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French elections: economic and political scenarios

The French Presidential and legislative elections are the next political event attracting investor attention. Today, we have published our in-depth analysis of this topic. This report consists of an analysis of the election impact on the economic and political scenarios. We have simultaneously published complementary reports on: FX, government bonds, French banks, equities, equity derivative and an executive summary in related articles.

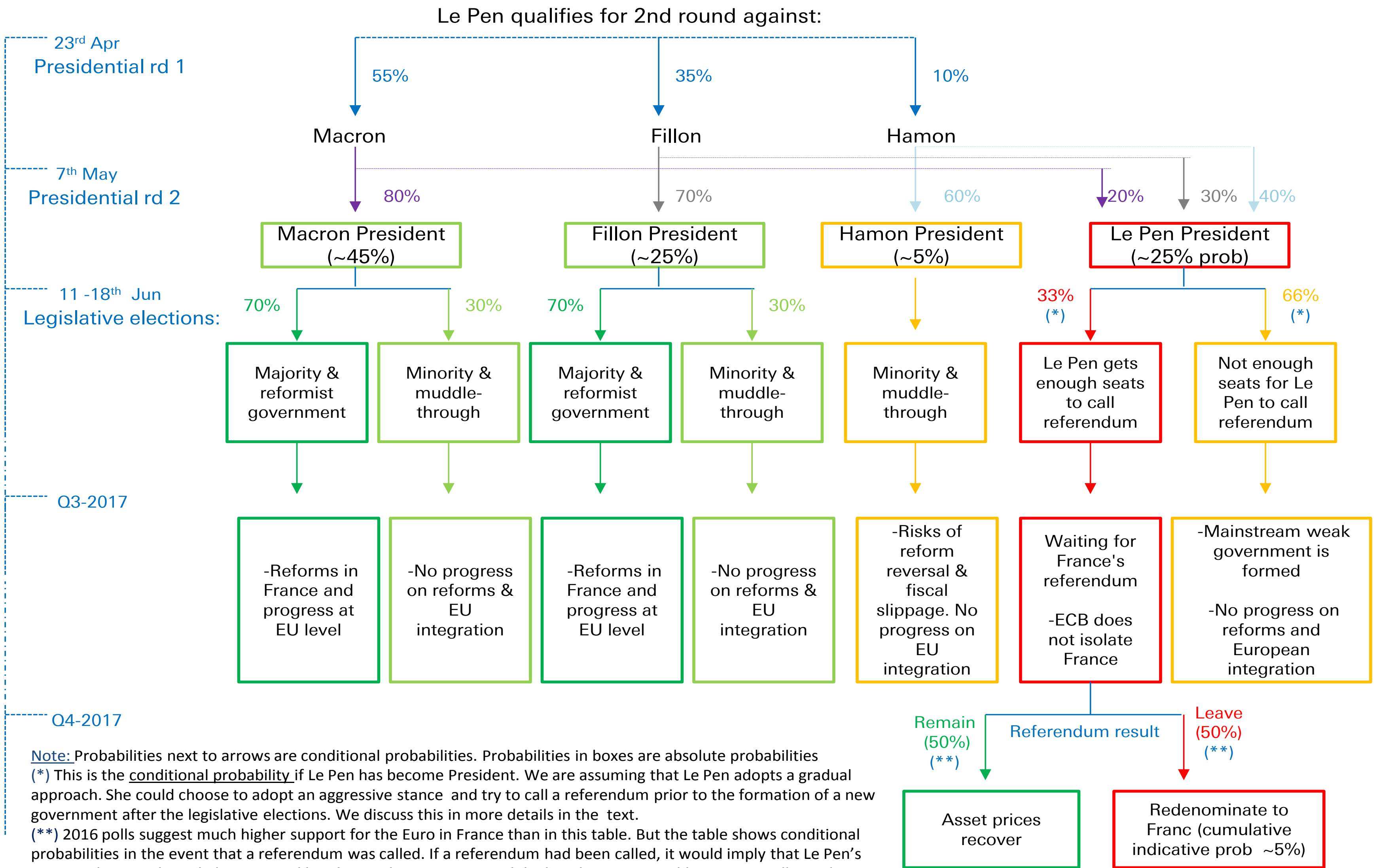
- After Brexit, the US election and the Italian Senate referendum, the French Presidential and legislative elections are the next key political events. We present a framework for assessing France's short and medium-term macro and market prospects. We provide a quantitative framework within which we discuss indicative probabilities of various states of the world. We have used current polls in France, France's polling forecast error history, France's December 2015 regional election results as well as recent experiences in elections in the US and the UK and Italy's 2016 referendum. The benefit of our analysis does not lie in the probability point estimates but in dividing the post-election outcomes into potential scenarios.
- We consider four scenarios in which independent Macron, National Front eurosceptic Le Pen, centre-right Fillon, or Socialist Hamon becomes President. We describe how the choice of President would affect and interact with the results of the June legislative elections, including the likelihood of a referendum on France's euro membership being organized by end-2017.
- Although uncertainty remains high, polls suggest that the central scenario is a victory by a mainstream candidate (Macron or less likely Fillon) in the Presidential election. Macron or Fillon's ability to implement his programme will depend on the outcome of the June legislative election. While compromises are to be expected, we think that it is more likely than not that a reformist, pro-European government can be formed. This would be a positive for the short-term and medium-term outlook of France and Europe. In that case, we would expect France GDP to grow ~1.5% in 2018. We estimate France's potential growth at ~1.1% but it could be increased by ~0.2-0.3%. If a reformist government cannot emerge, the current policy muddle-through would continue, potentially benefitting populist parties.
- According to polls, the least likely scenario appears to be a victory of the Socialist candidate Hamon. His chances to get past the first-round could modestly increase in the highly unlikely event he forms an alliance with the radical-left candidate Melenchon. But in this scenario we would also increase the likelihood of a Le Pen's victory at the second round. If our least likely outcome materialises, we would expect a disagreement with Europe on policy and risks of reform reversals in the first couple of years to be then followed by more centrist policies.
- Polls point to a substantial fall in support for centre-right Fillon in the first round to the benefit of Macron. At the second round, Fillon is still seen as defeating Le Pen, but with a decreasing margin. If the recent trend continues, Fillon's lead versus Le Pen could fall closer to the average forecast error for the Brexit referendum polls. If Fillon becomes President, he will call for a reform-therapy shock to improve France's competitiveness, while Macron proposes a more gradual reform programme.

Accompanying documents French Elections:

- Executive summary
- FX
- Government bonds
- French banks
- Equities
- Equity derivatives

- According to polls, Le Pen seems set to pass the first round. The great majority of client questions are about the consequences of a Le Pen presidential victory in the second round. In our opinion, a President Le Pen would still face material institutional and constitutional hurdles to applying most of her proposals.
- Le Pen could adopt an aggressive stance by trying to call referenda, e.g. to exit the EMU, prior to the legislative elections. However, we think it is more likely that she adopts a more gradual approach to maximize her chances in the upcoming 11-18 June legislative elections.
- Calling a referendum is not easy. The easier option for Le Pen would be to organize a referendum on France's euro membership is Article 11 of the French Constitution. In this case, the key hurdle for Le Pen would be to gain the support of at least a quarter of the Lower House seats. This is, in our view, an even bigger ask than winning the Presidential race. In other words, we think that such an outcome would require a swing in support for the National Front at the June parliamentary election above and beyond that necessary for Le Pen to win the Presidential election.
- Still, if Le Pen manages to call a euro referendum via Article 11, the conditional probability of France exiting the euro area would likely become a 50-50 call. Nevertheless, even Le Pen's election would create capital flight and market stress. In the period before such a referendum our view is that:
    - France is unlikely to ask for capital controls.
    - The ECB would likely play a constructive role to avoid in the short-run a disintegration of the common currency area. We assume that the ECB will have the implicit support of core country politicians.
    - Based on their collateral buffers, we think that the French banking system would be able to sustain the stress while waiting for the referendum. Together with the insurance sector, it should also be able to support the gross financing needs of the French government over the May-December period.
    - Other EU leaders are likely to fight to preserve the euro. In our view, progress towards completing the banking union may be agreed, but no quantum leap towards fiscal integration and loss of sovereignty would be proposed.
- If the tail-risk event of France exiting the monetary union were to materialize, Europe's non-populist leaders are likely to attempt "one last stand" to save the euro. That said, the only way to sustain the single currency in the long-run is through a quantum leap in integration and convergence. Even if there is political willingness to fiscal integration in core countries, without France, these countries would probably not have enough resources to support the periphery. Peripherals would have to swiftly implement deep structural reforms that lead to a convergence with core countries – Italy *in primis*. Europe has probably left it too late to credibly achieve this quantum leap and get to the appropriate depth and balance between solidarity and sovereignty. At best, a hard core of Northern euro area member states could retain a common currency.

