	5.33	4.56	3.89	4.88	4.88	4.47	4.01	3.76	3.41	4.12	4.28
EUR/PLN	PLN	3.99	4.12	4.19	4.17	4.23	4.26	4.14	4.11	4.16	4.20	4.31	4.20
USD/PLN	PLN	3.02	2.96	3.26	3.15	3.23	3.32	3.31	3.17	3.15	3.22	3.24	3.11
CHF/PLN	PLN	2.90	3.34	3.47	3.37	3.50	3.55	3.44	3.40	3.38	3.41	3.48	3.39
GBP/PLN	PLN	4.66	4.75	5.16	4.96	5.07	5.26	5.22	5.09	4.88	4.94	5.05	4.98

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates;

^a at the end of period

Economic Calendar and Events

Date		Event:	Note:
3-Jul	PL	MPC Meeting – interest rate decision	We expect the MPC to cut rates by 25 bps, in line with expectations
	DE	Auction of 5Y bonds	Offer: €4bn
4-Jul	EZ	ECB Meeting – interest rate decision	-
8-Jul	EU	Eurogroup meeting	-
10-Jul	DE	Auction of 2Y bonds	Offer: €5bn
11-Jul	IT	Auction of medium and long term bonds	-
13-Jul	EU	EcoFin meeting	-
15-Jul	PL	CPI for June	Our forecast: 0.3%YoY (in line with consensus)
16-Jul	PL	Core inflation for June	We and market predict core CPI after excluding food and energy prices at 0.9%YoY
	PL	Employment and wages for June	We and market expect employment to decline by 0.9%YoY and subdued growth of wages (by 2%YoY vs market expectations at 2.2%)
17-Jul	PL	Industrial output and PPI for June	We predict industrial output growth at 1.2%YoY, slightly below consensus at 1.3%. Our forecast of PPI: -1.6%YoY
	DE	Auction of 10Y bonds	Offer: €4bn
20-Jul	EU	Eurogroup meeting	-
TBA	PL	Retail sales for July	Our forecast: 1.5%YoY (slightly above market consensus at 1.1%)
23-Jul	HU	NBH Meeting - interest rate decision	-
26-Jul	IT	Auction of zero coupon bonds	-
30-31-Jul	US	FOMC Meeting - interest rate decision	-
31-Jul	DE	Auction of 30Y bonds	Offer: €4bn
1-Aug	EZ	ECB Meeting – interest rate decision	-
	CZ	CNB Meeting – interest rate decision	-

Annex

1. Domestic markets 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 markets performance

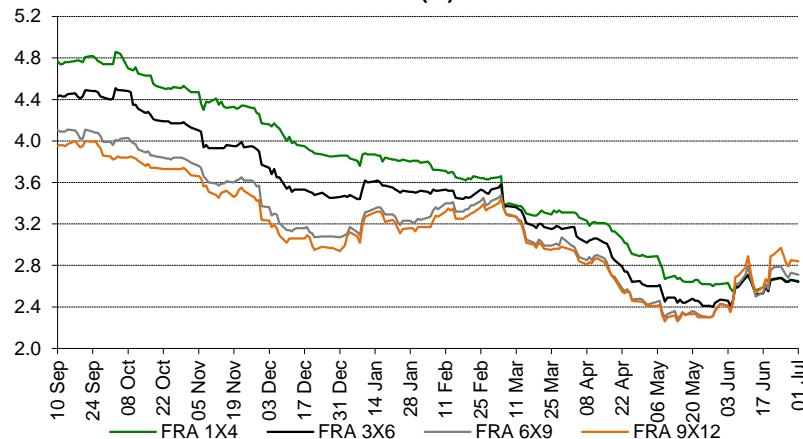
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of June	2.75	2.63	2.78	2.73	2.71	2.71	3.22	3.12	3.02	2.93	2.66	2.66	2.73	2.85
Last 1M change (bp)	-25	-28	-23	-1	5	6	55	59	62	56	4	19	30	42
Last 3M change (bp)	-50	-67	-61	-66	-68	-68	0	0	0	0	-65	-49	-34	-13
Last 1Y change (bp)	-200	-215	-213	-240	-243	-244	-141	-151	-156	-154	-247	-243	-213	-180

