

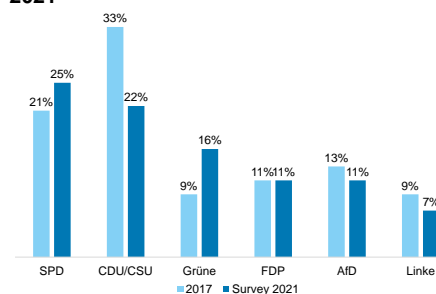
Week Ahead

Focus: Germany general elections, EZ GDP and inflation

Analyst:

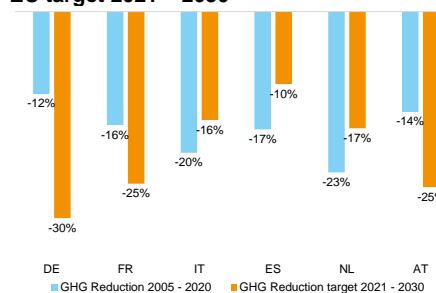
Gerald Walek
gerald.walek@erstegroup.com

Germany – election result 2017 vs. survey 2021



Source: Kantar, YouGov, Erste Group Research

Greenhouse gas reduction 2005 - 2021 vs. EU target 2021 – 2030



Source: EC, Erste Group Research

Major Markets & Credit Research

Gudrun Egger, CEFA (Head)

Rainer Singer (Senior Economist EZ, USA)
 Gerald Walek, CFA (Economist EZ)
 Margarita Grushanina (Economist AT, Quant. Analyst EZ)

Note: Past performance is not necessarily indicative of future results

Germany - who will succeed Angela Merkel?

Germany will elect a new Bundestag this Sunday (September 26). With Angela Merkel no longer a candidate, Germany will have a new chancellor regardless of the outcome of the election. According to current polls, the SPD would win the election with 25% of the vote, just ahead of the Union parties (CDU and CSU) with 22% of the vote. Behind them, the Greens are currently expected to get 16% approval. Election researchers predict 11% of the vote for the AfD and the FDP. The Left Party could get 7% of the vote.

Since a new edition of the grand coalition with the SPD and the CDU/CSU is not likely to be an option, three parties will be necessary to form a majority capable of governing (around 45-46% of the vote) in the parliament, given the current polls. Mathematically, both a center-left alliance (led by the SPD and the Greens) and a center-right alliance (led by the CDU/CSU and the Greens) would currently be possible. Should the SPD receive the most votes, as expected in the polls, it will first be tasked with forming a government.

A center-left government would, if the election announcements are implemented, provide tax relief for lower and middle incomes. In addition, the purchasing power of lower incomes would be strengthened by a significant increase in the minimum wage to EUR 12/hour (from the current EUR 9.5). This is to be counter-financed by higher taxes for the upper-income brackets and by the introduction of a wealth tax. However, this kind of counter-financing would be difficult to imagine with the FDP in the coalition as a junior partner. For this concept, the SPD and the Greens would therefore have to rely on the support of the Left Party. In the short to medium term, a center-left government would boost Germany's growth. On the one hand, because tax relief combined with an increase in the minimum wage would raise the disposable income of lower- and middle-income households, with corresponding positive consequences for private consumption. On the other hand, a center-left alliance is more likely to be willing to use the fiscal leeway that Germany has for state investments (e.g. expansion of renewable energies, investments in energy efficiency, public transport).

In contrast, a center-right coalition would probably not bring about any drastic change in Germany's economic policy orientation. If the Greens were in government, however, environmental issues would be given greater consideration. In view of the EU's much stricter climate targets, Germany will have to significantly increase its efforts to reduce greenhouse gas emissions. By 2030, the EU expects Germany to reduce its greenhouse gas emissions by a further 30%. From this point of view, with or without the participation of the Green Party in government, drastic measures for climate protection in Germany are to be expected in the coming years.

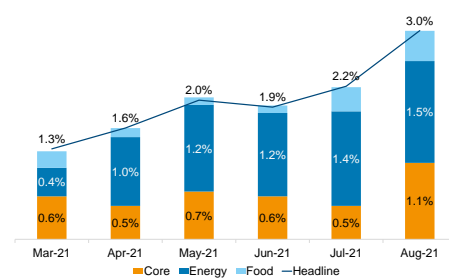
Since the interests of several parties will have to be reconciled in the course of the coalition negotiations, we expect lengthy negotiations. Voters and European partners will therefore probably have to be patient for some time before there will be clarity regarding Germany's new political direction.

