

Rates and FX Outlook

Polish Financial Market

May 2013

Table of contents

Summary	3
Short- and Medium-term Strategy	4
Domestic Money Market	6
Domestic IRS and T-Bond Market	7
Supply Corner	8
Demand Corner	9
International Money Market and IRS	10
International Bond Market	11
Foreign Exchange Market	12
FX Technical Analysis Corner	13
Economic and Market Forecasts	15
Economic Calendar and Events	17
Annex	18

Summary

- ▶ **After surprising rate cut by as much as 50bps in March, the MPC maintained wait-and-see approach in April. However, it does not look like this stance will be held for long.** First, the recent and the upcoming macroeconomic data do not herald a fast and strong recovery. Second, these weak macro statistics already led the European Central Bank to act, which may be important for some MPC members from the point of view of rates disparity. Third, the CPI inflation reaches the new lows, significantly below the central bank target and it seems that another wave of price cuts in telecommunication market combined with low food and fuel prices will bring 12M index to nearly zero level in June. Even if the Council emphasised the importance of medium-term prospects (rather than current data), it will be probably hard for the majority of MPC members to resist to dovish news flow and they will decide to continue the cycle. Our view is for 50bps more rate cuts (in total) until July.
- ▶ **The market is pricing-in much more – reference rate just moderately above 2% in the next couple of months. It looks too aggressive for a couple of reasons.** First, we think that despite recent data, forecasts for acceleration in GDP growth in the remainder of the year should be maintained. Second, the medium-term inflation projection should not change much either and low annual inflation until June would be to a large extent followed by extremely low statistical base in 2H 2012 (on average decline in prices). Third, the NBP Governor emphasised recently that the Council would like to avoid ultra-low rates in Poland.
- ▶ **As regards the breakdown of power within the MPC, it is worth to remember that the casting vote of the NBP Governor was the key when the MPC voted 5-5 in March.** However, since April's meeting he did not comment in the media at all. We think he would rather prefer to wait in May, for more information. However, given recent PMI reading and the cut by the ECB there is a risk the MPC will deliver one more cut as soon as at the next meeting.
- ▶ **Our base-case scenario assumes no rates change in May, which would bring a correction on the interest rate market, as such a decision is already fully priced-in by the market.** However, a correction would be rather short-lived given the upcoming data will not bring (yet) a confirmation of recovery and 12M CPI will fall again significantly. Actually, our forecast of CPI inflation for April is below market consensus (0.6%YoY against 0.7%), and we also see economic activity indicators (production, sales) below the market.
- ▶ **In terms of the domestic currency, we do not see major changes as compared to the situation observed recently, which can be described as a range-trading. Our forecast for average EURPLN in May is 4.13.**

Short- and Medium-term Strategy: Interest rate market

	Change (bps)		Level	Expected trend	
	Last 3M	Last 1M	end-April	1M	3M
Reference rate	-0.75	0.00	3.25	→	↘↘
WIBOR 3M	-87	-31	3.08	↘	↘↘
2Y bond yield	-60	-54	2.59	↘	↘
5Y bond yield	-63	-65	2.76	↘	↘
10Y bond yield	-67	-67	3.25	→	→
2/10Y curve slope	-7	-13	66	→	↗

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: It seems that the MPC will not stick to its wait-and-see stance for long. More monetary easing can be expected and we see 50bps reduction in official rates in June-July period. The market is pricing-in a rate cut even in May, and its probability increased due to recent weak economic data (e.g. PMI) and the ECB's cut by 25bps at its May's meeting.

Short end: Front end of curves (both bonds and IRS) have priced-in already a lot (ca. 100bps cut in official rate) and this might be too aggressive. If our base-case scenario materialises and the MPC keeps rates on hold in May, a correction will take place. However, it would be rather short-lived given the upcoming data will not bring a confirmation of recovery and 12M CPI will fall again significantly.

Long end: We see a stabilisation in long-term instruments near low levels. They will remain under the influence of core market sentiment (mainly Bunds). Taking into account the spread to German bonds (which narrowed significantly in last weeks) we expect that there is rather small room for further drop.

Risk factors to our view: The MPC cuts rates already in May and delivers substantial easing in monetary conditions in the following months, which would be connected with very low readings of current CPI inflation. This drives the curves further down across the board.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-April	1M	3M
EURPLN	-1.1	-0.8	4.14	→	→
USDPLN	2.7	-2.7	3.17	→	↘
CHFPLN	-0.4	-1.7	3.38	→	→
GBPPLN	0.7	-0.6	4.92	→	↘
EURUSD	-3.7	1.9	1.31	→	↗

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: We still see the wide trading range of 4.10-4.20 to continue and the average EURPLN in May should be roughly the same as in previous months. The level of 4.18 looks like important resistance point even in the scenario of no rate cut in May.

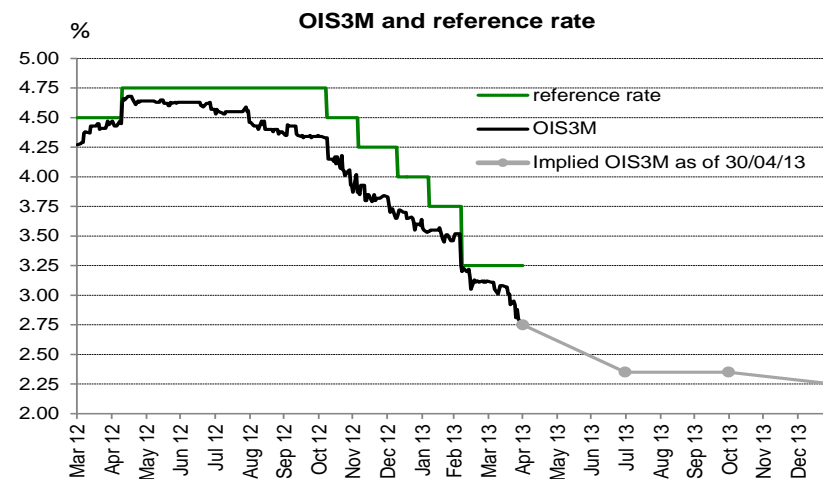
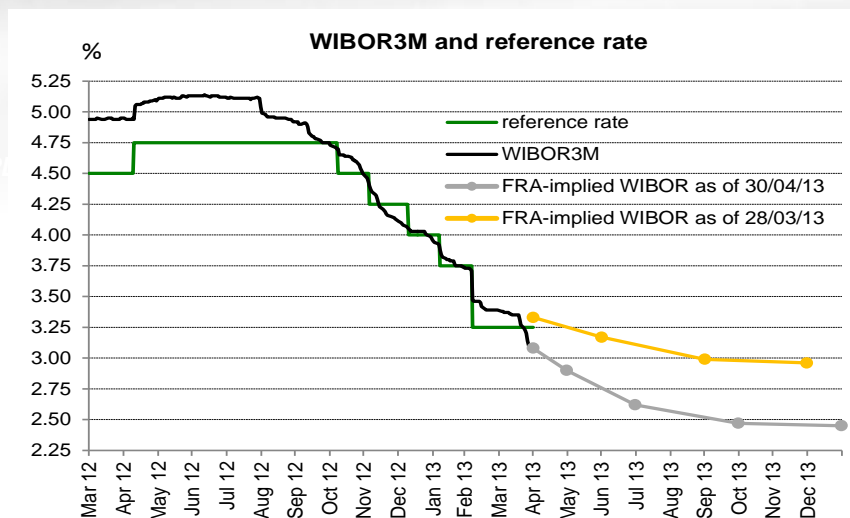
USD: We foresee the EURUSD to stay between 1.295 – 1.324, with an average level of 1.31 in May. Consequently, we foresee the USDPLN to consolidate around 3.17 in one month period, while in the medium term (3 months horizon) we expect the USDPLN to decline gradually towards 3.10.

CHF: The Swiss National Bank (SNB) reaffirms that the bank is “still far away from an exit from the minimum exchange rate policy”. We foresee that positive developments in the euro area could push EURCHF a bit further away from the lower bound in medium term (towards 1.24). Therefore we foresee a moderate strengthening of the CHFPLN in coming weeks.

Risk factors to our view: Widespread expectations of aggressive interest rate cuts by the MPC due to a series of weak economic data (industrial output, retail sales, GDP) might result in zloty depreciation against the main currencies, with testing the upper limit of predicted ranges.

