Post-EP elections: budgetary policy to the rescue?

Europe

RaboResearch
Global Economics & Markets
mr.rabobank.com

Elwin de Groot
Head of Macro Strategy
+31 30 712 1322

Bas van Geffen
Quantitative Analyst
+31 30 712 1046

Michiel van der Veen
Economist
+31 6 8313 4616

Summary

- Although Eurosceptic parties did not do as well as expected in the 2019 European Parliament (EP) elections, rising political fragmentation will make it even more difficult to reach consensus over important (cross-border) topics.
- Against the backdrop of the limits to monetary policy, the EU may be forced to have a fresh look at its budget rules, especially if the Eurozone were to slip into a recession.
- One of the key problems is that the member states that are likely to need (budgetary) support in coming years are also the ones that have the least (if any) fiscal space. This especially holds for Italy, France, the UK, Portugal, Cyprus and Spain.
- Moreover, the general public in the former three (or two, assuming the UK leaves the EU this year), have also shown strong support for Eurosceptic parties, which could aggravate tensions within the EU over budget policy, as recent developments in Italy have already demonstrated.
- However, the increased fragmentation also has its mirror image in big gains for Greens and, to a lesser extent, Liberal parties in the EP elections. This raises the possibility of finding a way out of such an impasse over budgetary policy. But it certainly won't be easy.

Elections over, now what?

The European Parliament elections are now firmly behind us and the horse trading for EU top jobs has begun, although it may take weeks and possibly even months before final decisions have been made. However, the shifts in European Parliament are already having implications for national politics. Most notable on this front are the decision by Greek PM Alexis Tsipras to call snap elections following losses for his Syriza party and a big gain for New Democracy, the main opposition party. In Germany, SPD leader Andrea Nahles has stepped down after the very weak results for her party (to the benefit of the Greens), creating a leadership vacuum within her party but also raising concerns about whether the SPD will continue to stand by its current coalition with CDU-CSU. In other words, the centre is wobbling. In Italy, tensions in the populist coalition between M5S leader Luigi Di Maio and Lega leader Matteo Salvini (whose party saw a sharp increase in its voter base) have once again exposed the fractures between the radical left and right. Indeed, PM Giuseppe Conte has threatened to quit if both leaders do no stop their fight over Italy's budgetary policy, saying that EU budget rules *"remain in force until we manage to change them."*

Meanwhile Austria is still recovering from the fall-out from the scandal-hit government (which started with the release of a video showing FPÖ leader Heinz-Christian Strache talking to an alleged Russian investor) and parliament's decision last week to oust Chancellor Sebastian Kurz' government. And in Finland a new five party coalition has just been formed which is calling for an *"end to austerity."*

But apart from the discussions about EU key jobs and the initial impact on national politics, the political shifts that took place at the end of May could have significant ramifications for future EU policies.

The highlights from these elections can be summarized as follows:

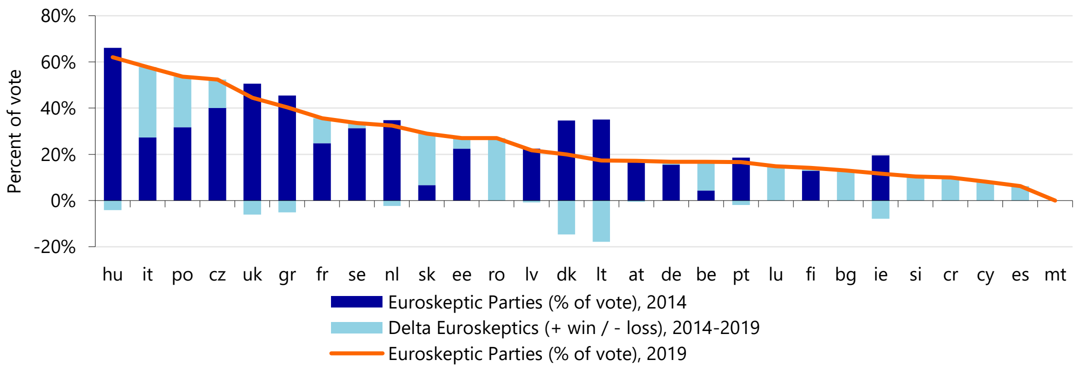
1. There was a significant increase in voter turnout (highest in 20 years)
2. The centrist parties lost considerably, with the two main parties – who had long been dominant in European politics - losing their joint majority
3. The populist/nationalist (and often anti-EU) parties did less well than expected or feared
4. The liberals and greens, on the other hand, did considerably better than expected

