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## MONDAY MACRO UPDATE: THE BREXIT GAP, FRENCH AND GERMAN POLITICS

### Berenberg Macro Flash

#### THE BREXIT GAP: WHAT CAN BE AGREED BEFORE THE UK LEAVES?

Even in the best case, the uncertainty over the UK's post-Brexit access to the EU27 market won't be over when Britain leaves the EU on 29 March 2019. The two-year divorce process from the EU27 may be starting with a little misunderstanding as to what exactly the two sides can achieve until then. According to Theresa May's letter of 29 March, the UK wants to agree a **"comprehensive agreement"** on a post-Brexit partnership **alongside** settling the **terms of divorce**. According to EU Council president Tusk's draft guidelines for negotiations of 31 March, any deal on post-Brexit relations can only be "finalised and concluded once the United Kingdom is no longer a Member State" of the EU. Before the UK has left on 29 March 2019, the two sides can only identify "an overall understanding on the **framework for the future relationship**". The EU stands ready to "engage in **preliminary and preparatory discussions**" about such a framework "as soon as sufficient progress has been made" towards settling the terms of divorce.

Even if the Brexit talks go well – a VERY BIG IF given the likely row about the exit bill which the EU27 wants to largely settle before talking future trade – Britain thus cannot have a new deal with the EU27 fully in place by 29 March 2019. Instead, the two sides could have "transitional arrangements" to "provide for bridges towards the foreseeable framework for the future relationship". And even if the agreement about the future "framework" is so detailed that not much has to be negotiated after March 2019 – also a big if – the long and difficult process of ratifying the final deal on post-Brexit relations can only start once the UK is out. Unlike the agreement on the divorce terms including the size of the exit bill, which the EU can ratify with a qualified majority subject to a veto by the EU parliament, the separate deal on post-Brexit trade will most likely need to be approved by all parliaments in the EU (including that of Wallonia, remember CETA?).

For a more detailed discussion of Brexit issues, see the reports on [Brexit](#) and [the future of the EU](#) or dial into our conference call on Monday, 3 April, at 15h BST/16h CEST/10h EDT. Standard International Access +44 20 3003 2666; Participant 75 02 23 6#; Password: Berenberg. Toll Free numbers: UK 0808 109 0700; US +1 866 966 5335; Germany 0800 673 7932; France 0805 630061; Switzerland 0800 800 038

#### FRANCE: POLLS STILL STABLE

Three weeks ahead of the first round, opinion polls for the presidential election look stable. Ultra-right Marine Le Pen and the pro-European centrist reformer Emmanuel Macron are virtually tied at 25% or just above, with a marginal advantage for Macron in five of the last seven polls. Centre-right Francois Fillon trails behind with a good 18% on average whereas the communist-backed Jean-Luc Melenchon has solidified his position as the strongest leftist candidate (14%) ahead of the official Socialist contender Benoit Hamon (11%). In opinion polls for the run-off round on 7 May, Macron continues to lead Le Pen by roughly 61% to 39% (see Chart 1). Recent polls for a potential Fillon – Le Pen contest give Fillon between 53% (Ifop-Fiducial) and 58% (OpinionWay) versus 42-47% for Le Pen.

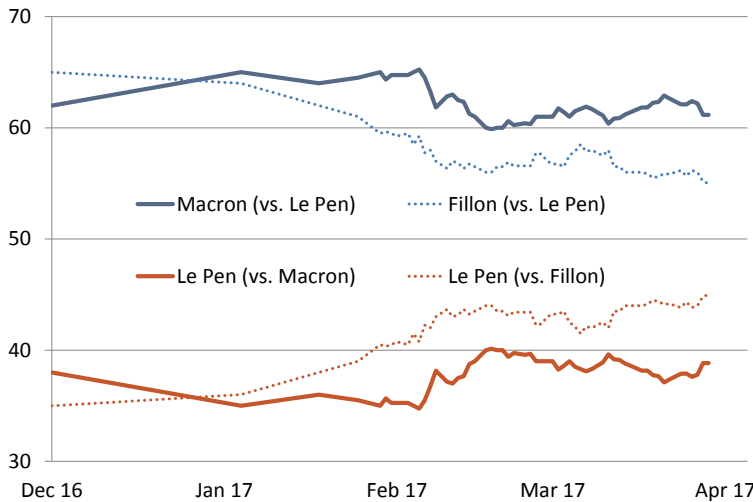
If Fillon manages to put the "fake jobs" scandal behind him and advance beyond Macron to make it into the second round, we would expect such a rebound in his fortunes to let him win the second round as well. So far, however, there is no clear sign that he may still turn the corner. The TV debates among the top candidates on 4 April (tomorrow) and 20 April could be his last real chance to do so.