Domestic Money Market: Extremely bullish market

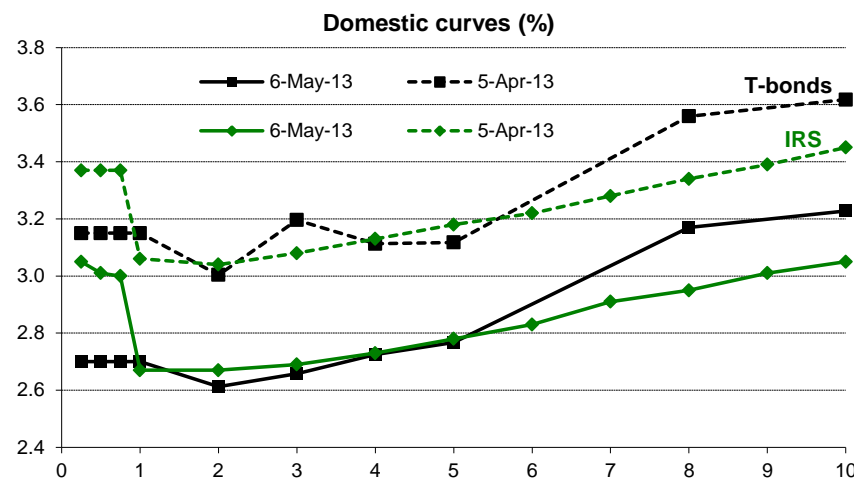
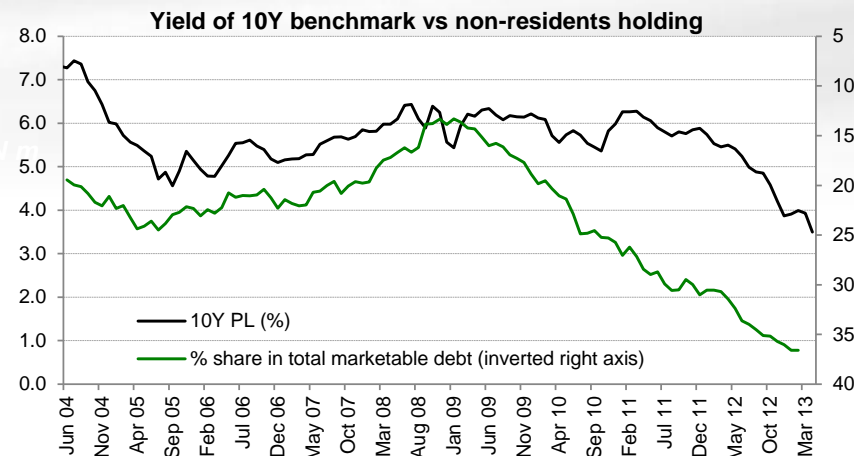
- ▶ WIBOR rates declined significantly in April due to strong expectations for further monetary easing in coming months (including May). While WIBOR1M ended the month at the reference rate level (3.25%), rates between 3M and 1Y were very close to 3%.
- ▶ Currently, both OIS and FRA markets are extremely bullish, pricing-in rate cuts by ca. 100bps in 9 months horizon with the first step expected already in May. Consequently it implies WIBOR 3M slightly below 2.50% at the end of 2013.
- ▶ We revised downward our official rates path, assuming that the MPC will cut rates by 50bps in total in June-July period. Therefore we also decreased our WIBOR forecast till year-end.
- ▶ We uphold our stance that the market too aggressively discounts monetary easing in coming months. If the MPC keeps rates unchanged at its May's meeting we should see some profit taking, but it could be only short-lived taking into account decline in April's CPI below 1% (our forecast below market consensus).



Sources: Thomson Reuters, BZ WBK

Domestic IRS and T-Bond Market: Still solid demand

- Both bond and IRS markets have continued rallying in April. Bullish sentiment was supported by strong expectations on cuts (after dovish comment of MPC's Hausner) and expansionary policy by the main central banks (mainly BoJ). In monthly terms the yield curve shifted down by 54-67bps (with the deepest decline in 10Y), and IRS curve shifted parallel (decline by 50bps).
- Foreign demand has remained relatively strong as Polish debt offers attractive yields in comparison to 'safe haven' markets.
- We expect yields to remain at low levels over the next few weeks. In our opinion expected cuts are fully priced-in by the market, therefore the MPC's decision to keep rates unchanged in May might prompt profit taking. Similarly as in the case of money market, it could be only short-lived as upcoming macro data may uphold expectations on NBP's rate cuts in coming months. On the other hand, the spread to Bunds has been narrowing, and we believe there is small room for further drop (mainly in 10Y sector).
- We still expect yields of T-bonds to go up later in the year, although scale of increase should be rather moderate.

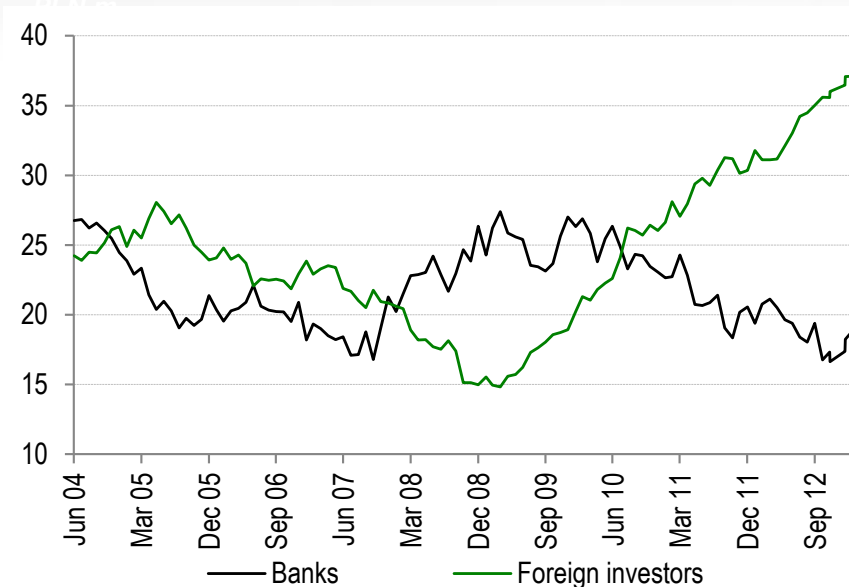


Sources: Reuters, MF, BZ WBK

Demand Corner: Foreigners bought short-term debt in March

- ▶ Portfolio of Polish marketable bonds held by foreign investors reached PLN205.3bn in March, 11th record in a row.
- ▶ Foreign investors bought mainly short-term bonds (OK0715 for PLN1.2bn and DS1013 for PLN2.0bn) and reduced their holdings of long-term securities (WS0922 by PLN1.8bn).
- ▶ After 7 consecutive months of strong buying the foreign non-bank financial institutions cut their holdings by PLN925m.
- ▶ Polish banks also continued to increase their holdings (3rd month in a row). Nominal pace of monthly increase was higher than in case of foreign investors accumulation (PLN4.7bn vs. PLN3.1bn).
- ▶ Purchases of domestic banks focused on PS series bonds (PLN1.7bn of both PS0418 and PS1016) and WS0922 (PLN1.1bn). Holdings of WZ0118 and WZ0115 were trimmed by PLN1.4bn and PLN1.1bn, respectively.

Shares of Polish banks and foreign investors in Polish marketable bonds (%)

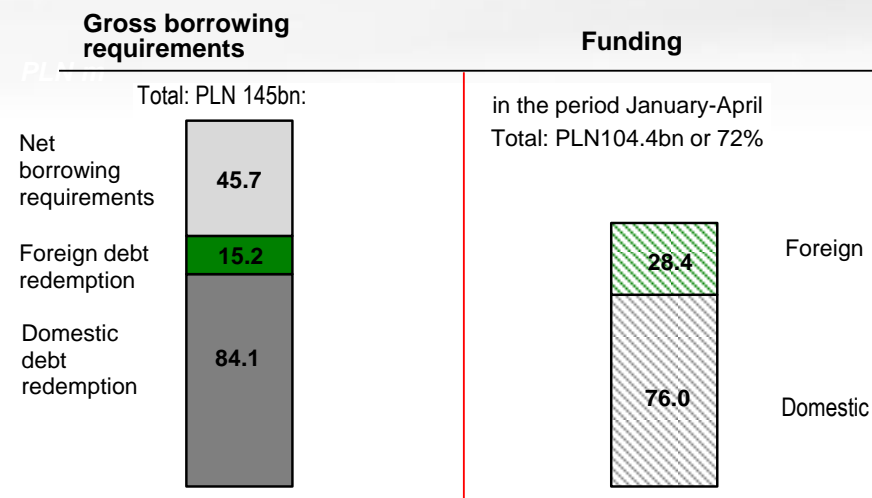


Sources: MF, BZ WBK

Supply Corner: Issuance surpassed the 70% completion mark

- As in previous months, the Ministry of Finance has successfully launched T-bonds on domestic market, selling papers worth PLN16.8bn (or 48-67% of quarterly plan at PLN25-35bn).
- At the end of April the Ministry completed 72% (PLN104.4bn) of its 2013 borrowing requirements (PLN145bn). It is still very likely that 80% of completion will be reached at the end of June.
- Issuance plan for May assumes two regular auctions, at which mainly mid- and long-term T-bonds (worth PLN5-13bn) will be offered. At the first auction (9 May) investors may bid for a new 5Y (PS0718) and/or additional 2Y (OK0116) papers.
- As usual, May's offer is flexible, while wide range of T-bonds is adjusted to the market situation and investors' demand.
- In our opinion the Ministry of Finance will have no problems with selling debt in current environment (including still solid foreign demand).

