



Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

FRANCE: HOPE SEEMS TO BEAT ANGER

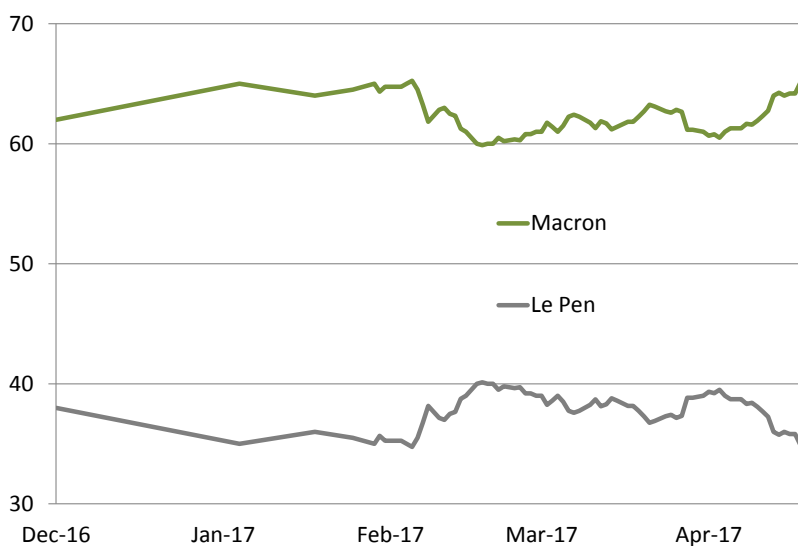
Berenberg Macro Flash

France yearns for change. But what kind of change? After centrist reformer Emmanuel Macron qualified today for the 7 May run-off round of the French presidential election, chances are that France will get the economic reforms it needs to revive its fortunes and catch up with Germany and that France, Germany and their partners will work together to strengthen the cohesion of the Eurozone and the EU.

Macron is now clearly in the pole position to be the next French president. Five exit polls published when voting booths closed at 20h local time predict that Macron will face ultra-right Marine Le Pen in two weeks time, initial results available at 21h local time give Macron 23.7% versus 21.9% for Le Pen, 19.7% for the centrist reformer Francois Fillon and 19.2% for left-wing firebrand Jean-Luc Melenchon. If the final result confirms these estimates, this would be remarkably close to what opinion polls had predicted. That, in turn, would strengthen confidence that Macron will be the next French president. After all, opinion polls suggest that he will beat Le Pen by a margin of roughly 64% to 36% on 7 May (see chart below). In France, polls seem to have captured the mood better than the polls ahead of the Brexit and the Trump/Clinton votes last year. We expect most of those French voters who backed Fillon and the official Socialist candidate Benoit Hamon today to switch to Macron in the second round. Macron has been by far the least divisive of the major candidates. That should enable him to attract extra support. That Fillon and Hamon have already endorsed him strengthens his position further.

French voters will apparently face an unusually clear choice on 7 May between Macron's message of hope, optimism and reform and Le Pen's message of anger. The French election has turned into a chance for the broadly liberal and pro-European mainstream to re-affirm the fundamental values of liberte, egalite and fraternite and put France right, following the example of the German reforms of 2003-04 and the Spanish reforms of 2013-14. The economic backdrop is auspicious for that. Judging by the latest surge in sentiment among French purchasing managers, the broad-based economic upturn looks set to gain some momentum once the political uncertainties are out of the way. Although right-wing and left-wing radicals advanced in France, the worst of the tide of populist anger could soon be over in Europe. As in the Netherlands before, the right-wing radicals did less well in France than polls had indicated some three months ago.

Macron versus Le Pen: Opinion polls for the second round on 7 May



Support in %. Average of last nine opinion polls. Source: French opinion polls



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WHAT NEXT FOR FRANCE?

Can Macron deliver? Probably enough to make a difference. Unlike one-term president Hollande, Macron would have a mandate for change. Unlike the other one-term president Sarkozy, Macro should have the courage and steadfastness to see it through. Having built up his own political movement within months, he has shown political skills despite having never held elected office so far.

If Macron indeed wins the presidency, the resulting momentum should enable his “En Marche” movement (with 241k members as of early April) to win at least 20% - and possibly significantly more - of the seats in the parliamentary elections on 11 and 18 June, especially as many centrist and moderate centre-left policy makers would likely flock to him. “En Marche” wants to field candidates in all 577 constituencies, half of them political newcomers and half deputies or local councillors of other parties who may switch to Macron’s movement.

Probably lacking a majority of his own, a president Macron would probably need the support of the centre-right for his choice of prime minister and to govern. At the parliamentary elections in June, we expect France’s traditional centre-right to do much better than in the presidential vote. While Fillon’s “fake jobs for family” scandal hurt his chances to become president, this scandal should matter much less for the Republican candidates at the constituency level.

Macron’s situation would resemble that of German chancellor Gerhard Schröder who, in 2003, needed to agree his “Agenda 2010” reforms with the centre-right opposition to get them through the upper house of parliament. For two reasons, we would expect parts of the French centre-right to shape and support many of Macron’s reforms in parliament. First, both the centre-left and the centre-right agree that France needs to shape up. Otherwise, the country would continue to fall behind Germany, to the dismay of France’s entire political elite. Second, voters may blame the inevitable short-term pain of reforms on Macron rather than the centre-right backing him in parliament, in line with the German precedent. At the next election in 2022, the centre-right may then come to power without having to make unpopular reforms itself. Under Macron, France could benefit from a reform package that combines some of the changes proposed by Macron and Fillon, watered down modestly in the parliamentary process. While their mandate is still fresh, Macron and his prime minister would probably be willing and able to face down the inevitable street protests from a vocal minority. For France and Europe, this would be the dream scenario.

AN UNUSAL ELECTION

Although Macron apparently came first in the first round, the result expresses a deep sense of frustration among French voters. Dissatisfied with a president Sarkozy who had promised a rupture and delivered a farce and a president Hollande who had promised socialism and delivered stagnation, French voters are now putting their faith in unusual candidates, Macron and Le Pen. The French presidential campaign has turned into a stinging rebuke of the traditional parties and their leaders. Hollande had become so unpopular that he didn't dare to run, the official socialist candidate Benoît Hamon was trounced, albeit apparently less so than polls had predicted, the centre-right stalwart Sarkozy was thrown out in the first round of the Republican primary. For the first time in the history of the France’s Fifth Republic, neither of the two major mainstream parties is sending a candidate into the second round of the presidential election.

FREXIT RISK?

With Le Pen in the run-off on May 7, the Frexit tail risk remains. While highly unlikely, we cannot fully rule out a Le Pen victory. What if? Taking France out of the EU or the euro would not be easy for a president Le Pen. First, she would most likely need to win the parliamentary elections as well. This could be an almost insurmountable hurdle for her Front National. Second, she would have to win a referendum on leaving the EU and, probably, also on leaving the euro before she could go ahead. The likely concurrent market turmoil, including the risk of a run on banks, could persuade some wavering voters to opt for the status quo rather than for the leap into the unknown. Fortunately, the Frexit question will probably not come up anyway if polls for the second round are at least as half as reliable as they seem to have been for the first round.

For more, see

[Frexit or not: what if Le Pen wins?](#) (10 March 2017)

[French update: what if Mélenchon beats Macron?](#) (13 April 2017)



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[Europe's moment of truth: French scenarios](#) (20 April 2017)

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