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PARTNERSHIP SINCE 1590

MACRO NEWS

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Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

EUROZONE: SENTIMENT KNOWS JUST ONE DIRECTION

Berenberg Macro Flash

German ZEW sentiment, May

	Expectations	Current situation
Actual	20.6	83.9
Previous	19.5	80.1
Consensus	22.0	82.0
Berenberg	22.0	81.0

German ZEW edges up further in May: Financial analysts are becoming even slightly more optimistic. The forward looking component of the German ZEW survey increased from 19.5 in April to 20.6 in May – compared to consensus estimates of 22.0. While it remains below the long-term average of 23.9 points (since December 1991), expectations for the next 6 months reached the highest level since August 2015. The ZEW survey is the first of Germany’s main surveys to be released in May. Sustained moves usually signal turning points in the economy up to six months in advance. The indicator for the assessment of the current situation rose from 80.1 to 83.9, the highest level since July 2011. The current assessment mostly reflects hard data for the last few months, hence relates more to Q1 than Q2. Recent hard data such as industrial production have all been upbeat. The surge in the DAX of 5.6% since 11 April, the last ZEW’s publication day, probably also played a role in boosting optimism among survey panellists who tend to be more affected by financial developments than those of the Ifo, PMI or ESI (see chart 1).

Sentiment and outlook positive, but further acceleration in German activity less likely: The headline figures for most of the recent soft data have been higher than the averages for Q1, so the better sentiment has clearly carried into Q2. Taken at face value, this suggests that GDP growth could accelerate modestly in the next two quarters. However, helped by a mild winter, the German economy already expanded by 0.6% qoq in Q1, well above its trend rate of 0.4% qoq. A further acceleration thus seems unlikely. A reversal straight back to trend, however, is also not likely. In Q2, we expect GDP to grow at a solid pace of 0.5% with risks to the upside (see chart 2). The qualitative breakdown published by the German statistical office last week indicated a particularly strong gain in investment. We expect the same in Q2. GDP details for Q1 will be published on 23 May.

Helped by stronger results for France, prospects for the Eurozone are brightening even more than for Germany: ZEW expectations for the Eurozone increased significantly from 26.3 to 35.1, the highest level since August 2015. The assessment of the current situation also improved strongly (+6.8 points), reaching the best level since March 2008. In France expectations depend very much on the new president delivering on his reform proposals (expectations surged by 11.1 points, while the assessment of the current softened by 1.1 points).

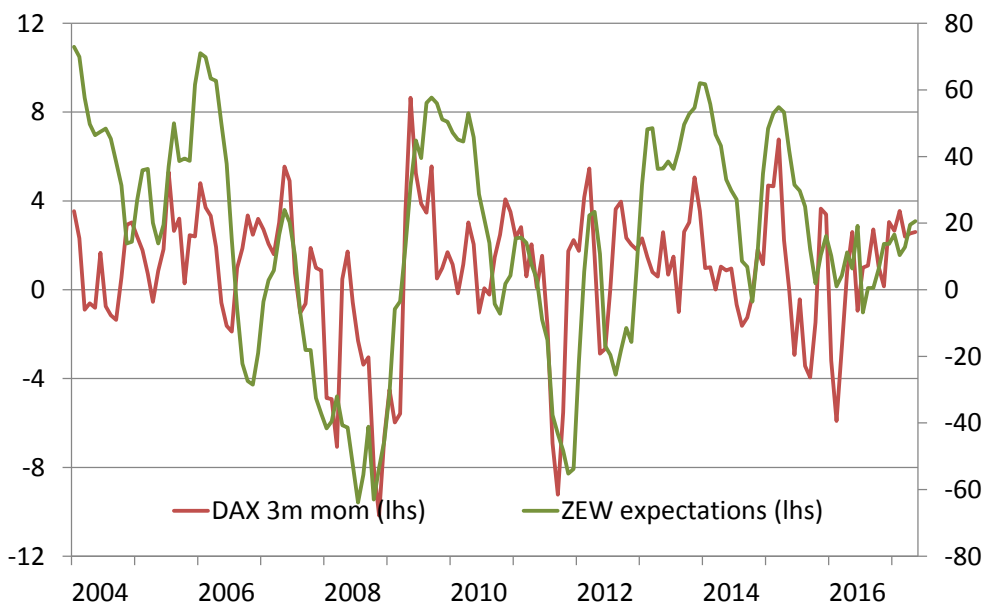
We expect the upbeat sentiment is likely to carry into the second half of this year: The recovery broadens across the Eurozone, French President Macron and German Chancellor Merkel had a good first “Merkron” meeting yesterday. Chances are that economic reforms in France could be complemented by institutional reforms in the Eurozone. In addition, the risk of snap elections in Italy has receded further over the last few weeks. Divergences in growth rates remain across countries in the Eurozone, as Eurostat’s second reading for GDP growth in Q1 showed today. For the region as a whole, Eurostat revised the Q1 estimate up mar-