Gross borrowing requirements' financing in 2013



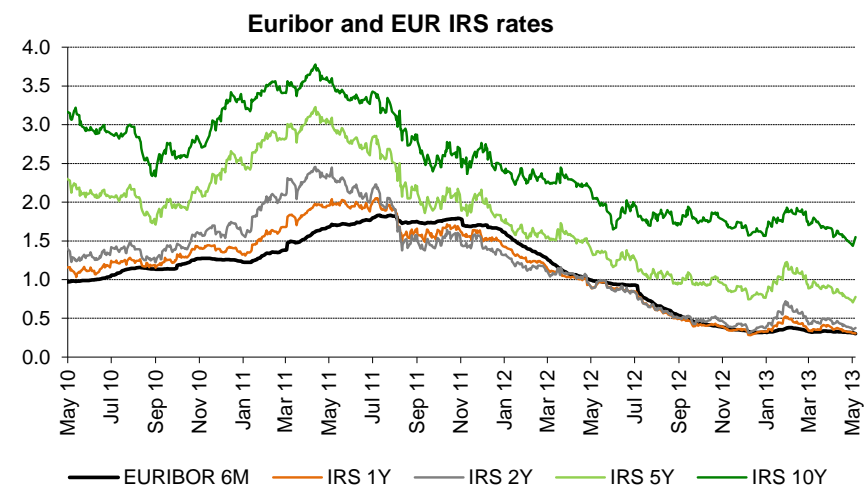
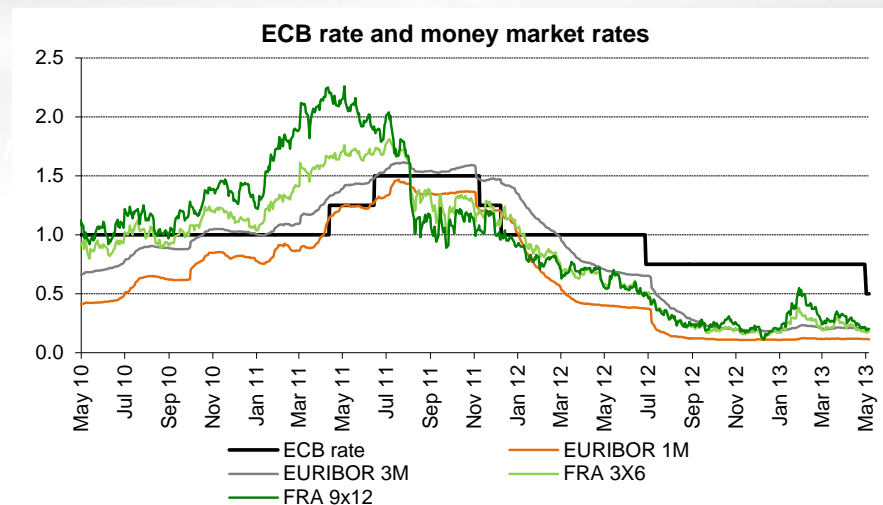
Auction schedule for May

Auction date	Settlement date	T-bonds to be offered	Planned offer (PLN bn)
9 May 2013	13 May 2013	PS0718 and possibly OK0116 in the case of changes in market conditions	3.0 – 7.0
16 May 2013	20 May 2013	the choice, depending on the market conditions, from the following T-bonds: WZ0119 / DS1023 / WZ0124 / WS0428	2.0 – 6.0

Sources: MF, BZ WBK

International Money Market and IRS: ECB cut official rates

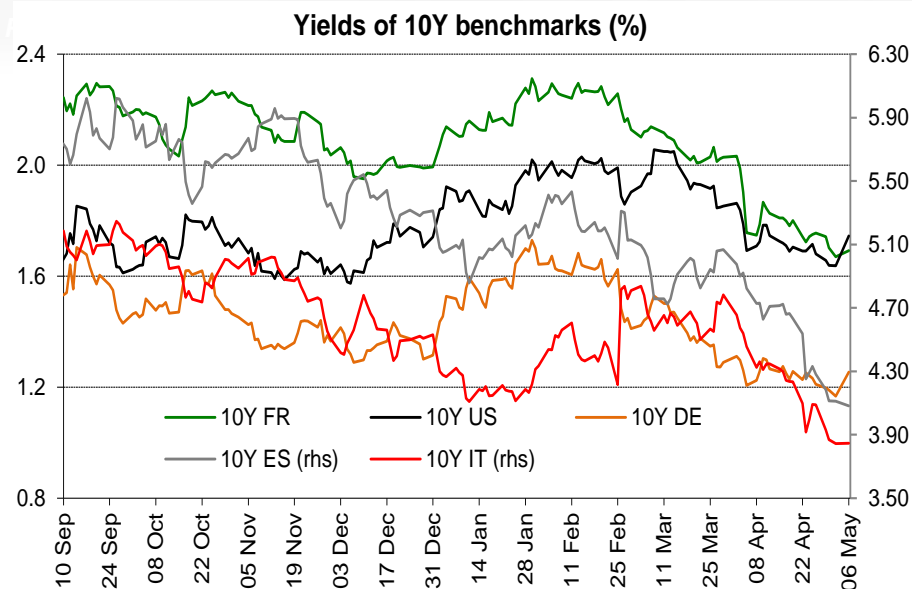
- ▶ The EUR short-term rates have remained at low level due to poor growth outlook and weaker-than-expected April confidence surveys, which increased expectations for further monetary easing by the ECB, together with some non-standard measures.
- ▶ The EUR IRS rates also continued to rally. The changes in swap rates have been highly correlated to the rally in German 10Y benchmark and other core issuers. In monthly terms the IRS curve has shifted by ca. 15bps at the short end and 21bps at the long end. What is more, IRS rates up to 5Y have remained below 1%, showing that market has priced-in that the ECB will maintain the refi rate unchanged for the next 5 years.
- ▶ As expected, the ECB cut the refi rate by 25bps (to 0.50%) and the marginal lending facility rate by 50bps (to 1.00%). As a consequence the EUR money market rates should remain at low levels reached recently.
- ▶ Changes in risk appetite or some improvement in macro data could move EUR swap rates. We still see upward move later this year.



Sources: Thomson Reuters, ECB, BZ WBK

International Bond Market: Strong rally across the board

- Weaker macroeconomic data (both in the US and the euro area) and expectations for further monetary stimulus, including an aggressive expansion of the Bank of Japan, sustained appetite for bonds not only from core markets, but also from 'peripheral' ones.
- Additional supportive factor was improvement in political situation in Italy (creation of a new government). As a consequence yield of 10Y Bunds fell slightly below 1.20%, while Italian 10Y ended the month with yield below 4% (for the first time since end-2010).
- The ECB decision to cut rates at its May's rate setting meeting should bring yields of 'safe haven' to lower levels and support further decline in yields of peripheral bonds. However, demand for more risky assets will depend on fiscal consolidation and GDP growth outlook. Therefore volatility on the periphery might be substantial.
- We maintain our forecasts of moderate increase in yields of the US Treasuries and Germany bonds till year-end.

