Rates and FX Outlook

Polish Financial Market

August 2013

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Summary

- **In line with expectations, in July the MPC cut official interest rates by 25bp and declared the end of the monetary policy easing cycle. The reference rate is currently at all-time low of 2.50%.** June's macroeconomic data brought a lot of good news, as both industrial output and retail sales figures surprised on the upside, showing more strong signs of the long-awaited recovery. What is more, the July's PMI index for Polish manufacturing (51.1 pts) also confirms economic recovery, supporting our forecast for more visible increase in industrial production (by 7%YoY in July). On the other hand, CPI inflation reached the lowest level since comparable data is available (early 90s). This month the MPC rate-setting meeting will not be held. However, in September the Council will be provided with explicit signs of the long-awaited cyclical recovery in Poland (including 2Q GDP growth, July's macroeconomic indices). **We think that gradual, but systematic economic rebound in coming quarters, together with some subdued increase in CPI inflation will allow the MPC to keep the reference rate at all-time low at least mid-2014, with the first rate hike in 3Q 2014**.
- **Polish interest rate market is still strongly dependent on global sentiment.** However, domestic economic data also contribute to curves' steepening, while uncertainties related to the recently approved changes in fiscal policy, including suspension of the 50% debt/GDP ratio, did not have any impact on the market and on the risk evaluation. We think that normalisation of situation on core markets (higher yields) might strongly affect the domestic T-bonds market. We expect both T-bonds and IRS curves to remain quite steep. While in the short term the volatility will still be high with significant changes in intraday trade, the trend is still upward.
- We reestimated our last year's models of yields of Polish 2,5 and 10Y benchmarks. Comparison with our earlier models shows that **influence of German bonds and external demand on Polish yields increased over time, while FX risk and interest rate expectations became somewhat less important.** We have also found some evidence that longer tenors (5 and 10Y bonds) react stronger to depreciation of the zloty than to appreciation.
- Recent weeks brought a strengthening of the zloty against the main currencies. What is more, **the zloty outperformed other CEE3 currencies. Situation on the FX market is changing very quickly, depending on upcoming macro data not only domestic, but also external ones. We expect EURPLN to stay in horizontal trend between 4.20-4.30.** We maintain our forecast of a strengthening of the zloty below 4.20 in 4Q13 and towards 4.00 in 2014.

Short- and Medium-term Strategy: Interest rate market

	Change (bp)		Level	Expected trend	
	Last 3M	Last 1M	end-July	1M	3M
Reference rate	-0.75	-0.25	**2.50**	→	→
WIBOR 3M	-38	-3	**2.70**	→	↗
2Y bond yield	19	-23	**2.79**	↗	↗ ↗
5Y bond yield	63	-34	**3.40**	↗	↗ ↗
10Y bond yield	82	-27	**4.07**	↗	↗ ↗
2/10Y curve slope	63	-3	**129**	→	→

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

PLN Rates Market: our view and risk factors

Money market: In July the money market rates adjusted to the new monetary policy conditions. Strong declaration from the MPC that it has ended the monetary easing changed outlook for the future monetary policy as now market is rather thinking about rate hikes. We believe that upcoming macro data will strengthen such a scenario. As a consequence, we foresee WIBOR rates to remain more or less at a stable level in one month horizon, while in medium term we expect a gradual increase in both WIBOR and FRA rates.

Short end: The front ends of both T-Bonds and IRS curves negatively reacted to announcement of ending monetary cycle. However, short-term rates have remained relatively resistant to changes on core markets. Improving prospects of economic activity might put negative pressure on the front end of curves. However, we expect a more visible increase in 3M horizon.

Long end: The mid and long end of curves have remained strongly dependent on global mood, causing significant intraday changes in yields/IRS rates. External factors with the key role of Fed's future monetary policy will influence the domestic mid and long terms instruments. Our basic scenario assumes the upward trend to continue.

Risk factors to our view: The upcoming macroeconomic data will be crucial. Weaker-than-expected readings, suggesting more fragile rebound in economic activity might result in renewing expectations on further monetary policy adjustment (some market players still expect monetary policy easing to be continued). Consequently, yields/IRS rates might return to downward trend.

Short- and Medium-term Strategy: FX market

	Change (%)		Level	Expected trend	
	Last 3M	Last 1M	end-July	1M	3M
EURPLN	2.4	-2.0	**4.24**	→	→
USDPLN	0.7	-3.8	**3.19**	→	↘
CHFPLN	1.9	-1.7	**3.45**	→	→
GBPPLN	-1.2	-4.0	**4.86**	→	↗
EURUSD	1.7	1.8	**1.33**	→	↗

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: The zloty appreciated in July as the MPC ended the easing cycle, while macro data suggest some improvement in economic outlook. The 4.20 level proves to be a strong support. We foresee the EURPLN to stay in horizontal trend between 4.20-4.30 with the upper end to be possibly tested in 1M horizon and the lower to be broken only in Q4.

USD: Dovish rhetoric of the main central banks helped the euro to gain against the US dollar. However, the US dollar has remained well-bid as fears about the global economy eased. We expect EURUSD to remain vulnerable to upcoming macro data and information about Fed's tapering. However, reassuring comments from central banks, which confirm that the money glut will continue might result in euro strengthening and consequently in decline of USDPLN in 3M horizon.

CHF: July brought zloty strengthening against the Swiss franc. We uphold our stance that CHFPLN will be traded in horizontal trend, strongly depending on situation on the EURPLN chart.

Risk factors to our view: The FX market has remained under pressure of upcoming macro data. More weak macro data from the US, which significantly decrease risk of fast tapering QE3 by Fed can imply increase of EURUSD, which will positively affect the zloty. Domestic currency may be also more significantly supported by strong signs of economic rebound.

Modeling Polish bond yields: Introduction

Used variables		
Abbreviation	**Description**	**Source**
pl2y, pl5y, pl10y	Yield of Polish benchmark bond, monthly average	**Reuters**
fra3x6	Mid yields of Polish FRA3x6 contract, monthly average	**Reuters**
cpi	Annual Polish CPI rate, monthly	**CSO**
pmi	Polish PMI index for manufacturing, monthly	**Markit**
eurpln	Monthly average of NBP's fixing of EURPLN	**Reuters**
debt	Level of Polish central budget debt, end of month	**FinMin**
foreign_holding(-1)	Foreign investors' share in Polish debt, end of month	**FinMin**
vix	vix index, monthly average	**Reuters**
de2y, de5y, de10y	Yield of German benchmark bond, monthly average	**Reuters**

Note: (-1) stands for one-month lag

- We have applied econometric analysis in order to determine, which factors are the most important for the domestic debt market. We have modelled yields of Polish 2, 5 and 10Y benchmarks using an error correction model framework.

- According to economic theory, bond yields depend on:
  - interest rate outlook (reflected by in our model by fra3x6 – short-term and cpi – long-term),
  - investment cycle and expected gains from alternative investments (reflected by pmi),
  - FX risk (eurpln),
  - fiscal standing (debt),
  - external demand for domestic papers (foreign holding)
  - global risk aversion (vix)
  - global cost of money (de2/5/10y)

- We used monthly data, covering period Oct 2008 – May 2013, All data were standardised, so that estimated parameters are comparable. We also decided to use the same variables in all models, in order to show that some factors are important for the longer end, but rather irrelevant for the shorter end (or vice versa).

Modeling Polish yields: Results

Long-term equation			
	pl2y	pl5y	pl10y
fra3x6	**0.55 *** **	**0.40 *** **	**0.36 *** **
cpi	-0.01	0.08	**0.15 *** **
pmi	**0.12 ** **	**0.33 *** **	**0.37 *** **
eurpln	**0.14 ** **	**0.15 *** **	**0.22 *** **
debt	0.13	**0.34 * **	**0.42 ** **
foreign_holding(-1)	**-0.66 *** **	**-0.77 *** **	**-0.75 *** **
vix	0.03	**0.10 ** **	**0.09 * **
de2/5/10y (respectively)	**0.23 *** **	**0.35 *** **	**0.43 *** **

Short-term equation			
	Δpl2y	Δpl5y	Δpl10y
Error term	**-0.40 *** **	**-0.48 *** **	**-0.59 *** **
Δfra3x6	**0.69 *** **	**0.47 *** **	**0.33 *** **
Δcpi	0.07	0.08	0.08
Δpmi	0.00	**0.11 * **	**0.12 ** **
Δeurpln	**0.15 *** **	**0.14 *** **	**0.18 *** **
Δ_{12}debt	0.00	**0.13 * **	**0.18 ** **
Δforeign_holding(-1)	**-0.52 ** **	**-0.61 *** **	**-0.48 *** **
Δvix	0.00	**0.14 ** **	**0.14 ** **
Δde2/5/10y (respectively)	0.16	**0.36 *** **	**0.45 *** **
R-squared	0.76	**0.79**	**0.80**

Note: Δ accounts for 1-month change, Δ_{12} accounts for 12-month change, *** stands for significance at 1% level, ** for 5% level and * for 10% level

- Our analysis shows that shorter tenors are more vulnerable to changes in short-term interest rates outlook, but more immune to changes in long-term rates outlook. Longer tenors are more dependent on business cycle, exchange rate, fiscal standing, share of foreign investors' holding in Polish debt, global risk, yields on core debt market. These results are in line with intuition.

