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## MACRO NEWS

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### MACRO UPDATE: G20 \$5TRN, EU STALEMATE, GERMAN POLLS

#### Berenberg Macro Flash

**Pandemic update:** The virus continues to spread rapidly on both sides of the Atlantic. In Europe, the total number of confirmed infections has risen by 28% within two days to 279k as of the morning of 27 March. This follows a similar increase between 23 and 25 March and a 38% rise between 20 and 22 March. From a lower level, the US continues to follow Europe with a 56% surge in the last two days to 86k (after increases of 57% between 23 and 25 March and 88% in the two days to 22 March). The US has now overtaken China as the country with the highest number of confirmed cases according to the [Johns Hopkins University](#).

#### G20: AN IMPRESSIVE SUM

In a joint statement, G20 leaders promised to inject some \$5trn into the global economy to combat the pandemic and contain the economic fallout. The number is impressive. As it adds up the national initiatives which the member countries are taking anyway, it is not really new. The number does highlight that the world is indeed meeting the extreme health emergency with an unprecedented policy response (see our [macro essentials](#)). Encouragingly, a G20 pledge to counteract supply-side disruptions can be seen as a tentative sign that, in times of a health emergency, leaders are backing away at least somewhat from their previous trade disputes.

#### EU SUMMIT: NO STRONG SIGNAL OF SOLIDARITY

What a contrast: On the national level, almost all EU leaders are responding to the unprecedented health emergency with impressive “whatever it takes“ programmes at record speed. On the European level, however, they are still failing to do so. After a contentious debate at last night’s video summit, EU/Eurozone leaders delayed any decision. They delayed a decision by two weeks. Because the European Central Bank (ECB) has pulled out almost all the stops, the lack of fast common fiscal action should not cause serious economic damage in the near term. As our chart below shows, the ECB has already managed to bring sovereign yield spreads back to tolerable levels for now. However, the perception of a lack of solidarity within the EU carries a grave political risk. It may critically weaken support for European integration over time.

#### Summit results:

- Instead of deciding which kind of common response to take, EU leaders merely “invited the Eurogroup (of finance ministers) to present proposals to us within two weeks”.
- According to various media reports, Italy blocked a reference to potential support through the European Stability Mechanism (ESM) for hard-hit member countries. Italy reportedly objects to the (light) conditionality and the stigma of a potential ESM credit line.
- EU leaders endorsed the relaxation of EU fiscal and state-aid rules.

Issuing joint corona bonds, as demanded by nine Eurozone countries including France, Italy and Spain beforehand, was reportedly rejected by the “Hansa” group of mostly Northern European fiscally conservative countries. According to German chancellor Angela Merkel, Berlin favours the ESM option as the corona bond idea “is not the view of all member states”. Dutch prime minister



Mark Rutte even added that his country would not accept Eurobonds under any circumstances. Although corona bonds would require significant institutional innovations, we would see them as the optimal economic and political tool for a joint response to the pandemic (see [the case for corona bonds](#)).

We still expect the Eurozone to find some common fiscal response in the end to support the most affected and/or weakest member countries. Even an ESM credit line, as discussed by Eurogroup finance ministers on Tuesday, would ultimately count as a substantial Eurozone response to the crisis. Under normal circumstances, the two week delay in agreeing on a response would not be a big deal. But in the current crisis, it can make a political difference. Whether or not Europeans help each other fast in this acute emergency can shape popular perceptions of what Europe stands for – and for a long time to come.