Figure 1: Breaking down the French electoral cycle into potential scenarios with indicative probabilities based on opinion polls and timeline



Note: Probabilities next to arrows are conditional probabilities. Probabilities in boxes are absolute probabilities
(*) This is the conditional probability if Le Pen has become President. We are assuming that Le Pen adopts a gradual approach. She could choose to adopt an aggressive stance and try to call a referendum prior to the formation of a new government after the legislative elections. We discuss this in more details in the text.
(**) 2016 polls suggest much higher support for the Euro in France than in this table. But the table shows conditional probabilities in the event that a referendum was called. If a referendum had been called, it would imply that Le Pen's score at the Presidential elections and legislative elections was much higher than suggested by current polls. Such a change in the electorate's preferences would likely imply that support for the euro has decreased.

Source: Deutsche Bank

Summary of the probability tree

In figure 1, we summarize the different political scenarios we will consider. While the list of possibilities might be much larger, we believe these scenarios provide a useful framework to consider potential developments and key events to focus on. To assign indicative probabilities to each scenario and branch in the tree, we rely on current polls in France, France's polling forecast error history, France's December 2015 regional election results as well as recent experiences in elections in the US and the UK and Italy's 2016 referendum in our assessment.

Using this approach we assign indicative probabilities to each scenario. These should be interpreted as indications and not as precise point estimates of the probability of each outcome to materialise. With that in mind, we assume that Le Pen qualifies for the second round with a 95% probability. In that case:

- We assign an indicative probability of 55% to Macron being her opponent in the second round. If Macron was to face Le Pen in the second round, we assign an 80% probability to a Macron victory. Once President, we assign a 70% probability that Macron would obtain a reformist majority in the Lower House and a 30% probability that he cannot obtain an absolute majority
- We assign an indicative probability of 35% to Fillon being Le Pen's opponent in the second round. If Fillon was to face Le Pen in the second round, we assign a 70% probability to a Fillon victory. Once President, we assign a 70% probability that Fillon would obtain a reformist majority in the Lower House and a 30% probability that he cannot obtain an absolute majority
- We assign an indicative probability of 10% to Hamon being Le Pen's opponent in the second round. If Hamon was to face Le Pen in the second round, we assign a 60% probability to a Hamon victory. Once President, we do not believe that a reformist government would emerge.
- In the case of Le Pen becoming President, we assign conditional indicative probabilities on the outcome of the legislative elections.
  - We assign a 33% probability that she would have enough MPs in the lower house to call a referendum on euro membership. Polls in 2016 suggested that support for the euro in France stood around 60%. If Le Pen has won the Presidential elections and performed very well in the legislative elections, we assume that this would reflect a change in the electorate's preferences. We, therefore, assign a 50% conditional probability of France getting out of the euro in that scenario. Overall, this results today in a probability of France exiting the euro by year-end slightly below 5%
  - We assign a 66% probability that she would not obtain enough support in the National Assembly to call a referendum on euro membership.

Description of scenario: Macron or Fillon win the Presidential election

In the case where Macron or Fillon win the Presidential race (as illustrated in the first two paths of figure 1), the markets would likely react positively to the election of a reformist candidate. Fillon appears more dedicated to a reform-therapy shock to improve France's competitiveness in the short-run while Macron proposes a programme of reforms more in continuation of what was realized in the last few years to improve France's competitiveness and productivity in the medium-term. In either case, the new President will quickly turn to the legislative elections to ensure a majority in the Lower House of Parliament.

Both Macron or Fillon would face challenges:

- In the case of Macron, he would likely have to form alliances with the more centrist MPs from the Socialist party and the centre-right.
- In the case of Fillon, allegations regarding his alleged misuse of public resources could still limit his ability to obtain a large popular mandate in the Parliamentary elections. Fillon will also probably try to limit the number of seats obtained by the National Front. To do so, he may have to explicitly or implicitly coordinate with the centre-left parties in the second-round of the legislative elections[1].

<u>If a reformist government cannot be formed</u> and the President gains less than an absolute majority in the Lower House, it might become difficult to push for reforms. In the short-run, in this scenario, growth would be the highest in the short-term because the economy momentum is not impaired by the implementation costs of reforms. France won't make much progress on fiscal deficits and reforms. Growth is above potential as in the European Commission no-policy change scenario: 1.4% in 2017, 1.7% in 2018. But long-term fiscal sustainability and competitiveness issues do not go away.

<u>If a reformist government is formed</u>, which is our central case scenario, this would be perceived as a positive not only for France but also for Europe. Both Fillon and Macron have repeated their willingness to bridge differences with Germany. In terms of economics, the reformist government would engage in structural reforms and structural fiscal consolidation. This would limit cyclical growth in the short-run, but would ultimately increase the potential growth and competitiveness of the economy. GDP would grow ~1.3% in 2017 and ~1.5% in 2018. Confidence in the French economy could pick up and lead to higher momentum. We estimate France's potential growth today at ~1.1% but it could ultimately be increased by 0.2-0.3pp by the end of the legislature.

Note that at the end of this note we dedicate a section to comparing all of our economic scenarios.

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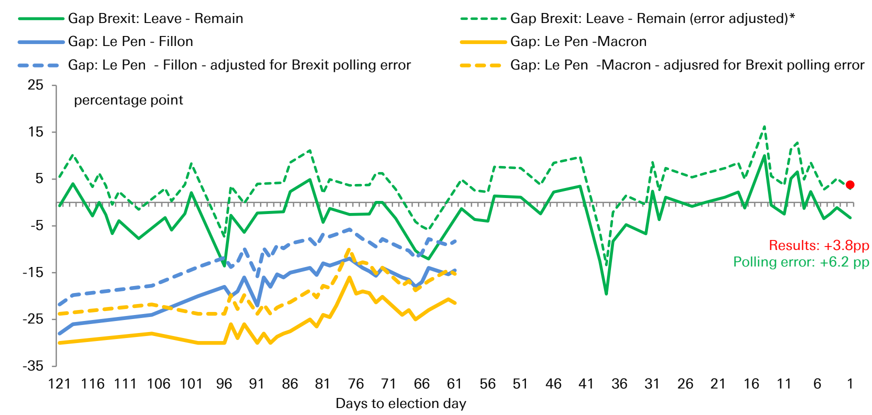
[1] The legislative elections in France happen in two rounds. Any candidate that obtains more than 12.5% of the share of the electorate (not the expressed votes) can run in the second round. Participation at the legislative elections is usually ~55%. In the second round, the candidate coming ahead in the votes is elected MP. Note that it is not uncommon to have second-rounds where a centre-right, centre-left and National Front candidate would face each other. Historically, when the National-Front candidate appeared likely to win, the mainstream candidate likely to arrive third dropped out of the race and supported the other mainstream candidate.

