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EUROPEAN POLITICS: GERMANY RETURNS TO MORE NORMAL, AUSTRIA VOTES KURZ

Berenberg Macro Flash

GERMANY: EDGING BACK TOWARDS MORE NORMAL

Having let off steam at the national election three weeks ago, some German voters are returning to more normal voting patterns. After huge gains for the right-wing AfD at the expense of Germany's two big mainstream parties on 24 September, voters in the state of Lower Saxony today cast their ballots a bit more along traditional lines. Although the AfD still managed to clear the 5% hurdle to get seats in the state parliament with roughly 6% according to first projections, it fell far short of the 9.1% which it had garnered in Lower Saxony three weeks ago.

Today's state election differed from the earlier national election in one key respect: the regional vote today was seen as competitive with the centre-left SPD and the centre-right CDU almost neck-and-neck in pre-election opinion polls. At the national vote three weeks ago, almost everybody had assumed that the centre-left challenger Martin Schulz would have no chance to win against the centre-right chancellor Angela Merkel anyway. As little seemed to be at stake, many voters had thus felt free to cast a protest vote by turning in droves to the right-wing AfD. Lower Saxony shows that genuine support for the AfD and its policies remains smaller in Germany than the AfD's 12.6% share of the national vote on 24 September may have suggested.

According to an ARD projection at 19:25h local time, the SPD today won the state election Lower Saxony with 37.7% of the vote ahead of the CDU with 33.7%, the Greens with 8.8%, the FDP with 7.2% and the AfD with 6%. The left-wing Left Party narrowly failed to clear the 5% hurdle. Compared to how Lower Saxony had voted in the national election three weeks ago, the SPD gained some 10ppt whereas the AfD (-3 ppt), the liberal FDP (-2ppt) and the Left Party (-2ppt) lost votes relative to their comparatively strong September results. The CDU fell short of its 34.9% result of 24 September.

Of course, state elections have their own dynamics. Drawing conclusions for the national level is not straightforward. Nonetheless, the Lower Saxony result does offer some pointers for Germany as a whole:

- Having lost the national election and three earlier state elections so far this year, the **centre-left SPD** has finally won a vote. The SPD decision to retreat into opposition at the national level after their heavy losses on 24 September seems to be paying off. Ultimately, that is good news for the German political outlook: if this sets a trend, Germany will have a credible mainstream opposition party that could take over if the mainstream government were to stumble at the next national election in 2012. Germans looking for a genuine alternative to a government led by the centre-right do not have to venture to the political extremes.
- For Merkel's **CDU**, the Lower Saxony result is quite disappointing. Until a few weeks ago, the CDU seemed on course to win Lower Saxony. However, the result is probably not so bad for the CDU that it could cause serious unease within the CDU at the national level and upset the coming efforts to form a coalition on the national level in Berlin. At the margin, the result may strengthen slightly the hands of the Greens in such coalition talks as they managed to stay stable in Lower Saxony whereas the CDU and FDP lost some votes. But this should be a very minor effect.



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MACRO NEWS

After a three-week interlude in which party leaders in Berlin had waited for the Lower Saxony result, informal talks to form a **“Jamaica” coalition** on the national level between Merkel’s “black” CDU/CSU, the “yellow” liberals and the Greens will start on Wednesday. Although the talks will be tough, we expect a “Jamaica” coalition to be formally agreed either just before Christmas or – slightly more likely – over the course of January.

Whether or not the current SPD state prime minister Stephan Weil can stay in office in Hanover at the helm of an SPD-Green coalition will depend on the details of the final result. It currently seems too close to call. If not, he would probably try to form either a two-way coalition with the CDU or – less likely – a three-way alliance with the Greens and the FDP in Lower Saxony.

AUSTRIA: CENTRE-RIGHT AHEAD - WILL IT TEAM UP WITH THE RIGHT-WING FPÖ?

According to the SORA/ORF projection (19h local time), Austria is shifting towards the right. The centre-right ÖVP headed by 31-year old Sebastian Kurz won 31.6% of the vote at today’s national election (+7.6% compared to the 2013 result). The race for the second place looks closer than expected, with the centre-left SPÖ with 26.9% (+0.1%) ahead of the right-wing FPÖ with 26.0% (+5.5%). The results for the three largest parties are not a huge surprise as they were relatively close to the latest opinion polls. However, as many polls had projected that the FPÖ would come ahead of the SPÖ, many observers may greet a final result in line with this projection with some relief. The liberal NEOS party are in fourth place with 5.1% (+0.1%), ahead of the new “Pilz” party with 4.3% (+4.3%). The Greens at 3.9% (-8.5%) are the biggest loser in this election, suffering from splits (e.g. the “Pilz” party). The Greens may fail to clear the 4% hurdle to enter the parliament.

The final result may still differ somewhat from the SORA/ORF projection which has a margin of error of 1.0%. Additionally, mail ballots were very popular this year and will only be counted on Monday.

Forming a government in Vienna will be difficult. The most likely outcome seems to be a coalition between Kurz/ÖVP and the FPÖ as the junior partner. This may briefly raise some eyebrows in Europe. However, it would mean no major shift in policies, except for possibly a harder line on immigration from outside the EU as well as likely some tax cuts for low earners and companies. After a difficult and divisive campaign against Kurz and a decade in power, the SPÖ seems to prefer to go into opposition similar to the SPD in Germany. Other alliances such one between Kurz/ÖVP, the liberal NEOS and the Greens – similar to the “Jamaica” coalition likely to be formed in Germany – do not seem to be possible according to the SORA/ORF projection. Overall, we do not expect any major impact on the Austrian economy or European financial markets.

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