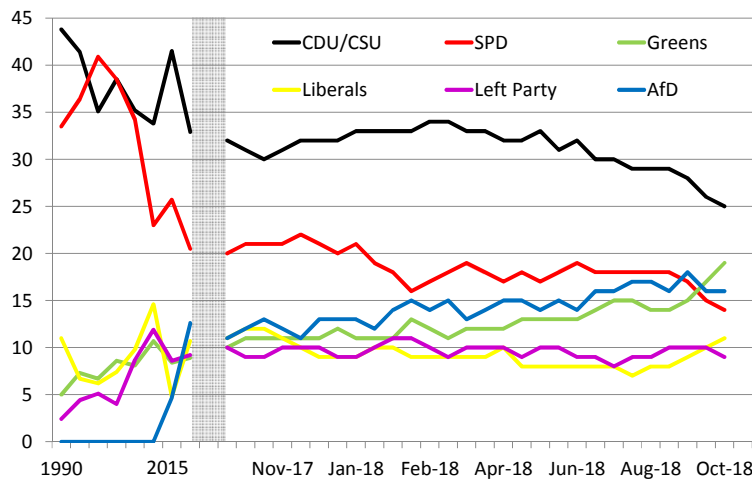




26 October 2018

Merkel at risk? German political scenarios

German election results and opinion polls, support for political parties in %



Election results 1990-2017; monthly opinion polls thereafter. Sources: www.wahlrecht.de, ARD

- **Another bad Sunday:** After a major drubbing in Bavaria on 14 October, the parties backing Chancellor Angela Merkel’s coalition in Berlin look set to suffer heavy losses again at the Hesse state election this Sunday. Regional opinion polls project that Merkel’s centre-right CDU may lose 12 points to end up at 26.5% while the centre-left SPD may fall by 10 points to 21%. Such losses would go well beyond the usual mid-term blues for a ruling coalition.
- **Deserting the big tents:** Losses in Hesse would again show voter revulsion at the serious infighting that has gripped Merkel’s government since June. However, they are also part of a much bigger trend (see chart). As society changes and old allegiances (such as workers vote SPD, rural regions vote CDU/CSU) weaken, the traditional big-tent “Volksparteien” (people’s parties) have lost their erstwhile dominance. Over the past 30 years, the centre-left Greens and the leftist Left Party have chipped away at support for the SPD. Since the refugee crisis of 2015, the right-wing AfD has made heavy inroads into the voter base of the CDU/CSU and also the SPD. In an ongoing polarisation of politics, the rise of the AfD has contributed to the surge in mostly urban support for the Greens who present themselves as a responsible opposition with views diametrically opposed to those of the AfD.
- **A bad result in Hesse would raise two big risks for Merkel:** First, if the CDU’s state prime minister and Merkel ally Volker Bouffier loses office in Hesse, a shell-shocked CDU may rebel against Merkel and eject her as CDU chairwoman at the party’s convention on 7-8 December as a prelude to replacing her as Chancellor as well. Second, a desperate SPD may conclude that it needs to renew itself in opposition and desert Merkel in Berlin.
- **The fear that binds:** Our base case remains that neither of these two big risks will materialise. Replacing Merkel (CDU/CSU) or leaving the coalition (SPD) would trigger serious uncertainty that could potentially lead to new elections. As both CDU/CSU and SPD would have a lot to lose from new elections, according to opinion polls (see chart), they will probably shy away from steps that could lead to such an outcome soon. But the risk is significant.
- **Political scenarios:** If the SPD leaves the government, the CDU/CSU would probably try to form a new coalition with the willing Greens and the liberal FDP. However, the small FDP would likely insist that Merkel be replaced as Chancellor with another CDU politician. That process may not be smooth, though. If the CDU ejects Merkel or asks her to plan an orderly transition, with Merkel perhaps running for European Commission president in 2019, the SPD may take the opportunity to walk out of the government, possibly leading to a CDU/CSU-Green-FDP alliance.
- **Big headlines, few policy changes:** Even if Merkel were to be replaced and/or if a new government were to take power in Berlin, with or without new elections, it would not make a major difference once the dust has settled. Any conceivable coalition in Berlin would still be dominated by the mainstream parties CDU/CSU, SPD, Greens and the smaller Liberals. Their similar views on key issues such as NATO, EU and euro reflect a national consensus. While individual sectors may be affected, for example with the Greens insisting on a faster exit from coal, the outlook for small-scale reforms in Europe and for dealing with Italy and Brexit would not change dramatically.

Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation by German law. The distribution of this document in other jurisdictions may be restricted by law, and persons, into whose possession this document comes, should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by Joh. Berenberg, Gossler & Co. KG. Although Berenberg Capital Markets LLC, an affiliate of the Bank and registered US broker-dealer, distributes this document to certain customers, Berenberg Capital Markets LLC does not provide input into its contents, nor does this document constitute research of Berenberg Capital Markets LLC. In addition, this document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

This document is classified as objective for the purposes of FINRA rules. Please contact Berenberg Capital Markets LLC (+1 646 949 9000), if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank’s prior written consent.

© 2018 Joh. Berenberg, Gossler & Co. KG



JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

EQUITY RESEARCH

BUSINESS SERVICES, LEISURE & TRANSPORT

BUSINESS SERVICES

Zaim Beekawa +44 20 3207 7855
Tom Buriton +44 20 3207 7852

LEISURE

Roberta Ciaccia +44 20 3207 7805
Najet El Kassir +44 20 3207 7836
Stuart Gordon +44 20 3207 7858
Annabel Hay-Jahans +44 20 3465 2720

TRANSPORT & LOGISTICS

William Fitzalan Howard +44 20 3465 2640
Joel Spungin +44 20 3207 7867
Adrian Yanoshik +44 20 3753 3073

CONSUMER

BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719
Matt Reid +44 20 3753 3075

FOOD MANUFACTURING AND H&PC

Rosie Edwards +44 20 3207 7880
Fintan Ryan +44 20 3465 2748
James Targett +44 20 3207 7873

FOOD RETAIL

Dusan Milosavljevic +44 20 3753 3123

GENERAL RETAIL

Thomas Davies +44 20 3753 3104
Michelle Wilson +44 20 3465 2663

LUXURY GOODS

Mariana Horn +44 20 3753 3044
Lauren Molyneux +44 20 3207 7892
Zuzanna Pusz +44 20 3207 7812

TOBACCO

Jonathan Leinster +44 20 3465 2645

FINANCIALS

BANKS

Adam Barrass +44 20 3207 7923
Frederick Brennan +44 20 3753 3171
Michael Christodoulou +44 20 3207 7920
Andrew Lowe +44 20 3465 2743
Alex Medhurst +44 20 3753 3047
Eoin Mullany +44 20 3207 7854
Peter Richardson +44 20 3465 2681

EQUITY SALES

SPECIALIST SALES

AEROSPACE & DEFENCE & CAPITAL GOODS

Cara Luciano +44 20 3753 3146

AUTOS & TECHNOLOGY

Edward Wales +44 20 3207 7815

BANKS, DIVERSIFIED FINANCIALS & INSURANCE

Calum Marris +44 20 3753 3040

BUSINESS SERVICES, LEISURE & TRANSPORT

Rebecca Langley +44 20 3207 7930

CONSUMER DISCRETIONARY

Victoria Mairgot +44 20 3753 3010

CONSUMER STAPLES

Ramnicea Sroa +44 20 3753 3064

HEALTHCARE

David Hogg +44 20 3465 2628

MEDIA & TELECOMS

Jonathan Smith +44 20 3207 7842

METALS & MINING

Sanam Nourbakhsh +44 20 3207 7924

THEMATICS

Chris Armstrong +44 20 3207 7809

SALES

FRANCE

Alexandre Chevassus +33 1 5844 9512
Dalla Fanigoule +33 1 5844 9510
Kevin Nor +33 1 5844 9505
Guillaume Viret +33 1 5844 9507