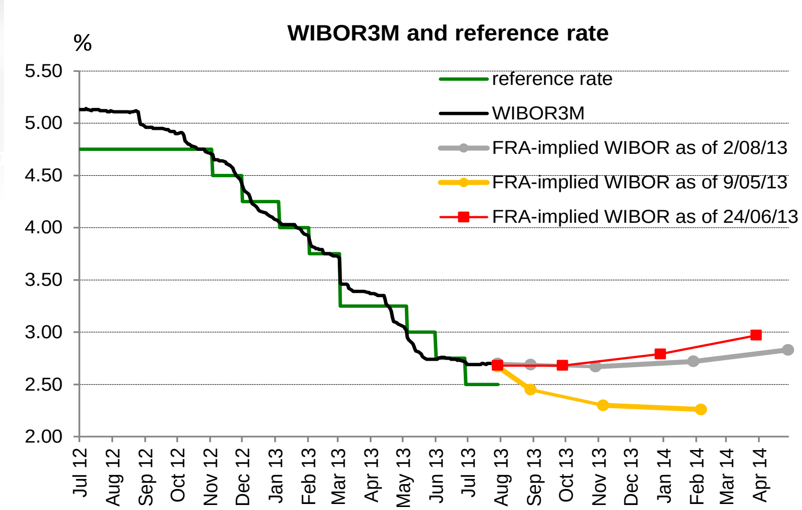
- Comparison with our earlier models (estimated one year ago) shows that influence of German bonds and external demand on Polish yields increased over time, while FX risk and interest rate expectations became somewhat less important.

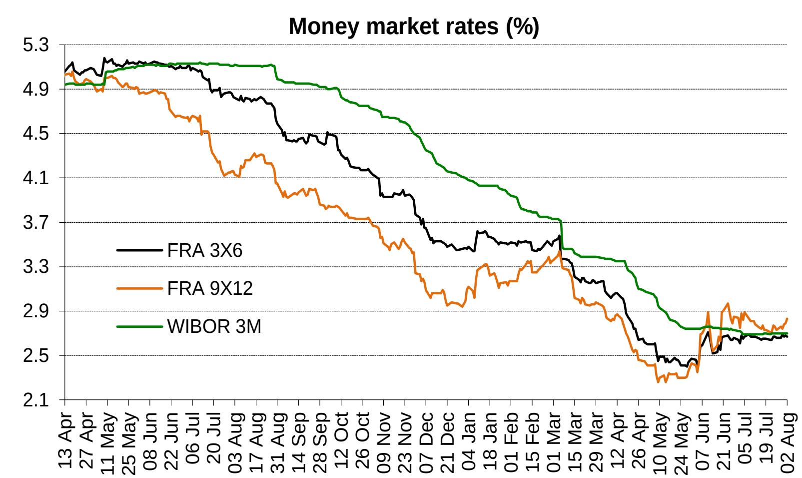
- We also estimated some additional models with regime-switching and found some evidence that longer tenors (5 and 10Y bonds) react stronger to depreciation of the zloty than to appreciation.

- Based on our assumptions concerning input variables, we estimate that in December 2013, with 50%-probability, the fair-value yields of 2Y bond will fall in 2.99-3.24% range, of 5Y in 3.54-3.76% range, and of 10Y in 4.13-4.31% range. These forecasts are roughly in line with our baseline scenario for domestic yields.

Domestic Money Market: FRAs pricing-in future rate hikes

- After July's rate cut by 25bp and announcement of the end of easing cycle we saw a further adjustment of market expectations about further actions by the MPC. WIBOR 1M and 3M rates slightly declined and then stabilised as macro data showed some improvement. At the same time, longer rates, after some stabilisation, have started to rise. Consequently, the WIBOR curve took the normal shape.
- Changes in expectations on future interest rate path were more visible on the FRA market. After July's MPC meeting, expectations on interest rate hikes intensified – temporarily FRAs were pricing-in rate hike by 100bp in two year period. Currently, FRA curve shows that the first rate hike might take place at the turn Q1 and Q2 2014. It appears much more in tune with the economic outlook at this juncture.
- Our baseline scenario assumes longer stabilization and no change in official interest rates till Q3 2014. Nonetheless, we expect an increasing WIBOR curve in coming months, with 3M rate around 2.75% at the end of 2013. We think that continuation of improvement in macro data for July might push the FRA curve higher.

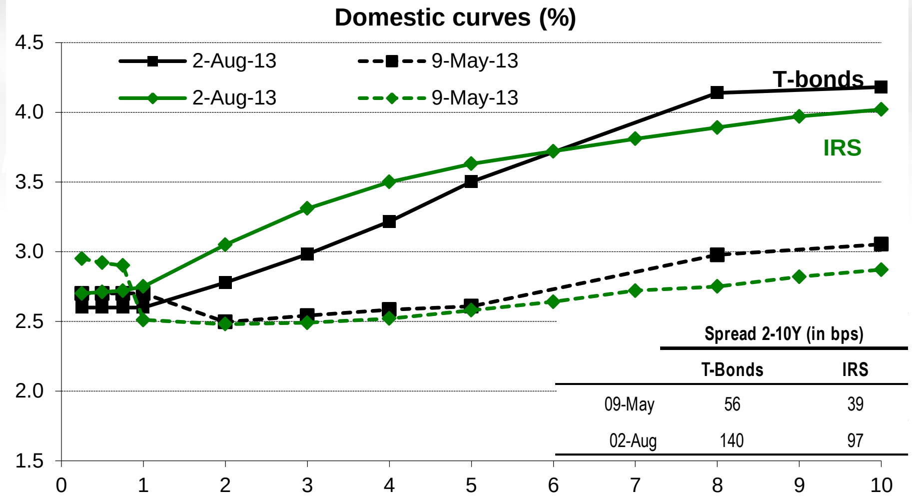




Sources: Reuters, BZ WBK

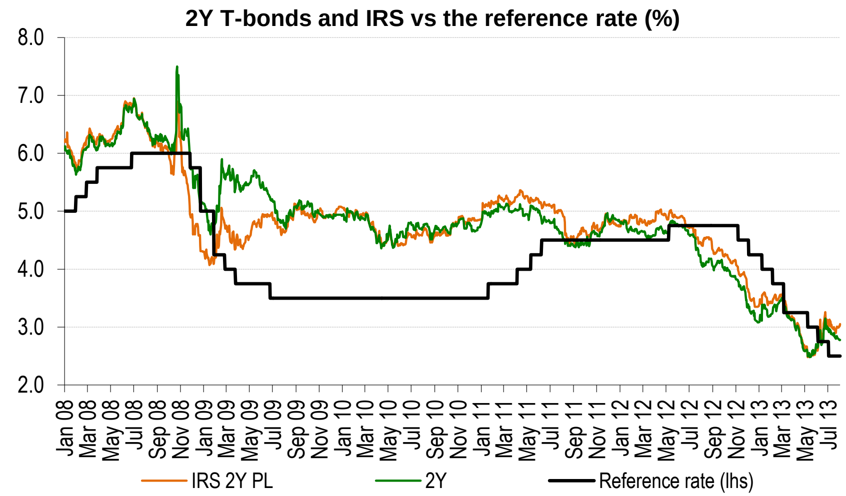
Domestic IRS and T-Bond Market: Curves become steeper

- The current situation on T-bond and IRS markets is dominated by summertime trading and global moves. Local factors were less important as even suspension of the 50% debt/GDP level did not affect the market.
- Soft Fed's rhetoric caused a decrease in yields and IRS rates in the 5-10Y sectors (by ca. 70bp on average in 24 June – 22 July period), which trimmed a part of severe losses suffered between May and June (the lowest yields on May 9th – see chart). Still, both T-bonds and IRS curves have remained relatively steep mainly due to widening of 2-5Y spread.
- The local market is still focused on the core markets and any news regarding the QE3 tapering. What is more, volatility is still high (significant intraday changes) and sentiment is changing very quickly, depending on economic data. Gradual but systematic economic rebound together with the normalisation of interest rates on core markets (higher yields) should negatively affect domestic T-bonds and IRS. We foresee curves to remain relatively steep.



Spread 2-10Y (in bps)

	T-Bonds	IRS
09-May	56	39
02-Aug	140	97

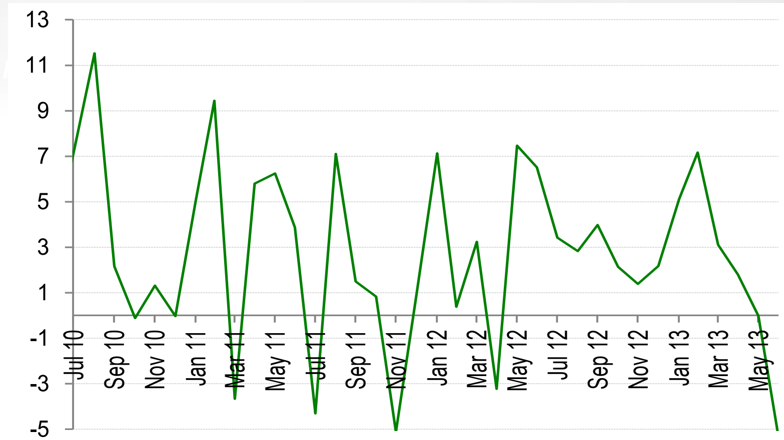


Sources: Reuters, CB, BZ WBK

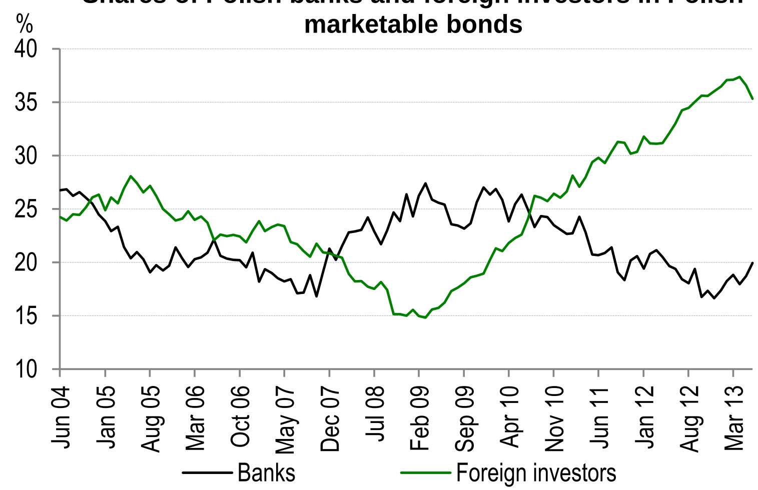
Demand Corner: Foreign sell-off in June offset in July?

