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ONE MONTH OF TRUMP: A VIEW FROM ABROAD

Berenberg Macro Flash

It's Presidents' Day in the US. Reflecting on one month of Trump, Europe is breathing a small sigh of relief: it could have been worse. After an inauguration speech on 20 January that reminded some European observers of the rhetoric of the early 1930s, President Donald Trump has not confirmed the three major fears that he had raised with some of his campaign sound bites before:

- Trump has not gone for open conflict with China. His phone call with Chinese leader Xi Jinping has apparently calmed nerves instead.
- He has not appeased Russia's Putin and has not undermined NATO at the expense of Europe. Instead, his vice president, secretary of state and secretary of defence have explicitly affirmed NATO's mutual defence commitment and asked Russia to behave better. That Trump has spoken on the phone not just with Vladimir Putin but also with Ukrainian president Petro Poroshenko is encouraging. If anything, the spotlight which the departure of Trump's first national security adviser Michael Flynn affair has thrown on relations between Russia and the Trump camp can make it less likely that Trump may eventually want to strike a lopsided deal with Russia that might be against European and US long-term interests.
- Beyond cancelling the TPP deal with Pacific Rim countries and asking for a renegotiation of NAFTA, Trump has not embarked on outright large-scale protectionism.

No contagion

On the European continent, we find no evidence that Trump's erratic behaviour, his pro-Brexit stance and his lack of support for European integration is strengthening anti-EU populists. Instead, support for Marine Le Pen and her ultra-right Front National remains steady around 25% in France. Dutch firebrand Geert Wilders and Germany's radical right AfD have even slipped somewhat in the polls in the last few weeks for domestic reasons: Dutch prime minister Mark Rutte seems to be running an effective campaign against Wilders while the surge of centre-left Martin Schulz has hurt most German fringe parties including the AfD. Whereas this may have nothing to do with Trump, the new US president certainly has not helped the anti-EU crowd in Europe.

By and large, the evidence so far is in line with our base case: amid heightened political risks and an elevated level of noise, the benefits of a US corporate tax reform driven largely by Congress will outweigh the damage which Trump may do through his tweets, his protectionist inclinations and his careless way with words. If so, a strengthening US economy will impart a modest stimulus on the Eurozone as well. Unless an unexpected political disaster strikes, the Eurozone economy can continue to expand at a pace just above 1.5%, the ECB can taper its asset purchases from January 2018 onwards and European asset markets can remain well supported by fundamentals. For now, geopolitical concerns are not weighing heavily on the outlook for Europe despite the likely odd wobble in some confidence indicators to come.



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Of course, it is very early days. That the US commander-in-chief seems to receive some of his information from dubious sources, does not always check his words against facts (what happened in Sweden on Friday night?) and shows only limited respect for an independent judiciary remains unsettling for policy makers as well as the public in Europe and beyond. In politics, words and trust do matter. But in his first month in the White House, President Trump has not added to the concerns he had raised during his election campaign. In politically challenging times, that seems worth noting. Let's keep our fingers crossed that we don't have to come to a different assessment in the future.

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