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EU ELECTIONS: BREATHE A LITTLE SIGH OF RELIEF

Berenberg Macro Flash

- **No dramatic upset**
- **Only modest gains for right-wing radicals**
- **Shift from traditional centre-right and centre-left to liberals and Greens**
- **Rise in participation shows: voters care about Europe and the EU**
- **Le Pen makes headlines in France – but Macron can cope with the mid-term blues**
- **Merkel at risk? Probably not (yet)**
- **ECB impact: Weidmann's chances to succeed Draghi rise a little**

A VERY EUROPEAN RESULT: MUDDLING THROUGH WITH A LITTLE EXCITEMENT IN PLACES

Defying the doomsayers once again, Europe continues to muddle through reasonably well. Judging by exit polls and first projections, the EU election will result in a more fragmented parliament with a slightly increased presence of Eurosceptic right-wing parties. Still, with up to 25% of the seats after 20% so far, the deeply divided right-wingers will remain far away from wielding any significant power at the European level. They will not be able to block significant decisions. Pro-European mainstream parties have probably won around 65% of the seats, with left-wing radicals stagnating around 10%.

Previous gains for populist parties at the national level as well as the challenges of Brexit, Trump, China and Russia, have elicited some counter-reaction of the pro-European mainstream. In some countries, the rise in voter turnout has benefited the radicals. In others, it has moderated their advance. All in all, Europe seems to be having a – largely healthy – debate about the future of European integration. Despite some dissatisfaction with the traditional centre-right and centre-left, the vast majority of voters in most EU countries cast their ballots for parties that, despite all their differences on substance, want to strengthen rather than weaken the European Union. According to a first estimate, turnout rose to around 50%, compared to 42.6% in 2014. If so, the turnout would be the highest in some two decades and would mark a reversal of a long trend of falling voters' participation.

Among the four mainstream groups, both the traditional centre-right (now around 173 instead of 221 seats) and the centre-left (147 instead of 191 seats) suffered significant losses whereas the staunchly pro-European Greens (71 instead of 50 seats) and the liberals (up to 102 seats including Macron's party from 67 before) gained votes relative to the 2014 European election. So far, the centre-right and centre-left jointly had a majority in the European parliament. In the future, they will need the liberals (or the Greens) as a third partner for such a majority. That will make it a little more cumbersome to find compromises. But striking such compromises at the European level is almost second nature for the various mainstream groups.



With close to 11% in Germany, roughly 14% in the Netherlands and some slippage to around 17.5% in Austria after a major scandal affecting the FPÖ, the right-wingers fell slightly short of expectations in some key countries. This largely offsets their advance in France where Marine Le Pen's party with 24.2% pushed President Emmanuel Macron's group with 22.4% into second place according to first projections.

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THE EUROPEAN IMPACT: WHO GETS THE JOBS?

On the European level, the focus in the next few days will be on the distribution of top jobs which EU leaders will try to settle at two summits on 28 May and 20-21 June. As the centre-right has remained the strongest single group in parliament, their German "Spitzenkandidat" *Manfred Weber* is holding up his claim to lead the new EU Commission. He will reportedly try to convince the leaders of the centre-left and the liberals to back him on Monday. However, after the losses for his centre-right and the gains for the liberals and Greens, he is facing an uphill struggle, especially as French President Emmanuel Macron seems to have other ideas.

If Weber still manages to succeed Jean-Claude Juncker at the helm of the European Commission, France would probably nominate Francois Villeroy de Galhau (or Sylvie Goulard) as the next ECB president. If Weber's bid fails, France may send Michel Barnier (or Sylvie Goulard?) to head the EU Commission. In that case, Germany may claim the ECB for Jens Weidmann, with Finland's Olli Rehn as a potential compromise candidate acceptable to virtually all euro member governments. In either case, Italy may ask for a consolation price, perhaps an Italian acceptable to Salvini as the EU's new foreign policy chief. If so, a candidate from a smaller EU member could succeed Donald Tusk as EU Council president. Other candidates to lead the next European Commission (or the European Council) include Belgium's current prime minister Charles Michel and the Danish EU Commissioner Margrethe Vestager.

IMPACT ON THE NATIONAL LEVEL

Germany: Merkel at risk? Probably not – or at least not yet

In the elections to the EU parliament, both parties backing chancellor Angela Merkel's coalition apparently suffered their worst-ever result in a nationwide vote, with the CDU/CSU down to roughly 27.5% and the SPD to a mere 15.5% according to first projections. The SPD suffered a double blow. On the national level, the party was overtaken by the Greens. In the separate state election in Bremen, which has been led by the SPD for more than 70 years, the SPD fell behind the CDU and is now at risk of losing its hold on power.

The badly battered SPD will enter a period of soul-searching during which the position of party chairwoman Andrea Nahles could be at risk. Left-wingers within the party will push for the SPD to walk out of the coalition with the CDU/CSU. If so, this would bring down chancellor Angela Merkel, who would likely be succeeded by her anointed successor Annegret Kramp-Karrenbauer at the helm of a new coalition with the Greens and the liberals. While it is difficult to predict the behaviour of the deeply unsettled SPD, we still consider it more likely that the party will remain in government for now. The SPD may simply postpone any decision about its future until after a



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string of state elections in East Germany in September and the scheduled mid-term review of its coalition with the CDU/CSU in late 2019.

France: mid-term blues for Macron

That Marine Le Pen's right-wing party advanced ahead of Macron's centrist party will make headlines. Still, the practical consequences would be minimal. With a solid majority in the French parliament, Macron can easily ride out some midterm blues. He still has a lot of time for his reforms to work before he is up for re-election in 2022. We expect Macron to continue his reform drive.

UK: Brexit party ahead – as expected

Roughly in line with previous opinion polls, Nigel Farage's Brexit Party may have gained 32% of the UK vote, well ahead of Labour (19%) and the very pro-European LibDems (almost 19%), with the Conservatives at a mere 12.5% according to projections by BritainElects.

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