New kingmakers, but don't under-estimate the extremists

The latter parties (liberals and greens) may now prove 'kingmakers' in any coalition tie-up talks. But this does not take away from the conclusion that the **political landscape has become more fragmented**. This could have significant implications for future policy decisions. With the centre-right European People's Party (EPP) and centre-left Socialists and Democrats (S&D) having lost 'weight' to the benefit of the flanks of parliament, it is likely to become more difficult to get new laws through parliament, especially when it comes to topics that encroach on the sovereignty of member states, such as a common budget, immigration, trade and environmental policy.

Another conclusion we may draw is that whilst the anti-EU parties did not do as well as expected, their influence is still on the rise. In total, we calculate, these anti-EU parties took about 32% of the vote, 2%-points more than in 2014, although polls earlier this year had suggested a share of around 37-38%. Still their strong showing in some member states (see figure 1) may further embolden their national leaders in taking a firmer stance vis-à-vis Europe. This notably holds for Italian Deputy PM Matteo Salvini, Marine Le Pen in France (although her party's share came in slightly lower compared to 2014) and several leaders in Central and Eastern Europe, in particular Hungary's Victor Orban and Jaroslaw Kaczynski, the driving power behind Poland's government.

Figure 1: Eurosceptic votes in European Parliament by member state

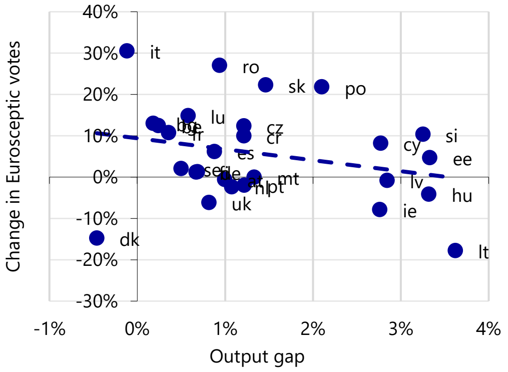


Note: methodology used is explained here
Source: European Parliament, Rabobank

The reasons why these nationalist/populist parties did relatively well in Italy and France and much less so in some smaller member states, such as the Netherlands, Spain, Denmark and Austria may well be partly economical. As figure 2 below shows, these smaller member states did relatively well in terms of economic performance since 2013 or are in a relatively strong cyclical position (as reflected in a positive output gap); this may have taken the wind out of the sails of populist parties. The relationship, admittedly, isn't particularly strong and, hence, caution is warranted. The chart next to it (figure 3) also suggests that there was some 'mean reversion', as Eurosceptic parties did relatively well in those countries where they had a relatively low base in 2014.

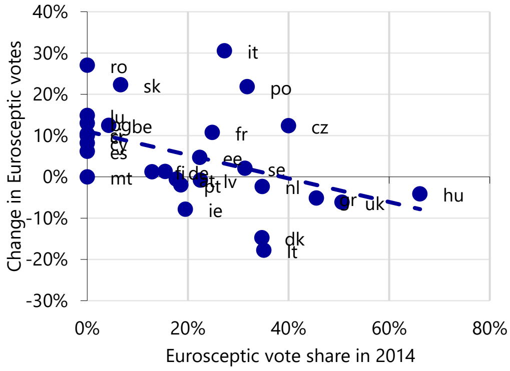
Still, we feel that the overall conclusion should be that economic slowdown in Europe (or even a new recession in the upcoming years) could play into the hands of populist and Eurosceptic parties.

Figure 2: On balance, Eurosceptics did better in countries with a low output gap...



Note: Greece has been excluded from this chart
Source: Macrobond, Rabobank

Figure 3: ... and in countries where they had a relatively low starting point in 2014



Source: Macrobond, Rabobank

EU budgetary rules under pressure?

