

Uncertainty for France as Macron looks to fend off Le Pen's presidential challenge

The second round of the French presidential election will pit Emmanuel Macron against Marine Le Pen as in 2017, but the outcome is much more uncertain this time around. Markets are looking to a volatile two weeks before the final result is known



President Emmanuel Macron has much to do to fend off the challenge of Marine Le Pen in the next two weeks

Déjà vu? At first glance, it might seem so, but it's far from it. As in 2017, Emmanuel Macron (27.6%) and Marine Le Pen (23.4%) are the two winners of the first round of the French presidential elections and will face each other in the second round on 24 April. The far-left candidate Jean-Luc Mélenchon was third and quite close (22% of the vote). In fourth place is the far-right polemicist Eric Zemmour with 7% of the vote. The end also seems near for the two traditional parties that have governed France for 50 years (from 1945 to 2017). Valérie Pécresse (Les Républicains, right-wing) received less than 5% of the vote and Anne Hidalgo (Parti Socialiste, left-wing) was below 2%. The Green candidate, Yannick Jadot, also finished with less than 5% of the vote.

The uncertainty is greater than in the last elections

Emmanuel Macron performed well in the first round of the elections, a little better than the polls suggested, with the best score for an incumbent president since François Mitterrand in 1988. That said, this does not mean that the die is cast and that he will easily win the second round against Marine Le Pen, as in 2017. In fact, the uncertainty is greater than in the last election. Zemmour has already instructed his voters to vote for Le Pen, and with 30% of the vote for Zemmour and Le Pen together, the far-right has never been so powerful in France. Moreover, Le Pen's image is very different from the one she had in 2017. She seems much less extreme and more acceptable to a large part of the French population. She also ran an excellent [campaign](#). Macron has to defend his record as outgoing president, which is much more difficult than his posture in 2017 when he embodied a certain renewal.

Macron has a small lead

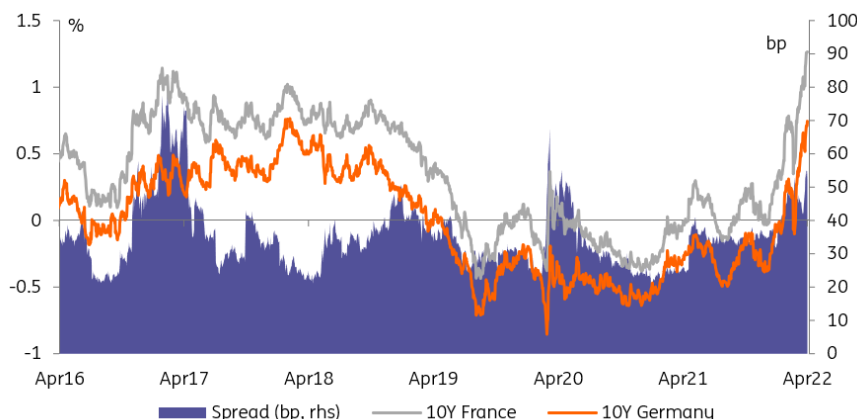
The latest polls indicate that the two candidates are within a whisker of each other. According to the polls, Emmanuel Macron has a very small lead, with between 54% and 51% of voting intentions (i.e. 12 to 15 points less than his score in 2017). Now, a new campaign is starting and the next two weeks will be crucial, including the televised debate scheduled for Wednesday, 20 April. The most important issue for Macron and Le Pen will be to attract Mélenchon voters. The latter asked his voters not to vote for the extreme right of Le Pen without explicitly endorsing Macron. Nevertheless, as a good part of left-wing voters are strongly opposed to the incumbent, it is likely that Mélenchon's voters will be split between the two. Another issue will be the turnout, with many left-wing or environmentalist voters who would rather stay at home than vote for either of them.

So, the first round delivered a verdict close to what was expected. The second round remains very uncertain. In all likelihood, Macron should win but with a smaller margin of victory. And a Le Pen presidency can't be excluded.

A more muted market reaction

Compared to last time five years ago, markets woke up to the risks posed by the French elections relatively late, in the week before the first round. Things are different now. The campaign has been characterised by a softer tone towards the European Union and eurozone membership (the infamous 'Frexit') on the part of populist parties, of which there are many. This goes some way towards explaining the more muted market reaction. Five years ago, the spread of 10Y French sovereign bonds over Germany peaked above 80bp, compared to 55bp this time around.

Sovereign spreads have taken a more relaxed view of the election than 5 years ago



Source: Refinitiv, ING

Macron’s better than expected score in the first round has been greeted by a relief rally in French assets. This shouldn’t lull investors into a false sense of security. Macron is the favourite to win, but the two weeks heading into the runoff will be characterised by higher volatility in our view, so long as polls put both candidates neck and neck and within the margin of error. The next flashpoint for investors will be the TV debate scheduled for 20 April. Sovereign bonds also have to contend with an [ECB edging closer to policy normalisation](#), which is a recipe for more volatility in the near term.

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