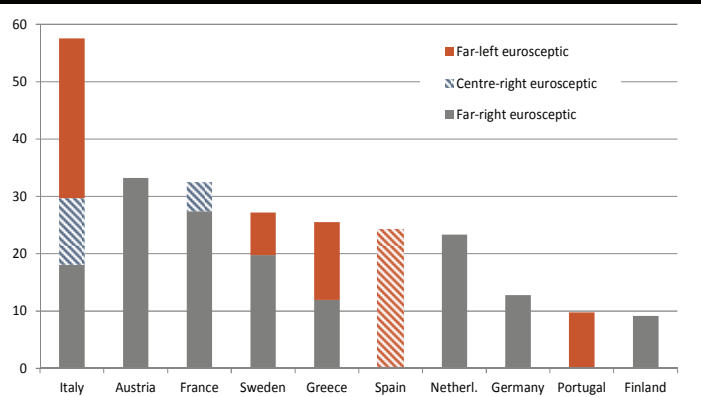


10 June 2016

## The Brexit risk: a domino effect across Europe?

Support for anti-EU or euro-sceptic parties in national opinion polls, %



Italy: Lega Nord, Fdi, Forza Italia (striped), Five Stars; Austria: FPÖ; France: Front National, DLF; Greece: Golden Dawn, LAEN, EE, KKE, PE; Sweden: Sweden Democrats, Left Party; Netherlands: PVV, SGP; Spain: Unidos Podemos; Germany: AfD; Portugal: BE; Finland: PS; relevant parties only; average of last five polls; striped means position somewhat unclear. Source: national opinion polls, Wikipedia.

- **What if?** Could the precedent of a Brexit trigger domino effects across Europe, putting the cohesion of the European Union (EU) or the eurozone at serious risk? If the UK votes to leave the EU on 23 June, that would be the main risk to watch for global markets and the global economy. We see a 30% probability of a Brexit.
- **The siren songs of populism:** In the same way in which many people in the US rail against the “detached elite” and the “Washington insiders”, the EU is under attack from right- and left-wing populists. We see a similar backlash against immigration and other perceived indignities of globalisation in the US and in Europe, in Sweden and Denmark (both non-euro) as well as in euro members Finland and Austria. It is not EU- or euro-specific.
- **Fodder for the right:** A UK vote to leave the EU would encourage right-wing populists across Europe who also protest vehemently about immigration. It may also embolden those libertarians who perceive the EU as a socialist conspiracy against unfettered capitalism or, in a milder version, view the common rules that underpin the common market as unacceptably burdensome despite a lack of serious evidence that this is the case to an economically relevant extent. In many European countries, EU- or euro-scepticism is largely an issue for the far right.
- **Confusion on the left:** A Brexit would be seen across Europe as a victory for the likes of Nigel Farage and ex-London mayor Boris Johnson. This would question the world view of some left-wing populists who perceive the EU as a capitalist conspiracy against the oppressed workers of Europe, or so they claim. A Brexit would make it more difficult for the ultra-left to portray the EU as an instrument of “Anglo-Saxon capitalism”.
- **Euro crisis countries look safe:** We see little risk that a Brexit would seriously change the political discourse in Greece, Portugal or Spain, where austerity has fuelled some left-wing backlash against the EU. With the exception of Greece, austerity is over. In addition, the UK is rarely seen as a relevant example to follow in these countries.
- **French follies?** The ultra-right Front National threatens to pull the country out of the euro; the small centre-right DLF is also somewhat euro-sceptic. Parts of the radical left want the ECB to fund socialist policies without wanting to leave the euro. However, polls suggest that the pro-euro centre-right Republicans will win the 2017 elections.
- **Italy is the country to watch:** First, Italy matters because of its size (the fourth-largest in the EU) and its debt (133% of GDP). Second, since the demise of Silvio Berlusconi, Italy lacks a strong centre-right that could take over from Matteo Renzi’s centre-left. Third, if Renzi’s government were to fall, unlikely but not impossible if he loses the referendum on constitutional reform this October, parties with more than 50% support in current opinion polls may campaign in hypothetical early elections with a promise to hold a referendum on euro membership. That could rattle markets. But Renzi remains in the pole position. That Italy could be governed by an anti-euro coalition still looks unlikely.

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# Contacts: Investment Banking



**BERENBERG**  
PARTNERSHIP SINCE 1590

www.berenberg.com

e-mail: firstname.lastname@berenberg.com / e-mail US: firstname.lastname@berenberg-us.com

## JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

### EQUITY RESEARCH

#### AEROSPACE & DEFENCE

Andrew Gollan +44 20 3207 7891  
Charlotte Keyworth +44 20 3753 3013  
Ross Law +44 20 3465 2692

#### AUTOMOTIVES

Adam Hull +44 20 3465 2749  
Paul Kratz +44 20 3465 2678

#### BANKS

Adam Barrass +44 20 3207 7923  
James Burbridge +44 20 3753 3014  
James Chappell +44 20 3207 7844  
Andrew Lowe +44 20 3465 2743  
Eoin Mullany +44 20 3207 7854  
Peter Richardson +44 20 3465 2681  
Jonathan Sharpe +44 20 3753 3031

#### BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719  
Batuhan Karabekir (EM) +44 20 3465 2631  
Adam Mizrahi +44 20 3465 2653

#### BUSINESS SERVICES, LEISURE & TRANSPORT

Roberta Ciaccia +44 20 3207 7805  
Najet El Kassir +44 20 3207 7836  
Stuart Gordon +44 20 3207 7858  
Simon Mezzanotte +44 20 3207 7917  
Josh Puddle +44 20 3207 7881

#### CAPITAL GOODS

Sebastian Koenne +44 20 3207 7856  
Philippe Lorrain +44 20 3207 7823  
Rizk Maldi +44 20 3207 7806  
Horace Tam +44 20 3465 2726  
Simon Toennesen +44 20 3207 7819

### EQUITY SALES

#### SPECIALIST SALES

#### AEROSPACE & DEFENCE

Bruna Zugliani +44 20 3207 7818

#### AUTOMOTIVE & THEMATICS

Chris Armstrong +44 20 3207 7809

#### BANKS & DIVERSIFIED FINANCIALS

Iro Papadopoulou +44 20 3207 7924

#### CONSUMER STAPLES

Rupert Trotter +44 20 3207 7815

#### CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

#### HEALTHCARE

Frazer Hall +44 20 3207 7875

#### MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

#### SALES

#### BENELUX

Miel Bakker +44 20 3207 7808  
Martin de Laet +44 20 3207 7804  
Alexander Wace +44 20 3465 2670

#### GERMANY

Michael Brauburger +49 69 91 30 90 741  
Nina Buechs +49 69 91 30 90 735  
André Grosskurth +49 69 91 30 90 734  
Florian Peter +49 69 91 30 90 740  
Joerg Wenzel +49 69 91 30 90 743

#### CHEMICALS

Sebastian Bray +44 20 3753 3011  
Andrew Heap +44 20 3207 7918  
John Klein +44 20 3207 7930

#### CONSTRUCTION

Lush Mahendrarajah +44 20 3207 7896  
Robert Muir +44 20 3207 7860  
Olivia Peters +44 20 3465 2646  
Michael Watts +44 20 3207 7928

#### ENERGY

Yuriy Kukhtanych (EM) +44 20 3465 2675

#### FOOD MANUFACTURING AND H&PC

Yordana Mavrodieva +44 20 3207 7817  
Fintan Ryan +44 20 3465 2748  
James Targett +44 20 3207 7873

#### FOOD RETAIL

Batuhan Karabekir (EM) +44 20 3465 2631

#### GENERAL MID CAP - EU

Gunnar Cohrs +44 20 3207 7894  
Martin Comtesse +44 20 3207 7878  
Flavien Hias +44 20 3465 2693  
Anna Patrice +44 20 3207 7863  
Benjamin Pfnannes-Varrow +44 20 3207 2620  
Simona Sarli +44 20 3207 7834  
Julia Scheuffer +44 20 3753 3016

#### GENERAL MID CAP - UK

Robert Chantry +44 20 3207 7861  
Sam England +44 20 3465 2687  
Ned Hammond +44 20 3753 3017  
Benjamin May +44 20 3465 2667  
Owen Shirley +44 20 3465 2731

#### UK

Alexandra Clément +44 20 3753 3018  
Fabian De Smet +44 20 3207 7810  
Toby Flux +44 20 3465 2745  
Karl Hancock +44 20 3207 7803  
Sean Heath +44 20 3465 2742  
David Hogg +44 20 3465 2628  
Peter Kaineder +44 20 3753 3062  
James Matthews +44 20 3207 7807  
David Mortlock +44 20 3207 7850  
Eleni Papoula +44 20 3465 2741  
Bhavin Patel +44 20 3207 7926  
Richard Payman +44 20 3207 7825  
Joanna Sanders +44 20 3207 7925  
George Smibert +44 20 3207 7911  
Anita Surana +44 20 3207 7855  
Paul Walker +44 20 3465 2632

#### FRANCE

Thibault Bourgeat +33 1 5844 9505  
Alexandre Chevassus +33 1 5844 9512  
Dalila Farigoule +33 1 5844 9510  
Clémence Peyraud +33 1 5844 9521  
Benjamin Voisin +33 1 5844 9507

#### SWITZERLAND, AUSTRIA & ITALY

Andrea Ferrari +41 44 283 2020  
Carsten Kinder +41 44 283 2024  
Gianni Lavigna +41 44 283 2038  
Jamie Nettleton +41 44 283 2026  
Benjamin Stillfried +41 44 283 2033

#### GENERAL RETAIL

Conrad Bartos +44 20 3753 3053  
Michelle Wilson +44 20 3465 2663

#### HEALTHCARE

Scott Bardo +44 20 3207 7869  
Jakob Berry +44 20 3465 2724  
Alistair Campbell +44 20 3207 7876  
Graham Doyle +44 20 3465 2634  
Klara Fernandes +44 20 3465 2718  
Tom Jones +44 20 3207 7877  
Louise Pearson +44 20 3465 2747  
Laura Sutcliffe +44 20 3465 2669

