

Macron defeats Le Pen but implementing his programme will depend on legislative elections

Emmanuel Macron has won the French presidential election, with 58% of the votes according to the first estimates. A broad victory, with a higher score than what had been predicted by all the polls, despite an abstention rate up by 2 points compared to 2017. He is the first president to be re-elected for a second term in 20 years



French President Emmanuel Macron was re-elected to second term

Political and economic continuity

Macron's election is above all a guarantee of continuity for the next five years. For the European Union first of all, where Macron intends to strengthen his leadership more than ever and weigh in on the future debate on the budgetary rules, the energy transition and the Union's international policy. His election is likely to be greeted with a sigh of relief by other European leaders. It is also continuity for French politics. At the same time, Macron will seek to continue his work of reforming France. The task will be far from simple, however, as the country has appeared divided throughout the campaign, and also over the past five years. Let's not forget that more than 40% of Macron voters today voted for him simply to block the far right, not because they support his programme

or his ideas. Marine Le Pen lost, but she won 42% of the vote, a much higher score than in 2017 (34%). Given the abstention rate, this implies that 30% of the entire French population voted for the far-right candidate. Never before has the far-right been so close to power in France, a sign of the divisions and tensions that currently exist in French society. Therefore, for the next five years, Macron will face strong opposition from the street and any attempt at reform could lead to demonstrations and anger from the street, like the yellow jackets.

The implementation of his political programme will depend on the legislative elections on 12 and 19 June. This will determine whether Macron will be able to rely on a majority in parliament, which would give him a lot of freedom to implement his programme, or whether he will have to evolve with a minority in parliament and a prime minister from another political group. At the moment, it is difficult to assume that Macron wins a majority in the legislative elections. These are tactical elections, which depend on agreements between parties, as it is a two round-system with single-member constituencies. As only the candidates with the highest scores go to the second round (provided no candidate has an absolute majority in the first round), coalitions have to be formed for the second round. And on this point, there are many unknowns. In particular, whether the left-wing parties will be able to agree to rally behind Jean-Luc Mélenchon (the far-left candidate who came third in the first round of the election). If this is the case, a left-wing majority is possible, but not the most likely outcome. On the right too, there are attempts to bring together the right-wing and far-right elected representatives opposed to Macron to form a group in the national assembly. A majority for this group seems unlikely at the moment. Macron's large lead in the presidential election suggests that he still has a good chance of winning a majority. Nevertheless, depending on the upcoming inter-party negotiations, a surprise cannot be ruled out.

According to tradition, the current government, led by Jean Castex, will resign on Monday, 25 April. A new government, possibly also led by Castex, will then be appointed and will lead the country into the legislative elections.

Rates: A possible but short-lived rally

French bonds already priced a Macron victory with a high degree of confidence going into the vote. This isn't to say they won't rally at the open on Monday, due to the extra momentum this gives Macron into the Parliamentary elections in June, but we expect the move to be short-lived. The bigger theme in financial markets is the looming tightening cycle by global central banks (with the Bank of Japan's yield curve control the last shoe to drop?). We don't expect risk appetite to fare well in that context and this should be reflected in wider French spreads over Germany.

This isn't to say that the outcome of this election is meaningless. A convincing victory today allows markets to contemplate the possibility of Macron enjoying a governing majority after the June parliamentary elections. This will mean his vision of an ever-closer EU will receive a boost, and so will sentiment towards the broader periphery. On the fiscal front, we doubt the outcome of the vote in June will be a strong driver of the performance of French bonds, barring a victory from a freewheeling, spendthrift party.

FX markets: Euro bounce to be weak

The euro has been marked marginally higher in Asia on exit polls pointing to another Macron victory. FX markets had always appeared to price a Le Pen victory as a tail risk, rather than demanding too much of a risk premium in the euro exchange rate. Thus Monday's bounce in the euro need not be that large.

Instead, EUR/USD will probably continue the week as it concluded last week – under pressure on broad dollar strength. The week ahead sees eurozone 1Q GDP data and the first look at April CPI, while the focus in the US will be on 1Q22 GDP data – data which is unlikely to derail expectations of a 50bp hike from the Fed on 4 May. The dominant theme in FX should remain the Fed's rush to neutral policy juxtaposed against ECB gradualism. This should combine to keep EUR/USD offered in a 1.05-1.10 range into the summer.

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