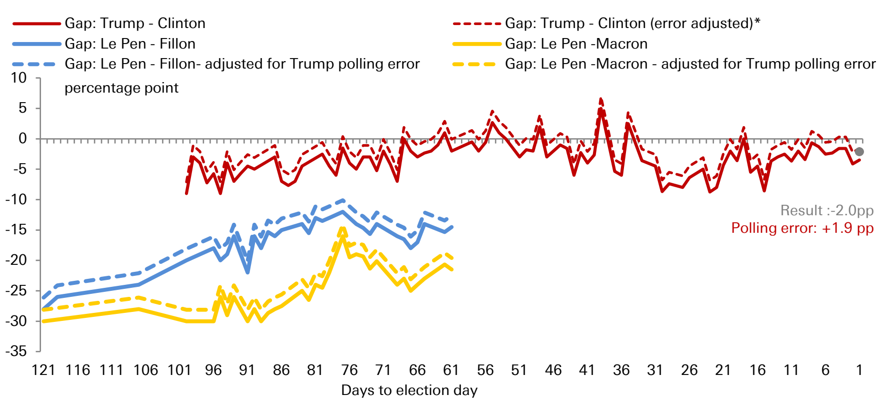
The view that Macron or Fillon are likely to defeat Le Pen in the second round of the Presidential elections is based on current polls. In figure 2, we report the gap between Le Pen's share of votes and each mainstream candidate share of votes. For example, if the polls show that Macron would obtain 60% of the votes and Le Pen 40%, the solid yellow line in figure 2 would be at -20pp. We then apply the polling margin of errors in the Brexit referendum (figure 2) and the US election (figure 3) to the solid lines.

Figure 2: Applying the last week's Brexit margin of error to French polls



** Adjusted for average opinion poll estimation error in last week*
Source: Deutsche Bank
France: Ifop, BVA, Harris Interactive, Kantar Sofres - OnePoint, Elabe, Ifop-Fiducial, Ipsos, OpinionWay
Brexit - ICM, Panelbase, Survation, ICM, ORB, ComRes, Ipsos MORI, BMG Research, YouGov, YouGov/The Times, TNS, Opinium, Populus/Number Cruncher Politics, Greenberg Quinlan Rosner Research, NATCEN, ORB/Telegraph, Survation/IG Group, Populus

Figure 3: Applying the Trump-Clinton margin of error to French polls



** Adjusted for median opinion poll estimation error*
Source: Deutsche Bank
France: Ifop, BVA, Harris Interactive, Kantar Sofres - OnePoint, Elabe, Ifop-Fiducial, Ipsos, OpinionWay
US election: American Research Group, ABC New, Associated Press, Bloomberg, Boston Herald, CBS News, CNBC, CNN, CVoter, Echelon Insights, Economist, Farleigh Dickinson, Fox News, Franklin Pierce University, George Washington University, GFK, Gravis Marketing, Greenberg Quinlan Rosne, IBD, Ipsos, Los Angeles Times, Marist, McClatchy, Monmouth University, Morning Consult, NBC News, New York Times, Normington, Petts & Associates, One America News Network, ORC, Pew Research Center, Politico, PSRAI, Public Policy Polling, Public Religion Research Institute, Quinnipiac University, Reuters, Selzer, SSRS, Suffolk University, SurveyMonkey, The Atlantic, The Economist, TIP, UPI, USA Today, USC, Wall Street Journal, Washington Post, YouGov

In the appendix A, we also report the latest version of the other graphs that are part of our elections dashboard that we update on a regular basis.

Description of scenario: Le Pen wins Presidential election

While a victory of Le Pen at the Presidential election is not the central case scenario, the ramifications would be the most difficult to project and potentially the most challenging for the monetary union. Indeed, this scenario attracts by far the largest amount of questions from our clients.

Hence, we offer a detailed description of what could happen after a Le Pen's victory at the Presidential election.

- What will Le Pen's strategy be?
- Under which conditions can she call a referendum?
- What will the reaction of the European partners and the ECB be?
- Is there a risk of capital controls?

Le Pen's objectives and hurdles to achieve them

First, we provide a table summarizing Le Pen's main objectives and what she needs to achieve them.

Figure 4: Le Pen's objectives and institutional hurdles

Le Pen's objective	Theoretical requirements	Uncertainty
Lower hurdle rate – Neither France's monetary regime nor its electoral law are in the Constitution. So a referendum can be called via Article 11 of the Constitution		
Change monetary regime	• Majority in the lower house • Or cooperating Prime Minister to call referendum via Article 11 • Or 20% of members of both houses of Parliament and signatures from 10% of electorate to call referendum via Article 11	Constitutional Court has never opposed the organization of a proposed referendum. However, It could oppose a referendum and break with its historical jurisprudence but this is uncertain.
Change electoral law		
Higher hurdles for		
Modify Constitution to make it easier to call referenda	To call a referendum on this she needs to use Article 89 of the Constitution and: • A cooperating Prime Minister • The majority in both Houses of Parliament and either 3/5 of a joint vote from both Houses or a referendum	Historical precedent of using non-Constitutional route to modify Constitution (Article 11) as for a change in the monetary regime and electoral law
Organise an EU referendum		

Source: Deutsche Bank

We have described the constitutional hurdles she will face in "France: the challenge of organising an EU referendum" on 20 January 2017. We highlighted how France's membership to the EU is clearly stated in the Constitution but not euro membership and explained the details of referendum organisations in France. We concluded that it would prove very difficult to use the Article 89 route for Le Pen. We also discussed the historical precedent of De Gaulle in the 1960's controversially using Article 11 to organise a referendum related to a constitutional change.

Likely gradual approach before June legislative elections

Le Pen would likely nominate a National Front-friendly government and Prime Minister after her victory at the Presidential elections on 7 May and before the 11-18 June legislative elections (Lower House of Parliament).

The Lower House will not be sitting until after the June legislative elections and therefore the government cannot be voted down. Le Pen will ultimately be in office by 22 May at the latest.

We expect Le Pen to committing to retrieving monetary, legal, territorial and economic sovereignty from the EU. We assume EU leaders will reject this request. She could then choose to adopt two alternative strategies before the June legislative elections:

Our central case scenario – Le Pen takes a gradual approach:
She tries to avoid (i) an immediate institutional crisis and (ii) large protests in order to maximize the National Front's chances at the June legislative elections. Note that if Le Pen gets elected, she is likely to do so thanks to a low participation. This would question her legitimacy to take an overly aggressive approach.

The National Front is highly unlikely to get a majority in the Lower House but her aim will be to get more than about 150 MPs (26%) in the Lower House so that she has the ability to call referenda via the Article 11 popular initiative route (see Figure 5).

We think that the 150 MPs threshold is a sufficient condition for Le Pen to call a euro-referendum in 2017. However, if she fails to have a strong enough democratic mandate by her Presidential success and a better than expected legislative elections performance, she could still try to force the referendum as described below.

Alternative scenario – Aggressive acceleration:
Before the legislative elections, Le Pen reiterates her wishes to call for referenda on the Constitution, change the electoral system and recover monetary sovereignty (see table above). She tries to get her Prime Minister to organize a referendum on these issues through the use of Article 11:

- She needs her-appointed PM to make the proposition and organize a special meeting of Parliament to debate it. A vote is not necessary.
- This approach effectively removes the Parliamentary hurdle described above. The only hurdle would be the Constitutional Court.
- The Constitutional Court needs to approve the organizational decrees.