SALES TRADING

LONDON

Charles Beddow +44 20 3465 2691
Mike Berry +44 20 3465 2755
Joseph Chappell +44 20 3207 7885
Stewart Cook +44 20 3465 2752
Mark Edwards +44 20 3753 3004
Tom Floyd +44 20 3753 3136
Tristan Hedley +44 20 3753 3006
Luke Holmes +44 20 3465 2750
Peter King +44 20 3753 3139
Simon Messman +44 20 3465 2754
A.J. Pulleyn +44 20 3465 2756
Michael Schumacher +44 20 3753 3006
Paul Somers +44 20 3465 2753

DIVERSIFIED FINANCIALS

Chris Turner +44 20 3753 3019

INSURANCE

Charles Bendit +44 20 3465 2729
Trevor Moss +44 20 3207 7893
Emanuele Musio +44 20 3207 7916
Iain Pearce +44 20 3465 2665
Philip Ross +44 20 3465 2726

REAL ESTATE

Kai Klose +44 20 3207 7888

HEALTHCARE

Scott Bardo +44 20 3207 7869
Alistair Campbell +44 20 3207 7876
Klara Fernandes +44 20 3465 2718
Tom Jones +44 20 3207 7877
Samantha Osborne +44 20 3207 7882
Michael Ruzic-Gauthier +44 20 3753 3128
Laura Sutcliffe +44 20 3465 2669
Charles Weston +44 20 3465 2746

INDUSTRIALS

AEROSPACE & DEFENCE

Ryan Booker +44 20 3753 3074
Andrew Gollan +44 20 3207 7891
Ross Law +44 20 3465 2692

AUTOMOTIVES

Cristian Dirpes +44 20 3465 2721
Alexander Haissl +44 20 3465 2749
Viktoria Oushatova +44 20 3207 7890
Fei Teng +44 20 3753 3049

CAPITAL GOODS

Nicholas Housden +44 20 3753 3050
Sebastian Kuenne +44 20 3207 7856
Philippe Lorrain +44 20 3207 7823
Rizk Maidi +44 20 3207 7806
Jaroslaw Pominkiewicz +44 20 3753 3035
Simon Toennesen +44 20 3207 7819
Ethan Zhang +44 20 3465 2634

MATERIALS

CHEMICALS

Sebastian Bray +44 20 3753 3011
Anthony Manning +44 20 3753 3092

BENELUX

Miel Bakker +44 20 3207 7808
Bram van Hijfte +44 20 3753 3000

SCANDINAVIA

Donata Leonova +44 20 3753 3156
Mikko Vanhala +44 20 3207 7818
Marco Weiss +49 40 350 60 719

UK

Thomas Baker +44 20 3753 3062
James Burt +44 20 3207 7807
Fabian De Smet +44 20 3207 7810
Marta De-Sousa Fialho +44 20 3753 3098
Jules Emmet +44 20 3753 3260
Katie Ferry +44 20 3753 3041
Robert Floyd +44 20 3753 3018
David Franklin +44 20 3465 2747
Karl Hancock +44 20 3207 7803
Sean Heath +44 20 3465 2742
Stuart Holt +44 20 3465 2646
James Hunt +44 20 3753 3007
James McRae +44 20 3753 3036
David Mortlock +44 20 3207 7850
Eleni Papoula +44 20 3465 2741
Bhavin Patel +44 20 3207 7926
Kushal Patel +44 20 3753 3038
Richard Payman +44 20 3207 7825

PARIS

Vincent Klein +33 1 58 44 95 09

CHEMICALS (cont'd)

Rikin Patel +44 20 3753 3080

METALS & MINING

Charlie Clark +44 20 3207 3133
Richard Hatch +44 20 3753 3070
Laurent Kimman +44 20 3465 2675
Michael Stoner +44 20 3465 2643

OIL & GAS

John Gleeson +44 20 3465 2716
Ilkin Karimli +44 20 3465 2684
Henry Tarr +44 20 3207 7827

UTILITIES

Oliver Brown +44 20 3207 7922
Andrew Fisher +44 20 3207 7937
Lawson Steele +44 20 3207 7887

TMT

TECHNOLOGY

Josep Bori +44 20 3753 3058
Georgios Kertsos +44 20 3465 2715
Tammy Qiu +44 20 3465 2673
Tej Sthankiya +44 20 3753 3099