- In June foreign investors reduced their holdings of Polish PLN-denominated marketable bonds by ca. 2.5%MoM (PLN5.3bn, the biggest outflow since Oct 2008) to PLN201.8bn. This is the lowest level since Jan 2013. The sell-off was mainly driven by selling from non-bank financial sector (-PLN6.1bn). On the other hand, foreign banks increased their holdings by ca. PLN1bn.
- Breakdown of non-residents' portfolio clearly shows that foreign investors were very active on switch tender in June. They purchased the new 2Y T-bond OK0116 worth PLN5.8bn or nearly 75% of total sell.
- Director of Debt Department in the Ministry of Finance, Piotr Marczak, said that June's outflow of foreign investors has been more than offset in July.
- Domestic banks increased their holdings by ca. PLN8bn (the strongest nominal monthly increase since Feb 2012). Polish banks were net buyers in 2-10Y segment, in which: PLN2.2bn of OK bonds and PLN1.3bn of DS debt. June was the third month in a row when pension funds were buying Polish debt.

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



Shares of Polish banks and foreign investors in Polish marketable bonds

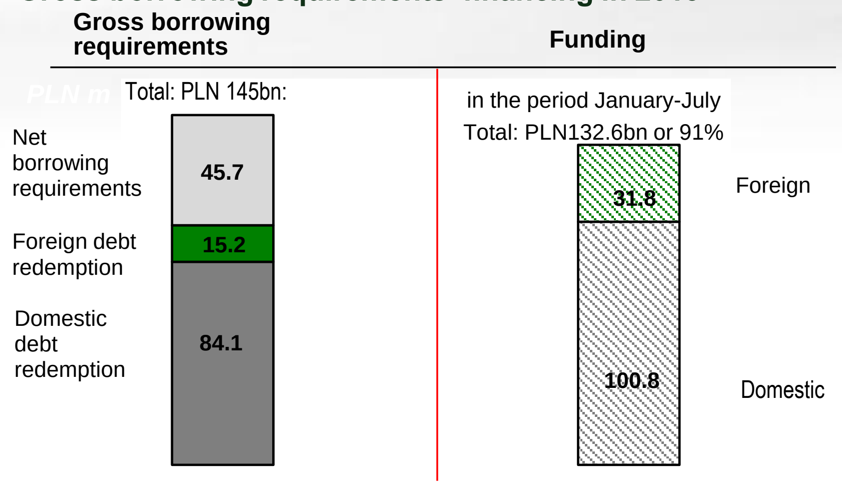


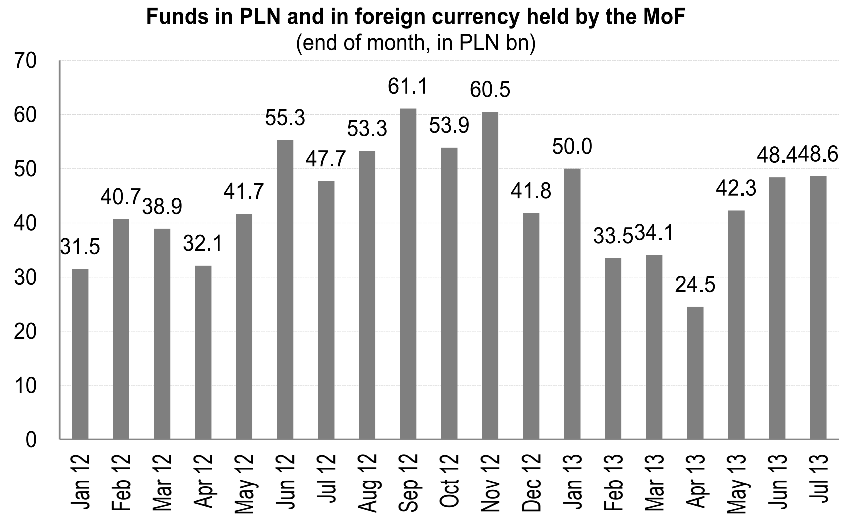
Sources: MF, BZ WBK

Supply Corner: Summer break, but September will be busy

- Poland's Ministry of Finance decided to cancel July's conditional auction. Such a move was expected, taking into account the unfavourable market environment and high coverage of 2013 funding requirements (88% at the end of June). However, in late July the Ministry disbursed another tranche of loans from World Bank worth ca. €1bn. Consequently, at the end of July Poland has covered 91% of target.
- In August the Ministry will offer 2Y benchmark OK0116 worth PLN3-5bn. The chosen sector is not a surprise as 2Y bonds are relatively resistance to changes in mood on core markets and look more safe in uncertain time. We think that the Ministry will be more active on the primary market in September, offering bonds not only on domestic, but also international markets.
- Funds in PLN and in foreign currency held by the Ministry (nearly PLN49bn at the end of July) will limit the refinancing risk.

Gross borrowing requirements' financing in 2013



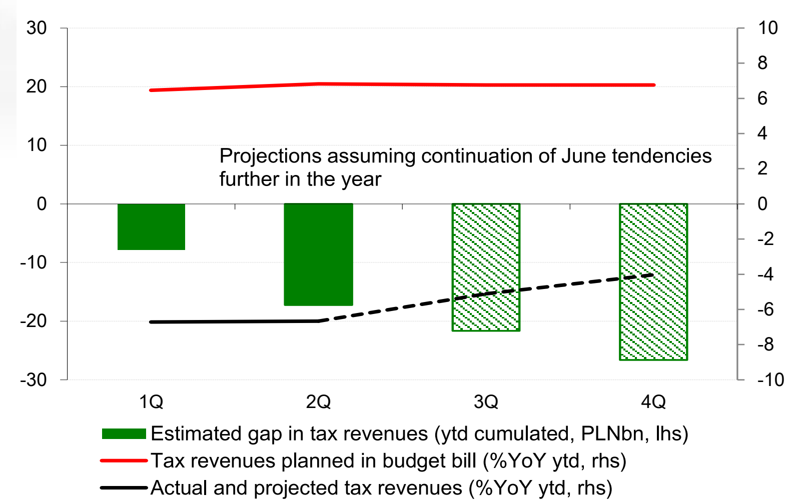


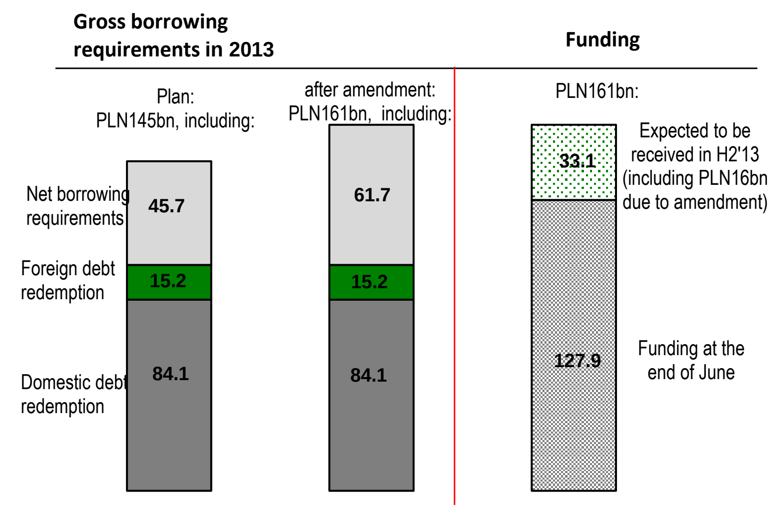
Sources: MF, BZ WBK

Supply Corner: 50% suspended, budget amended

- Poland's PM Donald Tusk announced that the government plans to revise the budget bill, as economic slowdown undermined the state's revenues. This year the budget deficit will increase by PLN16bn to PLN51.6bn. More details will be published later this month.
- As we mentioned in our earlier report, the idea to suspend sanctions after surpassing the 50% debt-to-GDP safety level, outlined in the Public Finance Act (PFA), seems controversial. Nevertheless, the Polish Sejm has approved amendment to PFA and sent it to the Senate. The Upper House will work on this bill during its August 7-9 sitting.
- The budget gap of PLN16bn increases this year's borrowing needs by the same amount. This does not trigger any visible risk for financing of this year's deficit as PLN8bn will be financed by loans from international financial institutions. However, the pre-financing of 2014 borrowing needs will be lower and together with high redemptions of debt at the beginning of the next year (mainly held by foreign investors), as well as lower activity of OFE, it bears some risk for the bond market.