There is no historical precedent of the Constitutional Court blocking a referendum. We think that the Constitutional Court is marginally more likely than not to break with historical jurisprudence and prevent the organization of the referendum. The lower the turnout in the second round of the Presidential election (see figure 6), the more likely the Constitutional Court will be to break with its historical jurisprudence. But the risk of the Constitutional Court not blocking the euro referendum should not be underestimated. This would likely create strong political and institutional turmoil in France.

Figure 5: Key metric to determine President Le Pen's ability to call a referendum

Le Pen winning the Presidential election is a necessary but not sufficient condition to be able to trigger a referendum on France's euro membership.

To call a referendum via Art 11 a President needs a cooperative Prime Minister or 20% in the joint-session of the Lower and Upper Houses.

In the Upper House there are 348 senators, Half of the seats will be contested in September. However, the Senators are indirectly elected by local government officials. Le Pen currently has two senators but in September is unlikely to increase the number of her Senators beyond 10.

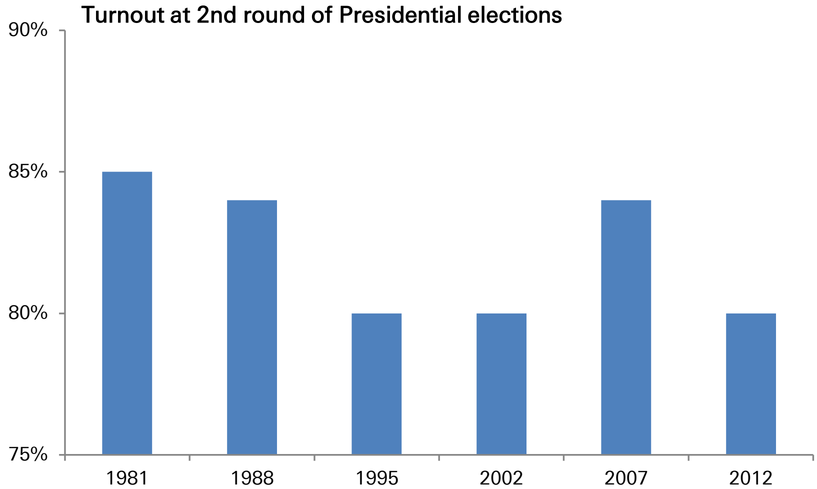
Given that there are 577 MPs in the Lower House, to reach the 20% threshold of the joint assembly she needs to get between 175 and 183 MPs in the legislative election for the Lower House in June.

That said, the radical left could support a euro-referendum, currently they have 15 MPs in the Lower House and a similar amount in the Senate. There are no opinion polls to help us project how many will be confirmed after the June legislative election. Assuming Le Pen does well, it is possible that the radical left will see a loss of seats.

In any case, Le Pen would likely need to get at least 150 MPs in the legislative election for the Lower House in June.

Source: Deutsche Bank

Figure 6: Turnout at second round of Presidential elections traditionally ~80%



Source: Deutsche Bank, Interior Ministry

On top of this, her aggressive action would exacerbate market pressure on France. Such a strategy could backfire in the June legislative elections with a large mobilization of the electorate for mainstream parties. Le Pen would then struggle to implement any of her electoral promises.

Finally, note that in theory Le Pen could decide after the June legislative elections to quickly dissolve the Lower House and call for new legislative elections if the outcome does not satisfy her. In that case, while waiting for the new legislative elections, she could adopt the aggressive approach. The same arguments as above would apply.

Summing up

We assume Le Pen will follow the first strategy above, i.e. a gradual approach to maximise her chances to gain at least 150 MPs in the June legislative election. Still, such an outcome is probably more challenging for Le Pen than becoming President.

Ability to organize referenda past June legislative elections

Combining current polls and the 2015 regional election results suggests that the National Front is likely to get 50-70 out of 577 seats at the National Assembly in the June legislative election.

If Le Pen wins the Presidential elections, she may be able to increase the number of seats obtained by the National Front. Yet, she will have to do twice as well as suggested by polls. For this result to be achievable, we think that Le Pen would have to win the Presidential election with about a 10pp margin against her opponent (i.e. 55% versus 45% – see Box 1 for details.

Box 1: Projecting the June National Front's performance at the June legislative elections in the case Le Pen is President

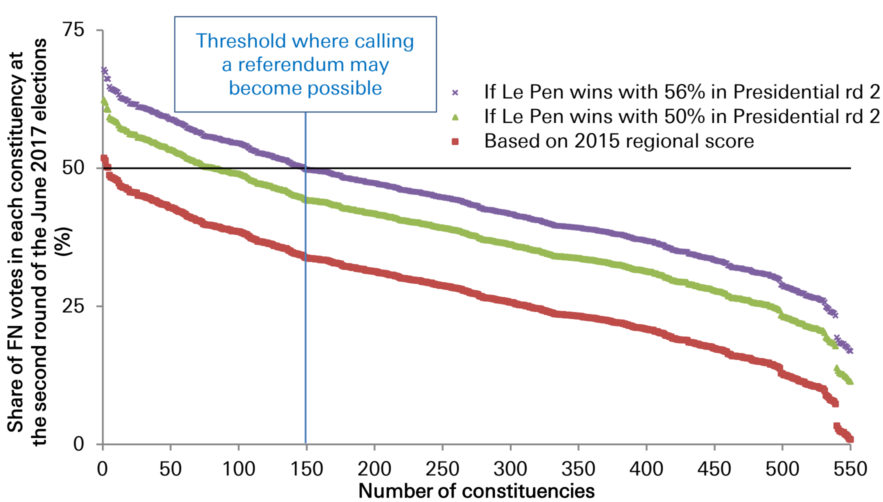
Current polls suggest that Le Pen would obtain~27% of the vote in the first round of the Presidential elections, a level that is similar to what the National Front obtained in the 2015 regional elections. Regarding the second round of the Presidential elections, current polls suggest that Le Pen would obtain~40% in the second round of the Presidential elections.

Based on this, we try to gauge her ability to obtain 150 MPs, the key threshold number that could allow her to trigger a referendum. We perform the following simulation:

- *If Le Pen has won the Presidential election with a small majority (say 50.1%), this means that she has increased her absolute voting share by ~10pp compared to what current polls suggest. We therefore scale up the 2015 regional elections National Front results in every constituency by an extra 10pp. In that case, the National Front could obtain slightly less than 100 seats in the Lower House*[2]*.*
- *To obtain 150 seats, the National Front would need to increase its support in the electorate by 16pp compared to early 2017 polls.*

On figure 7 below, we illustrate our approach. Every point in the scatter plot represents a constituency. Constituencies are ranked in descending order by the share of votes obtained by the National Front at the second round of the 2015 regional elections. Under the scenario where Le Pen has won the Presidential race by a small margin we scale up the National Front results by 10pp in every constituency. In that case, National Front MPs would obtain more than 50% of the votes in slightly less than 100 constituencies. Under the scenario where Le Pen has won the Presidential by a large margin we scale up the National Front results by 16pp in every constituency. In that case, National Front MPs would obtain more than 50% of the votes in 150 constituencies.

Figure 7: National Front likely to struggle to reach needed number of MPs for referendum without strong victory of Le Pen at Presidential rd.



Source: Deutsche Bank Interior Ministry

Hence, after the June legislative elections we see the two scenarios (see also the probability tree on figure 1 at the beginning of this report):

- <u>*Higher probability scenario: If the National Front has less than 150 MPs, Le Pen will struggle to call referenda on the electoral law or euro membership.*</u> In this case, we assume that a mainstream government emerges with a centre-right Prime Minister. Le Pen could still try to get the PM to agree a euro referendum via Article 11. But, unless Le Pen was very close to

[2] As mentioned in footnote 1 above, when a National Front candidate is likely to come first in a three-candidate race in the second round, historically, mainstream parties have coordinated to drop a candidate so that the National Front in a duel could not obtain more than 50% of the votes. We assume that such tactics are repeated and that the National Front can only win a constituency with 50% of the votes.

gathering 150 MPs in parliament, the PM is likely to refuse her request. That said, the government's popularity could fall rapidly if sustainable policies to boost growth, and employment are not implemented. Although Le Pen would have limited powers, she could call for new legislative elections, giving her some influence on the Prime Minister. Hence, Europe's existential crisis could linger.