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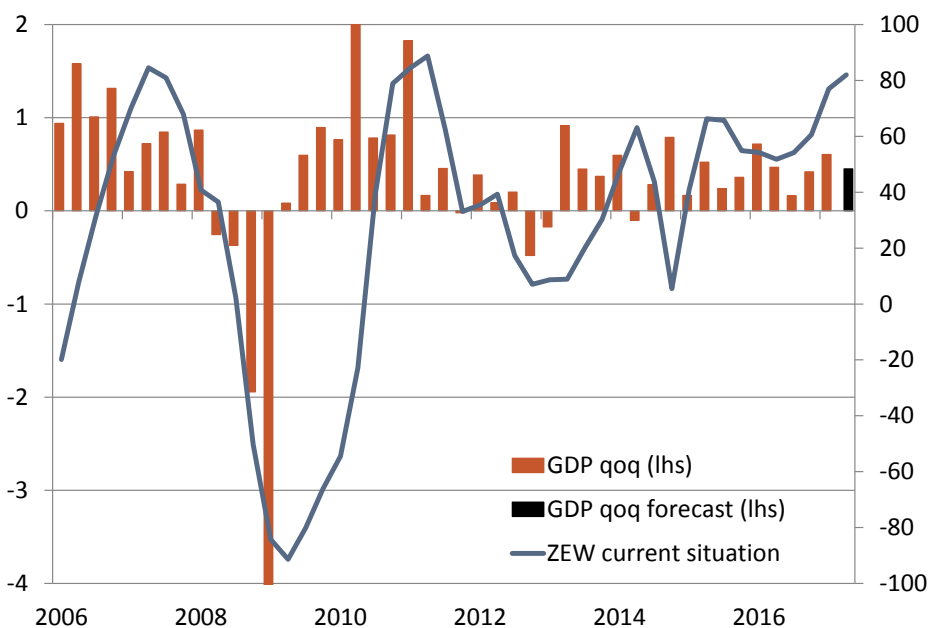
ginally from 0.46% to 0.49% qoq. While the recovery continues at a rapid pace in Spain and has gained more traction in Portugal, Greece and – to a lesser extent – Italy continue to lag behind. The full expenditure details will be released on 7 June.

Chart 1: ZEW expectations versus DAX (mom, in %, 3-month average)



DAX value for May taken on 16 May 11:00h BST. Source: ZEW, Deutsche Börse

Chart 2: German GDP qoq (in %) versus ZEW current situation



Quarterly average for ZEW. April and May 2017 as a proxy for Q2. Source: Destatis, ZEW, Berenberg forecasts



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	MAY	APR	MAR	FEB	JAN	DEC
Expectations	20.6	19.5	12.8	10.4	16.6	13.8
Current situation	83.9	80.1	77.3	76.4	77.3	63.5

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Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com