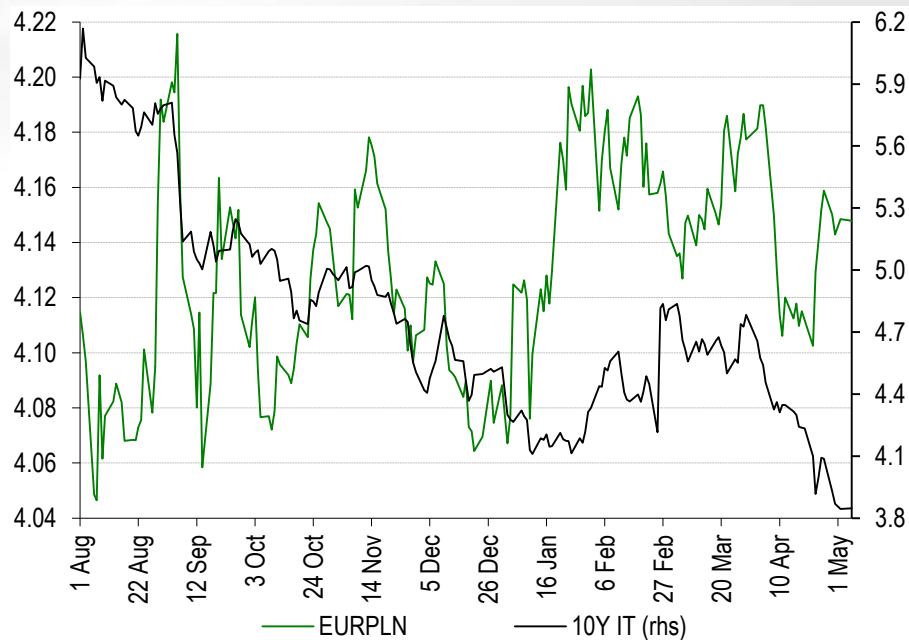


Sources: Thomson Reuters, BZ WBK

Foreign Exchange Market: Global events drive the zloty

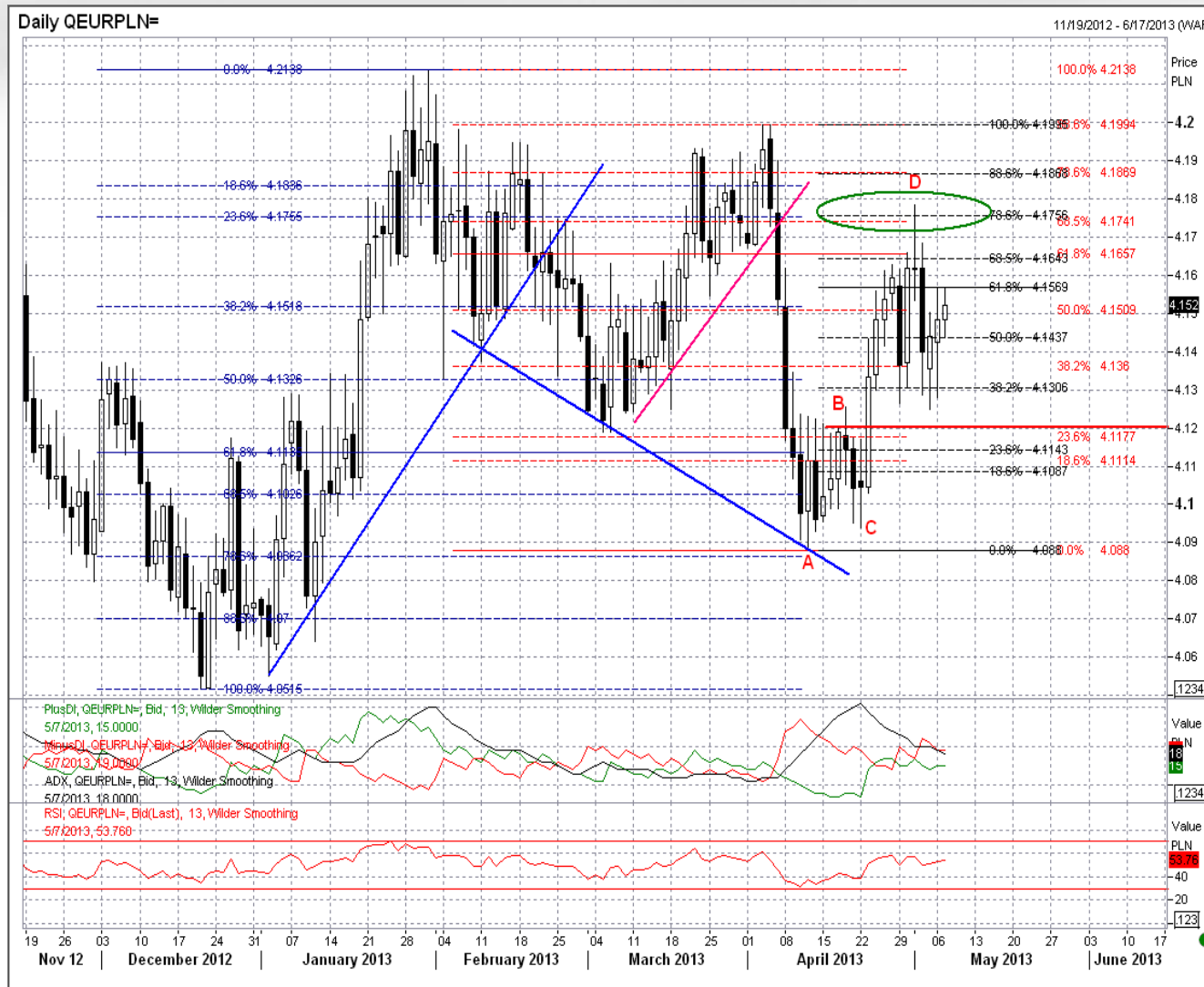
- Global events had biggest impact on the zloty in April. The domestic currency appreciated to ca. 4.09 per euro and to 3.11 per dollar after the BoJ expanded the asset buying program. Still, much weaker than expected flash PMI for Germany and the euro zone put negative pressure on the zloty.
- It is worth to notice the zloty remained resilient to mounting expectations for NBP rate cut.
- The political situation in Italy stabilised and the new PM was positively perceived by investors. What is more, the April's decision of the ECB and the suggestion of possible reduction of deposit rate below 0% proved supportive for the zloty vs. the euro.
- Given the above, we expect the zloty may gain slightly versus the euro in May (EURPLN at 4.13 on average). Risk factor is the uncertainty whether data from Europe show finally any sign of improvement in economic situation.

EURPLN and yield of 10Y Italian bond



Sources: Reuters, BZ WBK

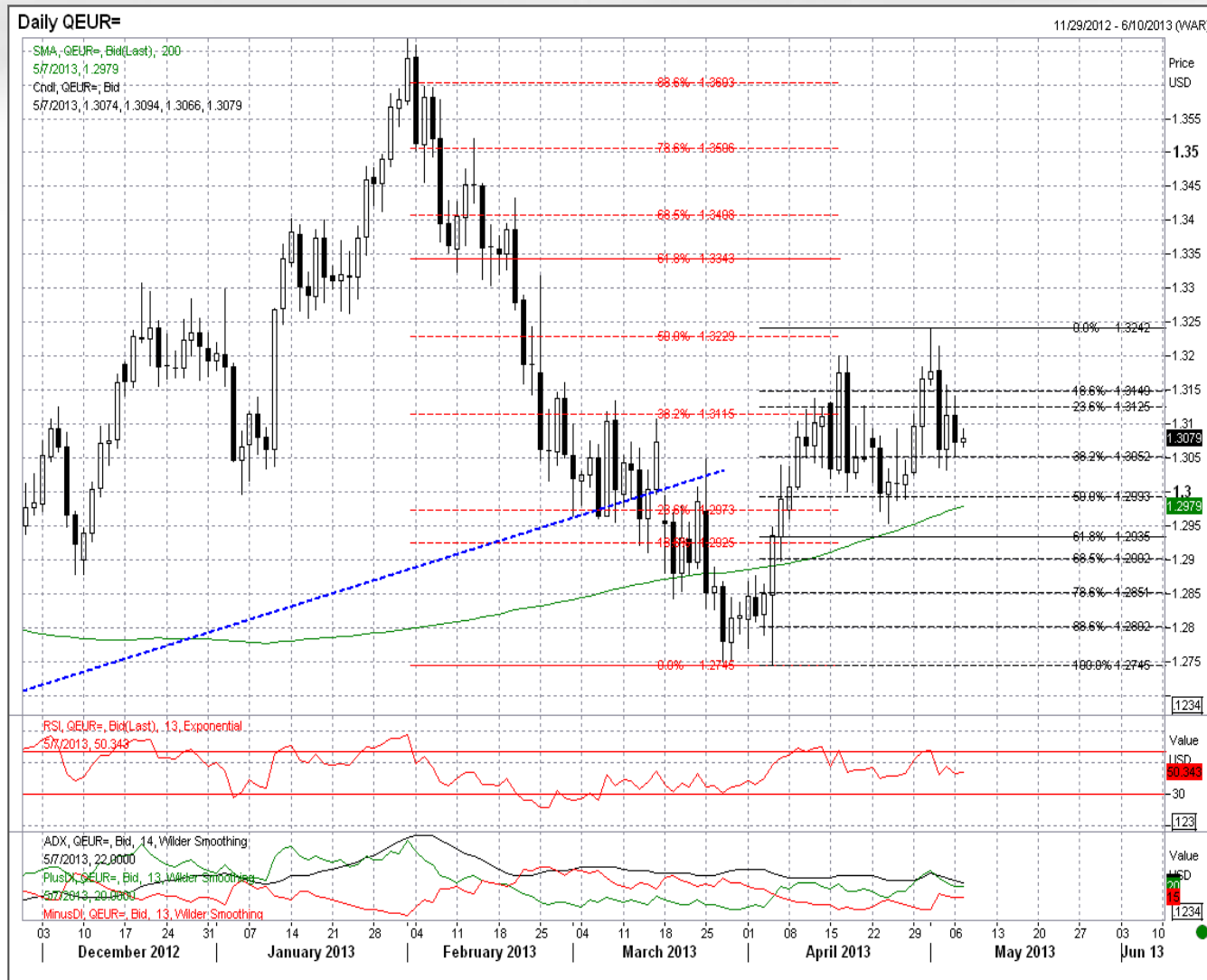
FX Technical Analysis Corner: EURPLN may head towards 4.12