- *If Le Pen's National Front has more than 150 MPs in the Lower House, she would probably be able to call referenda on euro membership via the Article 11 route* *(other radical MPs will be less willing to support a referendum on the electoral law)*.[3] She would likely have to prioritize among her different objectives: (i) changing the electoral law, (ii) getting France out of the euro area or (iii) even out of the European Union (EU), and (iv) modifying the Constitution to make it easier to call referenda. As written in the table in Figure 4, referenda to change the Constitution or exiting the EU require the support from both Houses while changing the electoral law or trying to get out of the euro could be called via Article 11. Le Pen would then face a choice to either call for an electoral law change or a euro exit referendum. We make the assumption that she goes for the latter (in any case both are likely to have the same market impact – see Box 2 below).

Box 2: Changing the electoral law for the Lower House

Le Pen aims to change the electoral law to a full proportional system with a majority premium.

- *Such a system would give the National Front very high chances of obtaining an absolute majority in the Lower House, changing the monetary system and implementing most of the policies she wants.*
- *But to change the electoral law she either needs a majority in the Lower House or a referendum via Article 11.*
- *By calling a referendum on a potential change to the electoral law, the electorate would realize that this would mean giving her full powers. Outside her party supporters and under potential economic and political stress, it may be very difficult to win such a referendum.*
- *On the contrary, a referendum on euro membership could be easier to win as it would also get the support from non-National Front voters that oppose the euro (e.g. radical left).*

Whether she calls a referendum on changing the electoral law or euro membership, the market would understand that they both entail the risk of France exiting the euro. A euro referendum means a clean break. Changing the electoral law means that France would have to go through another legislative election and if Le Pen gets a majority under the new law, she would have to go through the legal procedure to pass a law.

Impact on the euro-area in the case Le Pen has the ability to call a referendum on euro membership

Let's consider the less-likely, but most disruptive scenario where Le Pen is in a position to call a referendum on the euro membership. We assume she will grab such an opportunity and call for a referendum in Q4-2017 (If she calls for such a referendum earlier, then fast-forward the process described below).

[3] She could either go through the route of getting 185 parliamentarians to make a proposition and collect 4.5M signatures, or simply use this as a threat to get the mainstream Prime Minister to agree to the organisation of a referendum on the euro area.

Capital flight and the risk of capital controls

The realization that Le Pen has the ability to call a referendum on euro membership would likely create large market stress that would likely lead to contagion to the periphery.

We would expect capital flight away from France and the periphery towards the core, with a large rise in TARGET 2 balances. The German press is likely to express concerns about such an increase in TARGET 2 balances.

Regarding France, non-domestic buyers would probably stop purchasing French sovereign debt. They represent 60% of total holdings but probably 70-75% of the front-end. While we think that French banks and insurers would likely continue to purchase government bonds, we are more uncertain on French asset managers' behaviour.

Such events would raise the question of imposing capital controls. There are three questions we need to answer:

- ***Q1.*** *Will France voluntarily call for capital controls?*
- ***Q2.*** *Will European institutions put France (and other countries under stress) in a situation where the only option is calling for capital controls?*
- ***Q3.*** *Will banks have enough collateral to borrow from the ECB to cover:*

  Q3.a. *the likely flight of non-domestic investors from the government bond market,*

  Q3.b. *potential issues in rolling-over their own debt,*

  Q3.c. *and the potential flight of customer deposits?*

Q1: France is unlikely to voluntarily call for capital controls

In terms of France's stance, there are two opposite arguments:

- *In favour of capital controls*: flight from France would likely be immediate and substantial, affecting both foreign and domestic capital simultaneously. This would likely lead to more abrupt flows than in Greece (foreign in 2010, domestic in 2015). France could seek permission for capital controls to prevent runs on its banks. Contagion could mean other periphery economies are likely to ask for capital controls too.
- *Against capital controls*: In Greece and Cyprus, it was relatively straightforward to assume capital controls because both the Greek banking sector and Greek bond market had dramatically reduced international exposure so the systemic impact was small. There were no Greek bonds maturing during the capital control period and those that did were financed via an EU-IMF financial assistance programme and similarly for Greek bank liabilities. In our view, Le Pen would politically have little incentive to proactively call for capital controls. Also French banks would need to maintain their USD funding in a capital control environment.

The latter is more likely scenario in our view. Indeed, Le Pen could actually have a greater chance of winning a euro referendum if she can prove that it has been "Europe" to de facto impose capital controls as this would prove the necessity to regain monetary sovereignty. Hence, we assume that Le Pen will take time and wait for the reaction of the ECB and key euro-area partners.

Q2: The ECB will likely continue to support France and peripheral countries

We do not think the ECB would intentionally trigger capital controls by removing the eligibility of French assets as this would effectively put into question the definition of common currency area.

We assume that ECB would play a constructive role to avoid in the short-run a disintegration of the common currency with the implicit backing of mainstream politicians in core countries:

- In our view, until the outcome of the referendum, the ECB would not isolate France. We believe that the ECB would continue to operate within its existing framework by providing liquidity to solvent banks via LTROs/MROs and keeping the country within its QE programme as long as France is rated investment grade.
- If the rating criteria are not satisfied banks will be switched to ELA. The same applies to any other member country (e.g. peripherals) facing market stress.
- Therefore, it is unlikely that even in the case of a Le Pen victory and an announced referendum the ECB would pre-emptively restrict financing access to French banks as long as they had sufficient collateral.
- While this may be controversial in some countries as TARGET 2 balances rise not least in Germany ahead of their September federal elections, not keeping France in the QE programme and/or imposing capital controls could:
    - Escalate the economic shock to France.
    - Lead to a self-fulfilling exit of France in the referendum (Le Pen could argue that exclusion is why France needs to regain full monetary sovereignty).
    - Have contagion ramifications for the periphery by accelerating the capital flight.
    - Create a precedent whereby the ECB suspends the purchase of government bonds prior to an election or referendum posing a challenge to the EMU.

That said, core country governments and central banks will not want to give an ex-ante unlimited commitment to support France. They will also probably have to face increasing exposures to the peripherals countries as we expect substantial contagion.

Hence, while we do not think that core countries will ultimately hinder the stabilization role of the ECB, they will probably put in place strategies to:

- ex-ante prevent the abuse of the ECB balance sheet (e.g. Target 2) and
- ex-post limit core country exposures to capital flights

To prevent the *ex-ante* abuse of ECB support core countries led by Germany could ask for the following conditions:

a. *On government bonds*: An increase in exposures to cover non-domestic capital flights will be accepted, but not one that cover a flight of domestic financial institutions. Domestic institutions will have to roll-over their domestic government bond exposures otherwise the country will be encouraged to ask for ESM and OMT support.
b. *On banking*: Countries will not be allowed to take advantage of ECB liquidity funding to implement precautionary capital injections for their banks.
c. *On European policy commitment*: Countries will have to respect the Stability and Growth Pact (SGP) and the recommendation within the Macro Imbalances Procedure (MIP).

We expect that there could be an agreement on points a) and b). On point c), if core countries put the emphasis on a strict implementation of the SGP the outcome could be counterproductive from both a political and economic point of view. If greater emphasis is put on the MIP, there would at least an attempt to encourage greater economic convergence. But the credibility of any commitment would be low: there would not be enough time to implement structural reforms before the French referendum. However, the more Le Pen pushes for reversing reforms,

We recognize that it will not be easy for the ECB to maintain France in its QE programme with the French President proactively campaigning to exit the euro area. Still we think that the ECB will keep France in the QE programme as long as the country remains investment grade.