MEDIA

Robert Berg +44 20 3465 2680
Keisi Hysa +44 20 3207 7817
Laura Janssens +44 20 3465 2639
Alastair Reid +44 20 3207 7841
Sarah Simon +44 20 3207 7830

TELECOMMUNICATIONS

David Burns +44 20 3753 3059
Nicolas Didio +44 20 3753 3091
Usman Ghazi +44 20 3207 7824
Laura Janssens +44 20 3465 2639
Abhish Mohapatra +44 20 3465 2644
Carl Murdock-Smith +44 20 3207 7918

THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838
Oyvind Bjerke +44 20 3753 3082
Steven Bowen +44 20 3753 3057
Xian Deng +44 20 3753 3014
Asad Farid +44 20 3207 7932
Robert Lamb +44 20 3465 2623
Paul Marsch +44 20 3207 7857
Saliha Shariff +44 20 3753 3097

UK (cont'd)

Christopher Pyle +44 20 3753 3076
Adam Robertson +44 20 3753 3095
Joanna Sanders +44 20 3207 7925
Mark Sheridan +44 20 3207 7802
George Smibert +44 20 3207 7911
Sam Stannah +44 20 3753 3157
Alexander Wace +44 20 3465 2670
Paul Walker +44 20 3465 2632

GERMANY

Michael Brauburger +49 69 91 30 90 741
Nina Buechs +49 69 91 30 90 735
André Grosskurth +49 69 91 30 90 734
Joerg Wenzel +49 69 91 30 90 743

SWITZERLAND, AUSTRIA & ITALY

Duncan Downes +41 22 317 1062
Andrea Ferrari +41 44 283 2020
Gianni Lavigna +41 44 283 2038
Jamie Nettleton +41 44 283 2026
Yeannie Rath +41 44 283 2029
Mirco Tieppo +41 44 293 2024

COO Office

Penella Neill +44 20 3207 7868
Greg Swallow +44 20 3207 7833

EQUITY TRADING

LONDON

David Hohn +49 40 350 60 761
Gregor Labahn +49 40 350 60 571
Lennart Pleus +49 40 350 60 596
Marvin Schweden +49 40 350 60 576
Omar Sharif +49 40 350 60 563
Philipp Wichmann +49 40 350 60 346
Christoffer Winter +49 40 350 60 559

LONDON

Christopher Brown +44 20 3753 3085
Edward Burlison-Rush +44 20 3753 3005
Richard Kenny +44 20 3753 3083
Chris McKeand +44 20 3207 7938

GENERAL MID CAP

MID CAP - DACH

Saravana Bala +44 20 3753 3043
Carl-Oscar Brendengen +44 20 3753 3160
Marta Bruska +44 20 3753 3187
Martin Comtesse +44 20 3207 7878
Charlotte Friedrichs +44 20 3753 3077
Gustav Fröberg +44 20 3465 2655
James Lettan +44 20 3753 3176
Alexander O'Donoghue +44 20 3207 7804
Gerhard Ordonas +44 20 3465 2635
Henrik Paganetty +44 20 3463 3140
Benjamin Pfannes-Varrow +44 20 3465 2620
Alexandra Schwegel +44 20 3753 3042

MID CAP - EU core

Beatrice Allen +44 20 3465 2662
Fraser Donlon +44 20 3465 2674
Christoph Greulich +44 20 3753 3119
Andreas Markou +44 20 3753 3022
Anna Patrice +44 20 3207 7863
Trion Reid +44 20 3753 3113
Jan Richard +44 20 3753 3029

MID CAP - UK

Joseph Barron +44 20 3207 7828
Calum Battersby +44 20 3753 3118
Robert Chantry +44 20 3207 7861
Sam Cullen +44 20 3753 3183
Ned Hammond +44 20 3753 3017
Omar Ismail +44 20 3753 3102
Edward James +44 20 3207 7811
Lush Mahendrarajah +44 20 3207 7896
Benjamin May +44 20 3465 2667
Anthony Plom +44 20 3207 7908
Eoghan Reid +44 20 3753 3055
Owen Shirley +44 20 3465 2731
Donald Tait +44 20 3753 3031
Sean Thapar +44 20 3465 2657