Estimates of tax revenues gap



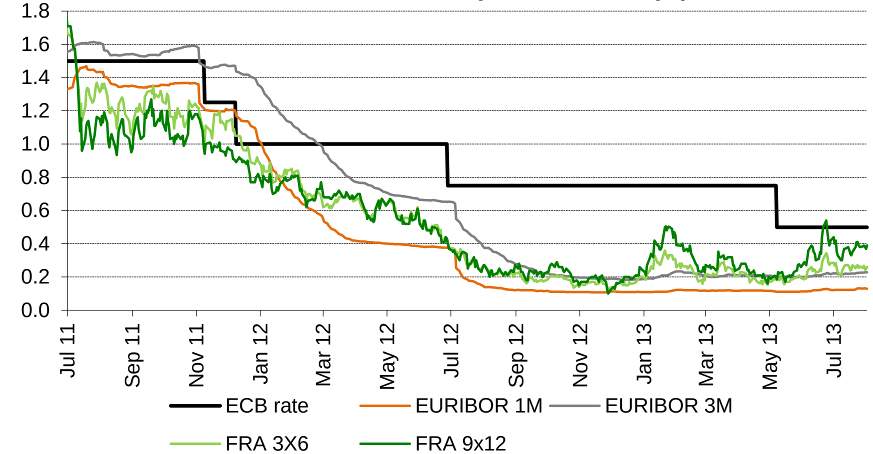


Sources: MF, BZ WBK

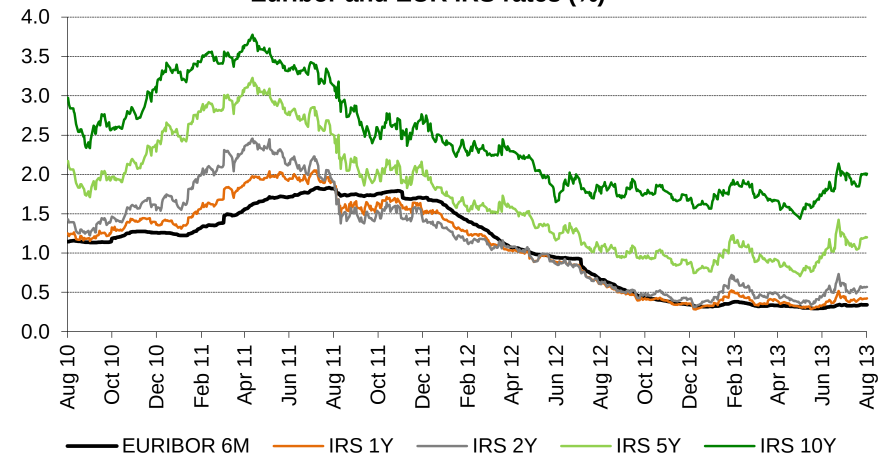
International Money Market and IRS: Gradual increase continues

- The euro money market rates have inched higher over the past couple of weeks, as macro data have continued to improve and focus has turned towards the ongoing decline in excess liquidity. According to recent data the excess liquidity in the system has gradually shrunk (below €240bn) due to LTROs repayment. We also observed a muted increase in short-term rates in the US as macro data indicate stable economic growth in the US.
- EUR IRS rates have remained very vulnerable to macro data and central banks' rhetoric. However, despite quite fast changes in investors mood at the end of July EUR IRS curve was more or less the same level as at the beginning of month, with 10Y IRS anchoring around 2%.
- Despite dovish rhetoric of both Fed and ECB, the risk premium has increased and the market is now pricing-in a normalisation of liquidity in coming quarters. Overall, we expect a moderate increase in money market rates and IRS in the course of the year, based on rebound in the economic situation not only in the US, but also in the euro zone.

ECB rate and money market rates (%)



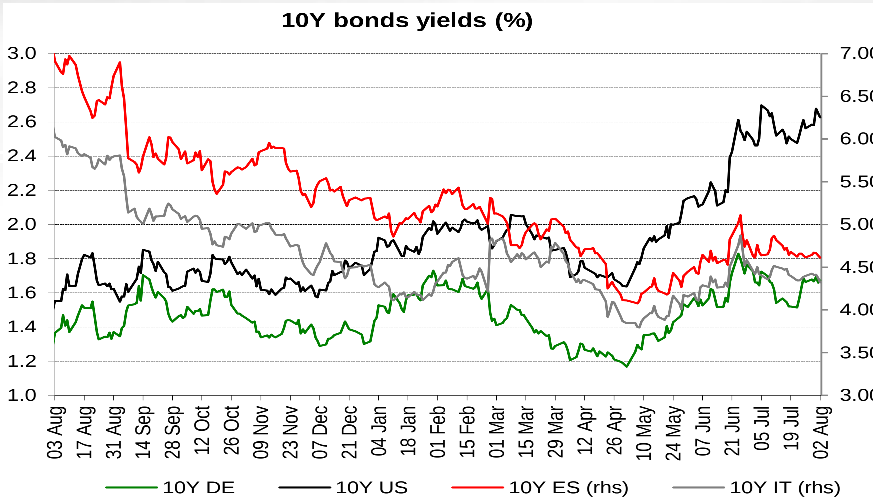
Euribor and EUR IRS rates (%)

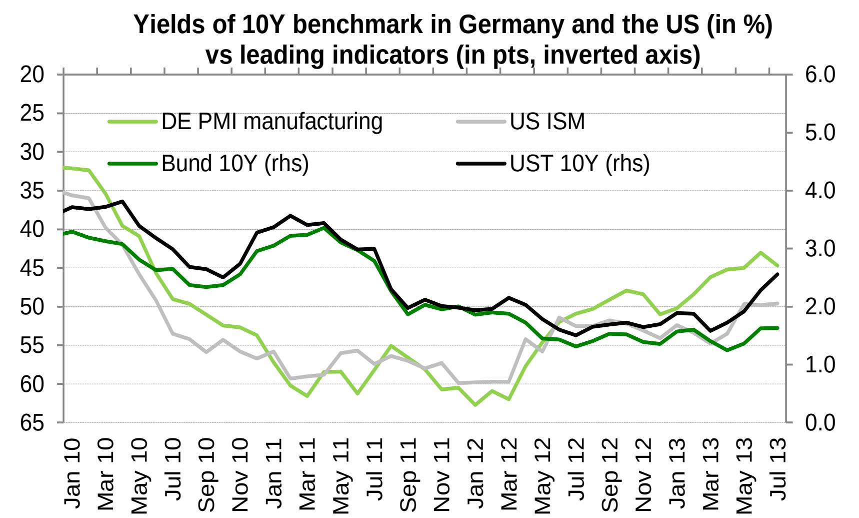


Sources: Thomson Reuters, ECB, BZ WBK

International Bond Market: Sentenced to increase

- Despite summertime the bond markets were quite volatile in July due to central banks meetings and key macro figures. The beginning of previous month brought some correction in upward trend of yields on core markets. It came from lowering the risk of tapering the QE3 in September. However, after stronger-than-expected data readings from both the U.S. and the euro area, yields (in particular UST) returned to upward move. At the end of month yield of 10Y Bunds tested 1.70%, while 10Y UST increased towards 2.70%.
- Peripheral T-bonds' performance was mixed (due to, among other factors, a rating downgrade of Italy and the still uncertain political situation in Portugal). It is quite interesting that for the first time in a year the Italian yields have risen concurrently with German yields. It means that core bond market has become more dependent on the interest rate expectations and economic developments. Additional risk factor is that unstable political situation in Italy.
- To sum up, a moderate recovery, combined with a gradual tapering of asset purchases would imply a moderate increase in yields in coming months. Macro data will be in the centre of attention.

