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Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

UPDATE ON BREXIT CONTAGION RISKS

Berenberg Macro Flash

Will the British vote to leave the EU embolden anti-European populists elsewhere in Europe – or will the political and economic uncertainty into which the vote has plunged the UK serve as a salutary lesson for voters elsewhere? For the EU-27, this could turn into the key issue to watch in the coming months. Just twelve days after the UK vote, the evidence remains far too limited to draw any firm conclusion. So far, we can merely say that it is indeed an open question. In a way, that is already better than the pre-Brexit standard assumption, namely that a UK vote against the EU would simply strengthen anti-European populists elsewhere and clearly undermine the cohesion of the EU-27 and the Eurozone.

In **Denmark**, support for staying in the EU surged to 69% from 59.8% before the UK vote according to yesterday's Voxmeter poll. In the same vein, the share of respondents who want a referendum on EU membership for Denmark dropped from 40.7% to 32%.

In **Finland**, an Iltalehti poll conducted 28-29 June showed a jump in backing for staying in the EU to 68% from 56% in March. According to the same poll, 69% of Finns now do not want a referendum on EU membership in the first place.

In **Sweden**, a TNS Sifo poll held on 26 June put support for the EU at 52%. While that is still low, it is up slightly on the 49% pro-EU which a separate poll from Statistics Sweden had found on 2 June.

The Nordic countries share some traits with the UK, including a number of official EU opt-outs for Denmark and abstinence from the euro for Denmark and Sweden. Outside the Nordic countries, the evidence on any Brexit-vote impact is limited and mixed.

In **Spanish repeat election** on 26 June, voters strengthened the pro-European centre-right and fell less for the alluring promises of the radical left than opinion polls had suggested. But Spain's situation differs significantly from that of the UK. In Spain, even the left-wing populists are by and large in favour of the EU and the euro; they just proclaim that spending more money than the country can afford and reversing pro-growth reforms could make life better.

The next national vote to watch is the repeat presidential election in **Austria** on 2 October. A first run-off vote on 22 May was annulled last week by Austria's constitutional court because some postal ballots were opened too early and some interim results were leaked before the polling booths had closed. On 22 May, the pro-EU Green candidate had won with by just 30k votes against the candidate from EU-sceptic FPÖ. A Gallup poll conducted on 21-22 June, that is just ahead of the Brexit vote, indicated that the pro-EU candidate would get 50.6% in a potential re-run of the Austrian election. That is identical to the share which Gallup had projected for the Green candidate ahead of the 22 May vote. Too close to call for now.

As discussed before, the key risk for Europe could be **Italy's** constitutional reform referendum in October. The latest opinion poll confirms an ongoing shift in sentiment against the reform. While EMG Acqua had still given a minuscule 29.3% versus 29.0% lead to those in favour of the reform in a 25-26 June survey, their 2-3 July poll now shows the "no" side ahead with 29.9% versus just 27.4% in favour of the reform. Do the renewed concerns about Italian banks in the wake of the Brexit referendum play a role here? Only two of the last eight Italian opinions polls now project a majority for Renzi's reform. If Renzi were to resign after



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possibly losing the referendum, his government would likely try to soldier on until the end of the parliamentary term in spring 2018. But we could not rule out an early election instead. In such a hypothetical election, the left-wing “Five Stars” (29% in recent opinion polls), the right-wing “Lega Nord” (13%) and possibly some smaller parties would campaign with a demand for a euro referendum. See also our in-depth report [on the domino risks](#).

All in all, it is far too early to gauge the impact of the UK referendum result on the political discussion in the EU-27. While the UK vote has added grist to the mill of anti-European political movements on the continent, the gap between the Brexiteers’ promises and reality has also not gone unnoticed. Over time, this could turn into a powerful argument for those on the continent who warn against the risks of voting for such populists. But again, it is too early to tell.

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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
holger.schmieding@berenberg.com