

27 September 2021

Eyeopener

No market reaction to German elections so far

End of the week in worse moods after China's restrictions on cryptocurrencies
 Dollar stronger, UST yields higher the second day in a row
 EURPLN stable, just like POLGBs
 Today German retail sales, US durable goods orders

On Friday main equity indices in Europe and the US fell, however by not as much as earlier in the week - the average declines stood between 0.5 and 1.0%. One of the reasons was the continuation of the increase in the UST yields - in 2 days up 16bp to 1.46% - as well as further curbs on cryptocurrencies in China. The Bund yield just before the German elections went up 2bp to -0.23% (in total 9bp higher in 2 days). Crude oil price increased again - Brent at \$77.7 per barrel is already 6.5% higher than at the end of August. US new home sales accelerated in August (to 1.5% m/m from 1.0% a month before) and stood at 740k. The **German Ifo index** slightly beat expectations and stood at 98.8. The expectation subcomponent stabilized and beat expectations, while the assessment of the current situation disappointed. If split by the sectors, it was manufacturing that fared the worst (the lowest reading since February 2021) while services and construction were doing pretty well (the latter's reading was highest since February 2020). The Ifo index suggests that the 3Q21 GDP growth in Germany might be slightly lower than the 2Q21 one (9.4% y/y) however the sentiment in all sectors except manufacturing is positive. We expect that when the supply chain constraints are no longer there, also the manufacturing index will increase and catch up with the rest.

According to the preliminary results in Germany, the **elections for Bundestag** was won by SPD (25.7% of votes, increase in support), with small lead over the CDU/CSU (24.1%, worst in history), then the Greens (14.8%, best in history), FDP (11.5%, increase), AfD (10.3%, drop). So far it is not certain who would become the Chancellor nor what the ruling coalition would look like (different coalitions are theoretically possible). The negotiations might last for weeks.

The NBP released its **monetary policy guidelines for 2022**. The inflation target remained unchanged and is still at 2.5% +/- 1pp. The monetary policy will be conducted amid floating exchange rate regime, but interventions were not ruled out. The NBP agreed that in 2H21 inflation is likely to stay above upper border of the tolerance band. In 2022, after temporary effects wane, inflation is expected to go down.

MPC's Eryk Łon said that it is still hard for him to say how he would vote in November, when the next NBP inflation projection is out. He stressed that what matters to him is to avoid any solutions that could radically strengthen the zloty. **Lukasz Hardt** spoke at CFA conference: in his view the update of the inflation projection in November is going to be higher than the July one and he indicated growing risk of second round effects: employees are asking for higher wages, companies are hiking their prices, and so on. Hardt wants to send a signal by raising rates by 15bp and in his view this does not have to spell the end of the NBP's QE program (he quoted Bank of England research on this), which could be fading naturally anyway.

MPC will hold an extra meeting on 28 September, the indecisive one. We suspect this is to discuss the Council's opinion to the 2022 budget draft.

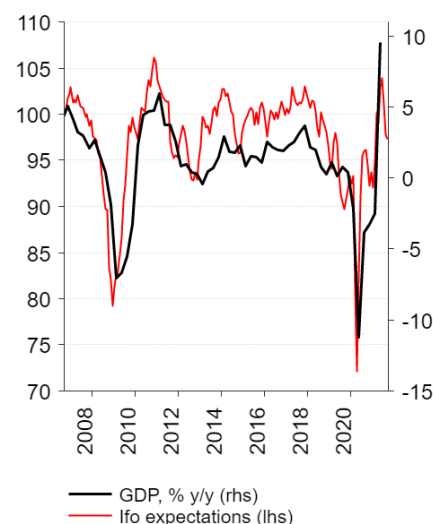
EURUSD dropped on Friday to 1.1715 but did not reach the levels seen directly after the Wednesday press conference of Jerome Powell (around 1.1680). So far this morning there is no clear reaction of the euro to the outcome of German elections.

EURPLN on Friday was stable around the 4.605-4.620 region. No break from above of the 4.60 support level increases the probability of a move to 4.70-4.75.

As regards **other CEE currencies**, EURHUF climbed for another day in a row by 0.3% to 356.8, bringing the total September change to 2.4%. The rate is exactly at its 200-day moving average, and its break opens the way to go up to 365.0. EURCZ climbed slightly to 25.40. September consumer and business confidence weakened. The ruble was quite stable thanks to rising oil prices.

