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MACRO UPDATE: EU POLITICS, CHINESE GDP

Berenberg Macro Flash

EU POLITICS: CRUNCH TIME ON TUESDAY

If the European Parliament votes against Ursula von der Leyen as new President of the European Commission, the EU could be in for a rough summer. The vote scheduled for 17h London time on Tuesday could be tight. After the European Council nominated von der Leyen as part of a jobs package which also includes Christine Lagarde for the ECB, we put the probability that von der Leyen would be confirmed at at least 70%. Following her meetings with all major parliamentary groups last week, the tail risk that she could be rejected has not receded. While this could cause a major conflict between the European Council, that is the heads of EU states and governments, and the European Parliament, the economic impact would likely be very limited. As EU finance ministers have already officially nominated Lagarde for the ECB, Lagarde would remain in pole position to succeed Mario Draghi in November.

To be confirmed, von der Leyen needs at least 374 of the 747 votes that may be cast in parliament. She is backed by two mainstream groups, her own centre-right and the Liberals. Of the other two mainstream groups, the Greens have announced that they will vote against her, the Social Democrats are split. Whereas the German and Austrian Social Democrats are mong those who oppose the German candidate for reasons that are not easy to understand, the Spanish and Italian centre-left support her. As the vote is secret, the result will probably not fully follow party lines. Some centre-right members of the European Parliament (MEPs) may still be unhappy that the EU national leaders rejected their "Spitzenkandidat" Manfred Weber, some Liberals may hope that, if von der Leyen does not make it, the liberal Margrethe Vestager may have a chance again. If we assume that 95% of the 182 centre-right MEPS, 90% of the 108 liberal MEPs and half the 153 Social Democratic MEPs will vote for von der Leyen, she would get 347 votes. A few stray votes from the Green camp may take her to a total of 350 votes from the four mainstream groups in the EU parliament.

In addition, von der Leyen will most likely draw some votes from non-mainstream MEPs, for instance from the Italian 5Stars (14 MEPs), the Italian Lega (28 MEPs) and Poland's right-wing PiS (25 MEPs). As all EU national leaders (except Germany's Angela Merkel who was held back by her centre-left coalition partner) proposed von der Leyen, it would be no surprise if some MEPs from the parties backing the governments in Poland and Italy were to vote for her in parliament. If von der Leyen does not get enough votes from the mainstream, such support from the fringes will likely suffice to confirm her. It may also be her biggest headache. A suspicion that von der Leyen will rely on right.-wing votes could make the centre-left even more reluctant to vote for her. In a weird quirk, that – in turn - raises the risk that she will need non-mainstream support to make it.

In terms of substance, opposition from the Greens and centre-left against von der Leyen is somewhat self-defeating. In her discussions with EU parliamentarians, she has presented outlines of an agenda with more Green and centre-left elements than Merkel has ever espoused, for example a more ambitious CO2 reduction plan and Eurozone unemployment re-insurance scheme. That EU leaders would nominate a more centre-left candidate in case parliament says no seems unlikely. Ahead of the vote in parliament, von der Leyen will lay out her vision more clearly in a speech on Tuesday. According to some observers, the vote on von der Leyen could still be delayed to early September if the centre-left and Greens needed more time to make up their mind. Unlikely but not fully impossible.

CHINESE GDP: TRADE HURTS – BUT FOR HOW MUCH LONGER?

After a good start to the year with a 6.4% yoy in real GDP in Q1, Chinese growth slowed to 6.2% yoy in Q2, the least robust annual pace in 27 years. As the first country to report Q2 data, China has probably set a pattern for major economies of the world: Q2 data also look set to be softer in the US and Europe than those for Q1. In China, the impact of trade tensions, the resulting uncertainty in industry about future supply chains as well as some home-grown problems are retarding growth. While Q3 could remain soft, we look for a mix of some additional stimulus measures and some fading of trade tensions to stabilise Chinese growth thereafter. Ahead of the US election season and amid weaker growth in China, both sides have an incentive to strike a partial deal on trade and remove threats of further tariffs. For more, see our Global Outlook from 4 July 2019. In quarterly terms, Chinese growth in Q2 came in at 1.6% qoq, slightly above the 1.4% qoq pace of Q1. At the margin, some of China's monthly data for June such as a 6.3% yoy rise in industrial output and a 9.8% yoy gain in retail sales were slightly above expectations. However, the June data were partly driven by auto sales ahead of a change in regulations and may not be sustainable. The monthly data are too volatile to already herald an imminent upturn.

In nominal terms, Chinese GDP growth recovered from 7.7% yoy in Q1 to 8.3% yoy in Q2. At the same time, Chinese merchandise goods imports fell 3.9% yoy in Q2 according to separate trade data. While Chinese trade data are very volatile, this dichotomy between a still significant (if probably over-reported) gain in GDP and a decline in imports is unlikely to persist for long. Although Chinese growth is shifting more towards domestic consumption and away from trade and investment over time, an economy that continues to expand at a rate that remains fast by international comparison will suck in more imports again. Unless trade tensions escalate badly again in late 2019, we look for Chinese and global trade to rebound somewhat in late 2019.

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