



Holger Schmieding, Chief Economist | [Holger.schmieding@berenberg.com](mailto:Holger.schmieding@berenberg.com) | +44 20 3207 7889

## FRENCH ELECTION UPDATE

### Berenberg Macro Flash

**In politics, the road is rarely smooth.** The investigation of presidential candidate François Fillon (Republican) following allegations of false employment of his family could alter the calculus of the French presidential elections on 23 April and 7 May. After the Brexit and Trump surprises, markets are focusing on the tail risk of an upset victory for ultra-right anti-EU/euro Marine Le Pen in France. While the risk that Fillon will have to withdraw his candidacy has increased a lot in the last few days, the Le Pen risk has risen only modestly. On balance, centre-left reformer Macron could get a bigger boost from the Fillon affair than Le Pen.

While it is not our base case, what if Fillon really had to withdraw his candidacy? Since this is the first time the Republican party has held a primary, there is no precedent for electing a new candidate if a candidate resigns. Following the statutes of the Republican party (Article 38), the party could potentially come up with a new candidate in two ways:

- 1) A new round of open primaries because the candidate is “designated on the occasion of an open primary” only.
- 2) For lack of time, for example in the event of a death of a candidate, the party’s political bureau could decide a method to determine the nomination, one option would be substituting Fillon with the runner-up of the primaries, Alain Juppe.

Information from the Republican committee responsible for the election process suggests the party needs to agree on a candidate by 17 or 22 March. If Fillon had to drop out and if he would be replaced by Juppe, the new Republican candidate would still have a much better chance to win the presidential election than Le Pen. Like Fillon, Juppe advocates significant pro-growth reforms, although he might be somewhat less radical than Fillon.

**Advantage Macron:** Opinion polls for the first round of the presidential election (23 April) show a three-way race between Front National Le Pen (25%), Republican Fillon (21.5%) and independent Macron (20.5%). The Fillon scandal may hurt the credibility not just of Fillon, should he stand, but his party too. For the likely potential pairings for the second round (7 May) of the presidential election, Fillon versus Le Pen, or Macron versus Le Pen, opinion polls show Le Pen is likely to lose by a large margin to either candidate.

In recent opinion polls, Fillon has led Le Pen 20 points in a second round run-off. It may take a while, though, for the full impact of the Fillon affair to show up in the polls. Before the Republican primaries kicked off in November 2016, polls for a run-off between Juppe and Le Pen had the Republican winning by an ever wider margin (25-30%).

Centre-right reformer Macron leads Le Pen by 30 points in the second round according to latest opinion polls. It is not clear how Benoit Hamon, the winner of the Socialist Party primaries, would do against centre-left Macron, or more importantly, versus Le Pen in a second round run-

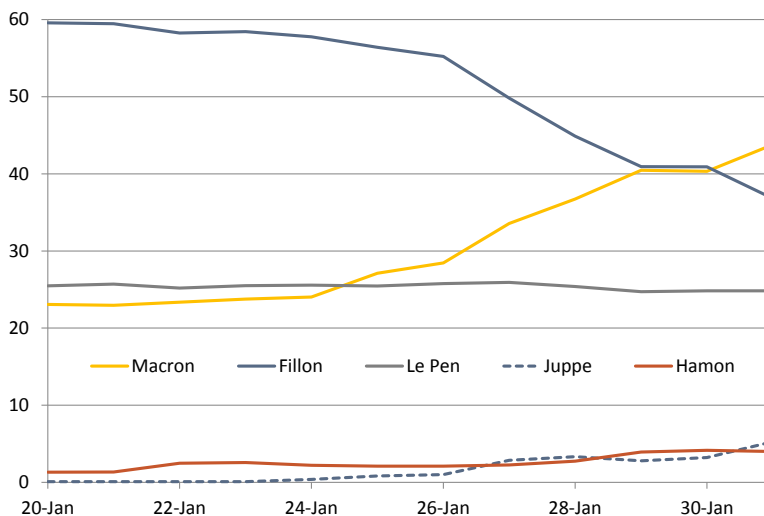


## MACRO NEWS

off. In polls for the first round he trails behind the three frontrunners with 14% of the vote share according to poll data.

**What the bookmakers say:** While the bookmakers odds should be taken with a lot of caution - think Brexit and Trump - in the absence of more up-to-date polls they offer a rough guide to how the candidates currently fare. Macron is the front runner, with an implied probability to win the presidential election at 44% as of 31 January, having taken over from Fillon (37%) over the last couple of days. Fillon's odds dropped considerably from 55% before the allegations became public. Interestingly, Le Pen's odds have remained fairly stable at around 25%, with Fillon's losses almost entirely going to boost Macron. Odds for a Juppe victory have increased now the risk that Fillon could drop out has risen, but they remain in the single digits (5%). Bookmakers assess the chances of a Hamon victory at 4%, below Juppe's, indicating the challenges ahead for the Socialist party candidate.

**Chart: Implied probability for candidates to win the French presidential elections (in %)**



*Average probability implied from betting odds, in %. Odds may not total 100%. The excess over 100% is the 'overround' which ensures the bookmaker makes a profit. Source: Oddschecker.*

**Serious tail risk, big opportunity:** An upset victory by the Front National's Marine Le Pen in the French presidential elections could potentially spell the end of the EU and the euro as we know them. After an alleged email scandal affecting Hillary Clinton may have helped to propel Donald Trump to the White House, we need to take the potential impact of the Fillon family issues seriously. But unlike support for Trump and Brexit, opinion polls in the last six years have not systematically underestimated support for the Front National compared to actual election results. And unlike Trump, Le Pen is not a new candidate that could benefit from a novelty factor. A yearning for a fresh face could help Macron instead. The most likely outcome remains that Macron or Fillon (or possibly Juppe) wins the presidency. If so, they would have a mandate to finally overhaul the French labour market and turn France from Europe's biggest growth laggard into a



**BERENBERG**

PARTNERSHIP SINCE 1590

## MACRO NEWS

German-style engine of growth. On balance, we still see the upcoming French elections more as an opportunity than a risk for France – and Europe – this year.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[holger.schmieding@berenberg.com](mailto:holger.schmieding@berenberg.com)