- ▶ The downward move of the EURPLN halted at 78.6% retracement of the upward move seen since December to late January.
- ▶ The following increase of EURPLN stopped at resistance combined of two Fibon retracements.
- ▶ Additionally, for the level just below the current peak, $AB/CD = 0.447$ (one of Fibon ratios).
- ▶ This suggest a move to ca. 4.12 may occur in coming weeks.

Sources: Reuters, BZ WBK

FX Technical Analysis Corner: Room for lower EURUSD



- ▶ EURUSD continued to increase and reached above the first target we pointed last month (1.31).
- ▶ There are now several circumstances indicating a possibility of a downward move of the EURUSD.
- ▶ For the level of only 6 pips below the peak at 1.3242, AB/CD=1.618 (very strong Fibon ratio).
- ▶ The exchange rate did not manage to stay for longer above the resistance at 1.3228.
- ▶ RSI gave a signal to sell.
- ▶ The shooting star at the peak of the upward move also indicates room for a decline.
- ▶ Support 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	1,625.1	370.1	389.1	393.8	442.2	380.2	393.7	398.7	452.5
GDP	%YoY	3.9	4.5	1.9	1.2	3.5	2.3	1.3	0.7	0.8	0.9	1.2	1.9
Domestic demand	%YoY	4.6	3.6	-0.2	-0.4	2.2	-0.4	-0.8	-1.6	-1.5	-0.5	-0.1	0.2
Private consumption	%YoY	3.2	2.6	0.8	0.9	1.7	1.3	0.2	-0.2	0.5	0.8	1.0	1.4
Fixed investments	%YoY	-0.4	8.5	-0.8	-2.6	6.8	1.4	-1.7	-4.1	-5.5	-4.0	-2.0	-1.0
Unemployment rate ^a	%	12.4	12.5	13.4	13.9	13.3	12.3	12.4	13.4	14.3	13.4	13.3	13.9
Current account balance	EURm	-18,129	-17,977	-13,480	-7,469	-4,515	-2,203	-3,285	-3,477	-2,426	-1,127	-1,882	-2,033
Current account balance	% GDP	-5.1	-4.9	-3.5	-1.9	-5.1	-4.6	-4.1	-3.5	-3.0	-2.6	-2.3	-1.9
General government balance	% GDP	-7.9	-5.0	-3.9	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	0.9	4.1	4.0	3.9	2.9	1.3	0.4	0.8	1.2
CPI ^a	%YoY	3.1	4.6	2.4	1.3	3.9	4.3	3.8	2.4	1.0	0.2	1.0	1.3
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.0	2.5	2.5	2.1	1.7	1.2	0.7	1.0	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	2.75	4.50	4.75	4.75	4.25	3.25	3.00	2.75	2.75
WIBOR 3M	%	3.94	4.54	4.91	3.16	4.97	5.04	5.06	4.57	3.77	3.07	2.79	3.00
Yield on 2-year T-bonds	%	4.72	4.81	4.30	2.85	4.66	4.71	4.22	3.61	3.29	2.69	2.62	2.78
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.05	5.02	4.93	4.43	3.75	3.49	2.83	2.89	3.00
Yield on 10-year T-bonds	%	5.74	5.98	5.02	3.53	5.58	5.38	4.91	4.22	3.95	3.36	3.34	3.48
2-year IRS	%	4.73	4.98	4.52	3.27	4.83	4.91	4.47	3.85	3.43	2.71	2.57	2.69
5-year IRS	%	5.25	5.24	4.47	3.39	4.82	4.86	4.37	3.84	3.52	2.84	2.71	2.85
10-year IRS	%	5.40	5.33	4.56	3.83	4.88	4.88	4.47	4.01	3.76	3.21	3.22	3.38
EUR/PLN	PLN	3.99	4.12	4.19	4.13	4.23	4.26	4.14	4.11	4.16	4.13	4.13	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.10	3.23	3.32	3.31	3.17	3.15	3.15	3.09	3.03
CHF/PLN	PLN	2.90	3.34	3.47	3.35	3.50	3.55	3.44	3.40	3.38	3.37	3.33	3.31
GBP/PLN	PLN	4.66	4.75	5.16	4.85	5.07	5.26	5.22	5.09	4.88	4.87	4.83	4.82

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

^a at the end of period

Economic Calendar and Events

Date		Event:	Note:
8-May	PL	MPC Meeting – interest rate decision	We expect the MPC to keep rates unchanged
	DE	Auction of 5Y bonds	Offer: €5bn
9-May	PL	Auction of bonds: PS0718 and/or OK0116	Offer: PLN3.0-7.0bn
13-May	EU	Eurogroup meeting	-
	IT	Auction of medium-long term bonds	-
14-May	EU	Ecofin meeting	-
15-May	PL	CPI for April	Our forecast: 0.6%YoY (slightly below consensus at 0.7%YoY)
	DE	Auction of 2Y bonds	Offer: €5bn
16-May	PL	Core inflation for April	We expect core CPI after excluding food and energy prices at 0.8%YoY
	PL	Auction of bonds: WZ0119/DS1023/WZ0124/WS0428	Offer: PLN2.0-6.0bn
20-May	PL	Employment and wages for April	We and market expect employment decline by 0.9%YoY and subdued growth of wages (by 1.5%YoY vs market expectations at 2.0%)
	DE	Auction of 10Y bonds	Offer: €4bn
21-May	PL	Industrial output and PPI for April	We foresee a slight rebound in production (by 2%YoY, but slower than consensus at 2.6%). We predict PPI at -1.6%YoY
22-May	DE	Auction of 10Y bonds	Offer: €5bn
TBA	PL	Retail sales for April	Our forecast: -0.2%YoY (confirming weakness of consumer demand)
28-May	HU	NBH Meeting - interest rate decision	-
30-May	IT	Auction of medium-long term bonds	-
31-May	PL	GDP for Q1 2013 – preliminary data	Our forecast: +0.8%YoY (wide range of forecasts: 0.1% - 1%YoY)
5-Jun	PL	MPC Meeting – interest rate decision	We expect rate cut by 25bps
6-Jun	EU	ECB 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