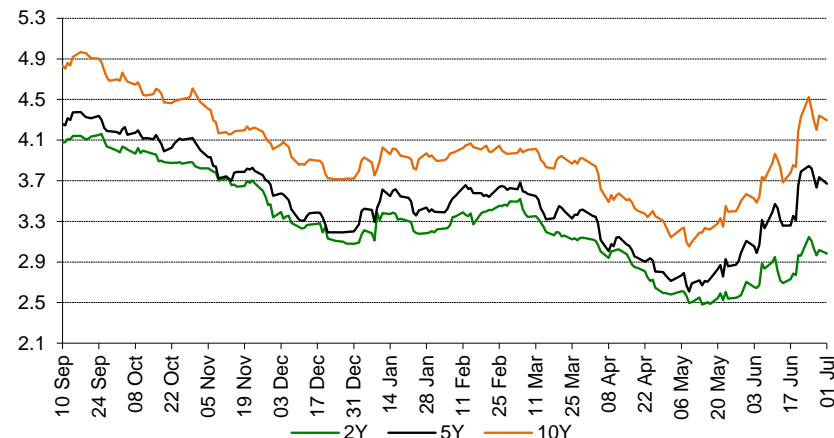
Bond and IRS market (%)

	T-bills	BONDS				IRS			Spread BONDS / IRS (bps)		
	52-week	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y	
End of June	2.60	3.02	3.73	4.34	3.13	3.80	4.14	-11	-7	20	
Last 1M change (bps)	5	31	63	77	47	79	73	-16	-16	4	
Last 3M change (bps)	-65	-12	32	42	-4	50	55	-8	-18	-13	
Last 1Y change (bps)	-207	-159	-97	-80	-160	-85	-59	1	-12	-21	

FRA (%)



Yields of Polish benchmarks (%)



Sources: Thomson Reuters, NBP, BZ WBK

2. Polish bonds: supply recap

Total issuance in 2013 by instruments (in PLNm, nominal terms)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
T-bonds auction	17,358	10,391	8,081	16,817	12,003	4,607	0	0	0	5,000	1,500		75,757
T-bills auction	3,603	1,747	3,084										8,434
Retail bonds	150	154	154	154	154	154	154	113	154	150	128	150	1,769
Foreign bonds/credits	4,140	1,301					4330		4290				14,061
Prefinancing and financial resources at the end of 2012	24,400												24,400
Total	49,651	13,593	11,319	16,971	12,157	4,761	4,484	113	4,444	5,150	1,628	150	124,421
Redemption	11,686	13,854	2,791	16,157	2,340	1,859	7,269	3,191	1,122	24,061	2,256	2,368	90,954
Net inflows	37,965	-261	8,528	814	9,817	2,902	-2,785	-3,078	3,322	-18,911	-628	-2,218	33,467
Rolling over T-bonds			4,827			7,801							12,628
Buy-back of T-bills/bonds													0
Total	37,965	-261	13,355	814	9,817	10,703	-2,785	-3,078	3,322	-18,911	-628	-2,218	46,095
<i>Coupon payments</i>	2,492			7,322			1,955		1,497	9,685			22,951

Note: Our forecasts – shaded area

2. Polish bonds: supply recap (cont.)

Schedule Treasury Securities redemption by instruments (in PLNm)

	Bonds	Bills	Retail bonds	Total domestic redemption	Foreign Bonds/Credits	Total redemptions
January	10,001	1,592	93	11,686	0	11,686
February	0	2,190	148	2,338	11,516	13,854
March	0	2,329	212	2,541	250	2,791
April	16,025	0	132	16,157	0	16,157
May	0	2,223	117	2,340	0	2,340
June	0	1,747	112	1,859	0	1,859
July	7,051	0	218	7,269	0	7,269
August	0	1,997	248	2,245	946	3,191
September	0	0	176	176	946	1,122
October	22,845	0	265	23,110	950	24,061
November	0	1,332	208	1,540	716	2,256
December	0	2,223	146	2,368	0	2,368
Total 2013	56,867	15,317	2,283	74,468	15,891	90,358
Total 2014	61,666	6,110	1,698	69,474	14,825	84,300
Total 2015	90,137		628	90,765	17,448	108,213
Total 2016	67,179		485	67,664	14,329	81,993
Total 2017	71,444		91	71,535	16,871	88,406
Total 2018+	238,653		3,288	241,941	134,966	376,908