- Hence, the ECB could find itself in a difficult position if there is a sudden wave of rating downgrades.
- We think that some ratings agencies may react immediately against France and more strongly than they did for the UK after Brexit with downgrades larger than two notches. But we think that other rating agencies would likely wait for the materialization of exit to downgrade France below investment grade.
- Hence, in our view, it is unlikely that all ratings agencies used by the ECB will downgrade France below investment grade before the referendum outcome. The question would remain for some peripherals, depending on their starting rating, the exposure of their banking systems to France and market contagion.

Summing up: ECB and Fed support

The tools the ECB could use to prevent the escalation of a systemic crisis would be the following:

- At the June meeting, the ECB would increase its QE program to €80bn. There is a risk that the ECB waits after the legislative elections if markets and the banking sector are well behaved.
- The ECB will pledge the availability of its facilities to support French and peripherals banks' increased liquidity demands. New LTROs are possible or French and peripheral banks would have to rely on MROs (or ELA if rating criteria are not satisfied).

Banks in France and in the periphery will probably need some support in terms of USD funding. We expect the Fed to provide such a support but the level of conviction will be lower than that of the ECB.

Q3: Will French and peripheral banks have enough collateral?

Even if both France, the ECB and European partners prefer to avoid capital controls before the referendum, success is not guaranteed. Will French banks have enough collateral to cover?

A. *the likely flight of non-domestic investors from the government bond market,*

B. *potential issue in rolling-over their own debt and the potential flight of customer depos*its?

According to the analysis of Deutsche Bank banking and fixed income teams (see links on the front page) the answers to the above three questions are encouraging.

First, our colleagues looked at the potential loss of funding based on what happened in the recent sovereign debt crisis in Greece, Ireland and Spain. Their conclusion is that in the six months post a Le Pen win the outflows could range between EUR 150bn-200bn based on the average monthly outflows of the above historical experiences or EUR 400bn-900bn based on the worst six-month performance.

Second, to calibrate French banks' liquidity buffer to cover for the potential outflows our colleagues used two approaches: a top down analysis pointing to a EUR 900bn buffer, and a bottom-up analysis pointing to a EUR 1,000bn buffer.

Therefore, French banks should be able to withstand funding pressure in the months leading to a euro referendum. There would also be contagion to peripheral countries. Deutsche Bank Italian bank analyst, Paola Sabbione, has replicated the above analysis in terms of available collateral and potential deposit flight and reach a similar conclusion to that for France.

Furthermore, our colleagues also concluded that French banks and insurance companies plus the ECB's QE programme should be enough to absorb the gross issuance of French government bonds over the May-December period.

What if we are wrong? If there is not enough collateral France will have to ask for capital controls. However, we believe that this would be less detrimental to the future of the euro-area than the case where capital controls are imposed externally (see Q2 above). That said, the risk of contagion to the peripherals' banking systems, and potentially semi-core countries, would be very significant.

Other EU leaders fight to preserve the euro:

The reaction of other European leaders to the referendum announcement is likely to be a fight to preserve the currency union. German mainstream politicians would be aware that if France were to leave, this would mean a total rethink of Germany's foreign policy since WWII.

A special EU leader summit would likely be organized before the referendum, but:

- A quantum leap towards fiscal integration in exchange for greater federal fiscal supervision is unlikely to be agreed.
- A euro-area TARP to absorb the new hit to banks from the new episode of sovereign stress is unlikely to be agreed.
- Even if the leaders put on the table more ambitious reforms in terms of integration and economic convergence, the market might not ascribe much credibility to such promises. Deep reforms would need a Treaty change. That is a multi-year process that requires unanimity.

Europe has probably left it too late to credibly achieve a quantum leap. There isn't enough trust between countries to get to the appropriate depth and balance between solidarity and sovereignty. What could be agreed upon and delivered:

- Progress towards completing the banking union

- A feasibility study on some form of common issuance in exchange for greater fiscal supervision.[4] We would not expect concrete progress.

On the European Commission side, we would expect the Commission to reiterate its call for a relaxation of the European fiscal stance given the potential demand shock facing the euro area.

- This would go beyond the automatic cyclical deterioration permitted by the rules.
- Germany and other core countries are likely to oppose/veto fiscal integration that is not accompanied by significant loss of fiscal sovereignty. But peripheral countries, e.g. Italy, are unlikely to accept the latter due to the rise of populist-eurosceptic parties.

Note, that before the referendum, Germany would be facing its election and Italy will also be in electoral mode (with election in September possible). The French referendum would overhang the German election campaign. The crisis may not benefit AfD in Germany but could push the electorate closer to Merkel and Schulz, given the high stakes.

A new summit could be scheduled for just after the German election. The new Chancellor would be carrying a mandate into that leaders' summit.

After the French referendum, there are two outcomes:

After a French referendum, there are two outcomes:

- *France stays in the euro: Le Pen may resign[5] and French government yields recover to a large extent.* Italy's government yields would also benefit but their spread versus Germany would probably stay around 300bps. Note that in this scenario, because of the shock to the euro-area real economy, the ECB would probably have delayed tapering by at least six months. For example, France GDP in H2-2017 would have contracted amid the uncertainty in the build-up to the referendum. In 2018, new elections would be organized. The government in place until the election would not pursue any major reforms.
- *France leaves: France redenominates to Franc. Capital controls are imposed everywhere.* Even if there is political willingness from core countries, without France, there might not be sufficient balance between core and periphery to save the euro in any case. At best, a hard core of Northern euro-area member states could emerge. In France, the rise in yields and financing costs would hurt investment and consumption. The government would have to close its primary balance and increase taxes to finance the rise in debt servicing costs. Long-term productivity losses associated with protectionism and devaluation would also affect GDP. We tentatively forecast how such policies could impact French GDP in the short and long-run. In the long-run, France's output could be 10% lower, and in 2018, French GDP could fall by 4%. In the long-run, France's potential growth (~1.1%) could also be reduced by half.

[4] http://ec.europa.eu/economy_finance/articles/consultation/stability_bonds/index_en.htm

[5] https://www.bloomberg.com/politics/articles/2017-03-07/le-pen-promises-to-resign-if-eu-exit-vote-fails-afp-says

Description of scenario: Hamon wins the Presidential election

If Hamon wins the Presidential second round against Le Pen on 7 May, the possibility of a populist surprise would be gone but the uncertainty regarding the outcome of the upcoming legislative elections would not fully dissipate. The National Front remains likely to do well but not reach power.

Based on policy disagreements observed within the Socialist party in the last three years, it would be very hard for Hamon to obtain a majority in Parliament. We assume that he would not be able to form a stable majority and would only implement part of his program. The first two years of his presidency could resemble those of Hollande with disagreements on European policy emerging, risks of reform reversals, and the additional possibility of some fiscal slippage relative to current deficits. This could result in higher trade deficits, a fall of confidence leading to lower investment and disappointing cyclical growth. The risk of reform reversals and lower investment could ultimately marginally reduce France’s long-term potential growth

Summary of candidates programmes

In the table below, we summarise the principal reform proposals of each candidate. We have discussed in more details Fillon and Le Pen's programmes (see here and here).