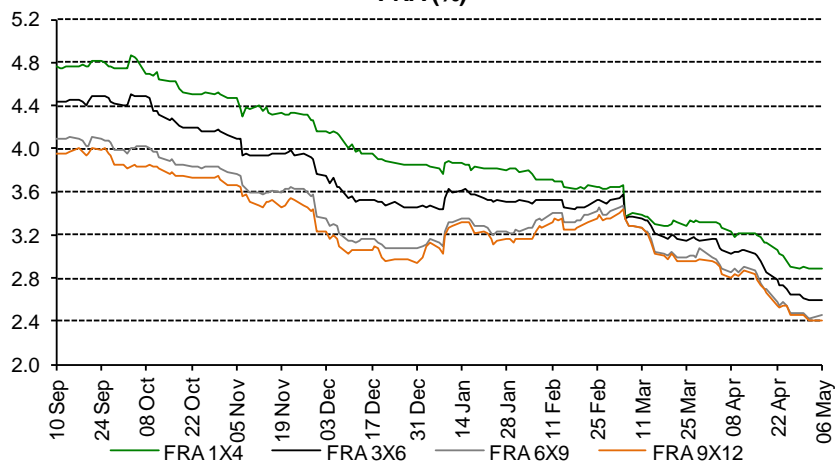
Money market rates (%)

	Reference	Polonia	WIBOR (%)				OIS (%)				FRA (%)			
	rate (%)	(%)	1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of April	3.25	3.10	3.25	3.08	3.03	3.02	3.22	3.12	3.02	2.93	2.90	2.62	2.47	2.45
Last 1M change (bp)	0	-20	-14	-31	-36	-37	0	0	0	0	-41	-53	-60	-53
Last 3M change (bp)	-75	-94	-79	-88	-89	-80	-48	-52	-35	-31	-91	-88	-75	-68
Last 1Y change (bp)	-125	-88	-147	-187	-194	-196	-119	-135	-149	-160	-210	-247	-262	-252

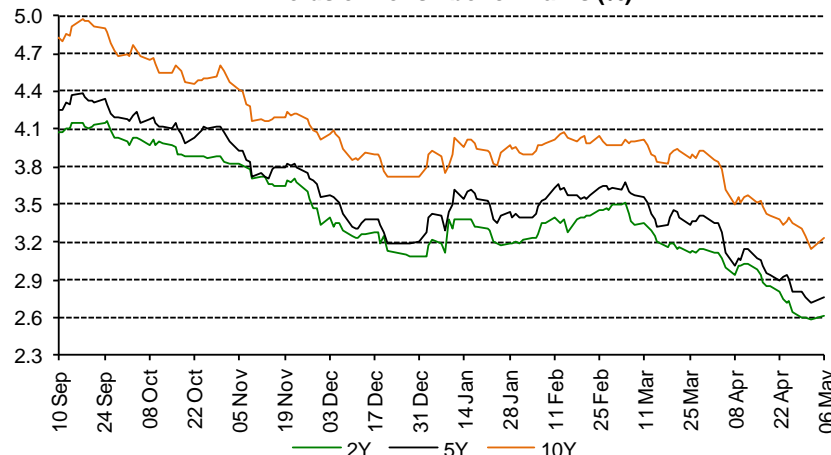
Bond and IRS market (%)

	T-bills	BONDS				IRS			Spread BONDS / IRS (bps)		
	52-week	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y	
End of April	2.80	2.59	2.76	3.25	2.68	2.80	3.09	-9	-4	16	
Last 1M change (bps)	-45	-54	-65	-67	-49	-50	-50	-5	-15	-17	
Last 3M change (bps)	-74	-61	-65	-70	-73	-64	-63	12	-1	-7	
Last 1Y change (bps)	-183	-207	-211	-215	-227	-214	-191	20	3	-24	

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	7,000	5,000	9,000	1,000	5,500	10,000	3,100		93,247
T-bills auction	3,603	1,747	3,084										8,434
Retail bonds	150	154	154	154	154	154	154	113	154	154	114	157	1,766
Foreign bonds/credits	4,140	1,301				1,800					2,000		9,241
Prefinancing and financial resources at the end of 2012	24,400												24,400
Total	49,651	13,593	11,318	16,971	7,154	6,954	9,154	1,113	5,654	10,154	5,214	157	137,088
Redemption	11,686	13,854	2,791	16,157	2,340	1,859	13,423	3,191	1,122	25,128	2,256	2,369	96,176
Net inflows	37,965	-261	8,527	814	4,814	5,095	-4,269	-2,078	4,532	-14,974	2,958	-2,212	40,912
Rolling over T-bonds			4,827										4,827
Buy-back of T-bills/bonds													0
Total	37,965	-261	13,354	814	4,814	5,095	-4,269	-2,078	4,532	-14,974	2,958	-2,212	45,739
<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	13,205	0	218	13,423	0	13,423
August	0	1,997	248	2,245	946	3,191
September	0	0	176	176	946	1,122
October	23,913	0	265	24,178	950	25,128
November	0	1,332	208	1,540	716	2,256
December	0	2,223	146	2,369	0	2,369
Total 2013	63,144	15,633	2,075	80,852	15,324	96,176
Total 2014	61,666	6,110	1,698	90,276	14,825	105,101
Total 2015	90,137		628	59,586	17,448	77,034
Total 2016	59,378		485	79,365	14,329	93,694
Total 2017	71,444		91	59,469	16,871	76,340
Total 2018+	222,043		3,288	213,794	134,966	348,760

Sources: MF, BZ WBK

2. Polish bonds: supply recap (cont.)

Schedule wholesale bonds redemption by holders (data at the end of March 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	7,165	4,952	1,687	433	448	52	332	980	16,049
Q3 2013	9,083	1,055	1,245	187	198	116	18	1,343	13,244
Q4 2013	12,168	1,342	6,873	987	576	116	125	1,772	23,958
Total 2013	28,416	7,348	9,805	1,607	1,222	283	475	4,095	53,251
	53%	14%	18%	3%	2%	1%	1%	8%	100%
Total 2014	37,665	9,807	4,425	2,866	2,954	405	112	3,723	61,956
	61%	16%	7%	5%	5%	1%	0%	6%	100%
Total 2015	28,688	24,108	8,049	12,722	8,919	225	287	4,275	87,273
	33%	28%	9%	15%	10%	0%	0%	5%	100%
Total 2016	20,016	10,517	3,453	19,605	5,928	53	88	3,044	62,704
	32%	17%	6%	31%	9%	0%	0%	5%	100%
Total 2017	26,995	12,179	5,716	14,407	8,029	51	70	3,248	70,694
	38%	17%	8%	20%	11%	0%	0%	5%	100%
Total 2018+	63,481	40,100	19,953	61,829	15,039	205	376	8,949	209,932
	30%	19%	10%	29%	7%	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 March			Share in TOTAL (%) in Mar
	End Mar	End Feb	End Jan	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	347.9	343.0	339.8	337.5	341.8	352.9	361.4	1.43	4.89	-3.76	62.9
Commercial banks	104.1	99.4	92.9	87.8	102.0	102.1	110.9	4.69	18.58	-6.16	18.8 (0.6pp)
Insurance companies	51.4	51.0	51.9	52.8	54.7	57.0	54.3	0.82	-2.64	-5.26	9.3 (-0.1pp)
Pension funds	113.0	113.3	113.6	117.4	116.7	120.3	120.7	-0.21	-3.69	-6.36	20.4 (-0.3pp)
Mutual funds	42.1	42.1	41.4	41.7	32.5	33.0	31.3	-0.12	0.86	34.53	7.7 (-0.1pp)
Others	37.3	37.2	40.0	37.8	35.9	40.5	44.3	0.3	-1.5	-15.9	6.7 (-0.1pp)
Foreign investors*	205.3	202.2	195.0	189.9	184.2	174.0	163.2	1.53	8.11	25.77	37.1
Banks	37.3	33.8	30.4	28.4	27.8	22.6	24.3	10.39	31.21	53.18	6.7 (0.5pp)
Non-bank fin. sector	159.0	159.9	156.2	153.1	147.5	143.1	131.7	-0.58	3.86	20.76	28.7 (-0.6)
Non-financial sector	5.4	4.9	4.8	5.2	5.6	5.2	4.4	10.54	3.94	23.10	1.0 (0.1pp)
TOTAL	553.1	545.1	534.8	527.4	526.0	526.9	524.7	1.47	3.08	5.43	100

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

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	38.0
Belgium	30.3	8.8	40.0	37.0	51.0
Finland	6.8	5.6	12.4	12.4	35.0
France	105.5	61.6	171.1	170.0	52.0
Germany	157.0	17.1	174.1	174.1	36.0
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	49.0
Netherlands	31.5	15.2	46.7	50.0	45.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	41.0
Total	584.3	220.0	832.2	772.3	45.0

