

## French elections: Gap between Macron and Le Pen grows wider

A few days before the second round of the presidential elections on 24 April, Emmanuel Macron is widening his lead in the polls and last night's big TV debate did not change much. What is certain is that a victory for either of them would take France on a completely different path



The presidential campaign is heating up between Emmanuel Macron and Marine Le Pen

### Macron ahead in the polls

Since the end of the first round of the election, the presidential campaign has been raging in France and this one seems to benefit Emmanuel Macron more than Marine Le Pen. Macron's lead in the polls has indeed increased and is now between 11 and 13 points (56% vs 44%). With the elimination of Eric Zemmour, the other far-right candidate, attention has focused more on the details of Le Pen's programme and an increasing part of the French population seems to be opposed to her ideas. Moreover, many citizens seem ready to vote for Macron not because they like his programme or share his ideas but because they want to stop the far right.

Last night's televised debate between the two candidates did not fundamentally change the

situation. Compared to 2017, the debate was much more polished, even if there were real tensions, and Le Pen fared better than then. Nevertheless, the polls suggest that Macron is seen as the winner of this debate (59% saw Macron as the more convincing candidate compared with 39% for Le Pen), even if he is still seen as arrogant. Le Pen failed to hook Macron on his record as president, and it was Macron who pushed her onto the defensive on her record of voting against policies in the assembly, her pro-Putin stance and her plans for the European Union.

The issue at stake at the end of the campaign remains left-wing voters. However, only 14% of voters said they were waiting for the debate to decide who to vote for and it is unlikely that the debate actually changed the minds of many voters. While Le Pen's ban on headscarves and her stance on renewable energy (she wants to dismantle wind turbines in France) could sway the left-wing vote towards Macron, most voters of Jean-Luc Mélenchon (who came third in the first round with 22% of the vote) might still prefer to abstain. For his voters, the real issue at the moment is the legislative elections in June. No matter who is elected President, they hope that the left will win the legislative elections to obtain a parliament hostile to the President, which would force the President to appoint a left-wing Prime Minister.

Ultimately, the polls suggest that a Macron victory on Sunday is still the most likely outcome. Nevertheless, given the expected high abstention rate, a surprise cannot be excluded and a Le Pen victory remains a possibility.

## A different future

What is certain is that a victory for either of them would take France on a completely different political, economic, European and geopolitical trajectory. From an economic point of view, the programmes of the two candidates, fed with the "whatever it costs" implemented during the covid crisis, are expansionist and, for neither candidate, the moment to close the budgetary floodgates seems to have come. Between the two programmes, Le Pen's is the more expansionist, proposing a myriad of vouchers, VAT cuts and tax reductions, as well as a lowering of the retirement age. The financing of her programme is considered as very unrealistic by independent institutes, giving way to a ballooning budget deficit. On the other hand, Macron is counting on certain reforms, including pension reform, and on economic growth to finance his programme. In the context of the war in Ukraine, his assumptions are probably too optimistic, but he keeps the objective of reducing the deficit to 3% at the end of his mandate. Of course, the implementation of the president-elect's programme will depend on the parliamentary majority after the June elections. Due to the French electoral system, it is extremely unlikely that Marine Le Pen will win a parliamentary majority. For Emmanuel Macron, it is more likely, but not guaranteed. When a president doesn't have a majority in parliament (the so-called cohabitation) his power is very much reduced.

## The European Agenda

For Europe, Macron and Le Pen have radically different projects. While Macron is very pro-European, and wants to continue to strengthen the project and the action of the European Union, Le Pen advocates a substantial modification of the functioning of the EU, from "the inside". She wants to unilaterally reduce the French contribution to the EU budget. She wants to move towards an "alliance of nations", wants to challenge the free movement of goods and people and wants French law to take precedence over European law. In order to carry out its project, she hopes to obtain the support of its "natural" allies Hungary, Poland and Slovenia. But this may prove difficult, as illustrated by their failure to form a group in the European Parliament due to excessive tensions.

The fact remains that all these wishes are fundamentally contrary to the functioning of the European Union and would put France on a collusion course with the European Commission. On top of that she would probably also be undermining the EU's Green Deal.

