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MACRO UPDATE: GREECE, FED, BREXIT CONTAGION RISKS, EUROZONE AND UK GDP

Berenberg Macro Flash

GREECE: A VERY SUBOPTIMAL STEP FORWARD

Last night, the Greek parliament approved a package of pension reforms and tax increases. The government managed to mobilise its majority of 153 out of 300 seats in parliament. This takes Athens one step closer to concluding the long-delayed first review of its €86bn bailout programme and securing the next tranche which Greece will need no later than July. This afternoon, Eurozone finance ministers will discuss Greece. We expect them to note significant progress but withhold final judgement until Greece has passed some further actions including "contingency measures" to automatically close a potential future funding gap if economic growth and tax revenues fall short. Also, Eurozone finance ministers may start a discussion about what kind of debt relief to offer Greece through even lower interest rates and longer maturities for European support loans to Greece without cutting the nominal amount of these loans. A "haircut" remains unlikely.

In two respects, this is a positive development. First, it raises chances that the review of the third bailout programme agreed after Greece's futile and costly confrontation with creditors last summer can be wrapped up by late May. If so, reduced uncertainty about the fate of Greece may allow the Greek economy to escape from the renewed recession into which Tsipras/Varoufakis had pushed the country in early 2015. Second, it could help to keep the Greek issue out of the headlines ahead of the Brexit referendum on 23 June.

Unfortunately, the Greek package once again relies too much on hikes in taxes and social security contributions instead of pro-growth reforms and cuts in entitlements that have become unaffordable due to Greek relapse into recession under Tsipras/Varoufakis. To the dismay especially of the IMF, the Greek government continues to see higher taxes as the politically least difficult way forward. For the outlook for investment, job creation and trend growth in Greece, that is not exactly good news, to put it mildly.

BREXIT COPYCAT RISKS

Would other EU members follow a Brexit? If a majority of Britons were to vote for leaving the EU on 23 June, that would be the top question for Europe thereafter. An Ipsos Mori poll reported in the FT and other media finds that 58% of respondents in Italy and 55% in France also want a referendum on staying in the EU. All in all, 45% of the more than 6,000 people surveyed in Belgium, France, Germany, Hungary, Italy, Poland, Spain and Sweden were in favour of their own referendum, with a third wanting to vote against staying in the EU (Reuters). The share of the anti-EU vote would range from 48% (Italy) and 41% (France) to 26% in Spain among the major Eurozone members.

We do not expect any other of the major countries to leave the EU after a Brexit. First, getting a referendum on EU membership would not be easy. In the UK, it was prime minister Cameron's decision to schedule such a referendum. Also, France and Italy as well as countries such as Austria and the Netherlands where right-wings populists are currently doing well in opinion polls have historically much closer ties to the Eu-

ropean project than the UK. That would reduce the risk that anti-EU populists would prevail in the unlikely case of a referendum in any of these countries. But this is exactly the issue we would have to watch closely after the Brexit referendum. We continue to see a 35% Brexit risk.

US FED TO DELAY RATE HIKE TO JULY

Friday's mediocre US labour market report was not a major surprise. With a little lag, the labour market is following the softening in US economic growth in late 2015 and early 2016 in the wake of the concerns about China and other emerging markets. The current job gains suffice to support consumer spending growth of more than 2% going forward. With concerns about China and emerging markets less acute and the knee-jerk drop in energy-related investment likely to ease shortly as well, we expect US growth to rebound to annualised rates of close to 2.5% later this year. Still, the less stellar employment gains will probably tilt the balance at the Fed against a June rate hike. As noted in our *Forecasts at a Glance* last Friday, we shift our call for the next 25bp increase in Fed rates from June to July. We look for a further 25bp move in December.

GERMAN ORDERS AND EUROZONE GROWTH

The Eurozone had a surprisingly good start into 2016. The 1.9% monthly gain in German factory orders in March brings the quarterly advance to 0.5% qoq. This is the second quarterly increase after a mostly China/emerging market related drop in Q3 last year. Orders from non-Eurozone countries rebounded strongly in Q1 by 2.6% qoq.

Monthly data are too volatile to read much into them. But after the unexpectedly robust gain in Eurozone GDP in Q1 of 0.55% qoq, the German orders data suggest that core European industry will continue to benefit from the easing of concerns about China and emerging markets. We look for somewhat softer Eurozone growth in Q2, a payback for the unusually strong Q1 result, before the region will likely settle around growth rates of 0.4% qoq and 1.6% annualised from mid-2016 onwards. As described in Friday's forecast update, the encouraging Q1 result has lifted our Eurozone GDP call for 2016 from 1.3% to 1.5%. Of course, all bets for significant growth in the second half of this year would be off in case of a Brexit, which could hurt the UK significantly and also spread uncertainty across much of the Eurozone.

UK GROWTH LIKELY TO SNAP BACK IN Q3 AFER BREXIT JITTERS IN Q2

The pace of UK growth is softening a little more than we had previously expected ahead of the EU referendum on June 23. A trio of PMI data below expectations for April indicate a notable slowdown in domestic demand as consumers and business delay consumption and investment until the UK's EU fate has been decided. But underlying fundamentals are sound. As long as the UK votes to stay in the EU and thus avoids the potential Brexit turbulences, we expect a snapback in demand and a recovery in confidence after the vote. In line with this view, we have revised our quarterly growth profile: reducing Q2 growth to 0.3% from 0.4% and increasing Q3 to 0.6% from 0.5% qoq. The annual rate of growth for 2016 as a wholeHol remains unchanged at 1.9% (see *Forecasts at a Glance*).

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