



## EU: Continuing in limbo, trying to stay on track

- **The key issue on the EU policy agenda is mapping out a way forward for the EU27 after the Brexit vote.** The annual State of the Union speech delivered by Commission President Juncker and the results of the informal Bratislava summit in September provide some indication, define key priorities and several specific suggestions for the next months. However, they mark but intermediate steps in a process. Further results are to be presented in March 2017.
- **The key challenge for the EU in Q4 is to deliver on measures outlined, keep a constructive spirit for negotiations and “stay on track” with preparations for March in view of challenging domestic political calendars.** Given the upcoming referenda in Hungary and Italy, the rerun of the Austrian presidential elections and election campaigns to intensify in a number of EMU member states, the upcoming months are unlikely to be a quiet period of reflection.
- **While migration and security topics may appear to dominate the agenda, a key policy topic for the EU in Q4 is going to be trade matters.** This involves the approach to pending FTA's (CETA, TTIP), the modernization of trade defence and the future treatment of Chinese imports in anti-dumping investigations. Beyond their economic relevance, these issues are about signalling to what extent the EU is able to bridge gaps between member states and what approach it is going to take with external partners moving forward.



---

## EU27: Mapping out the Union's future after the Brexit vote

EU politics is officially back from summer break. The key issue on the agenda is mapping out a way forward for the EU27 in the aftermath of the UK referendum. On that score, the annual State of the Union address by Commission President Juncker and the informal summit of leaders in Bratislava in September provide some indication. However, both events mark steps in a process that will continue over the next couple of months.

### Key messages from State of the European Union speech 2016 and the Bratislava summit

In his annual state of the Union speech (SOTEU) on 14 September, European Commission President Juncker provided both diagnosis and direction after the Brexit vote. He also outlined specific steps to be taken by the Commission for the next 12 months. Notably, these include

- Doubling the [European Fund for Strategic investment](#) (EFSI) in size and duration, i.e. aiming at a total of EUR 630 bn in investment by 2022
- Steps to [boost the Digital Single Market](#), incl. deployment of 5G (fifth generation mobile communication systems) across the EU by 2025, free wireless in the main centers by 2020 and a reform of copyright rules
- Several proposals need to be seen in the context of the EU's refugee and migration challenge and a greater focus on security topics. This includes, for example, an [investment plan for Africa and the Neighbourhood tying in with proposals to strengthen the EU's global role](#) by making High Representative Mogherini the EU's foreign minister, calling for a European Strategy for Syria and closer cooperation on defense policy (a single headquarter for EU missions and a European Defense Fund to finance joint research)
- And [several measures to strengthen internal security](#), i.e. the strengthening Europol's capacity, proposing a European Travel Information System, and calling for 200 extra border guards and additional vehicles to be deployed at the Bulgarian border by the end of October.

Overall, Juncker tried to be encompassing by setting out how the Union's actions matter for different groups in society and the economy from farmers to start-ups. The [Leitmotif of "a Union that empowers, protects and defends", was somewhat skewed towards the latter two](#), with emphasis on the EU as protector of citizens (from rights violation, external and internal threats, "corporate power", globalization) but also of European industries (e.g. from unfair competition)- in a way mirroring the current public mood.

Juncker's second [SOTEU](#) was not another speech about how Europe can meet the big challenges of today. It was essentially about how the Union can save itself and move forward. Nevertheless, it was neither lofty in style nor did it advocate a big vision. It started from (self) critique and suggested a number of specific next steps but it also [hints at the main problem, i.e. fragmentation](#). In that, it was not a reproach but rather a plea directed at member states. First for practical reasons because the Commission needs member states' support to turn the suggested next steps into results. Second, [given domestic political calendars in member states fragmentation \(or the perception thereof\) remains a key risk for the next months](#). Not least for that reason, the informal summit of EU27 leaders in Bratislava on Sept 16<sup>th</sup> was closely watched.

The summit produced a joint result, i.e. the Bratislava declaration stressing common principles and needs for improvement, and a short roadmap. The



roadmap sets out measures in four priority areas, i.e. i. migration, ii. internal security, iii. external security and iv. the economy.

The strongest political pressure is still on migration, in particular with regard to the issue of reallocating refugees in the EU. Bratislava did not make these differences disappear. Yet while the roadmap contains strong wording on the aims for the EU27 in this area - never to "return to uncontrolled flows of last year", arguably hinting at Germany - the careful wording on the measures at least paves the way for further discussion with Central European countries to find workable solutions during the next months. To that extent, it moves in the same direction as Juncker, stressing the importance of solidarity in principle but adding qualification by saying that "it cannot be forced". The bottom-line of Bratislava signals at least willingness to work on an EU consensus. Yet settling on a workable compromise, remains one of the key challenges for the Slovak presidency in Q4, all the more given role as a broker and a member of the Visegrad group.