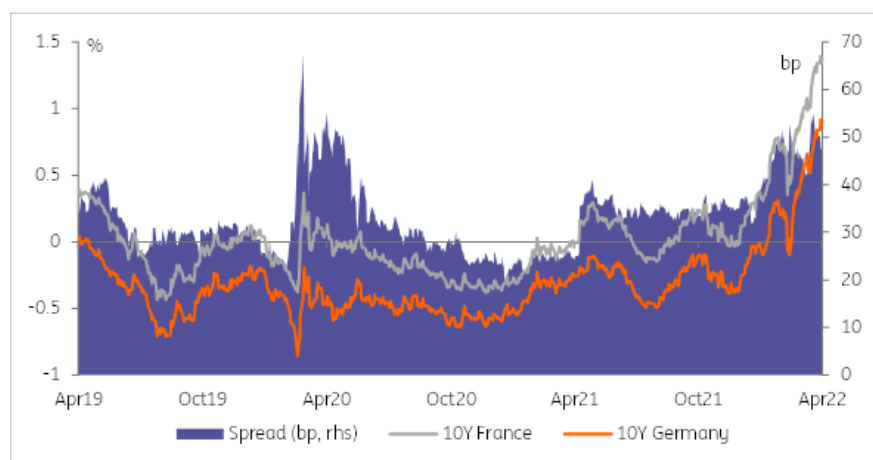
In the end, if there is little chance that she would manage to implement much of her projects (given the very likely lack of a parliamentary majority, though she would try to circumvent this through the use of referenda), a victory for Le Pen would undeniably be unfavourable to the cohesion of Europe and would probably lead to a loss of influence for France on the international scene. As France has always been one of the driving forces of European integration, the election of a eurosceptic French president would be a rude awakening for the European Union. Not to mention the fact that Le Pen has also been more sceptical of the European sanctions against Russia. Apart from withdrawing France from the integrated command of the NATO, she wants rapprochement with Moscow, which would break the European unity on this front. Beyond the economic measures she wishes to implement, it is ultimately this geopolitical posture that could have the most important economic consequences. This leap into the unknown would probably lead to an adverse financial markets reaction and a very uncertain economic trajectory, weighing on the growth prospects of the coming years.

## French bonds have moved on to bigger things

French sovereign bonds went into the presidential debate with an unmistakably upbeat tone. Macron's widening lead in the polls before event had investors correctly conclude that the bar was high for Le Pen to flip the race. Ultimately, most debates end up in a draw, with pundits repeating the tired cliché that it was unlikely to convince supporters of each camp to switch their allegiance. In our view, French bonds spreads to Germany are priced for a Macron victory already. It may not seem that way at first glance, but sovereign spreads now have to deal with the much bigger issue of the ECB moving ever closer to policy tightening.

This is not an issue specific to French bonds, but one that will affect the spread of all sovereigns to Germany. The ECB's reluctance to be drawn on the topic of what they may do to prevent fragmentation makes that fragmentation more likely in our view. We see a material risk of wider spreads in the near-term, as markets come to terms with tighter policy.

## Wide French spreads reflect concerns about ECB tightening



Source: Refinitiv, ING

## FX Markets: Euro taking more notice of the ECB

French election risk has largely been playing out in the FX options market rather than the FX spot market. We had mentioned before that EUR/USD implied volatility for Monday 25th April had been trading about 2.5 times normal levels. A decent performance from Macron in the first round and in the TV debate has now seen EUR/USD traded volatility dip back to two times normal levels. Barring a shock win for Le Pen on Sunday, we would expect this event risk to pass without leaving too much of a lasting impression on EUR/USD.

Instead, it is ECB policy normalization which is driving EUR/USD in the short term. The rally in US yields and the dollar has stalled for the time being and ECB remarks concerning a possible July rate hike have provided EUR/USD with a brief lift. Yet a lot of ECB tightening is already priced and we prefer to back the dollar this year. We doubt any EUR/USD near term gains close to or above 1.10 will be sustained.

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