

Florian Hense, Economist | Florian.hense@berenberg.com | +44 20 3207 7859**GERMAN ZEW: BREXIT TAKES TOLL ON INVESTOR CONFIDENCE**

Berenberg Macro Flash

German ZEW, July

	Current situation	Expectations
Actual:	49.8	-6.8
Previous:	54.5	19.2
Consensus:	51.8	9.0
Berenberg:	51.5	9.0

German ZEW surveys drop to euro crisis levels on Brexit shock. Expectations dropped to -6.8 (vs. +9.0 expected and +19.2 in June before the Brexit vote). The current situation, the less noisy indicator, was also lower, slipping to 49.8 from 54.2 (also lower than expectations of 51.8). Banks and insurance companies were among the industries most hit.

While monthly data are volatile, this reading will be valuable for policymakers in Frankfurt. It is the first reading for the Eurozone's economy since June 23. The first reading of the economy is somewhat in contrast to market developments. When the ECB's Governing council convenes on Thursday for its monetary policy meeting, they will acknowledge that market moves so far have been relatively orderly and sovereign bond yields, particularly in the Eurozone periphery, signal limited contagion risk. But today's soft data will be some cause for concern, supporting our view that Draghi's press conference will take a dovish tone.

Brexit is the key risk to our modestly positive outlook for the Eurozone. Sentiment data such as the ZEW can overreact to uncertainty more than hard economic data. So as long as the contagion risk is contained, the Eurozone economy should get through the period of uncertainty with nothing more than a short-term dent before returning to its trend rate again in early 2017.

The publication of post-Brexit indicators continues tomorrow with the Eurozone consumer confidence reading for July. It should give some insights on how Brexit has affected private consumption.

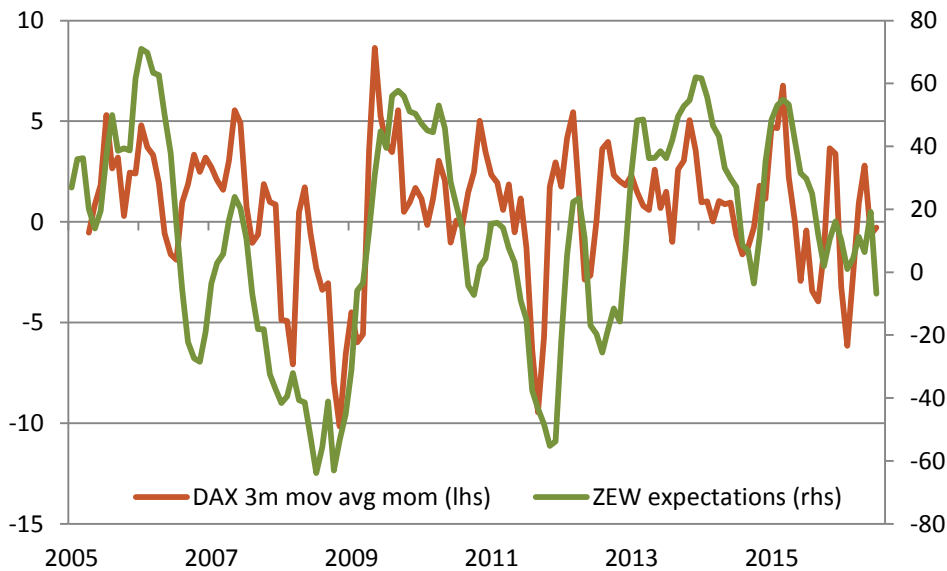
German ZEW

	JUL	JUN	MAY	APR	MAR	FEB
Current situation	49.8	54.5	53.1	47.7	50.7	52.3
Expectations	-6.8	19.2	6.4	11.2	4.3	1.0



MACRO NEWS

German ZEW vs. Dax (3-month moving average, mom % change)



Source: ZEW

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