#### INSURANCE

Trevor Moss +44 20 3207 7893  
Emanuel Musio +44 20 3207 7916  
Iain Pearce +44 20 3465 2665  
Sami Taipalus +44 20 3207 7866

#### LUXURY GOODS

Zuzanna Pusz +44 20 3207 7812

#### MEDIA

Robert Berg +44 20 3465 2680  
Laura Janssens +44 20 3465 2639  
Alastair Reid +44 20 3207 7841  
Sarah Simon +44 20 3207 7830

#### METALS & MINING

Alessandro Abate +44 20 3753 3029  
Fawzi Hanano +44 20 3207 7910  
Yuriy Vlasov +44 20 3465 2674

#### SCANDINAVIA

Frederik Angel +44 20 3753 3055  
Marco Weiss +49 40 350 60 719

#### CRM

Jessica Jarmyn +44 20 3465 2696  
Edwina Lucas +44 20 3207 7908  
Greg Swallow +44 20 3207 7833

#### CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821  
Jennie Jiricny +44 20 3207 7886  
Stella Siggins +44 20 3465 2630

#### EVENTS

Laura Hawes +44 20 3753 3008  
Suzy Khan +44 20 3207 7915  
Charlotte Kilby +44 20 3207 7832  
Natalie Meech +44 20 3207 7831  
Ellen Parker +44 20 3465 2684  
Sarah Weyman +44 20 3207 7801

#### SALES TRADING

#### HAMBURG

Tim Storm +49 40 350 60 415

#### PARIS

Vincent Klein +33 1 58 44 95 09  
Antonio Scutto +33 1 58 44 95 03

#### REAL ESTATE

Kai Klose +44 20 3207 7888  
Tina Munda +44 20 3465 2716

#### TECHNOLOGY

Jean Beaubois +44 20 3207 7835  
Georgios Kertsos +44 20 3465 2715  
Gal Munda +44 20 3465 2746  
Tammy Qiu +44 20 3465 2673

#### TELECOMMUNICATIONS

Ondrej Cabejssek (EM) +44 20 3753 3071  
Usman Ghazi +44 20 3207 7824  
Siyi He +44 20 3465 2697  
Laura Janssens +44 20 3465 2639  
Paul Marsch +44 20 3207 7857  
Michael Summerville +44 20 3207 7914

#### THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838  
Chris Armstrong +44 20 3207 7809  
Asad Farid +44 20 3207 7932

#### TOBACCO

Jonathan Leinster +44 20 3465 2645

#### UTILITIES

Robin Abrams +44 20 3465 2635  
Andrew Fisher +44 20 3207 7937  
Lawson Steele +44 20 3207 7887

#### ECONOMICS

Florian Hense +44 20 3207 7859  
Carsten Hesse (EM) +44 20 3753 3001  
Kallum Pickering +44 20 3465 2672  
Holger Schmieding +44 20 3207 7889

#### LONDON

Mike Berry +44 20 3465 2755  
Stewart Cook +44 20 3465 2752  
Mark Edwards +44 20 3753 3004  
Tristan Hedley +44 20 3753 3006  
Peter King +44 20 3753 3139  
Christoph Kleinasser +44 20 3753 3063  
Chris McKeand +44 20 3207 7938  
Simon Messman +44 20 3465 2754  
AJ Pullyen +44 20 3465 2756  
Paul Somers +44 20 3465 2753

#### EQUITY TRADING

#### HAMBURG

David Hohn +49 40 350 60 761  
Gregor Labahn +49 40 350 60 571  
Lennart Pleus +49 40 350 60 596  
Marvin Schweden +49 40 350 60 576  
Linus Weidner +49 40 350 60 798  
Philipp Wiechmann +49 40 350 60 346  
Christoffer Winter +49 40 350 60 559

#### LONDON

Edward Burlison-Rush +44 20 3753 3055  
Richard Kenny +44 20 3753 3083

#### ELECTRONIC TRADING

Daniel Eichhorn +49 40 350 60 391  
Matthias Führer +49 40 350 60 597

## BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

E-mail: firstname.lastname@berenberg-us.com

### EQUITY SALES

#### SALES

Kelleigh Faldi +1 617 292 8288  
Isabella Fantini +1 646 445 4861  
Shawna Giust +1 646 445 7216  
Zubin Hubner +1 646 445 5572  
Jessica London +1 646 445 7218  
Ryan McDonnell +1 646 445 7214

Emily Mouret +1 415 802 2525  
Peter Nichols +1 646 445 7204  
Kieran O'Sullivan +1 617 292 8292

#### CRM

Laura Cooper +1 646 445 7201

#### CORPORATE ACCESS

Olivia Lee +1 646 445 7212

#### EVENTS

Patricia Ehrhart +1 646 445 4863

### SALES TRADING

Scott Duxbury +1 646 445 5573  
Christopher Kanian +1 646 445 5576  
Lars Schwartz +1 646 445 5571  
Bob Spillane +1 646 445 5574

#### ECONOMICS

Mickey Levy +1 646 445 4842