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of May 2013, in PLNm)

	Foreign investors	Domestic banks	Insurance Funds	Pension Funds	Mutual Funds	Individuals	Non-financial sector	Other	Total
Q1 2013	0	0	0	0	0	0	0	0	0
Q2 2013	0	0	0	0	0	0	0	0	0
Q3 2013	8,748	1,282	1,321	127	311	108	17	1,329	13,244
Q4 2013	10,041	3,034	7,084	700	1,051	116	127	1,806	23,958
Total 2013	18,789	4,316	8,405	826	1,362	224	144	3,135	37,202
	51%	12%	23%	2%	4%	1%	0%	8%	100%
Total 2014	36,890	10,800	4,607	3,028	2,398	385	124	3,724	61,956
	60%	17%	7%	5%	4%	1%	0%	6%	100%
Total 2015	29,547	24,512	7,974	12,630	9,724	220	628	4,973	90,208
	33%	27%	9%	14%	11%	0%	1%	6%	100%
Total 2016	18,958	11,433	3,663	20,333	5,070	60	83	3,136	62,734
	30%	18%	6%	32%	8%	0%	0%	5%	100%
Total 2017	25,320	14,635	5,878	13,732	8,230	47	67	3,534	71,444
	35%	20%	8%	19%	12%	0%	0%	5%	100%
Total 2018+	77,525	40,117	21,493	66,199	18,954	218	346	10,231	235,083
	33%	17%	9%	28%	8%	0%	0%	4%	100%

Sources: MF, BZ WBK

3. Polish bonds: demand recap

Holders of marketable PLN bonds

	Nominal value (PLN, bn)				Nominal value (PLN, bn)			% change in May			Share in TOTAL (%) in May
	End May'13	End Apr'13	End Mar'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	358.9	346.9	347.9	337.5	341.8	352.9	361.4	3.46	3.82	1.32	62.6 (-0.3pp)
Commercial banks	105.8	99.5	104.1	87.8	102.0	102.1	110.9	6.39	6.45	3.30	18.0 (-0.9pp)
Insurance companies	52.0	51.5	51.4	52.8	54.7	57.0	54.3	1.07	2.03	-7.59	9.3
Pension funds	116.7	115.1	113.0	117.4	116.7	120.3	120.7	1.40	3.07	-5.64	20.8 (0.3pp)
Mutual funds	45.7	43.9	42.1	41.7	32.5	33.0	31.3	4.29	8.54	38.51	7.9 (0.3pp)
Others	38.6	37.0	37.3	37.8	35.9	40.5	44.3	-0.8	-7.6	2.5	6.7
Foreign investors*	207.0	207.1	205.3	189.9	184.2	174.0	163.2	-0.01	2.41	23.64	37.4 (0.3pp)
Banks	31.4	38.4	37.3	28.4	27.8	22.6	24.3	-18.38	-7.17	47.12	6.9 (0.2pp)
Non-bank fin. sector	166.2	159.9	159.0	153.1	147.5	143.1	131.7	3.94	3.91	19.81	28.9 (0.1pp)
Non-financial sector	5.6	5.2	5.4	5.2	5.6	5.2	4.4	9.35	15.30	22.66	0.9 (-0.1pp)
TOTAL	566.0	554.0	553.1	527.4	526.0	526.9	524.7	2.16	4.65	8.49	100

*Total for Foreign investors does not match sum of values presented for sub-categories due to omission of irrelevant group of investors.