ECONOMICS

Florian Hense +44 20 3207 7859
Carsten Hesse +44 20 3753 3001
Kallum Pickering +44 20 3465 2672
Holger Schmieding +44 20 3207 7889

CRM

Megan Connolly +44 20 3753 3244
Laura Cooper +44 20 3753 3065
Beau Dibbs +44 20 3753 3048
Jessica Jarmyn +44 20 3465 2696
Madeleine Lockwood +44 20 3753 3110
Vikram Nayyar +44 20 3465 2737
Rita Pilar +44 20 3753 3066

CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821
Maz Gentile +44 20 3465 2668
Robyn Gowers +44 20 3753 3109
Dipty Jethwani +44 20 3207 7936
Ross Mackay +44 20 3207 7866
Stella Siggins +44 20 3465 2630
Lucy Stevens +44 20 3753 3068
Abbie Stewart +44 20 3753 3054

EVENTS

Charlotte David +44 20 3207 7832
Suzy Khan +44 20 3207 7915
Natalie Meech +44 20 3207 7831
Eleanor Metcalfe +44 20 3207 7834
Rebecca Mikowski +44 20 3207 7822
Sarah Weyman +44 20 3207 7801

LONDON (cont'd)

Ben Tappin +44 20 3753 3382
Ross Tobias +44 20 3753 3137
Robert Towers +44 20 3753 3262

ELECTRONIC TRADING

Jonas Doehler +44 40 350 60 391
Matthias Führer +49 40 350 60 597
Sven Kramer +49 40 350 60 347
Matthias Schuster +44 40 350 60 463



BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

Internet www.berenberg-us.com

E-mail: firstname.lastname@berenberg-us.com

EQUITY RESEARCH

GENERAL MID CAP - US

Samuel England +1 646 949 9035

HEALTHCARE

MED. TECH/SERVICES

Ravi Misra +1 646 949 9028

SPECIALTY PHARMACEUTICALS

Patrick R. Trucchio +1 646 949 9027

CAPITAL GOODS

Andrew Buscaglia +1 646 949 9040

LEISURE

Brennan Matthews +1 646 949 9024

INDUSTRIAL MATERIALS

Pareto Misra +1 646 949 9031

REAL ESTATE

Nate Crossett +1 646 949 9030

SHIPPING & TRANSPORTATION

Donald McLee +1 646 949 9026

SOFTWARE & IT SERVICES

Alexander Frankiewicz +1 646 949 9029

Gal Munda +1 646 949 9021

Joshua Tilton +1 646 949 9036

EQUITY SALES

SALES

Albert Aguiar +1 646 949 9218

Enrico DeMatt +1 646 949 9230

Nate Emerton +1 617 292 8211

Kelleigh Faldi +1 617 292 8288

Ted Franchetti +1 646 949 9231

Rich Harb +1 617 292 8228

Zubin Hubner +1 646 949 9202

Michael Kaye +1 646 949 9216

Jessica London +1 646 949 9203

Anthony Masucci +1 646 949 9217

SALES (cont'd)

Ryan McDonnell +1 646 949 9214

Emily Mouret +1 415 802 2525

Peter Nichols +1 646 949 9201

Kieran O'Sullivan +1 617 292 8292

Rodrigo Ortigao +1 646 949 9205

CORPORATE ACCESS

Adriane Klein +1 617 292 8202

Olivia Lee +1 646 949 9207

Robert Meyers +1 646 949 9215

Panthea O'Connell +1 646 949 9208

CRM

LaJada Gonzales +1 646 949 9213

Monika Kwok +1 646 949 9212

Stephanie Rieben +1 646 949 9240

EVENTS

Laura Hawes +1 646 949 9209

ECONOMICS

Mickey Levy +1 646 949 9099

Roiana Reid +1 646 949 9098

SALES TRADING

Ronald Cestra +1 646 949 9104

Mark Corcoran +1 646 949 9105

Michael Haughey +1 646 949 9106

Christopher Kanian +1 646 949 9103

Lars Schwartau +1 646 949 9101

Bob Spillane +1 646 949 9102