On the **domestic interest rate market** the bond curve was quite stable (DS1030 ended the week at 1.92%), while the IRS curve climbed by 7bp following the core markets, so asset swap spreads narrowed. 10Y IRS is close to local maximum achieved in mid-September (2.08%), if this level is broken than another important technical level is at 2.15% recorded in early 2020.

Germany: Ifo index vs GDP growth



Source: Refinitiv Datastream, Santander

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FX market

Today's opening			
EURPLN	4.5997	CZKPLN	0.1808
USDPLN	3.9260	HUFPLN*	1.2795
EURUSD	1.1716	RUBPLN	0.0541
CHFPLN	4.2343	NOKPLN	0.4582
GBPPLN	5.3677	DKKPLN	0.6185
USDCNY	6.4611	SEKPLN	0.4542

*for 100HUF

Last session in the FX market						24/09/2021
	min	max	open	close	fixing	
EURPLN	4.596	4.619	4.610	4.605	4.609	
USDPLN	3.923	3.939	3.928	3.931	3.927	
EURUSD	1.170	1.174	1.174	1.171	-	

Interest rate market 24/09/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	0.65	1
DS0726 (5Y)	1.49	0
DS0432 (10Y)	2.07	4

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	0.63	6	0.18	1	-0.52	0
2L	1.11	8	0.38	0	-0.43	-1
3L	1.41	7	0.66	1	-0.36	0
4L	1.59	6	0.88	0	-0.28	1
5L	1.73	6	1.04	0	-0.20	1
8L	1.96	5	1.34	1	0.01	2
10L	2.07	5	1.47	2	0.14	3

WIBOR rates

Term	%	Change (bps)
O/N	0.08	-1
T/N	0.10	0
SW	0.10	0
2W	0.16	0
1M	0.18	0
3M	0.24	0
6M	0.29	0
1Y	0.45	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	0.31	1
3x6	0.47	5
6x9	0.77	8
9x12	1.04	9
3x9	0.55	5
6x12	0.88	7

