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## MACRO NEWS

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### GERMAN ZEW JUMPS IN OCTOBER SUGGESTING AN ENCOURAGING Q4 START

#### Berenberg Macro Flash

##### German ZEW, October

	Current situation	Expectations
<b>Actual:</b>	<b>59.5</b>	<b>6.2</b>
Previous:	55.1	0.5
Consensus:	55.5	4.0
Berenberg:	55.2	2.0

The German economic expansion accelerated heading into the final quarter of the year according to the October ZEW survey. The current assessment reached its highest level since January 2016 when the German economy expanded by 0.7% qoq – its fastest rate in two years. This indicates a potential upside risk to our Q4 call of 0.3% qoq (see chart).

The **expectations indicator (+6 months) of the ZEW survey was above market consensus (4.0), rising to 6.2**, after 0.5 in September. Expectations remain, however, below the pre-Brexit vote averages (-1.9 on average in Q3 after 12.3 in Q2 and 5.2 in Q1). **The ZEW current assessment rose to 59.5, its highest since January, after 55.1 in August** – above consensus and our own expectations (55.5 and 55.2, respectively).

The ZEW survey is the first of Germany's main surveys to be released in October and provides early clues about the growth momentum at the beginning of the fourth quarter in Europe's largest economy. But monthly data can be volatile. So any changes have to be taken with appropriate caution.

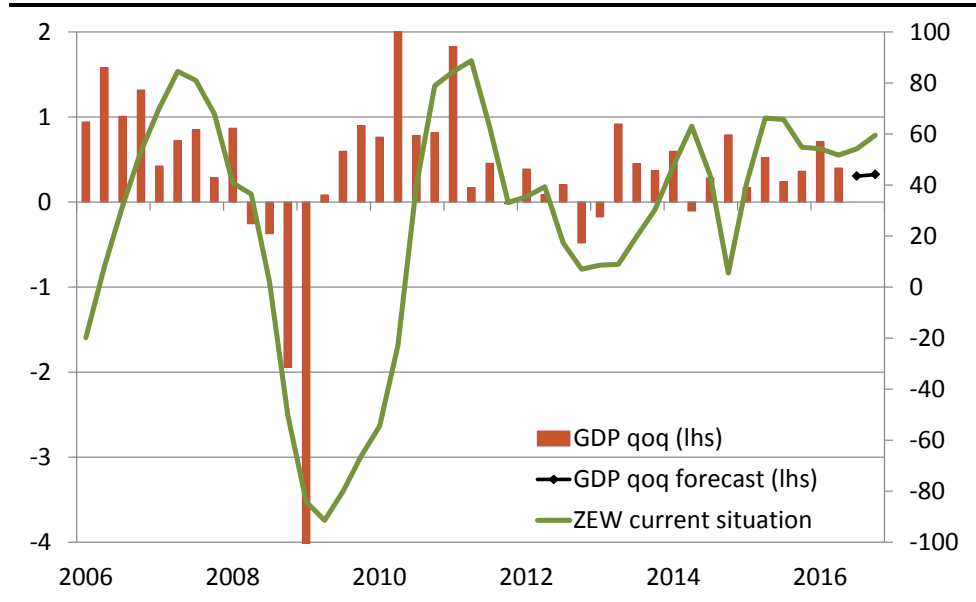
**The improvement in the current assessment is likely due to the recent pick-up in Germany's export-driven manufacturing sector** as exports, industrial production and factory orders recovered in August after some weakness in July. Other soft data for September such as the Ifo and the PMI manufacturing also improved strongly (the drop in PMI services looks like an outlier). The improvement in current economic activity may have raised expectations for future growth. This indicates that **financial experts (the major contributors to the ZEW) weathered the recent turbulences well – think hard-Brexit/sterling and European banks.**

Today's gauge of sentiment among financial experts at the beginning of the fourth quarter suggests the German economy continues to hold up and may even strengthen during the remainder of the year. The assessment of the current situation is above its quarterly average both for Q3 and Q2 (54.2 and 51.8, respectively). In H2 2016 we expect the German economy to expand at a quarterly growth rate slightly-below-trend of 0.3%, with some upside risk in Q4 (see chart).



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German ZEW current situation vs. GDP growth qoq, in %



Source: ZEW.

### German ZEW

	OCT	SEP	AUG	JUL	JUN	MAY
Current situation	59.5	55.1	57.6	49.8	54.5	53.1
Expectations	6.2	0.5	0.5	-6.8	19.2	6.4

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