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FRENCH WRAP-UP: THE GOOD NEWS AND THE LESS GOOD NEWS

Berenberg Macro Flash

THE POSITIVES

- The staunchly pro-European reformer Macron is in the pole position to be the next French president. He is better suited to defeat Le Pen than Fillon would have been.
- The result is more than a risk avoided. It offers a genuine chance to reform France and strengthen the Eurozone and the EU.
- More than two points behind Macron, Le Pen got less support than polls had projected months ago, despite the Champs Elysee terror attack shortly before the election.
- Unlike in the US and the UK, polls did not underestimate the nativist vote. That bodes well for round two on 7 May.
- Fillon and Hamon immediately endorsed Macron.
- Fading political risk in France adds to the chance that French and Eurozone growth can surprise to the upside this year.

THE NEGATIVES

- More than 45% of the French voted for irresponsible populists who either want to leave the euro and the EU (Le Pen, fellow right-winger Dupont-Aignan) or who are at least toying with those ideas (Melenchon).
- The late surge in support for Melenchon, who espouses the kind of loony left ideas that bankrupted Venezuela, remains scary. It shows that the potential for populist accidents is not confined to the UK (Brexit, Corbyn) and the US (Trump, Sanders).

THE BOTTOM LINE

Tail risks remain. But most likely, the French election can mark a turning point for France and Europe. If Macron wins on 7 May and manages to forge a coalition of pro-reform forces after the 11 and 18 June parliamentary elections, France, the Eurozone and the EU could benefit significantly over coming years.

Reform progress in France and Europe, the pro-mainstream precedents set by voters in the Netherlands and France and the likely boost to the European economic outlook could also help to keep the Italian political risks in check.

RESULTS

After 97% of the votes counted: Macron 23.86%, Le Pen 21.43%, Fillon 19.94%, Melenchon 19.62%, Hamon 6.35%, Dupont-Aignan 4.73%. Source: <http://elections.interieur.gouv.fr/presidentielle-2017/FE.html>

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