Sources: MF, BZ WBK

4. Euro zone bonds: supply recap

Euro zone's issuance plans and completion in 2013 (€ bn)

	Total redemptions	Deficit	Borrowing needs	Expected bond supply	% of completion (YtD*)
Austria	15.9	6.3	22.2	22.2	50.0
Belgium	30.3	8.8	40.0	37.0	69.0
Finland	6.8	5.6	12.4	12.4	45.0
France	105.5	61.6	171.1	170.0	68.0
Germany	157.0	17.1	174.1	174.1	54.0
Greece	9.7	11.6	21.3	0.0	-
Ireland	5.1	12.5	17.6	10.0	75.0
Italy	154.7	25.5	180.2	180.2	71.0
Netherlands	31.5	15.2	46.7	50.0	71.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	62.0
Total	584.3	220.0	832.2	772.3	65.0

*/ YtD (year calendar) data for 2013

Sources: Eurostat, BZ WBK

5. Poland vs other countries

Main macroeconomic indicators (European Commission's forecasts)

	GDP (%)		Inflation (HICP, %)		C/A balance (% of GDP)		Fiscal Balance (% of GDP)		Public Debt (% of GDP)	
	2013F	2014E	2013F	2014E	2013F	2014E	2013F	2014E	2013F	2014E
Poland	1.1	2.2	1.4	2.0	-2.5	-2.4	-3.9	-4.1	57.5	58.9
Czech Republic	-0.4	1.6	1.9	1.2	-2.4	-2.5	-2.9	-3.0	48.3	50.1
Hungary	0.2	1.4	2.6	3.1	2.5	2.6	-3.0	-3.3	79.7	78.9
EU	-0.1	1.4	1.8	1.7	1.6	1.9	-3.4	-3.2	89.8	90.6
Euro area	-0.6	-0.3	1.6	1.5	2.5	2.7	-2.9	-2.8	95.5	96.0
Germany	0.4	1.8	1.8	1.6	6.3	6.1	-0.2	0.0	81.1	78.6

Main market indicators (%)

	Reference rate (%)		3M market rate (%)		10Y yields (%)		10Y Spread vs Bund (bps)		CDS 5Y	
	2012	2013	2012	end of Jun	2012	end of Jun	2012	end of Jun	2012	end of Jun
Poland	4.25	2.50	4.11	2.73	3.72	4.34	241	260	80	105
Czech Republic	0.05	0.05	0.18	0.14	1.86	2.38	54	62	63	73
Hungary	5.75	4.00	5.75	4.20	6.23	6.24	492	448	269	320
Euro area	0.75	0.50	0.19	0.22						
Germany					1.32	1.77			39	33

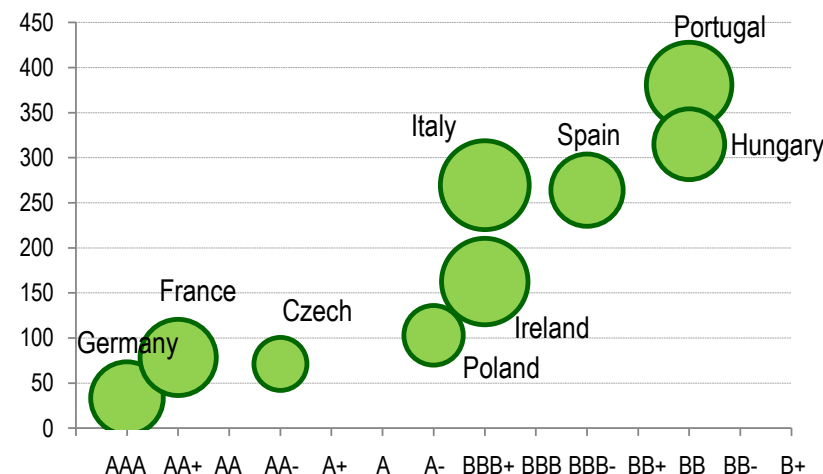
Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