### **GERMAN POLLS: MORE SUPPORT FOR MERKEL**

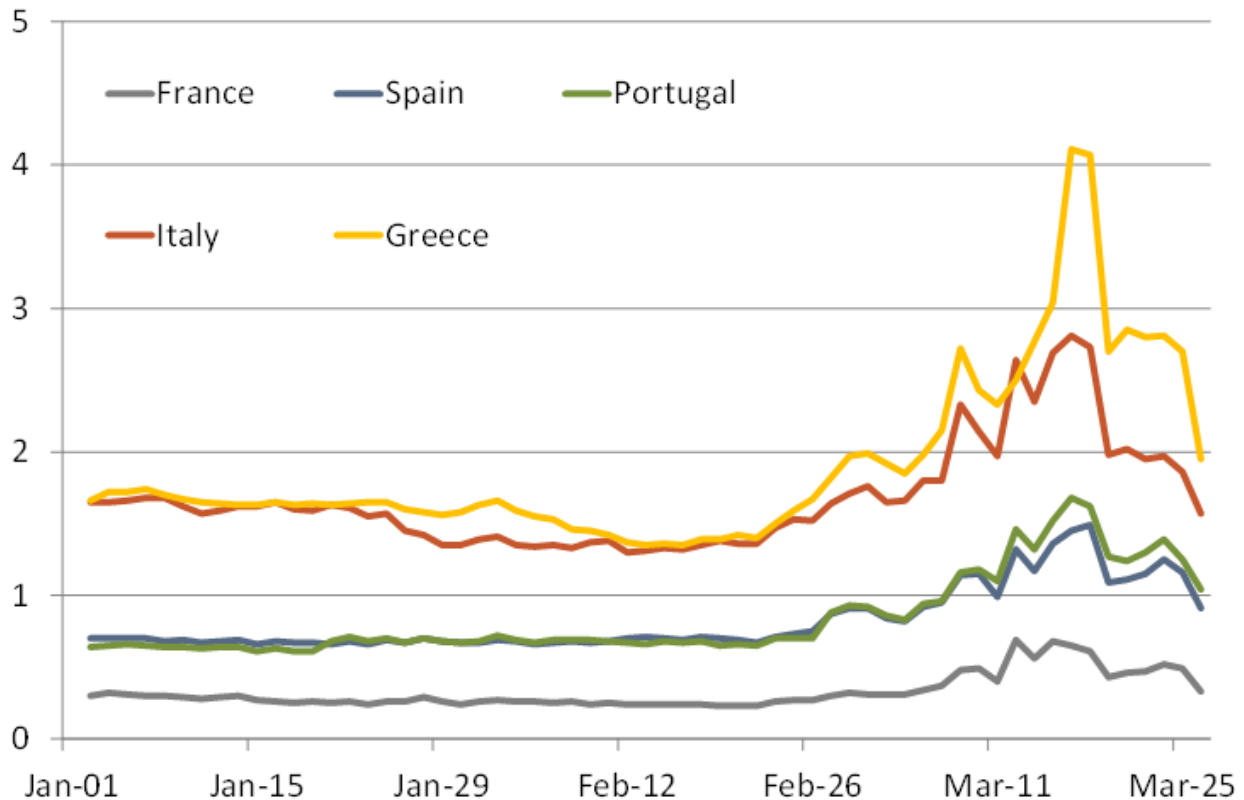
The pandemic and the response to it can be a political game changer both in the short and the long run. Whereas the German government does not seem to be throwing its full weight behind a forceful common EU/Eurozone response to the pandemic, it is among those acting most decisively at the national level. As a result of such national measures, support for chancellor Angela Merkel's centre-right CDU/CSU has risen by roughly 5 points in recent opinion polls from 26% three weeks ago to 31% now, mostly at the expense of the right-wing AfD whose support has slipped from 14% three weeks ago to 10% now. The latest poll by Forsa, which tends to be somewhat volatile, even shows a rise by 10 points for the CDU/CSU to 36% on 26 March from a trough of 26% on 7 March.

Of course, it is far too early to say whether the effect will last. While most citizens support harsh lockdown measures, patience may wear thin after a while. Still, the shift in opinion polls supports the notion that the corona crisis can change and shape the political discourse significantly. After all, it is a shock with no peacetime parallel in living memory. With firm leadership and a clear crisis response based on scientific advice, oft-criticised mainstream leaders may be able to debunk the political fringes whose weird ideas often defy science and logic. For now, the German government seems to be rising to the challenge on the national level. Unfortunately, this does not yet hold for its crisis response on the European level, as discussed above.



## MACRO NEWS

Chart 1: Eurozone sovereign 10-year bond spreads



Spreads over 10-year German bond yields . Source: Refinitiv, Berenberg.

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