As said, the European Parliament elections will have an impact on a broad swathe of policy areas. One crucial area it could have consequences for is budgetary policy. Not only does this apply to the talks about a common EU budget (which has been a contentious subject from the start) but it certainly also affects **budgetary policy on the national level and particularly the compliance with the Stability and Growth Pact and how 'Brussels' deals with this.**

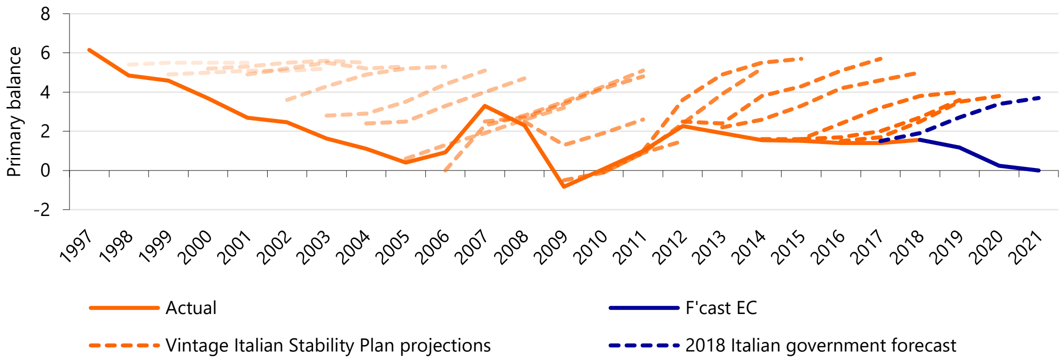
The recent developments in Italy are of course a case in point (see also our update on the economy published last week). The election outcome in Italy has emboldened Mr. Salvini to re-start his 'war' against the EU by calling for reforms that will give member states (even) more leeway and would effectively strip the Commission from its ability to limit national budgets. The Commission itself, however, may also feel somewhat emboldened by the fact that the European Elections are now behind us and there is still a good possibility that a pro-EU alliance will ultimately arise in Parliament. This probably explains why the Commission has revived its threat of fines to contain the Italian leaders' ambitions. But with the race for leadership in Europe's key institutions getting in full swing, the Commission may have to apply self-restraint as well. That said, the Commission has now recommended an Excessive Deficit Procedure and is asking Rome to make budget cuts of around EUR3-4bn to avoid sanctions.

Italian budget overshoots, whether or not driven by weaker-than-expected growth, unfortunately are not a new phenomenon. Since the euro's advent the country has consistently under-performed its own stability plans, something which is blatantly underscored in figure 4 below. This shows the projected path for the primary balance in the Italian government's Stability Plans since 1999 compared to the actual outcomes in the years following. The data for 2019-2021 show the Commission's latest projections vis-à-vis the forecasts by the Italian government and as such merely highlight the 'differences in opinion' between the two.

Optimistic biases in national fiscal projections are well-documented[1] **and whilst this is not an exclusively Italian phenomenon (and also not the focus of this report), it does raise the issue of renewed budgetary disappointments if Eurozone growth were to slip further in the coming quarters.**

[1] See for example: R. Merola and J.J. Pérez (2012), "Fiscal forecast errors: governments vs independent agencies?" (https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/12/Fich/dt1233e.pdf

Figure 4: Italian primary balance - Stability Plan versus reality



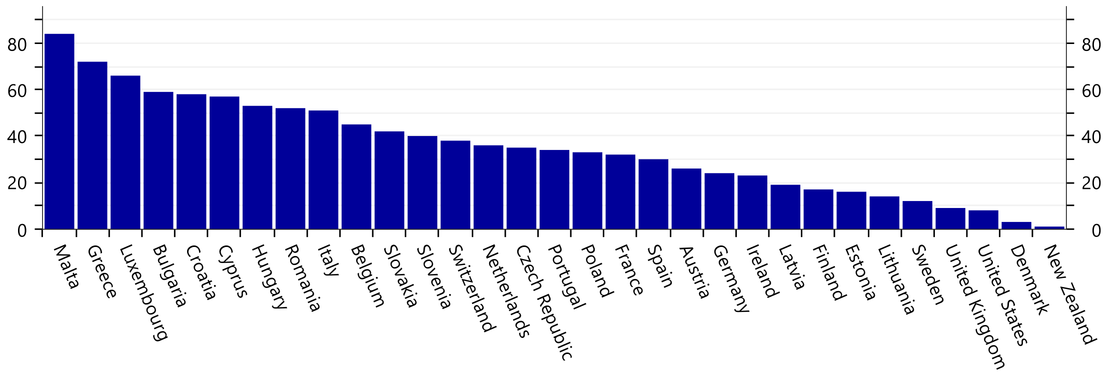
Source: Italian Stability Plans, Macrobond, Rabobank

