



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

GERMAN PROSPECTS REMAIN FAVOURABLE DESPITE LOWER ZEW

Berenberg Macro Flash

German ZEW sentiment, June

	Expectations	Current situation
Actual	18.6	88.0
Previous	20.6	83.9
Consensus	21.7	85.0
Berenberg	22.0	85.0

The German economy is doing so well that it probably won't accelerate much further. This is the major message of the German ZEW investor sentiment index for June. Financial analysts upgraded their assessment of the current situation once again, lifting it to the highest level since July 2011. The headline expectations fell back slightly from its May level, which was the best since August 2015. Modestly lower expectations are no a reason for concern. As the current situation is already so good, there is less scope to expect a further improvement.

The forward looking expectations component of the German ZEW survey fell from 20.6 in May to 18.6 in June – compared to consensus estimates of 21.7 and the long-term average of 23.9 points (since December 1991). The ZEW survey is the first of Germany's main surveys to be released in June. It is not the most representative survey of the Germany economy, though. Because the ZEW institute surveys financial analysts, the ZEW tends to move with stock market swings. The mostly sideways move of the DAX since 16 May (-0.38%), the day the last ZEW was published, after constant gains throughout the last 6 months, probably played a role in limiting further gains in expectations (see chart 1). The assessment of the current situation surged from 83.9 to 88.0. The current assessment mostly reflects hard data for the last few months, which have been positive on average, including industrial production in May and the strong GDP Q1 contribution of capital investment.

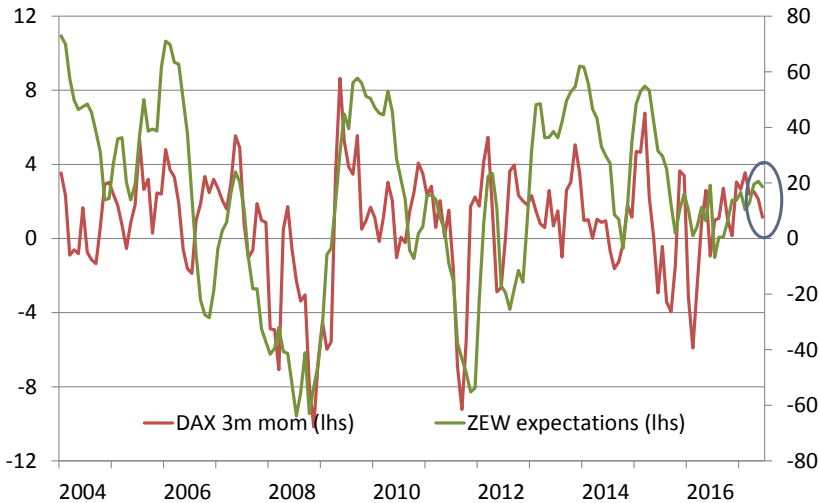
Growth outlook stabilising: The Q2 average of both main components of the ZEW remain above those of Q1 (19.6 and 84.0 in Q2 versus 13.3 and 77.0 in Q1). Taken at face value, this suggests that GDP growth could still be accelerating slightly in Q2 after 0.2% in Q3 2016, 0.4% in Q4 2016 and 0.6% in Q1. However, the rise of sentiment to multi-year highs likely overstates the activity in the real economy. The modest drop in ZEW expectations provides further evidence that soft and hard data are converging at sustainable levels. Still, the ZEW signals that the economy's strong growth momentum is intact in Q2. We expect German GDP to expand at 0.5% qoq in Q2 after 0.6% in Q1 (see chart 2). The risks to this call are tilted to the upside.

Prospects for the Eurozone brighten further: ZEW expectations for the Eurozone increased from 35.1 to 37.7. The assessment of the current situation also improved by 2.2 points. The global upswing supports exports while the ongoing ECB's monetary accommodation and the improving labour market sustain domestic demand. The political environment is also improving: This Sunday's second round of French parliamentary elections will most likely equip President Macron with the parliamentary majority to implement his reform agenda fast and thoroughly. In Italy, last weekend's local election results suggest that Five Stars may fare less well in actual elections than in the polls. The UK elections have increased the chance of a soft Brexit. We expect the Eurozone's economy to expand by 0.4-0.5% qoq in coming quarters and 1.9% yoy this year, with risks to the upside.



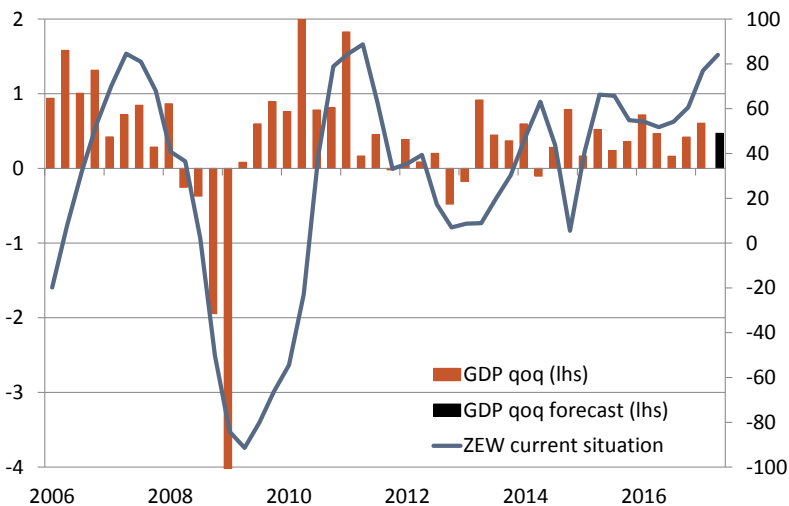
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Chart 1: ZEW expectations versus DAX (mom, in %, 3-month average)



DAX value for May taken on 13 June 11:00h BST. Source: ZEW, Deutsche Börse

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



Quarterly average for ZEW. Source: Destatis, ZEW, Berenberg forecasts

German ZEW sentiment

	JUN	MAY	APR	MAR	FEB	JAN
Expectations	18.6	20.6	19.5	12.8	10.4	16.6
Current situation	88.0	83.9	80.1	77.3	76.4	77.3



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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