Figure 8: Summary of candidates reform proposals

Le Pen (Front National)	- Wants to call a referendum on EU membership. Plan is to take France out of the Euro and bring back the Franc. They acknowledge that such a decision would need to be announced suddenly and capital controls would likely have to be put in place. They also acknowledged the need to collaborate with EU institutions and the potential use of ESM funds. - Wants to end Bank of France's independence, redenominate French debt into Francs and get the Bank of France to finance budget deficits. Also plans an annual QE programme equivalent to ~5% of GDP. - Expects the currency to devaluate by potentially up to 20%, inflation to rise to 3% in that new regime and French 10y yields to rise between 2-3%. - Wants a set of protectionist measures (favour French companies in State procurement, tax on employment of foreigners, refusal of any free-trade agreement), tax reductions and spending increases. - Government spending would be decreased thanks to lower participation in the EU budget and better control of welfare abuse.
Macron (En Marche)	- Targets an investment plan of EUR 50bn over 5 years - Budgetary responsibility by respecting the 3% fiscal deficit limit - Targets EUR 60bn of savings (no detail) - End of fiscal instability: new fiscal law to be voted in 2017 and fixing the tax schedule for 5 years - Unique tax on revenues from capital of around 30% - Wants to reduce corporate tax rate from 33.3% to 25% - Creation of a EUR 10bn funds for industry and innovation, to be financed with minority participation in French companies currently held by the State - Supplementary work hours to be exempted from social contribution and reduction in social contributions paid by employers - Employees that resign will have access to unemployment benefit but the decline of reasonable employment offers will lead to suspension of unemployment benefit - Creation of a Eurozone (EZ) budget, voted by a EZ Parliament and executed by a EZ Ministry of Economy & Finance
Fillon (Les Republicains)	- Overall wants large public spending cuts (~4-5% of GDP), tax reforms and reductions (~2% of GDP), pensions and labour market reforms. - Intention to cancel the 35-hour work week, facilitate firm-level negotiations and increase retirement age to 65 years. - Intention to reduce capital taxation and income taxation on middle-class and upper middle-class families with children. Also wants to give incentives to invest in SMEs and tax incentives for households to purchase their home. - Wants to increase VAT tax by 2ppt (currently 20%) and reduce corporate taxation to align it to the European average. - Plans E100bn of spending cut, reduction of State employment by 500k (10% of public employment), increase of state employee work week to 39 hours, cap unemployment benefits and make them degressive with unemployment duration. - On Europe, favorable to an economic government for the euro area and would lean towards a normalization of relations with Russia.
Hamon (Parti Socialiste)	- Wants to create a universal revenue of 750 euros per month, which he estimates would cost E350-400bn - Wants to reduce the work week towards 32 hours - Does not want to respect the 3% of GDP deficit limit - Wants to cancel the debt contracted since 2008 by the most indebted EU countries and held by other EU countries; he is for the mutualisation of debt across Europe - Wants to change the status of the ECB to facilitate direct State financing through the ECB - Wants to call off some free trade agreements

Source: Deutsche Bank, candidates websites

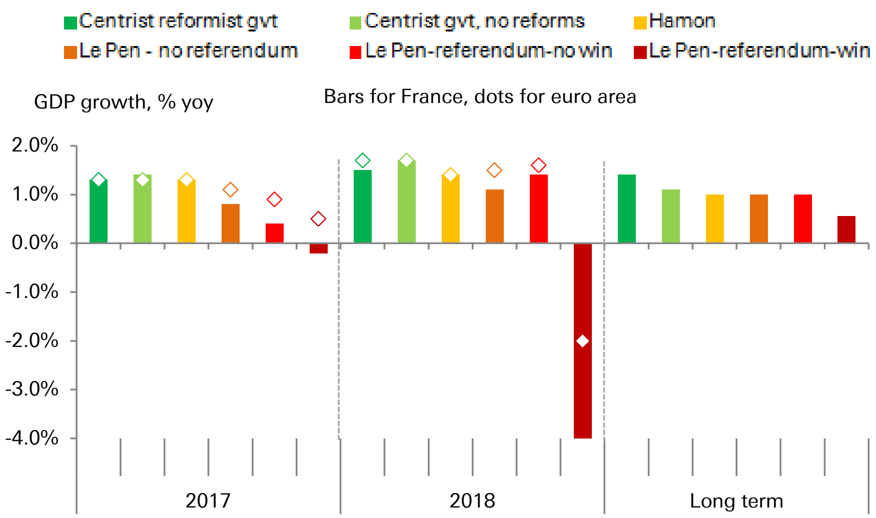
GDP outcomes for each scenario

In the chart below, we report all the GDP forecasts under each potential outcome of the election cycle in France in 2017:

- The most optimistic scenario in the long-term would see a centrist president (either Macron or a popular centre-right *Les Républicains* politician) obtain an absolute majority in Parliament and hence an ability to push for reforms. In 2017-18, reform implementation costs could hurt growth. We expect France GDP to grow at 1.3% in 2017 and 1.5% in 2018. A boost in confidence and animal spirits could push cyclical growth to higher rates. Long-term yearly potential growth could be increased by 0.2-0.3pp a year.
- Under a scenario where Macron or Fillon wins the Presidency but fails to obtain a stable majority in Parliament, no long-term improvement of the French economy would likely be observed but growth in the short-run would not be negatively affected by fiscal consolidation and reform implementation costs.
- Should Hamon be elected the risks of some reform reversals cannot be ignored, potentially hurting France's long-term potential growth. When combined with possible fiscal slippage, in the short-run, it could result in higher trade deficits and a fall of confidence leading to lower investment. Finally, there would probably be no improvement in external competitiveness.
- In case Le Pen becomes President, her election would likely lead to a stall of economic activity around Q2/Q3-2017.
    - In the case of a cohabitation with a mainstream government,. economic activity could pick-up once the political situation settles. But, it is unlikely that any reforms would be achieved. Confidence of firms and households might be affected by the populist risks and noise. Higher interest rates would also likely hurt investment. France would grow slightly below potential in that scenario and long-term growth would be slightly hurt by the lower investment.
    - If Le Pen calls a referendum on euro membership, we expect economic activity to contract at least until the referendum outcome. If France votes to stay, Le Pen may resign, we would observe a rebound in 2018. But political uncertainty in France would remain high. Confidence in the institutions could also have been eroded. We assume that France would grow above potential in 2018 with a marginal deterioration in long-term growth potential.
    - Finally, if France decides to leave the euro-area, post referendum, we expect economic activity to contract sharply. The scenario of France exiting would also be accompanied by large contagion effects. While FX depreciation could bring some relief in the short-run trade balance, in the medium-run it would likely be compensated by higher inflation, cancelling the competitiveness gains. Higher cost of capital, lower trade-openness and protectionism, risks of reform reversals and erosion of trust in institutions, higher taxes to finance the rise in debt-servicing costs might decrease France's long-term potential growth by half.

We obtain the euro area GDP growth projections shown in Figure 9 by adjusting our current euro area baseline forecasts by half the volume of the change in French GDP in each scenario. Since France approximately accounts for 20% of euro area GDP, this simple approach implicitly encompasses contagion effects and an impact on activity in other euro area member states.

Figure 9: GDP growth in different scenarios



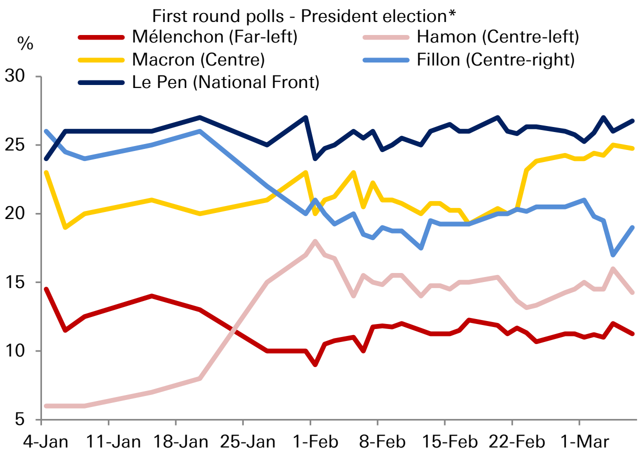
Source: Deutsche Bank

Appendix A: elections dashboard

We have been publishing an election dashboard that tracks the polls evolution. For details of methodology see here.