Empty ECB coffers, disappointing growth

Indeed, in the broader context of growing concerns about faltering economic performance in Europe, it is also increasingly questionable whether even the mainstream parties can (or should?) hold their ground on the strict application of the EU's fiscal rules. For starters, counting on the ECB could prove a less fruitful strategy than in 2007-2017. After all, the ECB's coffers –at least by conventional measures– are rather empty. There is probably not much more to squeeze out from its forward guidance and a few small rate cuts probably won't cut it either. Meanwhile, re-starting the QE program (although it would probably be the 'easiest' way) would soon see the ECB run into legal and/or political issues and sensitivities, whilst the conditional OMT program is reserved for countries that are willing to submit themselves to the EU, a scenario that is perhaps not the most likely one for a country run by Eurosceptic or nationalist government, such as in Italy. All the more so because the long-term impact of such strict austerity linked to such a program is questionable as evidenced by the Greek experience.

Moreover, none of these tools are ultimately more than a band aid: they don't fix Europe's underlying, structural issues. To a large extent those problems need to be fixed on a national level. As the World Bank's Doing Business Survey (DBS) has consistently pointed out, several member states in the EU remain quite far removed from the 'frontier' (best practices) when it comes to ease of doing business. Italy and several other member states in the South of Europe serve as key examples. Figure 5 shows the overall rank in the DBS for all EU member states as well as Switzerland, the United States and New Zealand (which ranked 1 in 2019).

Figure 5: Ease of Doing Business rank (1 = "best", 2019)



Source: Macrobond, World Bank

But also on the European level there is a need for coordinated government efforts to achieve goals that monetary policy cannot address. The fulfilment of the banking union, capital markets union and perhaps even a European budget to improve the EU's ability to deal with common shocks.

With the potential limits of monetary policy in mind, we can now clearly make a case for budgetary policy taking over the role of stimulus provider in the coming years. Or, at the very least, playing a more complementary role to monetary policy. But this, too, is not without its problems. Because in those countries where there actually is room to stimulate the economy, this space may not be needed. And the political climate isn't necessarily pro-fiscal expansion everywhere either. Below we look at the main issues at stake (and in particular their interaction), which can be summarized in three key aspects:

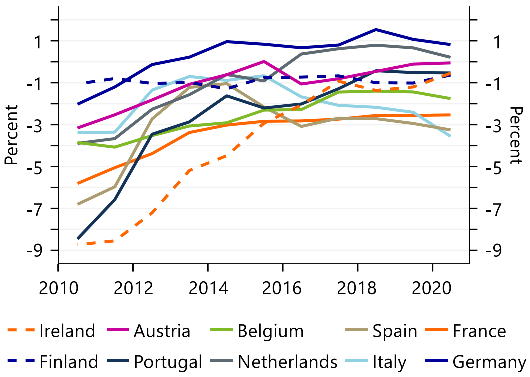
1. The amount of budgetary room in member states; this boils down to the question about fiscal space, a measure which incorporates the sustainability of member states' debt positions
2. The (likely) need for budgetary support in future
3. The political climate and room for manoeuvre (in the light of the EU parliament election outcome) to do so

The budgetary state of the nation(s)

How much space?

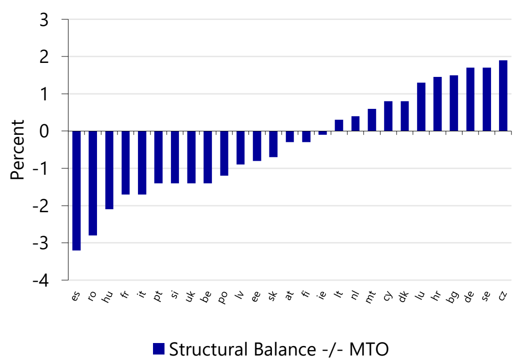
A quick glance at the developments since 2010 broadly confirms that the budgetary situation in most (bigger) member states has gradually improved, with Italy being the main exception (see figure 6). One key measure in this respect is the structural budget balance, which corrects for the cycle and one-off effects on the budget. Although far from perfect it gives an indication of the government's efforts to reduce (or expand) the budgetary stance. Under the preventive arm of the EU's budget rules, a gradual improvement in this measure each year is also one of the key requirements for countries whose structural balance is lower than its medium term objective (MTO)[2]. The gap between the projected structural budget balance and the MTO (figure 7) can therefore be considered as one measure of fiscal space, which is commonly defined as the budgetary room that allows a government to provide resources for public purposes without undermining fiscal sustainability. Or, as the IMF puts it: *"if a government can raise spending or lower taxes without endangering market access and putting debt sustainability at risk."*