EZ – faster recovery expected

We raise our Eurozone GDP forecast for 2021 to 5.0%, from 4.4% previously, and for 2022 to 4.2%, from 4.1% previously. The main reason for raising the forecast in the current year is, on the one hand, a significant positive revision of GDP growth for 2Q. On the other hand, the strong momentum of the recovery in France and Spain is likely to continue in 3Q. The rapid decline in new COVID-19 infections, already in progress since mid-July, has contributed to this positive development in both countries (probably thanks to high vaccination rates).

EZ – is inflation still rising?

EZ – inflation by components (y/y)



Source: Eurostat, Erste Group Research

Next week, the first flash estimate of Eurozone inflation for September will be published. In August, Eurozone inflation rose at an above-average rate to 3.0%. This was caused by low y/y comparables for some components. In addition, upward pressure from energy prices intensified due to the current tense situation in the European electricity and gas markets.

Due to persistently low comparative values from the previous year, as well as a continued rise in energy prices, we expect a further slight increase in inflation above 3.0% in September. With electricity prices having stabilized at a high level in recent days, upward pressure from energy prices may ease somewhat in October. Nevertheless, we expect inflation to remain at 3% or slightly above until the end of the year. However, in view of significantly higher comparative values, we forecast a declining momentum of inflation from January 2022 onwards.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
FR	1-Oct	9:50	PMI Index	Sep F	55.2 Index	55.2 Index
IT	1-Oct	9:45	PMI Index	Sep	59.5 Index	60.9 Index
DE	1-Oct	9:55	PMI Index	Sep F	58.5 Index	58.5 Index
EA	1-Oct	10:00	PMI Index	Sep F	58.7 Index	58.7 Index
EA	1-Oct	11:00	CPI flash y/y	Sep	3.3%	3.0%
USA						
	30-Sep	14:30	GDP q/q	2Q T	6.7%	6.6%
	1-Oct	14:30	PCE Deflator	Aug		4.2%
	1-Oct	16:00	PMI Index	Sep	60.1 Index	59.9 Index
China						
	30-Sep	3:45	PMI Index	Sep	49.5 Index	49.2 Index

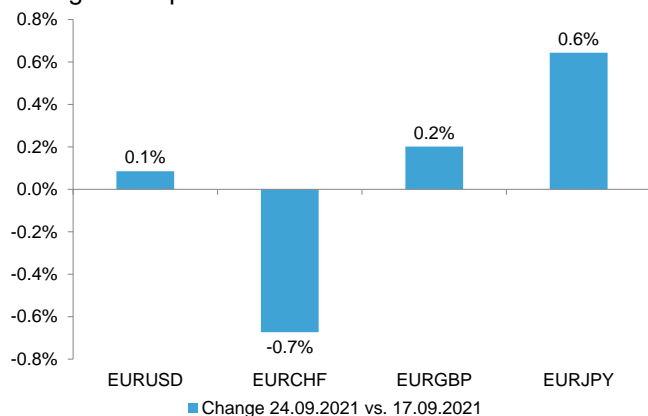
Central bank events

	Date	Time	Event
ECB	27-Sep	13:45	Christine Lagarde, hearing, European Parliament
	28-Sep	14:00	Christine Lagarde, speech, ECB Forum on Central Banking
	28-Sep	17:00	Isabel Schnabel, panel discussion: The Future of Inflation, ECB Forum on Central Banking
	29-Sep	16:30	Philip Lane, panel discussion: Monetary Policy, Employment and Inequality, ECB Forum on Central Banking
	29-Sep	17:45	Christine Lagarde, panel discussion, ECB Forum on Central Banking
Fed	27-Sep	18:50	Lael Brainard, speech: Economic Outlook
	28-Sep	16:00	Jerome Powell, testimony: Coronavirus and CARES Act, US Senate
	29-Sep	17:45	Jerome Powell, panel discussion, ECB Forum on Central Banking

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

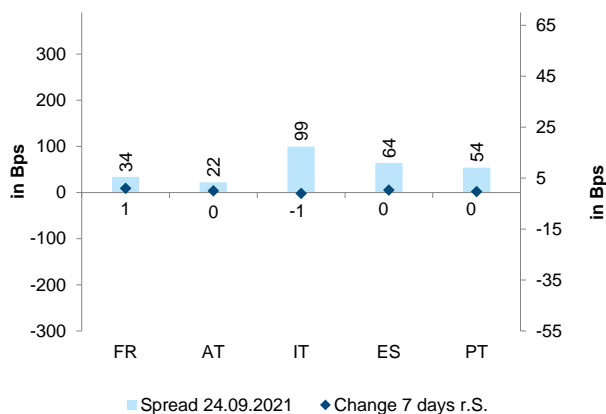
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
 Changes compared to last week