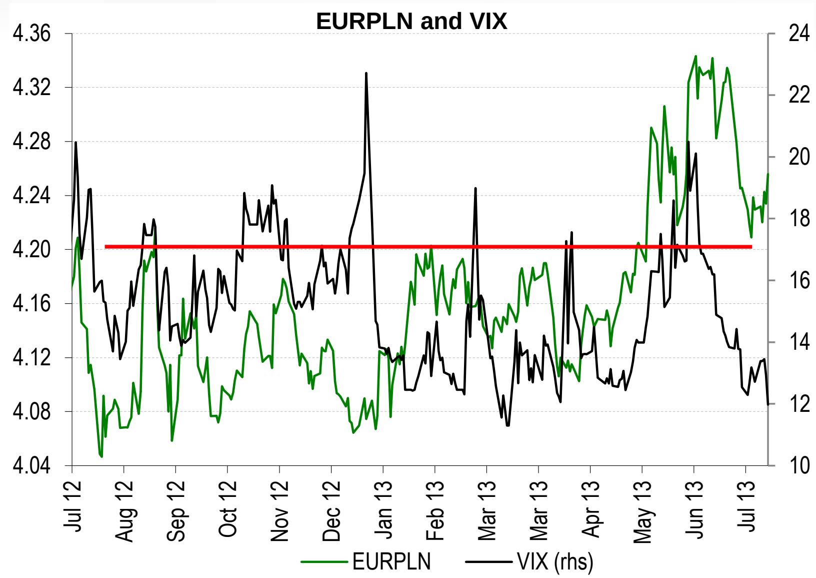




Sources: Thomson Reuters, BZ WBK

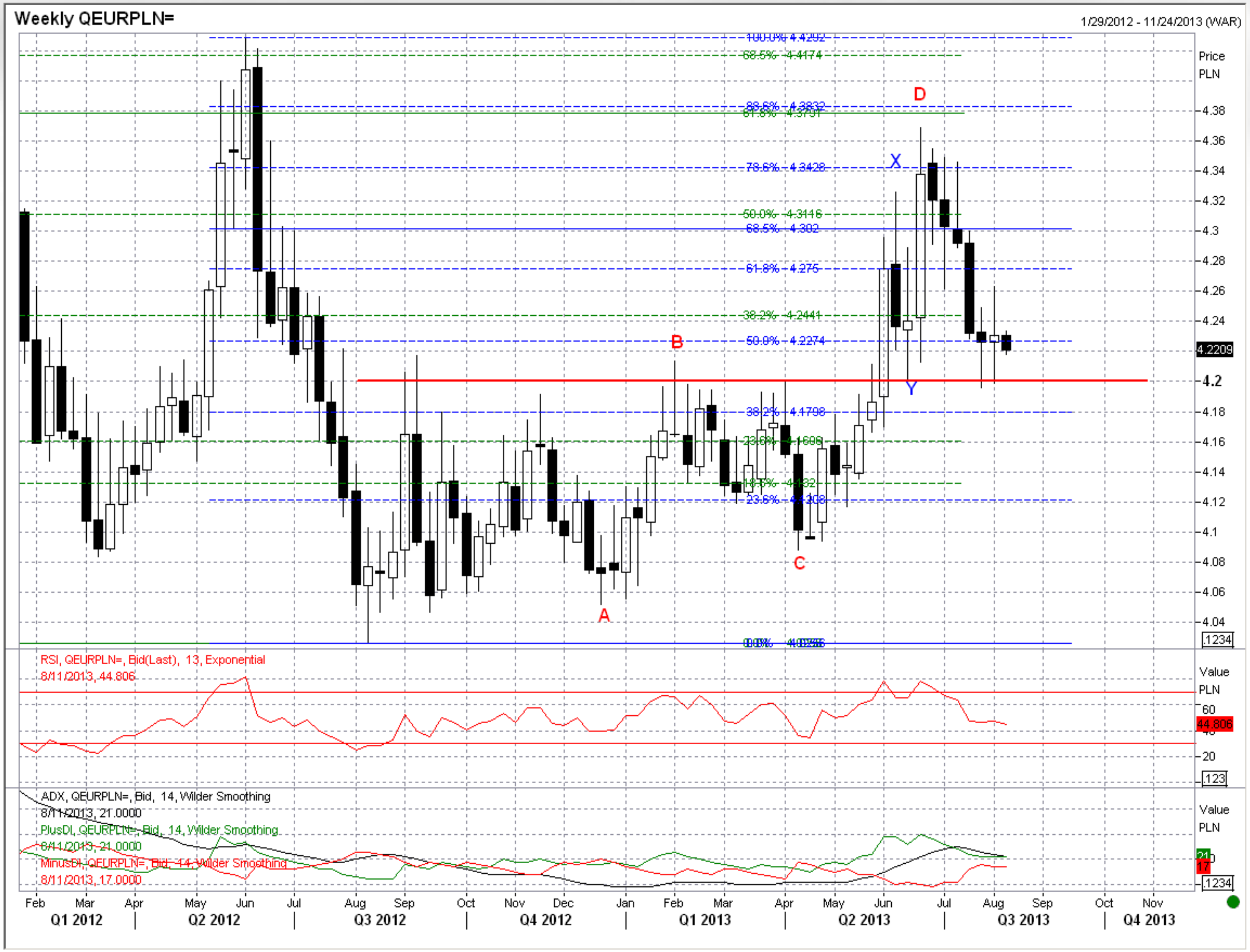
Foreign Exchange Market: EURPLN below 4.2 only in Q4?

- The zloty gained considerably in July versus the main currencies. The key drivers of this appreciation were Polish data on May's CA, calming remarks from the Fed as regards QE3 tapering and the declaration of Polish MPC that the easing cycle is over. The zloty has been not affected the controversial way of amending the Polish budget.
- EURPLN reached nearly 4.19 and then some negative news from Czech Rep. (on possible FX interventions) and Hungary (government wants to ease the burden of FX loans further) emerged and halted the zloty's appreciation.
- We see room for a zloty depreciation in the next two months. The FX market did not show much enthusiasm after July's FOMC statement. The potential for correction will be limited by Polish macro data that will confirm that the economy is recovering and there is no need to cut interest rates further.
- Between Sep 2012 and Jun 2013, the level of 4.20 prevented the EURPLN from rising. In our view, it may now provide a strong support for EURPLN, at least until Q4.



Sources: Reuters, BZ WBK

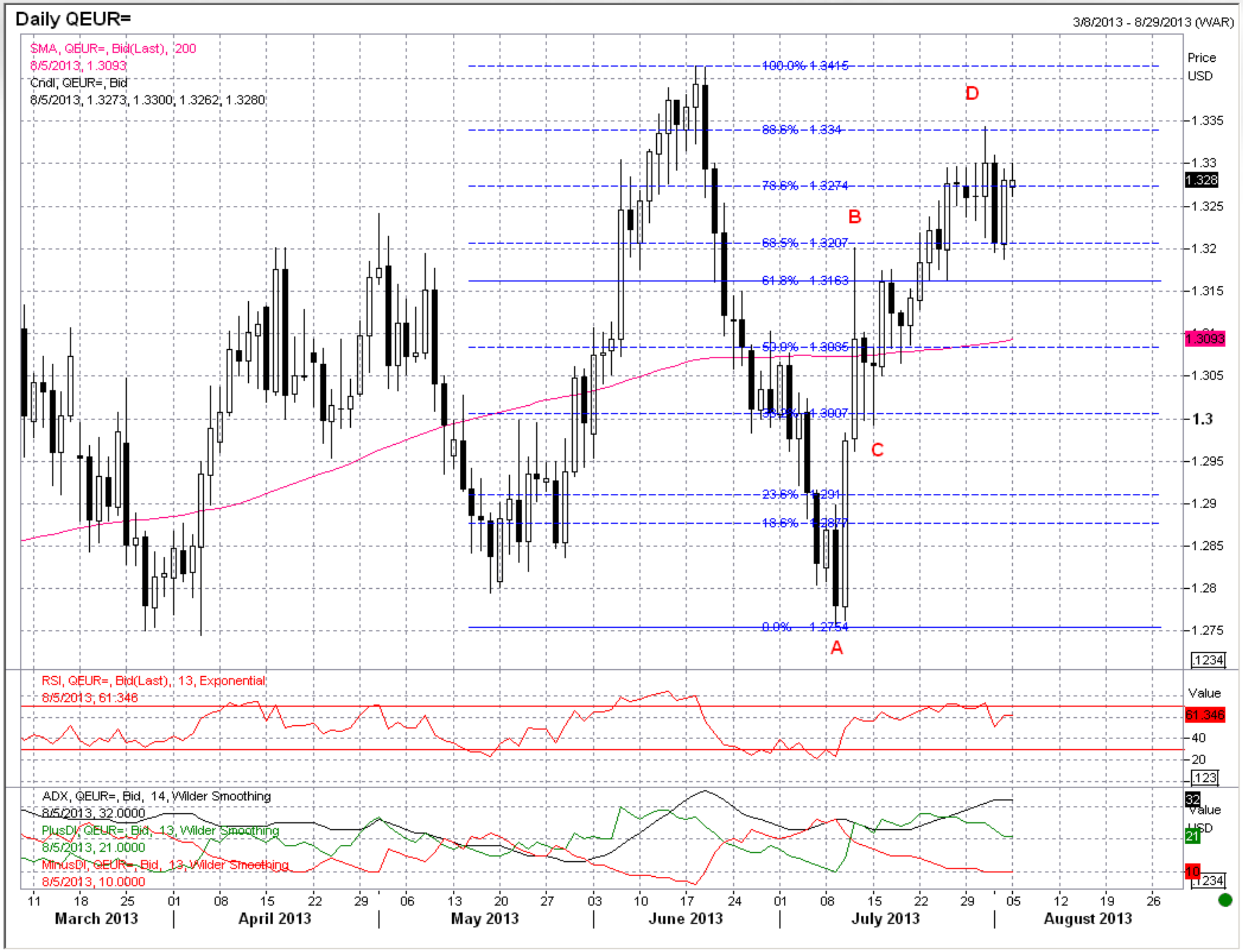
FX Technical Analysis Corner: EURPLN close to vital support



Sources: Reuters, BZ WBK

- Zloty's appreciation proved stronger than we expected. EURPLN retreated from a strong resistance area at around 4.37 and tested 4.20 twice.
- The latter level has been preventing the exchange rate from rising too much for ca. 10 months until late June 2013. Now it may prove to be a strong support.
- We expect the on-going rebound to be continued.
- Next strong support is at 4.17. Resistance is at 4.26.

FX Technical Analysis Corner: Room for lower EURUSD



Sources: Reuters, BZ WBK

- In line with our expectations, EURUSD rebounded and reached nearly 1.335 where it met 88.6% Fibonacci retracement. Additionally, AB/CD ~ 1.272, strong Fibonacci ratio.
- It is also worth to notice that pace of growth of RSI is clearly lower than in case of the EURUSD and divergence also gives room for some correction.
- First support at 1.32, next one at 200-day MA.
- Resistance levels are at 1.335 and 1.3415.

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	396.2	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	13.1	13.7
Current account balance	EURm	-18,129	-17,977	-13,332	-2,980	-4,515	-2,203	-3,285	-3,329	-2,055	1,398	-1,326	-997
Current account balance	% GDP	-5.1	-4.9	-3.5	-0.8	-5.1	-4.6	-4.1	-3.5	-2.8	-1.9	-1.4	-0.8
General government balance	% GDP	-7.9	-5.0	-3.9	-4.2	-	-	-	-	-	-	-	-
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	0.2	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	0.8	1.0