Still, we need to treat opinion polls with significant caution at this stage. Up to 38% of French voters are not sure yet for whom they will cast their vote. The primaries among the French centre-right Republicans in November 2016 had shown a major shift just ahead of the actual votes (from Juppe to Fillon in this case). Despite the clear lead for Macron, we need to watch the polls – and the possible reaction to the upcoming TV debates.



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**Chart 1: Opinion polls for second round of French presidential elections**

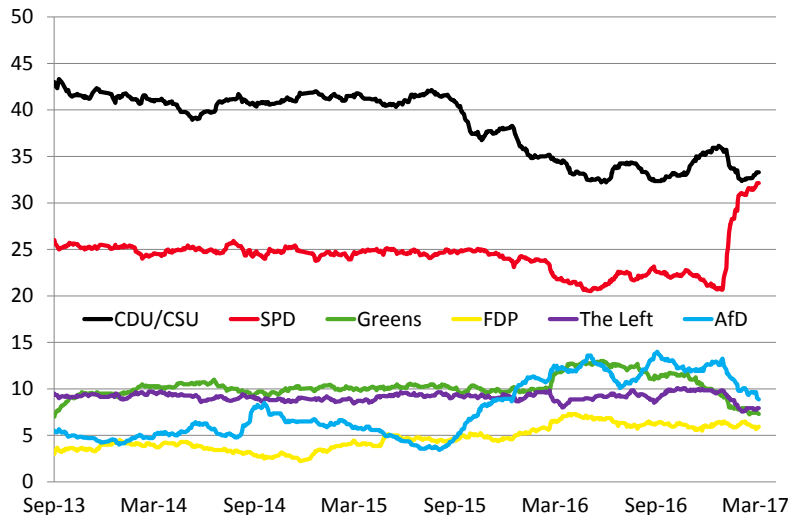


Support for candidates in % in potential run offs Macron – Le Pen and Fillon – Le Pen, average of last five polls. Source: various national opinion polls.

### GERMANY: THE REBOUND OF THE CENTRE CONTINUES

Will Angela Merkel be re-elected as chancellor on 24 September? Four of the last seven opinion polls give her centre-right CDU/CSU a marginal lead over the centre-left SPD, with the other two showing a tie. As the discussion focusses ever more on the duel between Merkel and her SPD-challenger Martin Schulz, the ultra-right AfD, radical-left Left Party as well as the centre-left Greens are getting squeezed a little further. Net/net, the contest between Merkel and Schulz – and the fact that Merkel now has a challenger with a reasonable chance that he may actually win – strengthens Germany’s solidly pro-European mainstream which both Merkel and Schulz embody. On balance, we still see a 75% probability that Merkel will be re-elected. But it promises to be an interesting campaign. Reacting to the regional election at the Saar a week ago where the SPD did worse than expected as voters were afraid that the SPD might team up with the ultra-left, the SPD is now trying to downplay that risk. That may be difficult, though, as a red-red-green alliance seems to be almost the only politically possible option for the SPD apart from continuing the current grand coalition in Berlin.

**Chart 2: Support for major parties in German opinion polls, in %**



Centre-right CDU/CSU, centre-left SPD, ultra-right AfD, radical left Left Party, centre-left Greens, liberal FDP; average of last seven polls. Source: national opinion polls



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