



Holger Schmieding, Chief Economist | [Holger.schmieding@berenberg.com](mailto:Holger.schmieding@berenberg.com) | +44 20 3207 7889

## **POLITICAL UPDATE: US RISKS, EUROPEAN MIGRANT CRISIS, PUTIN, MERKEL**

### Berenberg Macro Flash

#### **US POLITICS: WATCH THE PROTECTIONIST RISKS**

Clinton extends her lead over Sanders and looks set to be the Democratic nominee; Trump wins four of five primaries and edges closer to the Republican nomination despite losing Ohio to Kasich. Bookmakers and electronic markets suggest that Clinton is the clear favourite to be the next US president. Trump is a divisive candidate. The possibility that the Republican convention in July in Cleveland may still be contested, that is be a brawl rather than a coronation, could also help Clinton in the subsequent campaign. Still, as Trump has proven to be an excellent campaigner, the probability of President Trump is clearly not zero. What could US politics mean for Europe?

The US is the land of checks and balances. In recent decades, presidents have found it difficult to get major policy changes through an ever more bitterly divided Congress. That limits the potential for economic reforms as well as for the economic damage any president could do. However, the administration plays a major role in one issue that is very relevant for export-oriented Europe: trade policy. As in Europe, US populists from the left and the right usually agree on one thing: they don't like free trade, which happens to be a major source of the wealth of nations. Defending herself against left-wing Sanders, Clinton has tacked somewhat in that direction in her campaign, coming out against the trade agreement with Asia that still needs to be ratified by the US Congress. Whether she would conclude the TTIP trade agreement with Europe is an open question. Quite possible given her international experience, but unclear. What a president Trump would do is anybody's wild guess. Judging by his very protectionist comments (punitive tariffs on China, Mexico and the like), concluding or pushing Congress to ratify a free trade agreement with Europe may not be high on his agenda, to put it mildly.

Would that matter? Yes. Protectionism is bad. And if the US sets a bad example, it could easily spread more widely. Protectionist policies would hurt many emerging markets and export-oriented Europe much more than the US. The TTIP negotiations between the US and Europe are difficult anyway. A US election campaign in which populists make the headlines is not exactly helpful. For the Western world, failing to conclude and ratify TTIP would be a missed opportunity of historic proportions. With TTIP, the US and Europe would not only open up further significant opportunities for mutual trade. They would de facto set sensible standards for global trade. If the US and Europe don't do that soon, setting such standards to ease global trade will become ever more difficult with the rise of China and other big emerging markets. If Europe and the US miss it now, the opportunity may not arise again.

#### **EUROPEAN MIGRANT CRISIS: EDGING TOWARDS A SOLUTION – OR TWO SOLUTIONS?**

The migrant crisis poses a more serious challenge to the political cohesion and the economic future of Europe than the euro crisis ever did. The severe losses for German chancellor Merkel's CDU at state elections last Sunday, the impact of the migration issue on the Brexit debate and the sheer level of political noise across much of Europe illustrate the risks. However, the unpleasant headlines are no longer very much about migrants actually arriving in core Europe. The inflow has slowed down sharply in the last four weeks. Instead, the debate is now about how to make this new situation sustainable.



**BERENBERG**  
PARTNERSHIP SINCE 1590

## MACRO NEWS

Our best guess is that Europe will keep the inflow of migrants at a manageable level this year while still allowing genuine refugees to enter and stay in Europe. It will likely be a mix of the “Austrian” approach (border closures), the “German” approach (deal with Turkey) and some help for Greece to cope with the backlog of migrants stranded on its soil. If the migrant issue fades somewhat from the headlines in coming months, the political tensions in Europe may also recede a little, hopefully well ahead of the Brexit referendum.

The Balkan route for migrants has been largely closed at the Greek-Macedonian border for the last three weeks. While migrants are trying to find ways around that, border controls elsewhere will be stepped up in response, severely limiting the number of migrants who make it to their preferred destinations, Germany and Austria. The headline-grabbing scenes of migrants stranded at borders are ugly. But over time, these scenes may signal to would-be migrants with no clear claim for asylum status in Europe that it is no longer worth trying to come.

Striking a deal with Turkey at the EU summit on 17-18 March so that Turkey reduces the outflow of migrants and takes back all those who have no legitimate claim to asylum will be difficult. Cyprus objects to the planned talks on potential Turkish EU membership; many countries are uneasy about offering visa-free travel to Turks who might then look for a job rather than a vacation in Schengenland. “Turkey” could also turn into an issue in the Brexit debate. Still, chances are that the EU will – in time honoured fashion – find some imperfect but half-workable deal with Turkey in the end. Otherwise, it would be more of the “Austrian” approach.

### **PUTIN: NO LONGER A SPOILER IN SYRIA?**

Having added to the ghastly violence in Syria by shoring up the Assad regime against somewhat moderate Sunni rebels, Putin’s partial troop pull-out now offers a chance to finally freeze the conflict. If so, this could be one the most important developments for the region – and Europe – this year. After the heavy-handed Russian intervention, Russia and its Syrian protégé have a stronger bargaining position than before. But with reduced Russian support, Assad probably is in no position to actually win. If the main war between the Assad regime and those who rebelled against him can be frozen, it would become easier to (1) take on the brutal IS extremists in both Syria and Iraq and (2) to eventually broker some more lasting political settlement, possibly along Lebanese lines with a very weak central state and serious power for various religious and ethnic groups within the country. Over time, this might even enable some of the refugees to return home.

The semi-truce in Syria remains very fragile. Putin may change his mind. Attempts to freeze the conflict or even broker some half-stable solution over time may founder. But despite all these caveats, the Geneva peace talks and Putin’s decision to scale back Russia’s direct fighting role in Syria offer a rare ray of hope.

### **GERMAN POLITICS: NEVER UNDERESTIMATE MERKEL**

How much has German chancellor Merkel been weakened by the losses for her CDU and the surge in support for the anti-foreigner AfD in German state elections last Sunday? Interestingly, observers outside Germany seem to see a bigger problem for her than most observers in Berlin. That may suggest two things: First, on the European scene, Merkel may find it a slightly more difficult to get support for her policies, including her approach to tackle the migrant crisis primarily by striking a deal with Turkey. Second, foreign observers may underestimate her strength at home.



**BERENBERG**

PARTNERSHIP SINCE 1590

## MACRO NEWS

Our base case is and remains that Merkel will stay in office until – and probably beyond – Germany’s next national election in September 2017. With a significant slowdown in the inflow of migrants and refugees, the single-issue protest party AfD will probably lose support. While Merkel’s policies have opened up more room for a right-wing protest party to establish itself, she has made it much easier for the centre-left Greens to potentially join her in government in 2017. Also, chances are that the liberal FDP could make it back into the Bundestag. The result may well be that Merkel’s CDU/CSU, although possibly losing some support to the AfD, may have more coalition options in 2017 than in 2013.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient’s procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com)