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	2.71	2.78
Yield on 2-year T-bonds	%	4.72	4.81	4.30	2.98	4.66	4.71	4.22	3.61	3.29	2.77	2.90	2.98
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.42	5.02	4.93	4.43	3.75	3.49	3.09	3.44	3.65
Yield on 10-year T-bonds	%	5.74	5.98	5.02	3.95	5.58	5.38	4.91	4.22	3.95	3.58	4.05	4.23
2-year IRS	%	4.73	4.98	4.52	3.10	4.83	4.91	4.47	3.85	3.43	2.81	3.04	3.13
5-year IRS	%	5.25	5.24	4.47	3.53	4.82	4.86	4.37	3.84	3.52	3.08	3.63	3.90
10-year IRS	%	5.40	5.33	4.56	3.81	4.88	4.88	4.47	4.01	3.76	3.41	3.94	4.13
EUR/PLN	PLN	3.99	4.12	4.19	4.21	4.23	4.26	4.14	4.11	4.16	4.20	4.28	4.20
USD/PLN	PLN	3.02	2.96	3.26	3.18	3.23	3.32	3.31	3.17	3.15	3.22	3.23	3.11
CHF/PLN	PLN	2.90	3.34	3.47	3.41	3.50	3.55	3.44	3.40	3.38	3.41	3.46	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:
7-Aug	**PL**	**Auction of 2Y benchmark OK0116**	**Offer: PLN3-5bn**
	DE	Auction of 5Y bonds	Offer: €4bn
7-9 Aug	**PL**	**Poland's Senat will discuss amendment to the Public Finance Act**	
14-Aug	**PL**	**CPI for July**	**Our forecast: 0.5%YoY (in line with consensus)**
	PL	**Flash Estimate 2Q GDP – preliminary data**	**Our forecast: 0.8%YoY, more or less in line with market expectations**
	EU	Flash Estimate 2Q GDP for EU and euro area	-
	DE	Auction of 10Y bonds	Offer: €4bn
16-Aug	**PL**	**Core inflation for July**	**We predict core CPI after excluding food and energy prices at 0.7%YoY, below market consensus**
19-Aug	**PL**	**Employment and wages for July**	**We expect employment to decline by 0.6%YoY and wages to increase by 2.9%YoY (more or less in line with market expectations)**
20-Aug	**PL**	**Industrial output and PPI for July**	**We predict industrial output growth at 7%YoY, well above consensus at 4.9%. Our forecast of PPI: -0.9%YoY**
21-Aug	DE	Auction of 2Y bonds	Offer: €5bn
27-Aug	HU	NBH Meeting - interest rate decision	-
	IT	Auction of T-bonds	-
29-Aug	IT	Auction of medium and long term bonds	-
30-Aug	**PL**	**2Q GDP data (with GDP breakdown)**	
TBA	**PL**	**Retail sales for July**	**Our forecast: 1.6%YoY (significantly above market consensus at 2.8%)**
4-Sep	**PL**	**MPC Meeting – interest rate decision**	**We expect the MPC to keep interest rates unchanged**
5-Sep	EZ	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

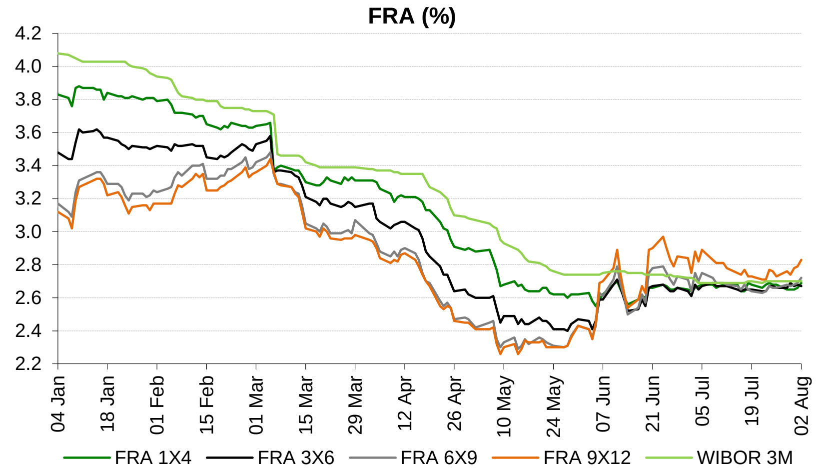
1. Domestic markets performance

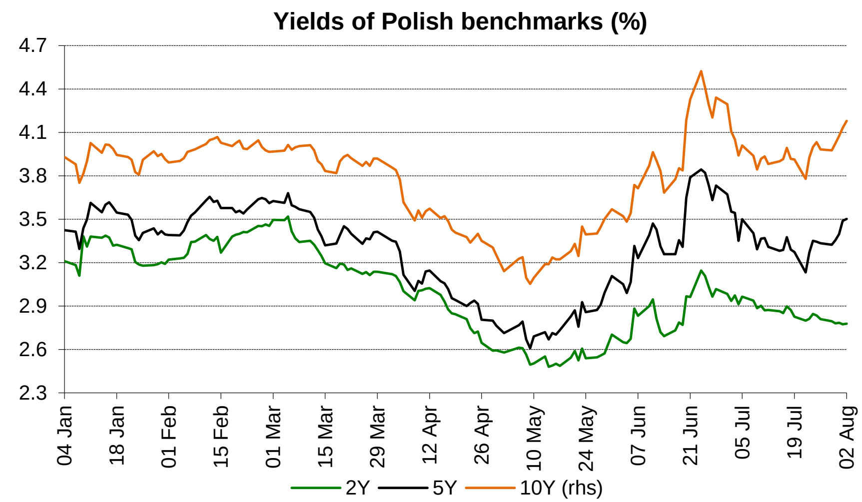
Money market rates (%)

	Reference rate (%)	Polonia (%)	WIBOR (%)				OIS (%)				FRA (%)			
			1M	3M	6M	12M	1M	3M	6M	12M	1x4	3x6	6x9	9x12
End of July	**2.50**	**2.47**	**2.63**	**2.70**	**2.71**	**2.74**	**3.22**	**3.12**	**3.02**	**2.93**	**3.4**	**3.45**	**2.68**	**2.73**
Last 1M change (bp)	-25	-16	-15	-3	0	3	67	62	47	38	340	345	-2	-1
Last 3M change (bp)	-75	-63	-62	-38	-32	-28	17	27	32	38	340	345	10	10
Last 1Y change (bp)	-225	-223	-228	-241	-243	-241	-141	-141	-136	-123	340	345	-213	-212

Bond and IRS market (%)

	BONDS			IRS			Spread BONDS / IRS (bp)		
	2Y	5Y	10Y	2Y	5Y	10Y	2Y	5Y	10Y
End of July	**2.79**	**3.40**	**4.07**	**3.02**	**3.54**	**3.95**	**-24**	**-14**	**12**
Last 1M change (bp)	-23	-34	-27	-11	-26	-19	-12	-8	-8
Last 3M change (bp)	19	63	82	34	74	86	-15	-11	-4
Last 1Y change (bp)	-141	-101	-77	-142	-78	-52	1	-23	-25





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			2000	5,000	1,500		77,757
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		2290				12,061
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**
Coupon payments	*2,492*			*7,322*			*1,955*		*1,497*	*9,685*			*22,951*

Note: Our forecasts – shaded area

Sources: MF, BZ WBK

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		134.5	3,084	**3,218**		**3,218**
September		111.1		**111**	450	**561**
October	22,845	93.7		**22,939**		**22,939**
November		158.0		**158**	250	**408**
December		183.4		**183**		**183**
Total 2013	55,923	1,698	11,796	**69,417**	14,316	**83,733**
Total 2014	61,666	1,248		**62,914**	18,397	**81,311**
Total 2015	75,019	677		**75,696**	29,457	**105,153**
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 June 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	2,130	3,003	1,301	174	265	103	17	96	7,090
Q4 2013	9,638	2,737	6,975	849	1,040	111	85	1,455	22,890
Total 2013	**11,768**	**5,740**	**8,275**	**1,023**	**1,305**	**215**	**103**	**1,551**	**29,980**
	39%	**19%**	**28%**	**3%**	**4%**	**1%**	**0%**	**5%**	**100%**
Total 2014	36,032	11,217	4,509	2,396	3,538	383	112	3,768	61,956
	58%	18%	7%	4%	6%	1%	0%	6%	100%
Total 2015	30,355	25,945	8,091	10,278	9,813	215	306	5,206	90,208
	34%	29%	9%	11%	11%	0%	0%	6%	100%
Total 2016	25,163	13,340	3,496	19,502	5,478	60	154	3,404	70,596
	36%	19%	5%	28%	8%	0%	0%	5%	100%
Total 2017	25,855	12,626	5,723	15,728	8,090	47	73	3,302	71,444
	36%	18%	8%	22%	11%	0%	0%	5%	100%
Total 2018+	72,593	45,029	23,005	68,732	18,275	228	578	11,279	239,720
	30%	19%	10%	29%	8%	0%	0%	5%	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 June			Share in TOTAL (%) in June
	End Jun'13	End May'13	End Apr'13	End Dec 2012	End 3Q 2012	End 2Q 2012	End 1Q 2012	MoM	3-mth	YoY	
Domestic investors	369,4	358,9	346,9	337,5	341,8	352,9	361,4	2,93	3,27	4,68	64.7 (1.3pp)
Commercial banks	113,9	105,8	99,5	87,8	102,0	102,1	110,9	7,64	9,45	11,53	19.9 (1.2pp)
Insurance companies	53,1	52,0	51,5	52,8	54,7	57,0	54,3	2,08	3,30	-6,84	9.3 (0.1pp)
Pension funds	117,7	116,7	115,1	117,4	116,7	120,3	120,7	0,78	4,09	-2,20	20.6
Mutual funds	46,5	45,7	43,9	41,7	32,5	33,0	31,3	1,66	10,48	40,97	8.1 (0.1pp)
Others	38,3	38,6	37,0	37,8	35,9	40,5	44,3	-0,8	2,7	-13,6	6.7 (-0.1pp)
Foreign investors*	201,8	207,0	207,1	189,9	184,2	174,0	163,2	-2,54	-1,70	15,99	35.3 (-1.3pp)
Banks	32,3	31,4	38,4	28,4	27,8	22,6	24,3	3,15	-13,26	43,23	5.7 (0.1pp)
Non-bank fin. sector	160,1	166,2	159,9	153,1	147,5	143,1	131,7	-3,67	0,68	11,91	28.0 (-1.3pp)
Non-financial sector	5,3	5,6	5,2	5,2	5,6	5,2	4,4	-6,54	-2,52	0,76	0.9 (-0.1pp)
TOTAL	571,2	566,0	554,0	527,4	526,0	526,9	524,7	0,93	6,20	8,41	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	57.0
Belgium	30.3	8.8	40.0	37.0	80.0
Finland	6.8	5.6	12.4	12.4	47.0
France	105.5	61.6	171.1	170.0	80.0
Germany	157.0	17.1	174.1	174.1	64.0
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	81.0
Netherlands	31.5	15.2	46.7	50.0	81.0
Portugal	5.9	7.4	13.3	3.0	84.0
Spain	61.9	48.4	133.3	113.4	74.0
Total	**584.3**	**220.0**	**832.2**	**772.3**	**75.0**