---

## Small steps forward - but will they be enough?

Bratislava was meant to be the beginning of a process. It was clear that it would not conclude with a blueprint or a "new vision" for the EU. Similarly, it was clear that the policy issues on the European agenda - migration, security and the economy - are complex and are not going to be solved with any single summit. Finally, in a group of (only) 27, it is clear that there are different interests, expectations and evaluations of results. Partly, the different reactions by some European leaders epitomize this. Partly, they just need to be read as messaging that is directed to their domestic audiences. But precisely because Bratislava only marked a starting point, one of the challenges for the coming months is to maintain a constructive spirit on negotiations despite posturing and domestic politics.

A look at domestic political events scheduled until the end of the year suggests that Europe is not in for a quiet quarter of reflection. They range from the referenda in Hungary (Oct. 2<sup>nd</sup>) and Italy (Dec 4<sup>th</sup>), the rerun of Austrian presidential elections (also Dec 4<sup>th</sup>), Spain still having to form a government - and campaigning starting to move center stage in a number of member states with important elections in 2017 (NL, FR, DE).

The common perception is that migration and security issues are sidelining economic policy topics at the moment. Notwithstanding their importance, a key policy issue for Q4 is going to be trade. This is about politics as well as economics, signalling to what extent the EU is able to bridge gaps between member states and what approach it is going to take with external partners moving forward. In particular, topics on the (EU) trade policy agenda for Q4 include

- how to handle imports from China in anti-dumping investigations in the future - the Commission has announced a proposal to be tabled in H2;
- the approach to pending free trade agreements including the possible signature of CETA at the EU Canada summit in October and the future approach to TTIP on which member states have increasingly voiced different views; and
- the modernization of trade defense instruments - suggestions for reforms date back to 2013 but stalled in the Council.



---

## What next?

While preparations for Brexit negotiations have started, the EU27 are still in a waiting position. Q4 can possibly clarify the timeline but here much depends on signals by the UK. At the moment, we still consider a notification in Q1 the most likely scenario.

In the meantime, two regular Council meetings will be held in October and December with 28 members. The next informal meeting of the EU27 is scheduled for February 3<sup>rd</sup> to take place in La Valetta, also involving a progress review for the Bratislava roadmap. Finally, the meeting in March next year to celebrate the 60<sup>th</sup> anniversary of the Treaty of Rome marks a litmus test on EU policymakers' ability to deliver on a bigger vision going forward.



# Appendix 1

## Important Disclosures

Additional information available upon request

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s). In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Barbara Boettcher/Patricia Wruuck

## Regulatory Disclosures

### 1.Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

### 2.Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at <http://gm.db.com>.



## Additional Information

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). Though the information herein is believed to be reliable and has been obtained from public sources believed to be reliable, Deutsche Bank makes no representation as to its accuracy or completeness.

If you use the services of Deutsche Bank in connection with a purchase or sale of a security that is discussed in this report, or is included or discussed in another communication (oral or written) from a Deutsche Bank analyst, Deutsche Bank may act as principal for its own account or as agent for another person.

Deutsche Bank may consider this report in deciding to trade as principal. It may also engage in transactions, for its own account or with customers, in a manner inconsistent with the views taken in this research report. Others within Deutsche Bank, including strategists, sales staff and other analysts, may take views that are inconsistent with those taken in this research report. Deutsche Bank issues a variety of research products, including fundamental analysis, equity-linked analysis, quantitative analysis and trade ideas. Recommendations contained in one type of communication may differ from recommendations contained in others, whether as a result of differing time horizons, methodologies or otherwise. Deutsche Bank and/or its affiliates may also be holding debt or equity securities of the issuers it writes on. Analysts are paid in part based on the profitability of Deutsche Bank AG and its affiliates, which includes investment banking revenues.