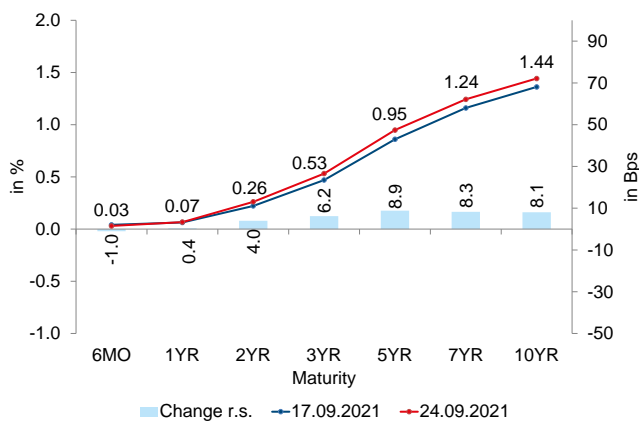
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany
 10Y government bonds



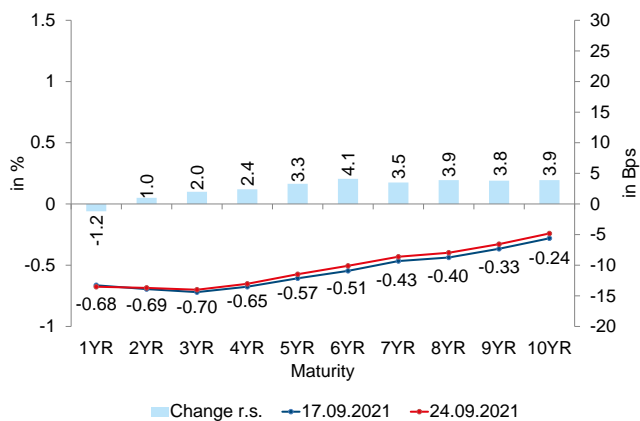
Source: Market Data Provider, Erste Group Research

US Treasuries yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2019	2020	2021	2022
Eurozone	1.3	-6.5	5.0 ↑	4.2 ↑
US	2.3	-3.5	5.9	3.3

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.3	2.2	1.8
US	1.8	1.2	4.2	2.6

Interest rates	current	Dec.21	Mar.22	Jun.22	Sep.22
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.54	-0.54	-0.54	-0.54	-0.54
Germany Govt. 10Y	-0.24	-0.20	-0.10	0.00	0.10
Swap 10Y	0.12	0.10	0.20	0.30	0.40

Interest rates	current	Dec.21	Mar.22	Jun.22	Sep.22
Fed Funds Target Rate*	0.08	0.13	0.13	0.13	0.13
3M Libor	0.13	0.20	0.20	0.20	0.20
US Govt. 10Y	1.42	1.50	1.60	1.80	1.80
EURUSD	1.17	1.20	1.20	1.20	1.18

*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.
 Source: Market Data Provider, Erste Group Research*

¹ Note: In accordance with regulations, we are obliged to issue the following statement:
 Forecasts are not a reliable indicator of future performance.

Contacts

Group Research

Head of Group Research
 Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
 Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
 Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
 Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338
 Katarina Muchova +43 (0)5 0100 17336

Croatia/Serbia
 Alen Kovac (Head) +385 72 37 1383
 Mate Jelić +385 72 37 1443
 Ivana Rogic +385 72 37 2419

Czech Republic
 David Navratil (Head) +420 956 765 439
 Jiri Polansky +420 956 765 192
 Michal Skorepa +420 956 765 172

Hungary
 Orsolya Nyeste +361 268 4428

Romania
 Ciprian Dascalu (Head) +40 3735 10108
 Eugen Sinca +40 3735 10435
 Dorina Ilasco +40 3735 10436
 Iulian George Misu +40 758484043

Slovakia
 Maria Valachyova (Head) +421 2 4862 4185
 Matej Hornak +421 902 213 591

Major Markets & Credit Research
 Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
 Raif Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
 Hans Engel (Global Equities) +43 (0)5 0100 19835
 Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
 Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
 Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
 Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
 Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
 Rainer Singer (Euro, US) +43 (0)5 0100 17331
 Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
 Head: Henning Eßkuchen +43 (0)5 0100 19634
 Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
 Michael Marschallinger, CFA +43 (0)5 0100 17906
 Nora Nagy (Telecom) +43 (0)5 0100 17416
 Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
 Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
 Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
 Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
 Mladen Dodig (Head) +381 11 22 09178
 Anto Augustinovic +385 72 37 2833
 Magdalena Basic +385 72 37 1407
 Davor Spoljar, CFA +385 72 37 2825