**/ 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 (bp)		CDS 5Y	
	2012	2013	2012	end of Jul	2012	end of Jul	2012	end of Jul	2012	end of Jul
Poland	**4.25**	**2.50**	**4.11**	**2.70**	**3.72**	**4.06**	**241**	**237**	**80**	**88**
Czech Republic	0.05	0.05	0.18	0.14	1.86	2.24	54	54	63	65
Hungary	5.75	3.50	5.75	3.95	6.23	6.53	492	484	269	316
Euro area	0.75	0.50	0.19	0.23						
Germany					1.32	1.69			39	27

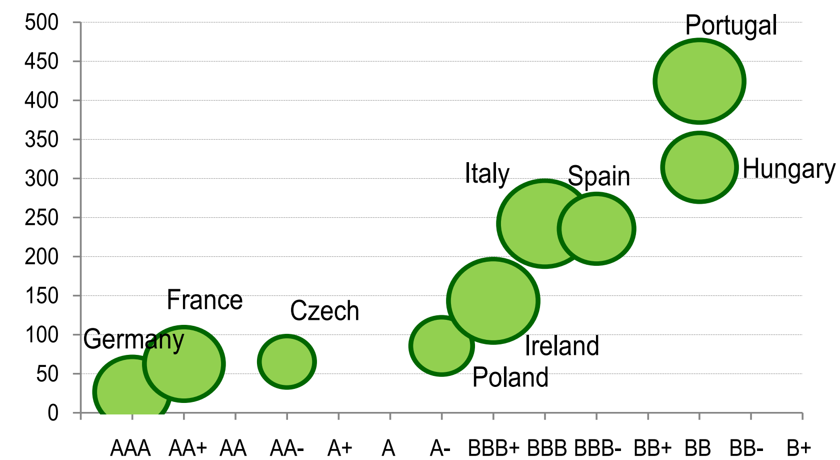
Sources: EC – Spring 2013, stat offices, central banks, Reuters, BZ WBK

5. Poland vs other countries (cont.)

Sovereign ratings

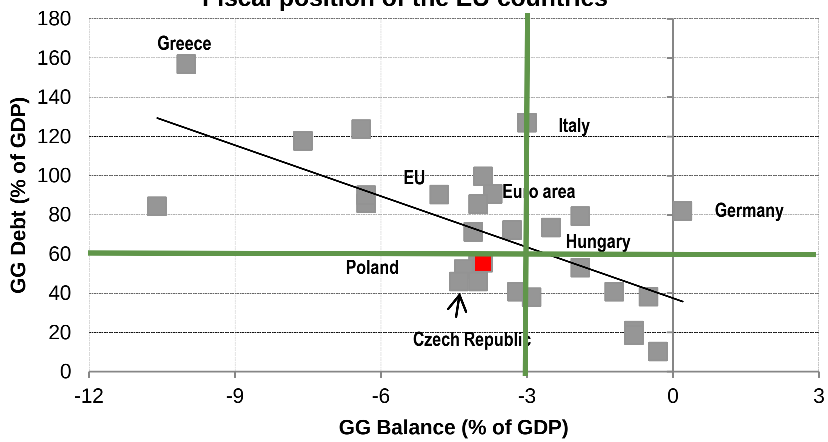
	S&P		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
Poland	A-	stable	A2	stable	A-	positive
Czech	AA-	stable	A1	stable	A+	stable
Hungary	BB	stable	Ba1	negative	BB+	negative
Germany	AAA	stable	Aaa	negative	AAA	stable
France	AA+	negative	Aa1	negative	AA+	negative
UK	AAA	negative	Aa1	negative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

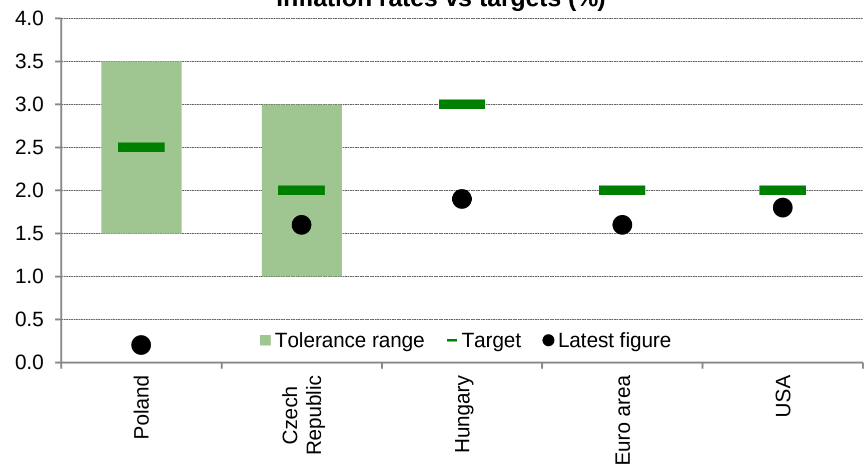


Note: Size of bubbles reflects the debt/GDP ratio

Fiscal position of the EU countries

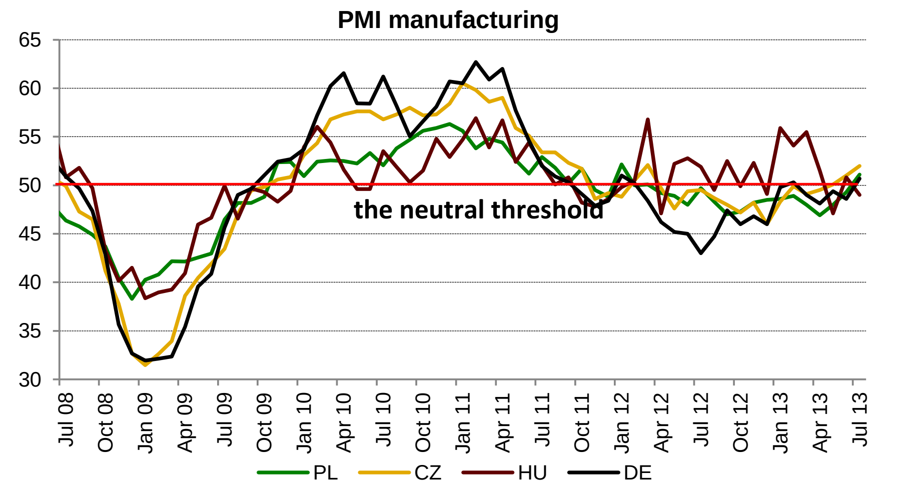


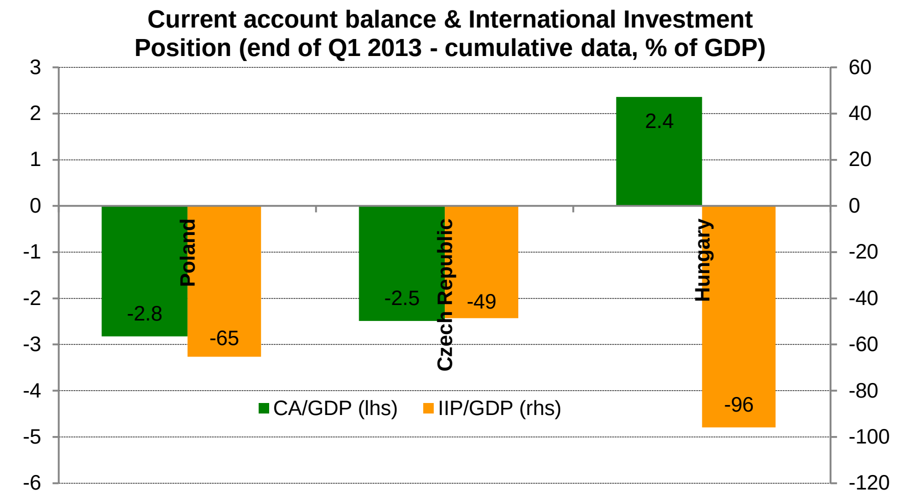
Inflation rates vs targets (%)