Figure 6: Structural balances in most bigger states have gradually improved since 2010



Source: Macrobond

Figure 7: But the majority of countries still have little or no fiscal space vis-à-vis their MTO (2018)

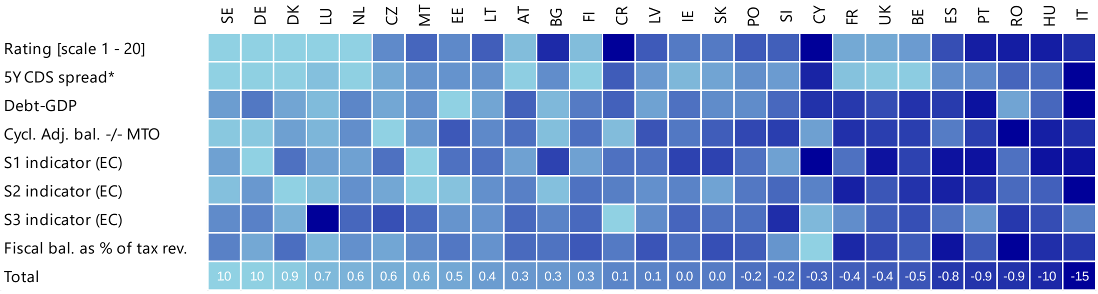


Source: Macrobond

[2] For a broader discussion about the EU's fiscal rules and indicators of fiscal space, please look here.

The heat map in figure 8 below considers a broader set of indicators of fiscal space, As the heat map shows, Sweden, Germany and Denmark have the highest fiscal space within the EU whilst Romania, Hungary and Italy the least fiscal space.

Figure 8: Heat map of 'fiscal space' indicators (2018)[3]



Note: dark blue indicates lower fiscal space
*) Or government bond spread over Germany + German CDS

Source: Rabobank

And who needs its most?

EU countries have been hit very differently by the Great Financial Crisis and the European sovereign crisis. They have also seen very different recoveries. Figure 9 illustrates that most countries have seen an improvement in both unemployment and the real disposable income per capita. Yet, there have been clear laggards. Italian unemployment is actually still higher than it was in 2009, and disposable income is substantially lower. And despite higher employment, the Spanish population also has less income to spend. Amongst the 'winners' there are large differences too. Clearly, the people living in Eastern European countries have benefitted the most, with the largest gain in disposable income. This can partly be attributed to the generally higher catch-up growth in these countries.

The need for further stimulus is thus the largest for those countries in the top-left quadrant. More importantly, we'd argue that the popular opinion in these countries will be most in favour of stimulus as the public are still not as well off as prior to the financial crisis.

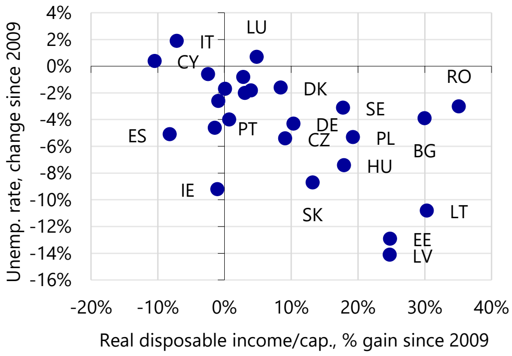
Notably, Italy is the main country in the top-left area of this diagram; exactly the one country that has the least space for further fiscal impulse. Conversely, in countries with ample budgetary room for fiscal stimulus, such as Germany, there is much less need for it (figure 9). That also makes expansionary policy much less palatable to the voter base. This is all the more true if Europe tries to embark on a coordinated fiscal impulse: for some countries this may feel like they are footing the bill for their neighbours. This basically pits countries in the top-left segment of figure 10 against the ones in the bottom-right.