Opinions, estimates and projections constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank research analysts sometimes have shorter-term trade ideas that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas for equities can be found at the SOLAR link at <http://gm.db.com>. A SOLAR idea represents a high conviction belief by an analyst that a stock will outperform or underperform the market and/or sector delineated over a time frame of no less than two weeks. In addition to SOLAR ideas, the analysts named in this report may have from time to time discussed with our clients, including Deutsche Bank salespersons and traders, or may discuss in this report or elsewhere, trading strategies or ideas that reference catalysts or events that may have a near-term or medium-term impact on the market price of the securities discussed in this report, which impact may be directionally counter to the analysts' current 12-month view of total return as described herein. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof if any opinion, forecast or estimate contained herein changes or subsequently becomes inaccurate. Coverage and the frequency of changes in market conditions and in both general and company specific economic prospects makes it difficult to update research at defined intervals. Updates are at the sole discretion of the coverage analyst concerned or of the Research Department Management and as such the majority of reports are published at irregular intervals. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst's judgment. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Prices and availability of financial instruments are subject to change without notice and investment transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Unless otherwise indicated, prices are current as of the end of the previous trading session, and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank, subject companies, and in some cases, other parties.

The Deutsche Bank Research Department is independent of other business areas divisions of the Bank. Details regarding our organizational arrangements and information barriers we have to prevent and avoid conflicts of interest with respect to our research is available on our website under Disclaimer found on the Legal tab.

Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a



loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities, and as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the "Characteristics and Risks of Standardized Options", at <http://www.optionsclearing.com/about/publications/character-risks.jsp>. If you are unable to access the website please contact your Deutsche Bank representative for a copy of this important document.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction.

**United States:** Approved and/or distributed by Deutsche Bank Securities Incorporated, a member of FINRA, NFA and SIPC. Analysts employed by non-US affiliates may not be associated persons of Deutsche Bank Securities Incorporated and therefore not subject to FINRA regulations concerning communications with subject companies, public appearances and securities held by analysts.

**Germany:** Approved and/or distributed by Deutsche Bank AG, a joint stock corporation with limited liability incorporated in the Federal Republic of Germany with its principal office in Frankfurt am Main. Deutsche Bank AG is authorized under German Banking Law and is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority.

**United Kingdom:** Approved and/or distributed by Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG in the United Kingdom is authorised by the Prudential Regulation Authority and is subject to limited regulation by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation are available on request.

**Hong Kong:** Distributed by Deutsche Bank AG, Hong Kong Branch.

**India:** Prepared by Deutsche Equities India Pvt Ltd, which is registered by the Securities and Exchange Board of India (SEBI) as a stock broker. Research Analyst SEBI Registration Number is INH000001741. DEIPL may have received



administrative warnings from the SEBI for breaches of Indian regulations.

**Japan:** Approved and/or distributed by Deutsche Securities Inc.(DSI). Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association and The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. We may also charge commissions and fees for certain categories of investment advice, products and services. Recommended investment strategies, products and services carry the risk of losses to principal and other losses as a result of changes in market and/or economic trends, and/or fluctuations in market value. Before deciding on the purchase of financial products and/or services, customers should carefully read the relevant disclosures, prospectuses and other documentation. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless Japan or "Nippon" is specifically designated in the name of the entity. Reports on Japanese listed companies not written by analysts of DSI are written by Deutsche Bank Group's analysts with the coverage companies specified by DSI. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

**Korea:** Distributed by Deutsche Securities Korea Co.

**South Africa:** Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10).

**Singapore:** by Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch (One Raffles Quay #18-00 South Tower Singapore 048583, +65 6423 8001), which may be contacted in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), they accept legal responsibility to such person for its contents.

**Taiwan:** Information on securities/investments that trade in Taiwan is for your reference only. Readers should independently evaluate investment risks and are solely responsible for their investment decisions. Deutsche Bank research may not be distributed to the Taiwan public media or quoted or used by the Taiwan public media without written consent. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation to trade in such securities/instruments. Deutsche Securities Asia Limited, Taipei Branch may not execute transactions for clients in these securities/instruments.

**Qatar:** Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

**Russia:** This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

**Kingdom of Saudi Arabia:** Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

**United Arab Emirates:** Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been



distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

**Australia:** Retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Please refer to Australian specific research disclosures and related information at <https://australia.db.com/australia/content/research-information.html>

**Australia and New Zealand:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act respectively. Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published without Deutsche Bank's prior written consent. Copyright © 2016 Deutsche Bank AG



---

## David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha  
Global Chief Operating Officer  
Research

Michael Spencer  
Head of APAC Research  
Global Head of Economics

Steve Pollard  
Head of Americas Research  
Global Head of Equity Research

Anthony Klarman  
Global Head of  
Debt Research

Paul Reynolds  
Head of EMEA  
Equity Research

Dave Clark  
Head of APAC  
Equity Research

Pam Finelli  
Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Stuart Kirk  
Head of Thematic Research

---

### International Locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Große Gallusstraße 10-14  
60272 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

---