*/ 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 April	2012	end of April	2012	end of April	2012	end of April
Poland	4.25	2.75	4.11	3.08	3.72	3.25	241	207	80	80
Czech Republic	0.05	0.05	0.18	0.14	1.86	1.64	54	45	63	58
Hungary	5.75	4.75	5.75	4.59	6.23	5.44	492	425	269	296
Euro area	0.75	0.50	0.19	0.21						
Germany					1.32	1.19			39	35

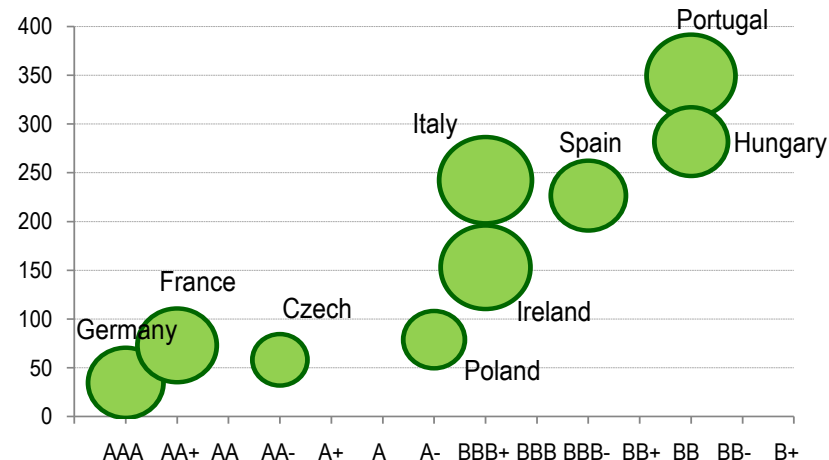
Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

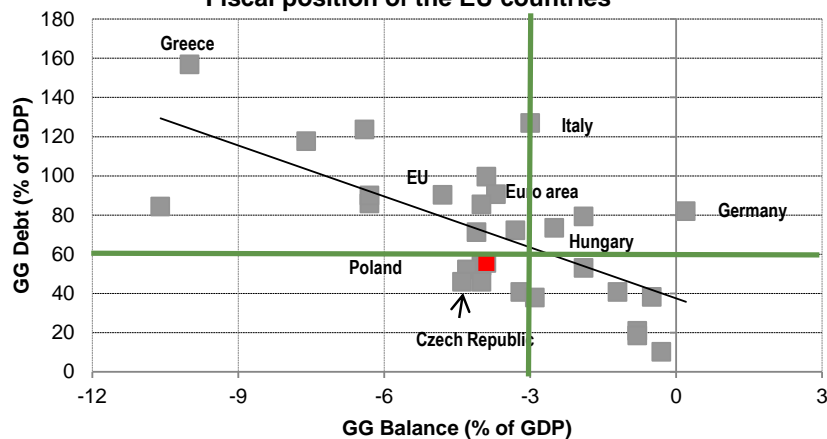
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	positive
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	negative
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA+	negative	Aa1	negative	AAA	negative
UK	AAA	negative	Aa1	negative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

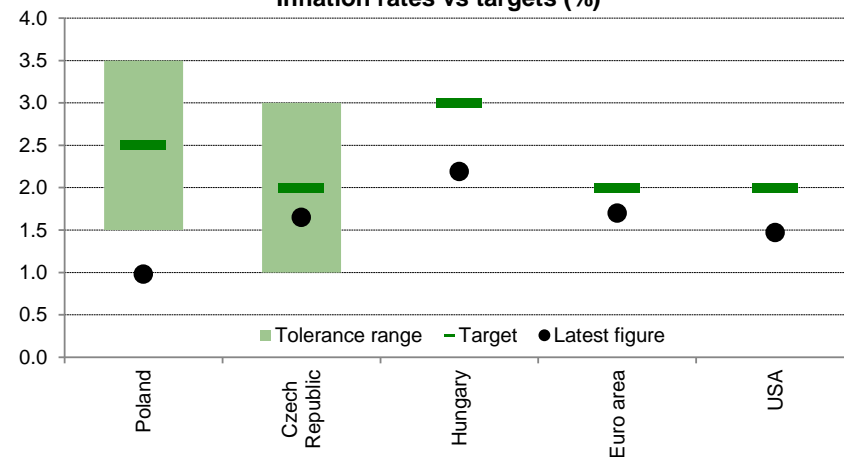


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

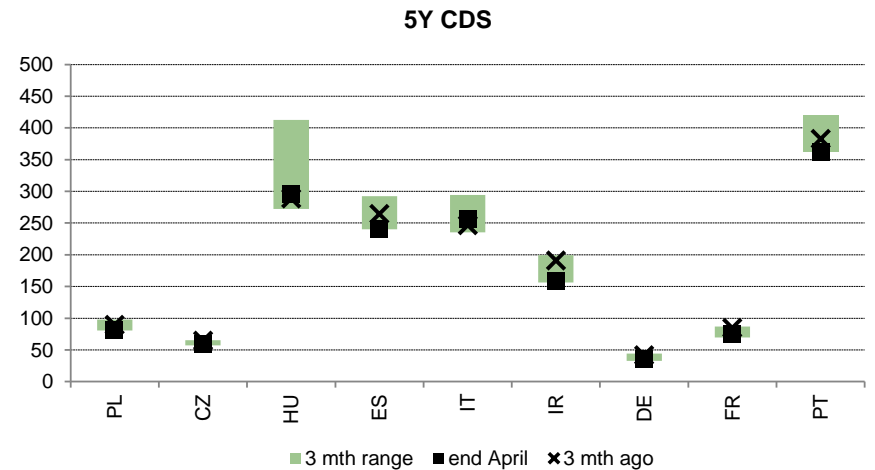
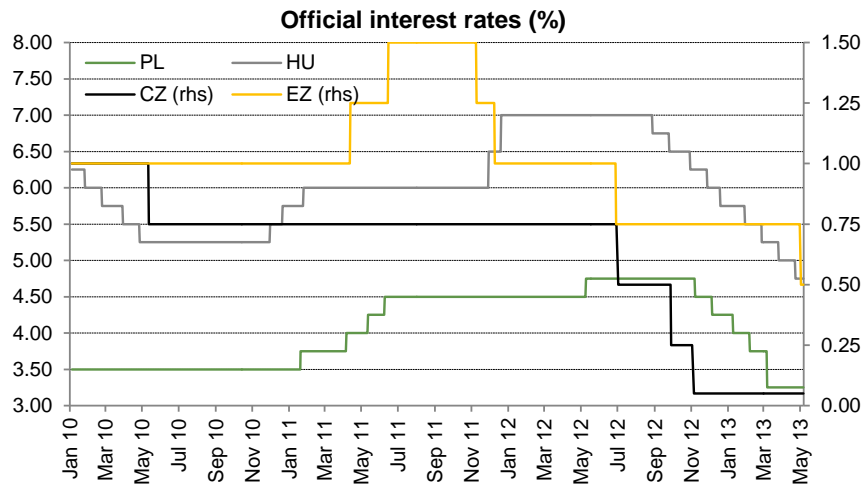
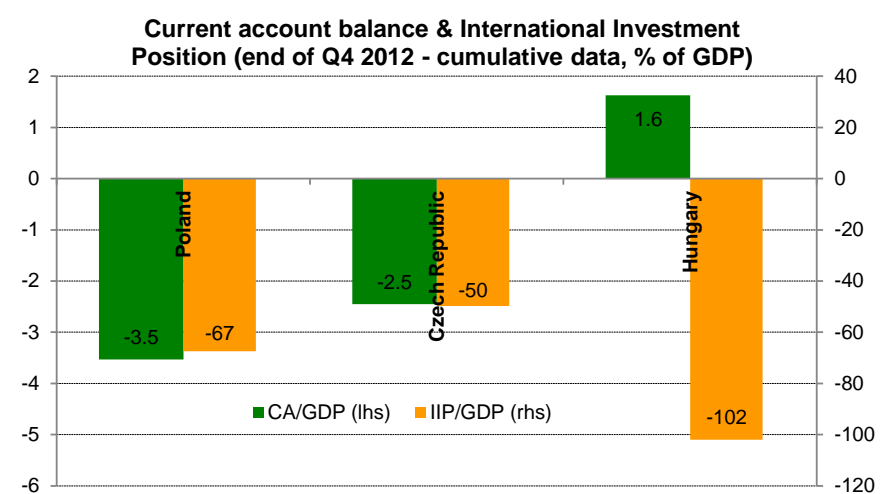
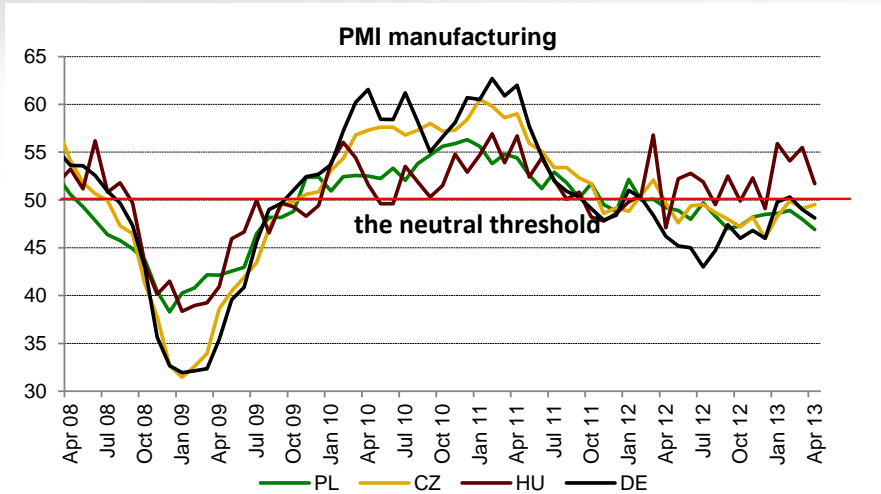