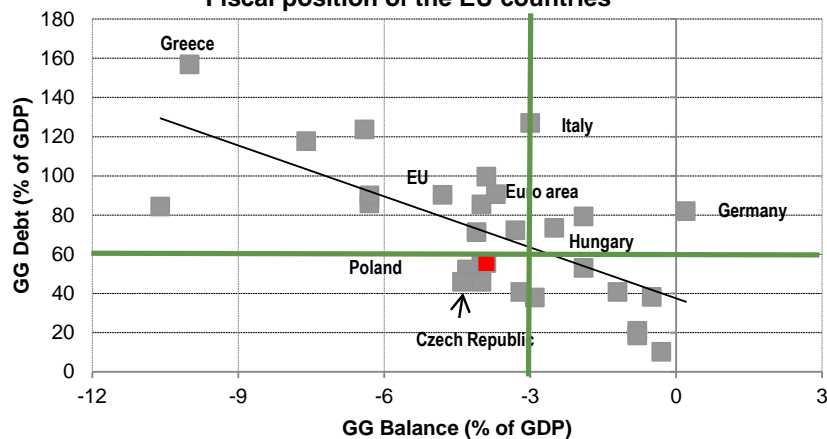
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	positive
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	negative
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA+	negative	Aa1	negative	AAA	negative
UK	AAA	negative	Aa1	negative	AA+	stable
Greece	B-	stable	C	---	CCC	stable
Ireland	BBB+	negative	Ba1	negative	BBB+	stable
Italy	BBB+	negative	Baa2	negative	BBB+	negative
Portugal	BB	negative	Ba3	negative	BB+	negative
Spain	BBB-	negative	Baa3	negative	BBB	negative

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

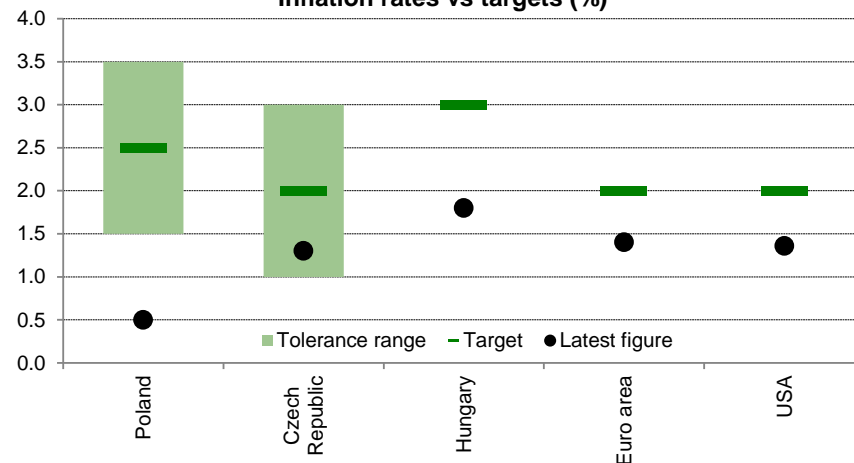


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

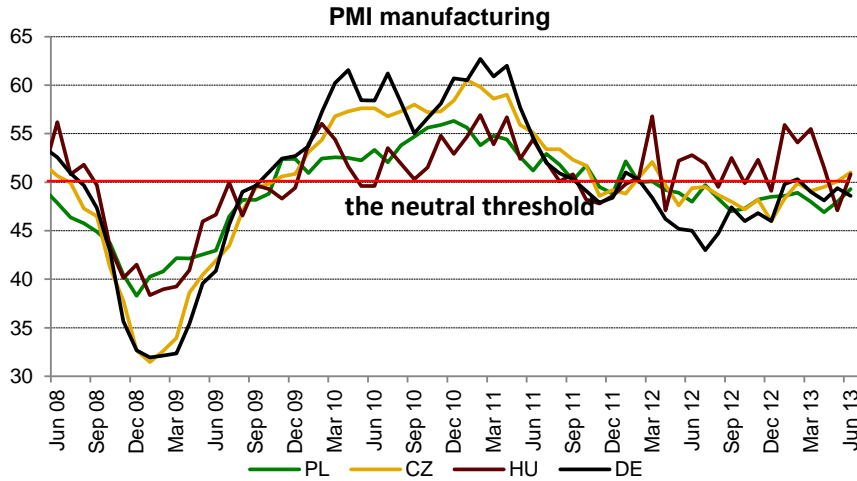


Inflation rates vs targets (%)

