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EU REFERENDUM: PANAMA SCANDAL HITS POLLS – OBAMA TO THE RESCUE

Berenberg Macro Flash

The recent terror attacks in Brussels and David Cameron's hesitant reaction to the Panama leaks have led to a rise in support for a Brexit. Should we be worried? Probably not much. Firstly, this is not the first time negative news have affected the polls (see chart). Secondly, recent history tells us that these shifts usually prove to be temporary. On this occasion, we expect history to repeat itself.

It is easy for voters to express frustration with the establishment in opinion polls. But when it really counts at the polling booths, risk aversion and status quo bias may still prevail. Whilst recent trends serve as a reminder of why Brexit is the key risk to the UK and to Europe in 2016, we keep our chance of a Brexit at 35%. So far, the recent rally for a Brexit is actually weaker than on the previous four occasions when the "Leave" camp temporarily increased their momentum. In the five polls conducted since the Panama Papers leaked, the scores are as follows: two wins for Remain, one win for Leave and two draws. Their lead might have narrowed, but Remain are still ahead.

Please see our [recent commentary](#) that compares telephone and online polls in detail.

So far, the standings for all 2016 polls are as follows:

- 60% of the polls suggest a vote to 'remain'
- On average, the 'remain' camp is ahead by 3 points
- The average of the telephone polls shows the 'remain' camp ahead by 12 points
- The average of the online polls shows an even split
- The percentage of undecided votes is higher in the online polls (18%) versus the telephone polls (12%)

The official Leave and Remain campaigns were announced last week - 'Vote Leave' and 'Britain Stronger in Europe' respectively. In the absence of any further negative shocks which could trigger another knee-jerk rise in support of a Brexit, we expect Remain to nudge ahead again and sustain a modest lead until the vote on June 23. After all, the economic arguments and campaign fundamentals are strongly in favour of Remain.

The "Leave" camp still has no credible vision for how a non-EU Britain would look. Any offerings such as the 'Canada' deal that popular London mayor and Conservative politician Boris Johnson temporarily ran with have all been exposed as worse alternatives to EU membership. The 'Canada deal' would be little more than a second rate 'Swiss-style' deal that would not include access to the services market. That would handicap the City of London. These 'alternatives' surface from time to time before quickly becoming political hot potatoes. This trend is likely to continue. The out camp have yet to come up with a credible alternative that provides equivalent economic upside to EU membership and offers more political autonomy. And chances are, they won't.

As we showed in our [detailed analysis](#) of the so called 'options', all that are currently tabled represent both an economic and political loss for the UK, albeit to varying degrees. Remain, on the other hand, has Cameron's renegotiated deal which represents a tangible improvement of the UK's position in the EU if the UK votes to stay. If that argument fails to convince, the "Remain" camp can leverage the status quo bias and



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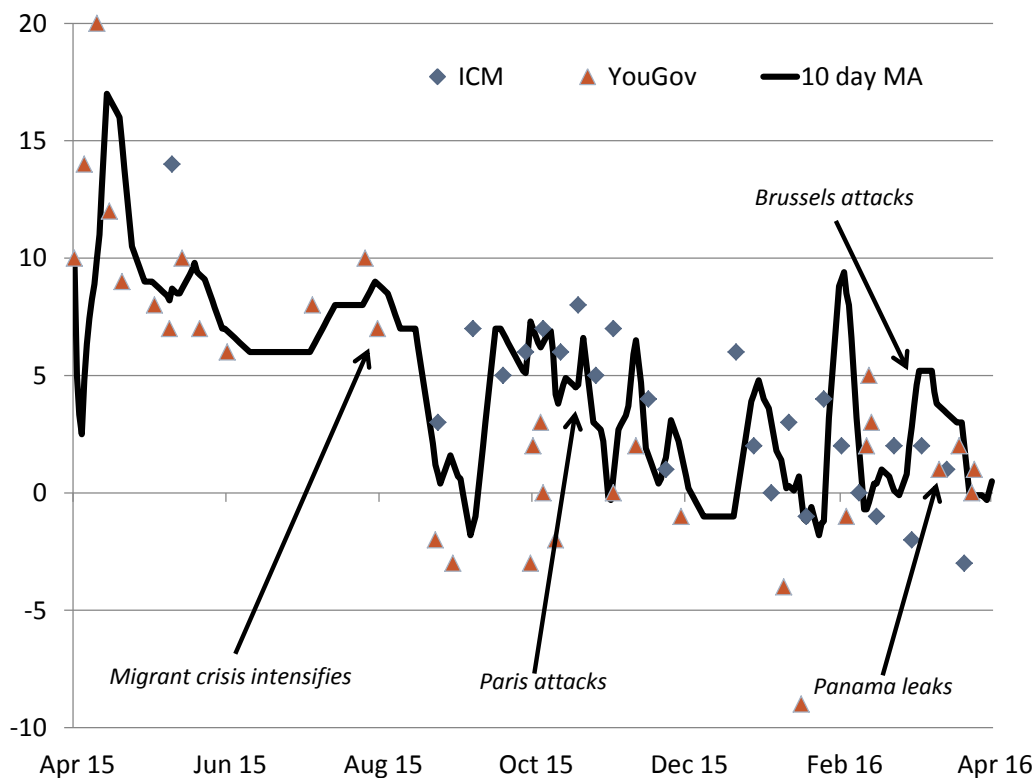
use the fear of the unknown if needed. The UK has barely finished a long and enduring recovery from the second worst economic crisis in modern history. A Brexit would risk putting the UK back to square one.

Likewise, when it comes to who's backing each campaign, Remains win again. Mayor of London Boris Johnson has a lot of political pull in the UK and is a force to be reckoned with. But he pales against the long list of domestic and international heavy-weights behind Remain. Domestically, "Remain" supporters include Prime Minister Cameron, Chancellor Osborne, Bank of England Governor Carney, plus a long list of ex-Prime Ministers and Chancellors. Internationally, Remain is supported by the whole of the EU, the IMF, the World Bank and the US.

Later this week, US President Obama will visit the UK to argue for the UK to stay in the EU. He will probably go beyond the economic line to something more fundamental: in America's eyes, leaving the EU would reduce the global influence of the UK. Beyond that, Obama might play a more subtle but nonetheless powerful role in influencing voters. Whereas historically, the centre-left in the UK, led primarily by Labour, has remained strongly in support of increasing UK links with the EU, the current Labour party led by Jeremy Corbyn, whilst wanting to keep the UK in the EU, has been far less vocal. Obama may be able to fill this vacuum and encourage some of the undecided voters on the centre-left that might otherwise hesitate to support centre-right Cameron.

The bottom line: Remain have a stronger argument and a better team. Combined with the British precedent for voting pragmatically when it comes down to economic issues, a Brexit is not likely. We see a 35% Brexit risk.

Chart 1: Tracking major polls shows how votes shift with events that trigger populist sentiment



Source: ICM, YouGov, ConRes, Ipsos Mori, Survation, ORB and Berenberg calculations



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