

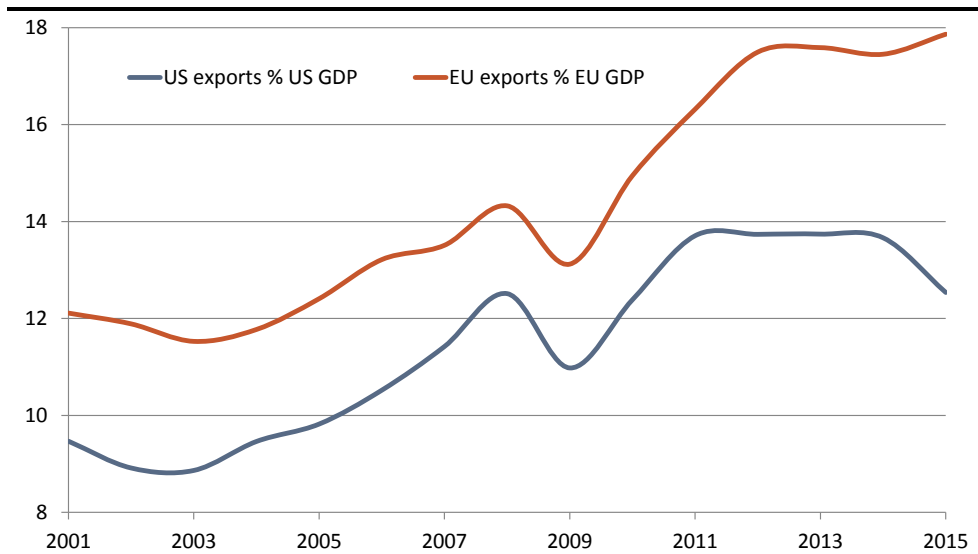


Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

MACRO UPDATE: WHAT PRESIDENT TRUMP MEANS FOR THE EUROPEAN ECONOMY

Berenberg Macro Flash

Exports as % GDP: US versus EU



Annual data. Source: Bureau of Economic Analysis, Census Bureau, Eurostat, Statistical Office of the European Communities, Berenberg calculations.

US economic policy matters for Europe: US households are the global consumers of last resort. They can shape global trends for the better or for the worse, as the US boom until 2007 and the subsequent burst have shown. Trade-dependent Europe benefits from a strong and open US economy. On 20 January 2017, Donald Trump will enter the White House. While markets have, at least so far, taken his victory in their stride, it remains to be seen just what his presidency will mean for US economic policy and global economic trends. What parts of the mandate that got him elected will see the light of day? What parts will be watered down, decontaminated or even pronounced dead on arrival by the checks and balances of Washington?

Pro-growth economic policy = good news: Europe would directly benefit from an increased dynamism that would come from any policies that raise US trend growth. Trump's promise to vastly expand infrastructure spending and reduce taxes is likely to get trimmed down significantly by the fiscal hawks among the Republicans in Congress, who will lean against any attempt to let deficits rise too much. Do not expect a Ronald Reagan-style impact. But a more expansionary fiscal stance plus some supply-side reforms to improve competition and slim down burdensome regulation, such as allowing interstate competition among health care insurers and legalising the imports of some Canadian pharmaceuticals, could support private investment and household consumption.



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

A less open US = bad news: Europe earns almost 20% of its GDP from exports, that is 50% more than the US. European producers would feel the pinch of a more inward-looking and less trade-oriented US. A US shift towards isolationism over the next four years that might then be mirrored by other countries is the major economic risk for Europe following the Trump victory. If Trump does what he said in the campaign, namely brand China as a currency manipulator and place a 45% punitive tariff on Chinese imports, he could trigger a trade war. While Congress would block many of his more extreme policy proposals, such a move would badly exacerbate a tilt in the Western world against globalisation. Trade oriented economies like those of Europe would lose even more from that than the US.

The Fed under pressure = mostly irrelevant. While Trump may publicly criticise the Fed and threaten more oversight, it probably will not impact Fed policies much. The Fed will continue to set policy in relation to US economic conditions and the outlook for inflation. Whether appointed by a Democratic or a Republican president, Fed members tend to act independently once in office. They will always weigh the outlook for US growth and inflation upon setting Fed policy, learning by experience and adjusting their stance if it turns out that they may have been too accommodative or too restrictive in past decisions. The impact on Europe of any temporary tilt in Fed policies coming from potentially hawkish Trump appointees to the chair and board of the Fed would likely be limited and temporary.

Brexit then Trump – who is next? Markets will watch European elections even more closely than before after both Brexit and Trump defied the best predictions of the pundits and polls, adding to market nervousness. While victories for populists in the US and UK create serious uncertainty, the potential consequences of a populist victory in a major Eurozone economy could be far worse. It could pose a threat to the cohesion of the Eurozone. Markets could react badly if the likely referendum loss by Matteo Renzi on 4th December were to usher in a period of protracted uncertainty followed by early new elections. In France, the odds of an upset victory for far-right Marine Le Pen in the second round of the presidential elections on 7 May 2017 still look slim, as discussed in our [Chart of the Week](#). Risks don't always materialise. So far, the Eurozone has managed to dodge all the major risks that cropped up in the last few years.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

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