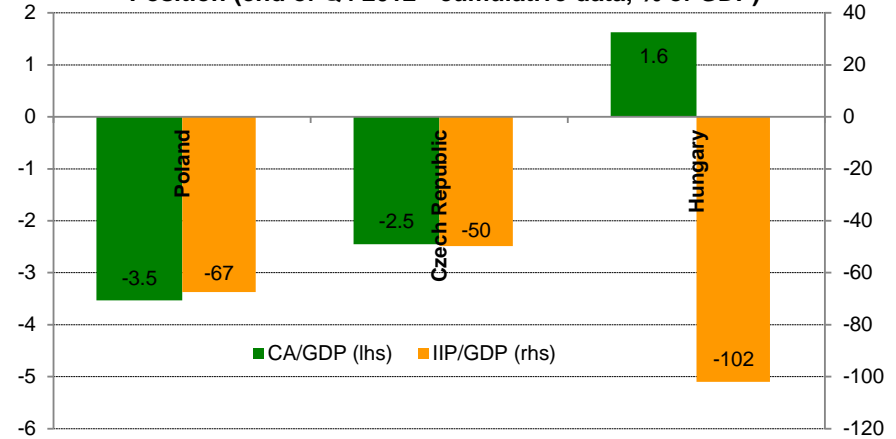


Source: rating agencies, Reuters, BZ WBK, EC

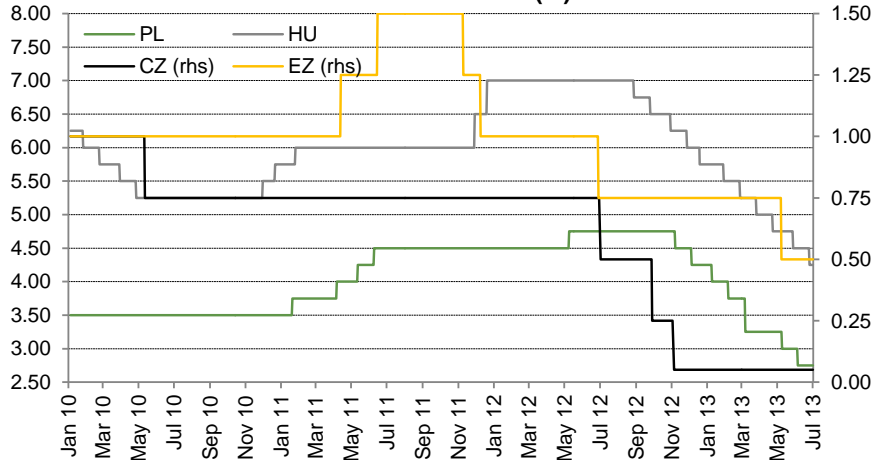
5. Poland vs other countries (cont.)



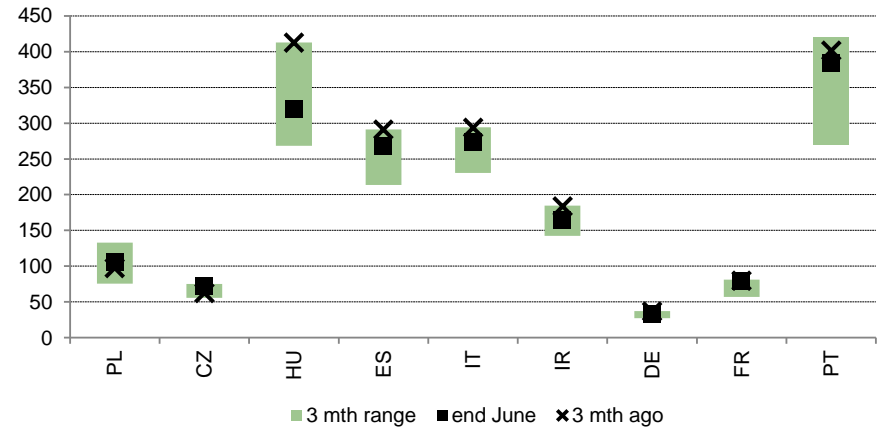
Current account balance & International Investment Position (end of Q4 2012 - cumulative data, % of GDP)