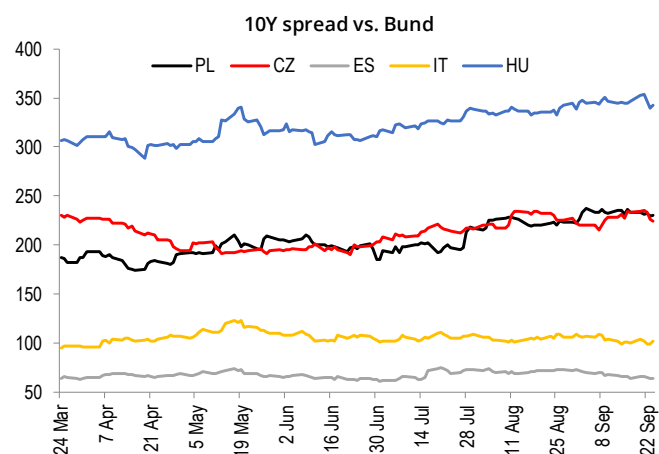
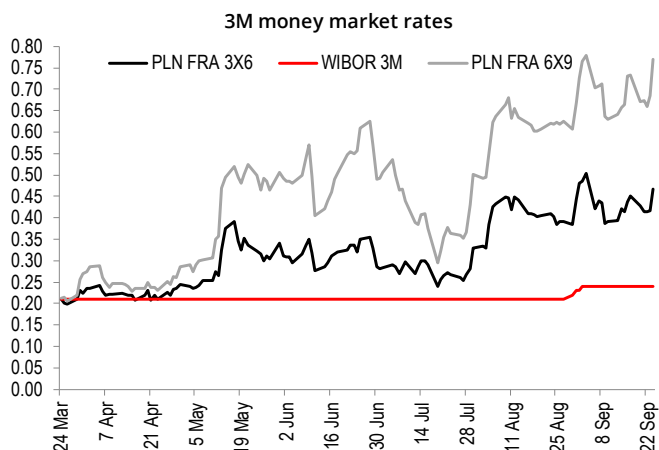
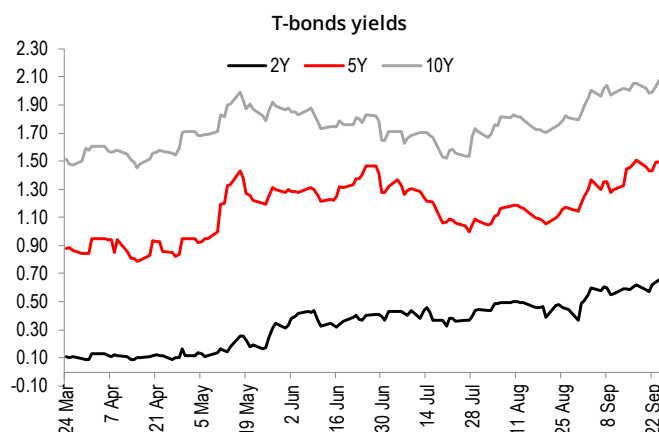
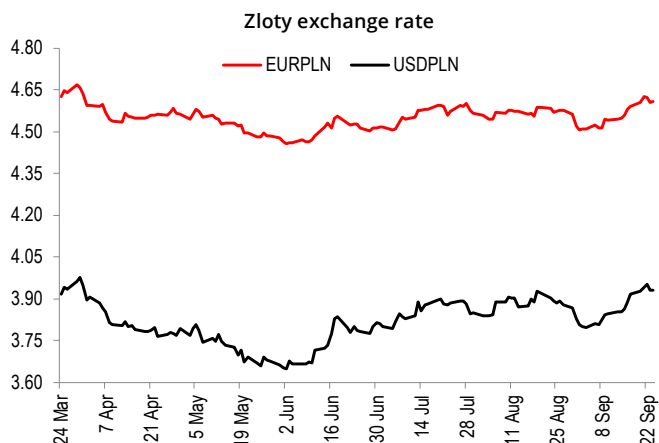
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	51	0	230	1
France	10	0	34	0
Hungary	59	0	343	3
Spain	31	0	64	0
Italy	45	0	101	3
Portugal	21	0	55	1
Ireland	11	0	38	0
Germany	7	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (24 September)								
10:00	DE	IFO Business Climate	Sep	pts	98.9		98.8	99.4
16:00	US	New Home Sales	Aug	% m/m	1.0		1.5	1.0
MONDAY (27 September)								
	DE	Retail Sales	Aug	% m/m	1.0		-	-4.5
14:30	US	Durable Goods Orders	Aug	% m/m	0.6		-	-0.1
TUESDAY (28 September)								
16:00	US	Consumer Conference Board	Sep	pts	114.6		-	113.8
WEDNESDAY (29 September)								
11:00	EZ	ESI	Sep	pct.	116.9		-	117.5
16:00	US	Pending Home Sales	Aug	% m/m	1.0		-	-1.8
THURSDAY (30 September)								
09:00	CZ	GDP SA	2Q	% y/y	8.2		-	8.2
11:00	EZ	Unemployment Rate	Aug	%	7.6		-	7.6
14:00	PL	Current account balance	2Q	€m		2041	-	2948
14:00	PL	MPC minutes	Aug					
14:00	DE	HICP	Sep	% m/m	0.0		-	0.1
14:30	US	GDP Annualized	2Q	% Q/Q	6.7		-	6.6
14:30	US	Initial Jobless Claims		k			-	351.0
14:30	CZ	Central Bank Rate Decision	Sep/21		1.25		-	0.75
FRIDAY (1 October)								
09:00	PL	Poland Manufacturing PMI	Sep	pts	-	54.5	-	56.0
09:30	DE	Germany Manufacturing PMI		pts	58.5		-	58.5
10:00	EZ	Eurozone Manufacturing PMI		pts	58.7		-	58.7
10:00	PL	CPI	Sep	% y/y	5.5	5.4	-	5.5
11:00	EZ	Flash HICP	Sep	% y/y	3.3		-	3.0
14:30	US	Personal Spending	Aug	% m/m	0.7		-	0.3
14:30	US	Personal Income	Aug	% m/m	0.2		-	1.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.3		-	0.4
16:00	US	Michigan index	Sep	pts	71.0		-	71.0
16:00	US	ISM manufacturing	Sep	pts	59.5		-	59.9

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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