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MACRO NEWS

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MACRO UPDATE: EU TOP JOBS, US-CHINA TRADE

Berenberg Macro Flash

EU – No progress on top jobs yet

Politics is rarely pretty. Having failed to break the deadlock on the distribution of top jobs in the EU in talks that lasted almost all night, EU leaders are meeting again this morning. So far, only three points seem to be somewhat clear.

First, the centre-right candidate Manfred Weber seems to be out of the race to succeed Jean-Claude Juncker as president of the European Commission.

Second, the influence of German Chancellor Angela Merkel to shape European decisions is beyond its peak. A proposal she had helped to broker with French President Emmanuel Macron on the side-lines of the Osaka G20 summit to install centre-left candidate Frans Timmermans as Commission president met heavy resistance from east-central Europe and a number of centre-right leaders.

Third, finding the successor to Mario Draghi at the European Central Bank does not seem to be the most pressing issue for EU leaders. It may even be delayed until the other issues are settled according to some reports.

At the margin, the last two points could reduce the chances of the Bundesbank's Jens Weidmann to be the next ECB president. As Weidmann is quite controversial in parts of Europe he would probably have to be part of a package deal involving a lot of mutual give and take. In a later decision only on the ECB, his chances may be slimmer. A delayed ECB decision could raise the prospects of compromise candidates such as Finland's Olli Rehn.

At this stage, the outcome looks open. Timmermans still seems to be in the running for Commission president; Margrethe Vestager from the Liberals may also still have a chance. Some reports suggest that, if no deal is struck over breakfast today, EU leaders will have to meet again on 14-15 July.

Filling top political vacancies is often highly contentious. It is also consequential. It shapes public perceptions of politics and policy results. The EU Commission president matters, especially in influencing the European policy agenda and in negotiations over trade issues with other countries (remember the Juncker-Trump truce from last July). Still, we should not overemphasise the impact. For example, key decisions on European reforms are ultimately the remit of the leaders of member states, not the European Commission.

US-China trade – easing off for now

US President Donald Trump and China's President Xi Jinping agreed to a truce at the G20 Summit this past weekend. Two key points were mostly in line with what markets had anticipated: 1) trade talks between the US and China have resumed; and 2) the US's threat to impose a 25% tariff of \$300bn of Chinese imports will be delayed – with no specific time-limit. As with previous such announcements, the detail is lacking. The US and China may thus have different takes on exactly what was agreed. Somewhat surprisingly, Trump said the US would lift the ban on US companies selling their equipment to Huawei – the Chinese telecom company that has been front and centre of the dispute over cyber-security.

Trump's previous behaviour suggests that we need to treat the news with some caution. The G20 at Buenos Aires in November 2018 ended on a positive note between Trump and Xi. However, the talks that followed broke down with both the US and China raising tariffs on each others' products thereafter. Progress to-



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wards an eventual resolution that ends with both sides removing the tariffs enacted since Trump became US president and perhaps going further with a broad US-China trade deal remains far off.

Nonetheless, we see a good chance that US-Chinese trade tensions can be contained going forward. A US economy that remains sufficiently strong is Trump's best bet for re-election. As US economy data has been softening of late, these recent positive steps on trade could be a sign that Trump is ready to ease up for a while to keep the economy on track. This could be positive for the European economy outlook. If it lowers that chance that Trump ratchets up trade-tensions with the EU, confidence of European producers and exports hurt by trade uncertainties can begin to recover modestly later this year.

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