Inflation rates vs targets (%)



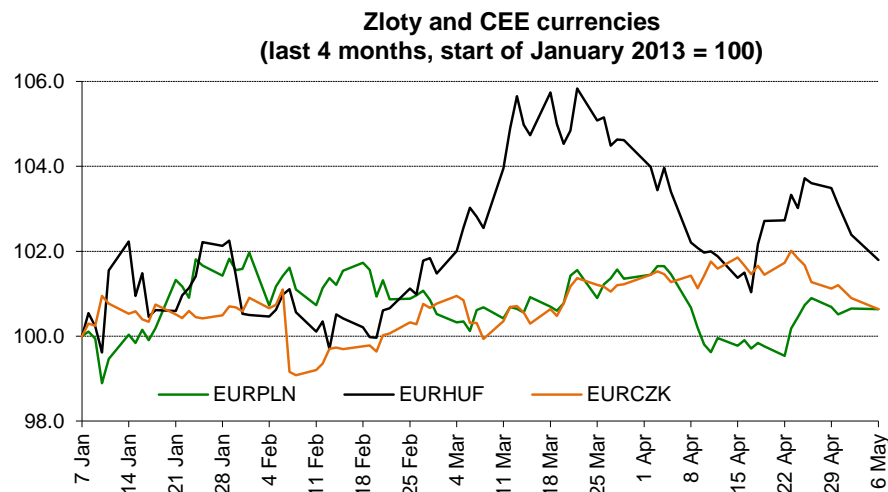
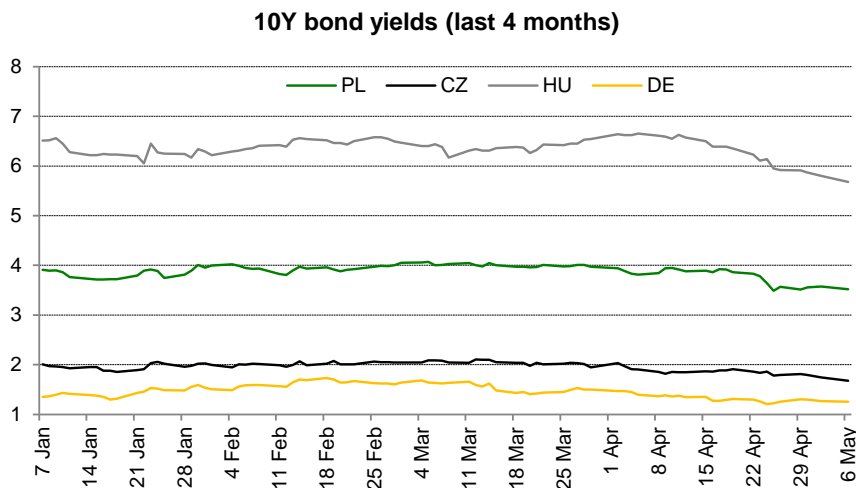
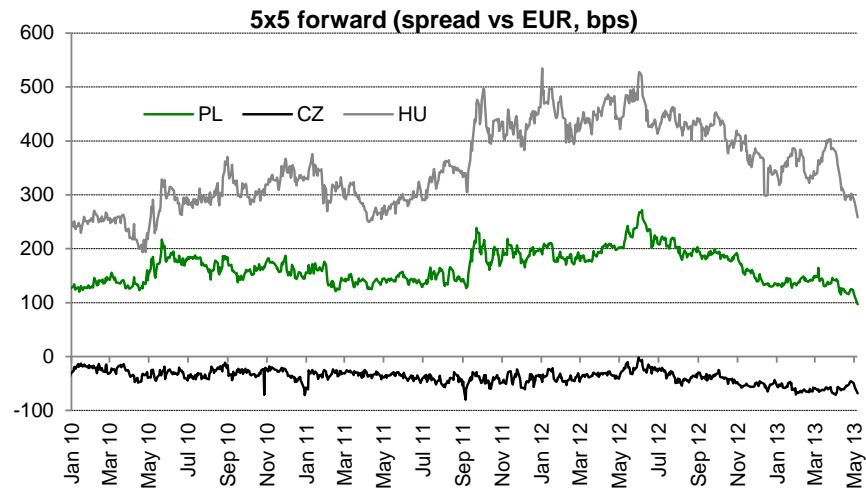
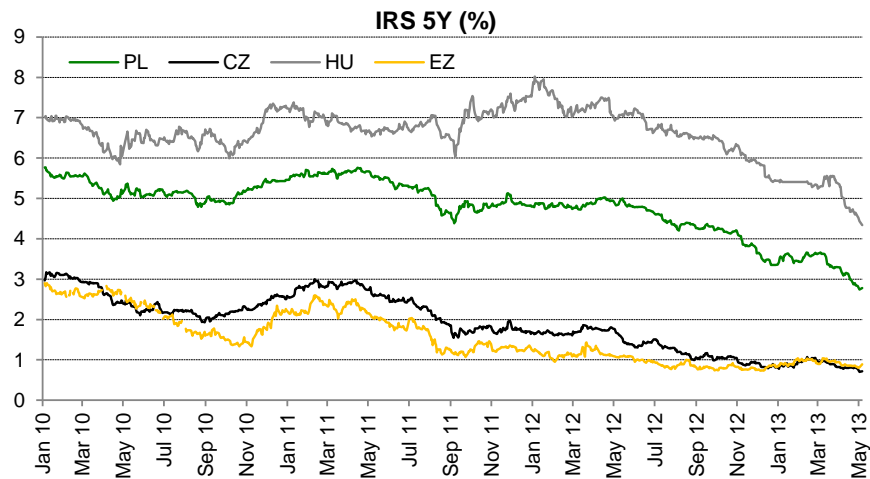
Source: rating agencies, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)



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				The ECB at its May's meeting lowered its refinancing rate by 25bp to 0.50% and maintained the deposit rate unchanged at 0%.
	Market implied »				0	-1	-2	Rhetoric sounded rather dovish on rates and suggested that the deposit rate might enter negative territory.
UK	Forecast	0.50	0.50	0.50				We do not expect any changes in the BoE monetary policy. Focus on a new Inflation Report.
	Market implied »				-1	-2	-2	
US	Forecast	0-0.25	0-0.25	0.25				May's FOMC meeting ended without any major changes in the Fed's stance. We expect Fed to keep it cautious tone on the economy.
	Market implied »				0	0	1	
Poland	Forecast	3.25	4.25	2.75				We expect the MPC to stay unchanged and keep its 'wait and see' stance. But in our opinion the economic outlook will justify more cuts and we expect another 50bps (in total) of easing, starting in June.
	Market implied »				-16	-45	-60	
Czech Republic	Forecast	0.05	0.05	0.05				As expected, CNB kept rates on hold, saying that it will maintain very low interest rates for an extended period of time. The CNB also said that it might use FX interventions against the koruna.
	Market implied »				30	27	26	
Hungary	Forecast	4.75	5.75	4.75				The NBH has continued easing cycle, trimming official interest rates by 25bps at its April's meeting. Low inflation and stagnating economy might justify further cuts.
	Market implied »				-28	-81	-113	

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