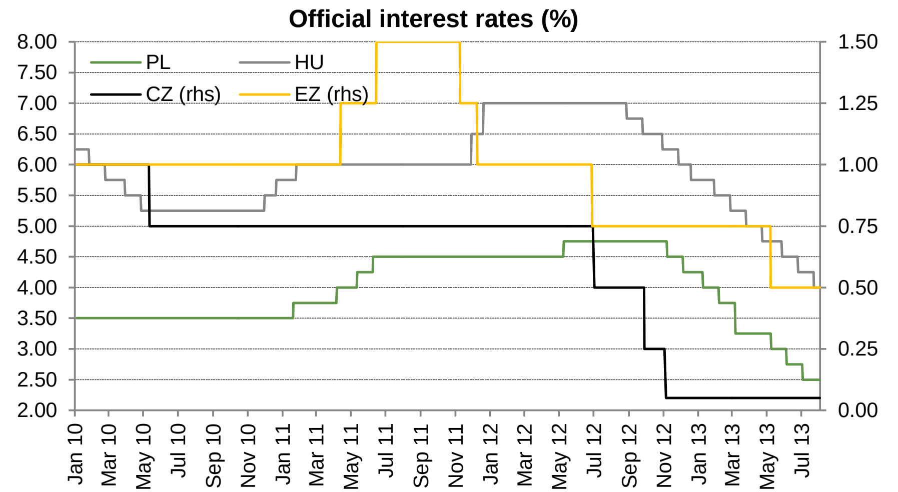


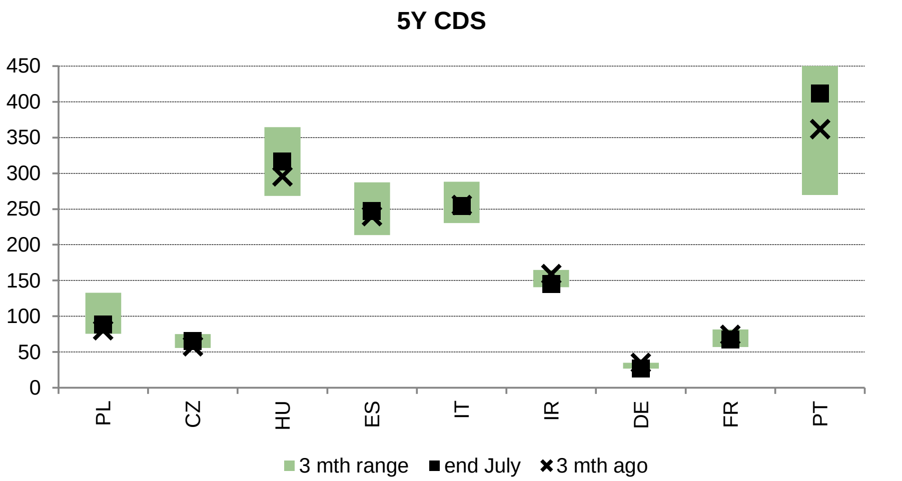
Source: rating agencies, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)



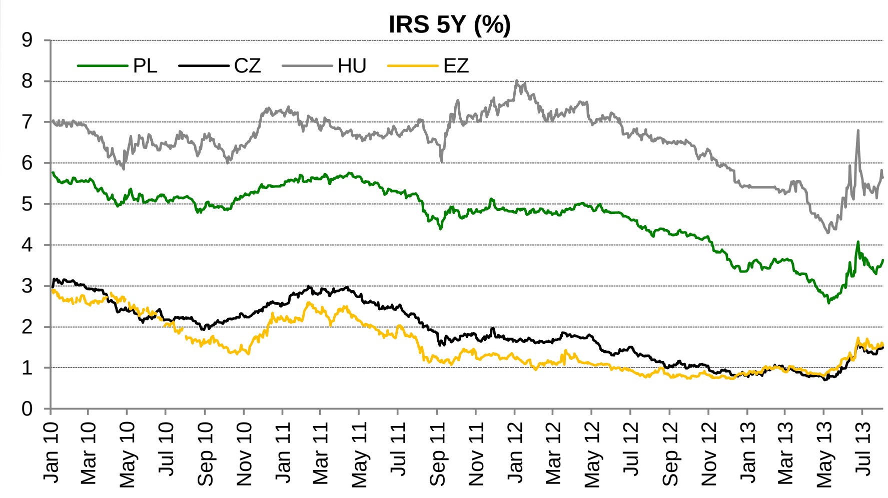


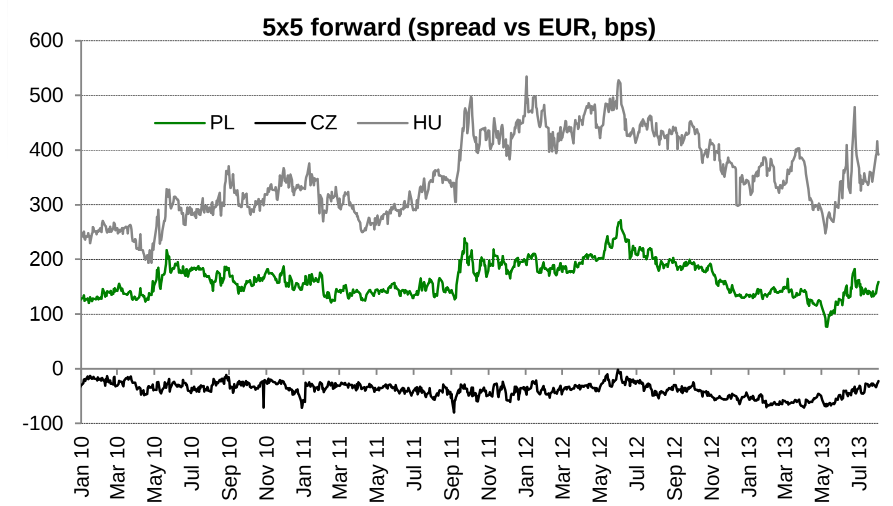


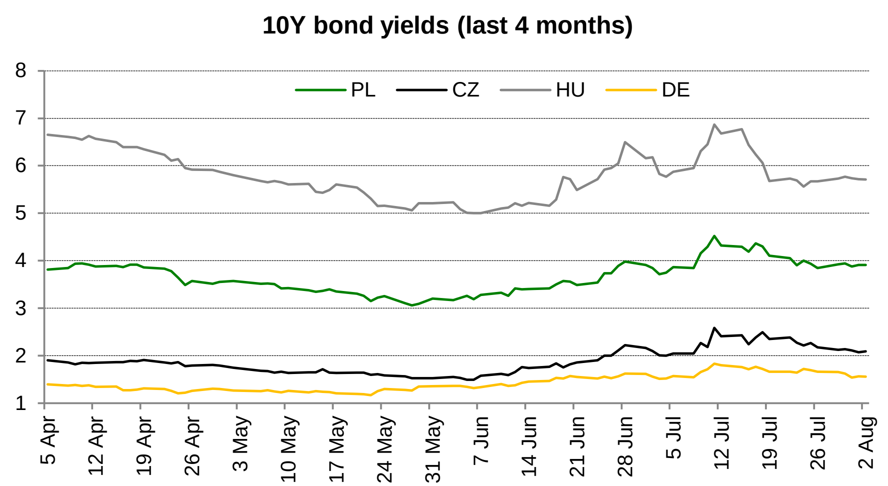


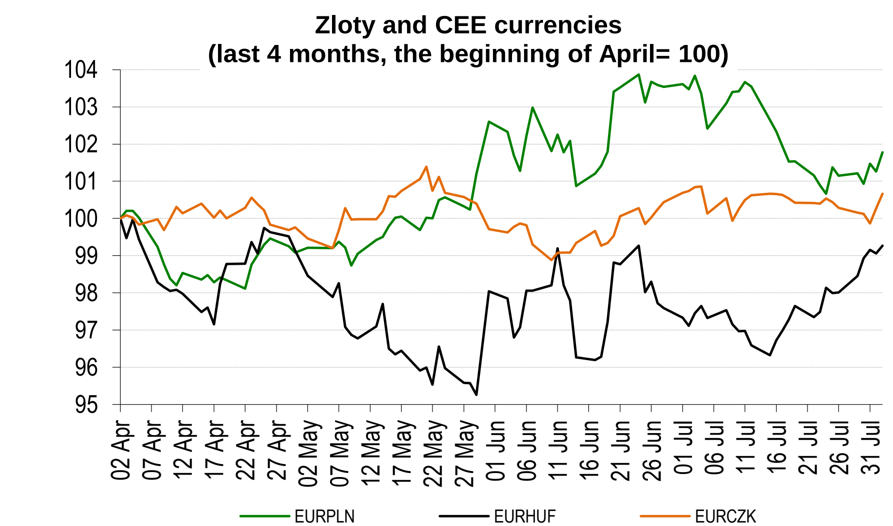
Source: Markit, Eurostat, central banks, Reuters, BZ WBK, EC

5. Poland vs other countries (cont.)









Source: Reuters, BZ WBK

6. Central bank watch

					Expected changes (bp)			Risks/Events
		Last	2012	2013F	1M	3M	6M	
Euro zone	Forecast	0.50	0.75	0.50				The ECB kept its monetary policy on hold in August and did not make any significant changes in its stance. However, the risk in official rates remains biased to further easing (if needed). Next month meeting should be more interesting as the ECB will be update macro projections and more macro data will be released.
	Market implied »				0	-23	-23	
UK	Forecast	0.50	0.50	0.50				The BoE left its monetary policy unchanged in August. The forward guidance will be presented in a new Inflation Report. The BoE is expected to keep policy on hold as long as necessary.
	Market implied »				0	2	5	
US	Forecast	0-0.25	0-0.25	0.25				As expected, Fed kept on hold both official rates on and the pace of QE purchases at $85bn per month. However, FOMC statement introduced some changes in wording. There is still risk that the start of any tapering will be announced in September.
	Market implied »				0	-27	-27	
Poland	Forecast	2.50	4.25	2.50				In July, after cutting rates by 25bp the MPC declared the end of easing cycle. We think that only weaker than predicted macro data will allow the Council to return to further monetary easing. We think that economic situation will continue to improve, supporting our stance of stable rates till the end of 2013.
	Market implied »				-1	-3	2	
Czech Republic	Forecast	0.05	0.05	0.05				The CNB is still flirting with the idea of FX interventions. In August the Council officially voted on such a move, but the proposal did not gain enough support. We believe that weak 2Q GDP growth might encourage the CNB to intervene.
	Market implied »				-9	-9	-9	
Hungary	Forecast	4.00	5.75	3.50				The Hungarian central bank indicated that July's cut (by 25bp) was not the last one and they would like to bring rates to as low as 3.0-3.5%. Therefore, we revised our interest rate outlook downward to 3.5%, from 4.0%. One should notice that now cuts could continue at a slower pace than earlier: by 10bp (or lower).
	Market implied »				-12	-27	-30	

This analysis is based on information available until 2nd August 2013 and has been prepared by:

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