Czech Republic
 Petr Bartek (Head) +420 956 765 227
 Jan Safranek +420 956 765 218

Hungary
 József Miró (Head) +361 235 5131
 András Nagy +361 235 5132
 Tamás Pletser, CFA +361 235 5135

Poland
 Cezary Bernatek (Head) +48 22 257 5751
 Konrad Grygo +48 22 257 5753
 Krzysztof Kawa +48 22 257 57 52

Romania
 Caius Rapanu +40 3735 10441

Group Markets

Head of Group Markets
 Oswald Huber +43 (0)5 0100 84901

Group Markets Retail and Agency Business
 Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
 Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
 Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
 Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
 Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Group Securities Markets
 Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
 Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
 Head: Marc Friebershäuser +49 (0)711 810400 5540
 Bernd Bollhof +49 (0)30 8105800 5525
 Andreas Goll +49 (0)711 810400 5561
 Mathias Gindele +49 (0)711 810400 5562
 Ulrich Inhofner +43 (0)5 0100 85544
 Sven Kienzle +49 (0)711 810400 5541
 Rene Klasen +49 (0)30 8105800 5521
 Christopher Lampe-Traupe +49 (0)30 8105800 5523
 Karin Rattay +43 (0)5 0100 84118
 Michael Schmotz +43 (0)5 0100 85542
 Klaus Vosseler +49 (0)711 810400 5560

Slovakia
 Šarlota Šipulová +421 2 4862 5619
 Monika Sméliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
 Head: Antun Burić +385 (0)7237 2439
 Jaromir Malak +43 (0)5 0100 84254

Czech Republic
 Head: Ondrej Čech +420 2 2499 5577
 Milan Bartoš +420 2 2499 5562

Institutional Asset Management Czech Republic

Head: Petr Holeček +420 956 765 453
 Petra Maděrová +420 956 765 178
 Martin Peřina +420 956 765 106
 David Petráček +420 956 765 809
 Blanca Weinerová +420 956 765 317
 Petr Valenta +420 956 765 140
Croatia
 Head: Antun Burić +385 (0)7237 2439
 Zvonimir Tukač +385 (0)7237 1787
 Natalija Zujic +385 (0)7237 1638

Hungary
 Head: Peter Csizmadia +36 1 237 8211
 Gábor Bálint +36 1 237 8205
 Ádám Szőnyi +36 1 237 8213

Romania and Bulgaria
 Head: Ruxandra Lungu +40 373516562

Group Institutional Equity Sales
 Head: Brigitte Zeitberger-Schmid +43 (0)50100 83123
 Werner Fürst +43 (0)50100 83121
 Josef Kerekes +43 (0)50100 83125
 Cormac Lyden +43 (0)50100 83120

Czech Republic
 Head: Michal Řízek +420 224 995 537
 Jiří Fereš +420 224 995 554
 Martin Havlan +420 224 995 551
 Pavel Krabička +420 224 995 411

Poland
 Head: Jacek Jakub Langer +48 22 257 5711
 Tomasz Galanciak +48 22 257 5715
 Wojciech Wysocki +48 22 257 5714
 Przemyslaw Nowosad +48 22 257 5712
 Grzegorz Stepień +48 22 257 5713

Croatia
 Damir Eror +385 (0)72 37 2836

Hungary
 Nandori Levente +36 1 23 55 141
 Krisztián Kandik +36 1 23 55 162
 Balasz Zankay +36 1 23 55 156

Romania
 Liviu Avram +40 3735 16569

Group Fixed Income Securities Markets
 Head: Goran Hobljaj +43 (0)50100 84403

FISM Flow
 Head: Aleksandar Doric +43 (0)5 0100 87487
 Margit Hraschek +43 (0)5 0100 84117
 Christian Kienesberger +43 (0)5 0100 84323
 Ciprian Mitu +43 (0)5 0100 85612
 Bernd Thaler +43 (0)5 0100 84119
 Zsuzsanna Toth +36-1-237 8209

Poland:
 Pawel Kielek +48 22 538 6223

Michal Jarmakowicz +43 50100 85611

Group Fixed Income Securities Trading
 Head: Goran Hobljaj +43 (0)50100 84403

Group Equity Trading & Structuring
 Head: Ronald Nemeč +43 (0)50100 83011

Business Support
 Bettina Mahoric +43 (0)50100 86441

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Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com