The political climate

As said, the two obvious candidates to stimulate Eurozone growth through fiscal easing would be Germany and, to a lesser extent, the Netherlands, given their economic size and budgetary space. Nevertheless, these two countries may be reluctant politically, when other countries have limited room to contribute without threatening the sustainability of their public debt. This would lead to an unfair distribution of the stimulus bill and that will be hard to explain to voters at home. Therefore, spending just for the sake of reigniting Eurozone growth looks impossible to justify.

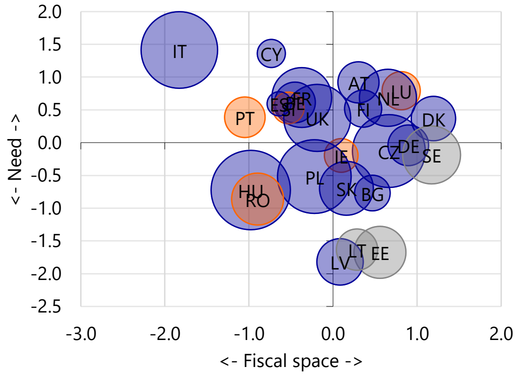
[3] We have used z-scores for each indicator as well as for the overall average (total). Rating scale is from the World Bank. The S1 indicator from the EC captures short-term fiscal challenges on a 1y horizon, the S2 indicator shows the upfront fiscal adjustment required to bring debt-gdp to 60% by 2032 and the S3 indicator reflects upfront and permanent fiscal adjustment required to stabilise debt-gdp over the infinite horizon, including the cost of ageing.

Figure 9: Leaders and laggards in the recovery



Source: Eurostat, Rabobank

Figure 10: Confronting Needs, Fiscal Space and Euroscepticism*



Notes: The size of the bubble represents the share of Eurosceptic votes in EP 2019 election; blue indicators 'right-wing' votes, orange indicates predominantly 'left-wing' Euroscepticism
Source: Rabobank

Nevertheless, one rationale for easing fiscal policy in the Eurozone's largest economy is growing concern about the state of its infrastructure. The German government recognized in its midterm federal budget, published this March, that investments are needed to improve (digital) infrastructure, but at the same time kept on highlighting its balanced budget rule. The same can be said for the large political parties which have made no calls to reverse the so-called *'Schwarze null'*. However, we do hear several German economists calling for the need to explore the idea of increasing infrastructure investments by borrowing money for free. However, one question would be whether investments in the digital infrastructure would benefit European companies, or whether it would leak to telecom companies abroad. What's more is that election success of the Greens in Germany may force the traditional government parties to look into expanding 'green' investments.

The Greens, like in several other European member states, have also been rapidly gaining support in the Netherlands in both the provincial and European elections. Given that the coalition lost its majority in the Senate, it may be open to political compromises with the Greens, which can then push their own green agenda. Nevertheless, the right-wing coalition seems to lack the political will to engage in fiscal easing, as it has repeatedly emphasized its desire to keep lowering the public debt level.

All this being said, ultimately, open economies such as the Netherlands and Germany would gain from a revival of European growth. The willingness of these countries to engage in fiscal easing will therefore depend on how disappointing Eurozone growth, and therefore their own growth figures get.

Is there a way out?

In short, the general conclusion must be that countries that are likely to need budgetary stimulus the most, are in most cases lacking the fiscal space to do so. This is likely to lead to increasing frictions between the member states looking for more fiscal strictness and those looking for flexibility when it comes to the EU's budget rules.

However, against the backdrop of the EU parliament election outcome, there is less room for a majority to call the shots and thus compromises will have to be made. This especially holds between the S&D/EPP factions and Liberals/Greens.