Official interest rates (%)

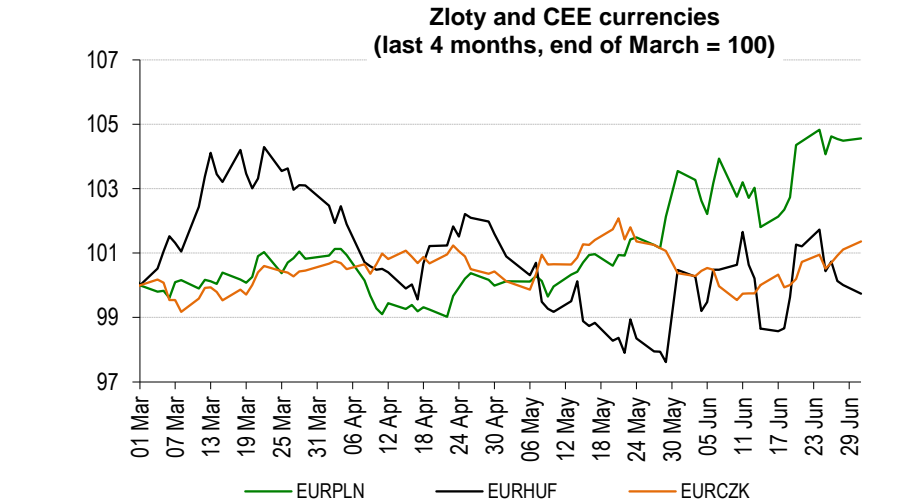
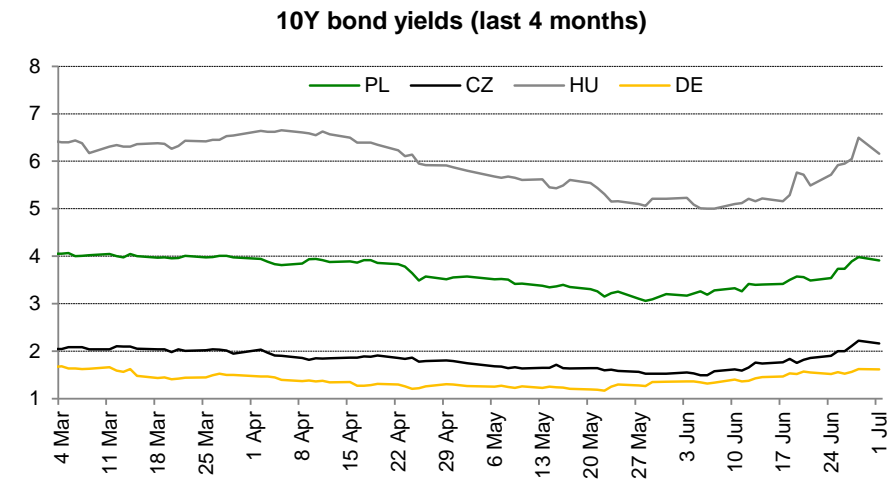
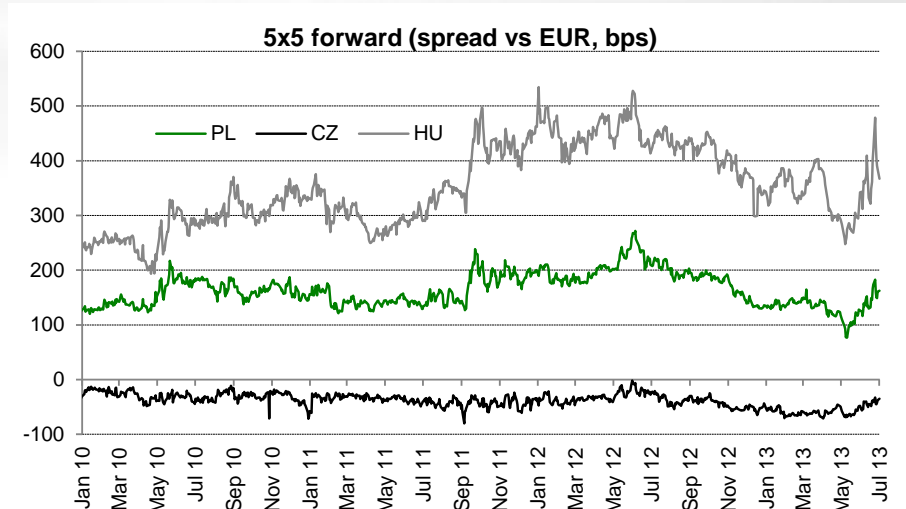
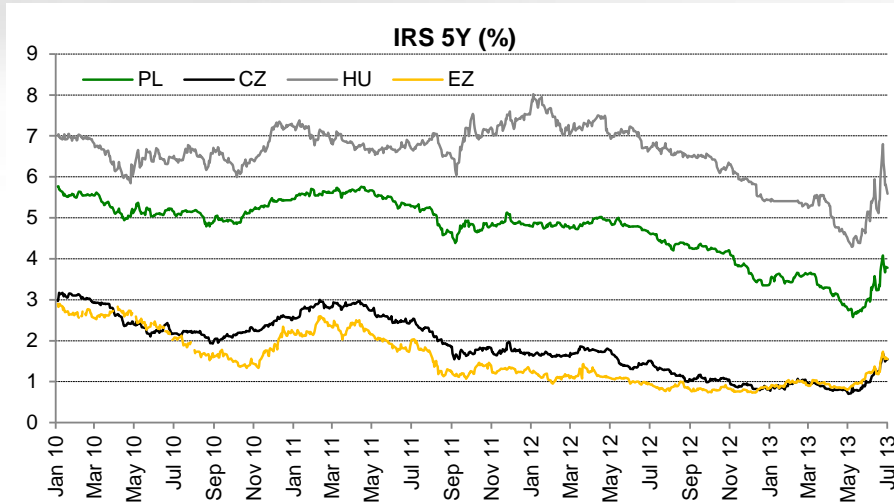


