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## MACRO NEWS

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### GERMAN ZEW: MORE CONCERNED THAN EQUITY MARKETS

#### Berenberg Macro Flash

##### German ZEW sentiment, February

	Expectations	Current assessment
<b>Actual</b>	<b>8.7</b>	<b>-15.7</b>
Previous	26.7	-9.5
Consensus	21.5	-10.0
Berenberg	22.0	-10.0

**Financial analysts are concerned about the outlook of the German economy amid the outbreak of the coronavirus.** According to the ZEW survey, analysts expect the pandemic to hit especially Germany's trade-dependent sectors such as automobile and electronics. China is Germany's second largest extra-EU trading partner and an integral part of global supply chains. We estimate that the corona effect will reduce German GDP growth by 0.1ppt in Q1.

**The first of Germany's main surveys to be released in February shows a setback after improving in four out of the previous five months.** Panellists downgraded their 6-month ahead expectations for Germany from 26.7 in January to 8.7 in February. The long-term average since 1992 is 18.3. The value for the ZEW sentiment indicators is the ppt difference between the percentage of positive ("improve") and negative ("worsen") replies to the survey. In February, 30.5% of panelists thought economic conditions would improve over the next six months in Germany (down from 37.7% in January) while 21.8% were pessimistic (up from 11.0% in January). 47.7% expected no change (51.3% in January).

**The ZEW survey somewhat contradicts relatively buoyant equity markets.** After an initial hit in the second half of January, when the coronavirus started to dominate the cover pages news, equity markets have more than recovered their losses in February so far. Significant and sustained changes in the ZEW survey often signal turns in the outlook 6 months in advance. In our view, the February correction is not such a signal yet. We share equity markets' expectations that the coronavirus impact on the global economy outside China will be mostly temporary and modest. It can postpone but will not derail the much anticipated rebound in global manufacturing. Yesterday, the WHO just noted the lowest number of new confirmed cases since January. Of course, the worse-than-expected drop in the ZEW highlights the risk that the economic impact of the coronavirus could be more persistent and significant since – according to the ZEW press release – “the economic development is rather fragile at the moment”. Stay tuned for the February PMIs published on Friday.

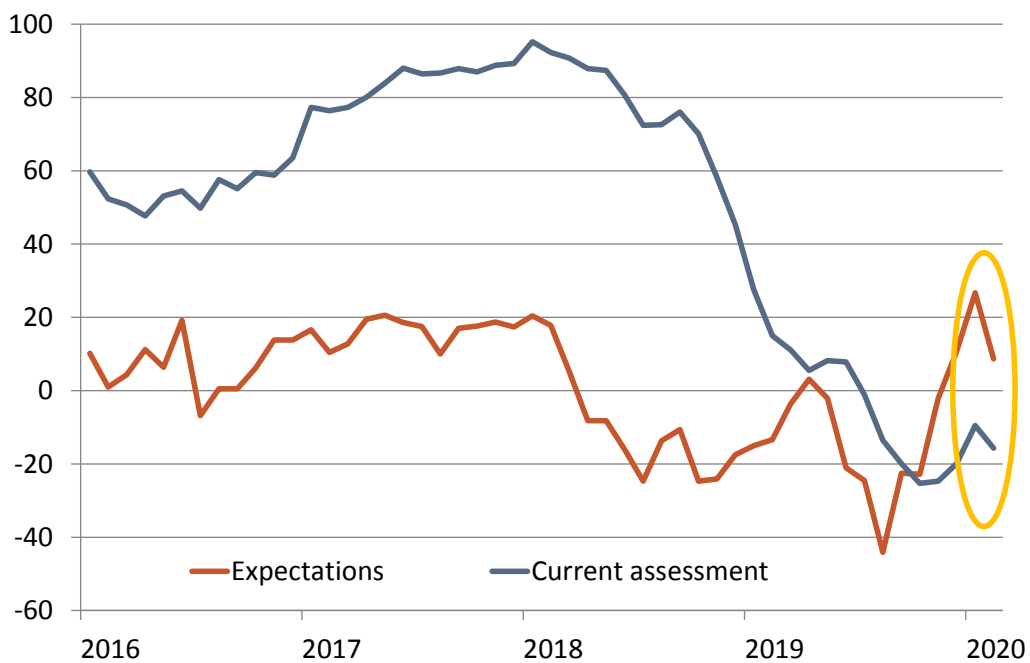
**Panellists also lowered their assessment of current conditions** from -9.5 in January to -15.7 in February, probably in response to the weak orders, production and retail data in December. Be-



## MACRO NEWS

cause other parts of the Eurozone are less exposed to global risks than Germany, the ZEW expectations index for the Eurozone as a whole fell less sharply from 25.6 in January to 10.4 in February.

Chart 1: German ZEW expectations versus current assessment

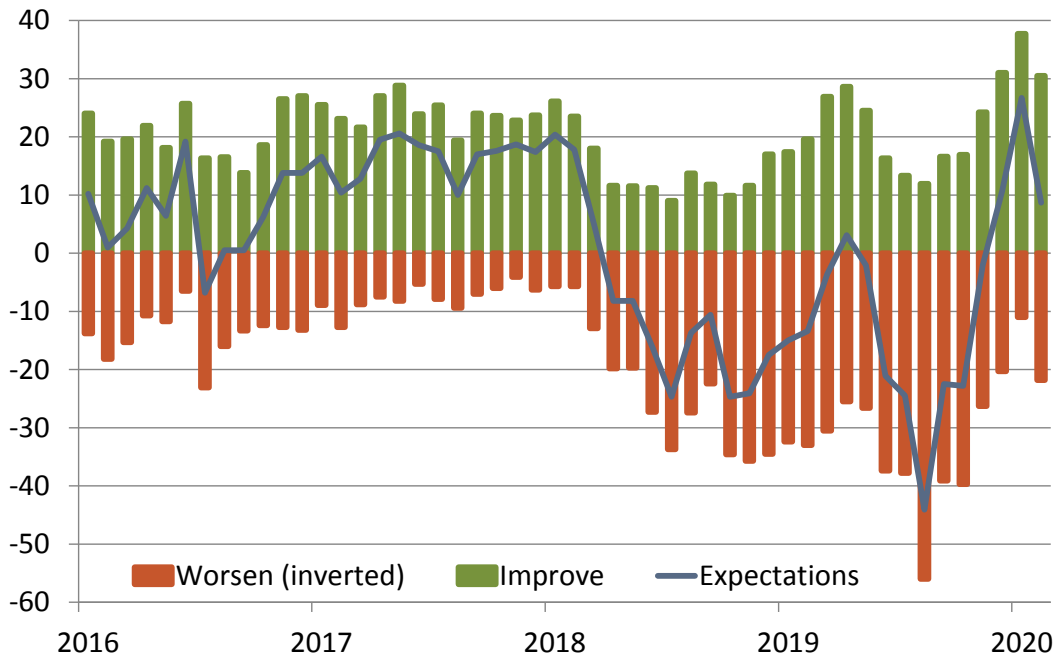


Source: ZEW



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**Chart 2: Optimists outnumber pessimists, but significantly less so**



The value for the ZEW sentiment indicators is the ppt difference between the percentage of optimists ("improve") and pessimists ("worsen") among panellists. Source: ZEW

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