We therefore could ponder about a few potential ways out:

- The EC could create more room for government investment – for example in the areas of renewable energy, environment etc. – to be excluded from deficit and debt statistics; such a compromise may now look to be more in reach than before with the Greens' rising powers. One risk here, however, is that it would expose the framework to 'window-dressing'.
- If the growth slowdown is sufficiently deep and affecting all member states (note that German economy has been losing growth momentum quite rapidly already), the Commission could opt for a general 'waiver' to temporarily freeze the budget rules; but probably more important in this case is that there should be a joint plan to attack the economic downturn whilst the implementation should take place at the national level and with policies that are being advocated at the national level. Such a response would likely garner a broader support at the national level and would be more effective, also because it may prevent a sharp divergence in risk premiums.
- The new European Parliament could try to garner broad support for increasing European investment in both physical and digital infrastructure (for example on top of the Juncker program) or even more specifically green investments. Note that this would get closer to a recent proposal by the Italian government: investments financed by the European Investment Bank. Whether such investments would also be supported by ECB purchases of infrastructure is of course a whole different matter, but perhaps the time has come to not just dismiss such ideas as total nonsense altogether.

Clearly this is just tinkering with some of the options and, to be fair, neither of these 'solutions' are likely to prove easy, given the divided political landscape in Europe. But we also have to acknowledge that the EU is often at its best when the going gets tough. And tough it will certainly get in the coming years.

RaboResearch
Global Economics & Markets
mr.rabobank.com

Global Head

Jan Lambregts
+44 20 7664 9669
Jan.Lambregts@Rabobank.com

Macro Strategy

Europe

Elwin de Groot
Head of Macro Strategy
Eurozone, ECB
+31 30 712 1322
Elwin.de.Groot@Rabobank.com

Stefan Koopman
Market Economist
Eurozone, UK
+31 30 712 1328
Stefan.Koopman@Rabobank.com

Teeuwe Mevissen
Senior Market Economist
Eurozone
+31 30 712 1509
Teeuwe.Mevissen@Rabobank.com

Bas van Geffen
Quantitative Analyst
ECB
+31 30 712 1046
Bas.van.Geffen@Rabobank.com

Wim Boonstra
Senior Advisor
Germany
+31 30 216 2666
Wim.Boonstra@Rabobank.nl

Koen Verbruggen
Economist
France
+31 6 129 73 956
Koen.Verbruggen@Rabobank.nl

Alexandra Dumitru
Economist
UK, Ireland
+31 30 216 0441
Alexandra.Dumitru@Rabobank.nl

Maartje Wijffelaars
Senior Economist
Italy, Spain, Portugal, Greece
+31 30 216 8740
Maartje.Wijffelaars@Rabobank.nl

Michiel van der Veen
Economist
Eurozone
+31 6 831 34 616
Michiel.van.der.Veen@rabobank.nl

Americas

Philip Marey
Senior Market Strategist
United States, Fed
+31 30 712 1437
Philip.Marey@Rabobank.com

Hugo Erken
Head of International Economics
United States
+31 30 215 2308
Hugo.Erken@Rabobank.nl

Christian Lawrence
Senior Market Strategist
Canada, Mexico
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Mauricio Oreng
Senior Market Strategist
Brazil
+55 11 5503 7315
Mauricio.Oreng@Rabobank.com

Asia-Pacific

Michael Every
Senior Market Strategist
Asia, Australia, New Zealand
+852 2103 2612
Michael.Every@Rabobank.com

Björn Giesbergen
Senior Economist
China, Japan
+31 30 216 2562
Bjorn.Giesbergen@Rabobank.nl

Hugo Erken
Head of International Economics
India
+31 30 215 2308
Hugo.Erken@Rabobank.nl

FX Strategy

Jane Foley
Head of FX Strategy
G10 FX
+44 20 7809 4776
Jane.Foley@Rabobank.com

Piotr Matys
FX Strategist
Central & Eastern Europe FX
+44 20 7664 9774
Piotr.Matys@Rabobank.com

Christian Lawrence
Senior Market Strategist
LatAm FX
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Rates Strategy

Richard McGuire
Head of Rates Strategy
+44 20 7664 9730
Richard.McGuire@Rabobank.com

Lyn Graham-Taylor
Senior Rates Strategist
+44 20 7664 9732
Lyn.Graham-Taylor@Rabobank.com

Matt Cairns
Senior SSA Strategist
+44 20 7664 9502
Matt.Cairns@Rabobank.com

Credit Strategy & Regulation

Ruben van Leeuwen
Head of Credit Strategy
ABS, Covered Bonds
+31 30 712 1391
Ruben.van.Leeuwen@Rabobank.com

Vaclav Vacikar
Analyst
Financials
+31 30 712 1519
Vaclav.Vacikar@Rabobank.com

Hyung-Ja de Zeeuw
Senior Strategist
Corporates
+31 30 712 1555
Hyung-Ja.de.Zeeuw@Rabobank.com