5Y CDS



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

5. Poland vs other countries (cont.)



Source: Reuters, BZ WBK

6. Central bank watch

		Last	2012	2013F	Expected changes (bps)			Risks/Events
					1M	3M	6M	
Euro zone	Forecast	0.50	0.75	0.50				We expect the ECB to keep interest rates unchanged. But it should retain a dovish bias, leaving the door open to the possibility of further refi rate cuts, or even a negative deposit rate, in case the expected 2H-13 recovery fails to materialize..
	Market implied »				0	2	7	
UK	Forecast	0.50	0.50	0.50				We do not expect any changes in current monetary policy path. However, it will be the first meeting with Mark Carney as a Governor.
	Market implied »				1	5	13	
US	Forecast	0-0.25	0-0.25	0.25				FOMC will keep its current monetary policy. However, it appears to be preparing the market for an eventual tapering, while maintaining relatively dovish rhetoric
	Market implied »				0	2	6	
Poland	Forecast	2.75	4.25	2.50				We expect the MPC to cut rates by 25 bps and move to a 'wait and see' stance to evaluate the results of the easing so far . Focus on a new CPI and GDP projections.
	Market implied »				-7	-8	-1	
Czech Republic	Forecast	0.05	0.05	0.05				The CNB will keep official rates unchanged. FX interventions are the only relevant monetary-policy tool currently.
	Market implied »				32	31	36	
Hungary	Forecast	4.25	5.75	4.00				We expect NBH to continue easing cycle. However, the external environment may limit the room for maneuver for monetary policy.
	Market implied »				-13	-23	-18	

This analysis is based on information available until 1st July 2013 and has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142. 00-061 Warszawa. fax +48 22 586 83 40

Email: ekonomia@bzwbk.pl

Economic Service Web site: <http://skarb.bzwbk.pl/>

Maciej Reluga – Chief Economist

tel. +48 022 586 83 63. Email: maciej.reluga@bzwbk.pl

Piotr Bielski +48 22 586 83 33

Agnieszka Decewicz +48 22 586 83 41

Marcin Luziński +48 22 586 83 62

Marcin Sulewski +48 22 586 83 42

Disclaimer

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>