Bas van Zanden
Senior Analyst
Pension funds, Regulation
+31 30 712 1869
Bas.van.Zanden@Rabobank.com

Cas Bonsema
Analyst
ABS
+31 30 712 1849
Cas.Bonsema@Rabobank.com

Energy Markets

Ryan Fitzmaurice
Energy Strategist
+1 212 916 7874
Ryan.Fitzmaurice@Rabobank.com

Agri Commodity Markets

Stefan Vogel
Head of ACMR
+44 20 7664 9523
Stefan.Vogel@Rabobank.com

Carlos Mera
Senior Commodity Analyst
+44 20 7664 9512
Carlos.Mera@Rabobank.nl

Michael Magdovitz
Commodity Analyst
+44 20 7664 9969
Michael.Magdovitz@Rabobank.com

Client coverage

Wholesale Corporate Clients

Martijn Sorber	Global Head	+31 30 712 3578	Martijn.Sorber@Rabobank.com
Hans Deusing	Netherlands	+31 30 216 9045	Hans.Deusing@Rabobank.com
David Kane	Europe	+44 20 7664 9744	David.Kane@Rabobank.com
Neil Williamson	North America	+1 212 808 6966	Neil.Williamson@Rabobank.com
David Teakle	Australia, New Zealand	+61 2 8115 3101	David.Teakle@Rabobank.com
Ethan Sheng	Asia	+852 2103 2688	Ethan.Sheng@Rabobank.com
Ricardo Rosa	Brazil	+55 11 5503 7150	Ricardo.Rosa@Rabobank.com

Financial Institutions

Eddie Villiers	Global Head	+44 20 7664 9834	Eddie.Villiers@Rabobank.com
Roeland Bronsveld	Benelux	+31 30 216 9030	Roeland.Bronsveld@Rabobank.com
Krishna Nayak	Germany, Austria, CEE	+44 20 7664 9883	Krishna.Nayak@Rabobank.com
Philippe Macart	France	+44 20 7664 9893	Philippe.Macart@Rabobank.com
Mauro Giachero	Italy	+44 20 7664 9892	Mauro.Giachero@Rabobank.com
Martin Best	UK, Scandinavia, Middle East	+44 20 7809 4639	Martin.Best@Rabobank.com
Paul Duddy	USA	+1 212 916 3799	Paul.Duddy@Rabobank.com
Wouter Eijsvogel	Treasury Sales Europe	+31 30 216 9723	Wouter.Eijsvogel@Rabobank.com
David Pye	Central Banks	+44 20 7664 9865	David.Pye@Rabobank.com

Capital Markets

Herald Top	Global Head of Capital Markets	+31 30 216 9501	Herald.Top@Rabobank.com
Nader Pasdar	Capital Markets USA	+1 212 808 6861	Nader.Pasdar@Rabobank.com
Adam Wotton	Capital Markets Asia	+852 2103 2629	Adam.Wotton@Rabobank.com
Willem Kröner	Global Head of Equity Capital Markets	+31 30 712 4783	Willem.Kroner@Rabobank.com
Crispijn Kooijmans	DCM FIs & SSAs	+31 30 216 9028	Crispijn.Kooijmans@Rabobank.com
Bjorn Alink	DCM Securitisation & Covered Bonds	+31 30 216 9393	Bjorn.Alink@Rabobank.com
Othmar ter Waarbeek	DCM Corporate Bonds	+31 30 216 9022	Othmar.ter.Waarbeek@Rabobank.com
Joris Reijnders	DCM Corporate Loans	+31 30 216 9510	Joris.Reijnders@Rabobank.com
Brian Percival	DCM Leveraged Finance	+44 20 7809 3156	Brian.Percival@Rabobank.com

Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as Rabobank (Rabobank) a cooperative with excluded liability. The liability of its members is limited. Rabobank is authorised by De Nederlandsche Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). Rabobank London Branch (RL) is authorised by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and PRA. Details about the extent of our authorisation and regulation by the PRA, and regulation by the FCA are available from us on request. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that is should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

Please email fm.global.unsubscribe@rabobank.com to be removed from this mailing list

A summary of the methodology can be found on our website www.rabobank.com