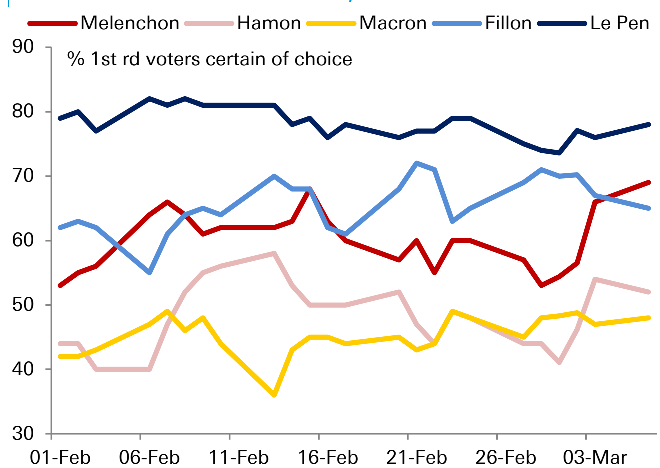
- First round - Figure 10 shows first round opinions polls. Figure 11 shows the certainty of choice among interviewees for first round candidates.

Figure 10: First-round polls show a three-person race with Le Pen ahead and Macron-Fillon for runner-up



*Source: * Daily average of all available opinion polls*
Source: Ifop-Fiducial, BVA, OpinionWay, Elabe, Harris Interactive, Cevipof Ipsos-Sopra Steria, Kantar Sofres - OnePoint

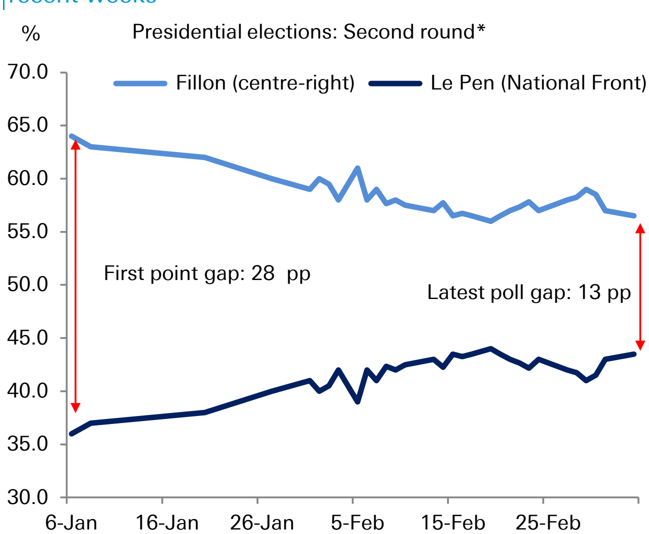
Figure 11: 75% of interviewees planning to vote for Le Pen are certain of their choice; not the case for Macron



Source: Deutsche bank, Ifop-Fiducial Paris Match I-tele, Sud-Radio "Rolling 2017 L'élection présidentielle en temps réel",last publication available sample size 1500, F Dabi

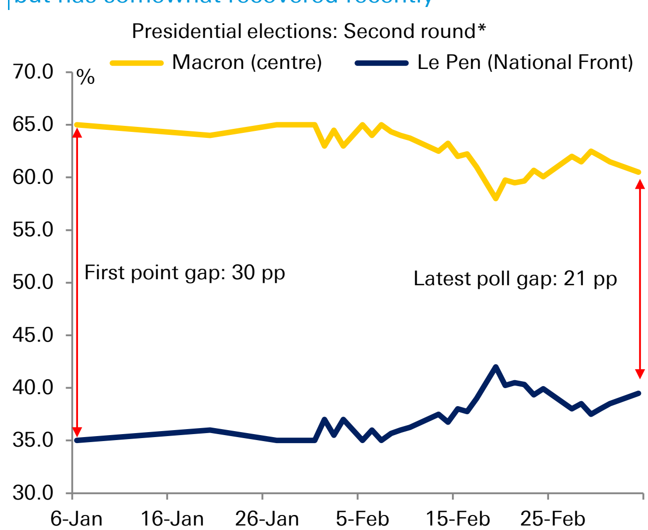
- Second round - In the two graphs below (figures 12 and 13), we report the polls evolution of support for mainstream candidates Fillon's and Macron's leads over Le Pen in the second round of the Presidential elections.

Figure 12: Fillon's lead over Le Pen has been falling in recent weeks



** Daily average of all available opinion polls*
Source: Deutsche bank, Ifop, BVA, Harris Interactive, Kantar Sofres - OnePoint, Elabe, Ifop-Fiducial, Ipsos, OpinionWay - see appendix A for details

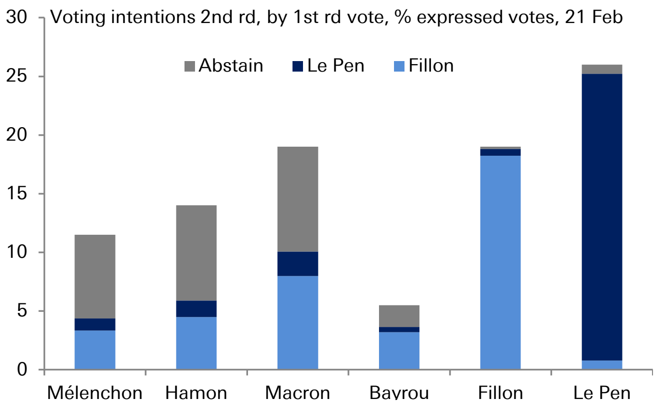
Figure 13: Macron's lead over Le Pen has been falling but has somewhat recovered recently



** Daily average of all available opinion polls*
Source: Deutsche bank,Ifop, Ifop-Fiducial, Ipsos, Kantar Sofres - OnePoint, Elabe, BVA, OpinionWay - see appendixA for details

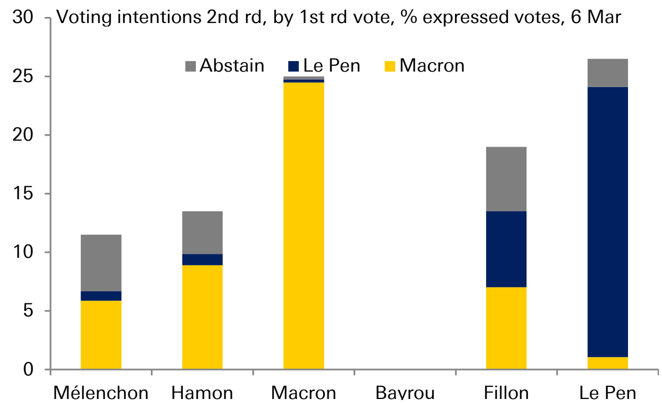
- Second round vote transfer – Figure 14 and 15 show how votes could transfer between the first round and the second round of the Presidential elections. Here we adjust them to represent the share of the electorate of each candidate that would likely switch to Le Pen, abstain or choose Fillon/Macron. Note that Fillon's results should be interpreted cautiously, the last available poll on voter transfers is from the 21 February.

Figure 14: In a Fillon-Le Pen second round, the majority of left-wing voters would abstain



Note: the last available poll with vote transfers for Le Pen-Fillon is from 21 Feb when Bayrou had not yet announced that he would not run.
Source: Deutsche bank, Ifop-Fiducial Paris Match I-tele, Sud-Radio "Rolling 2017 L'élection présidentielle en temps réel",last publication available sample size 1500, F Dabi

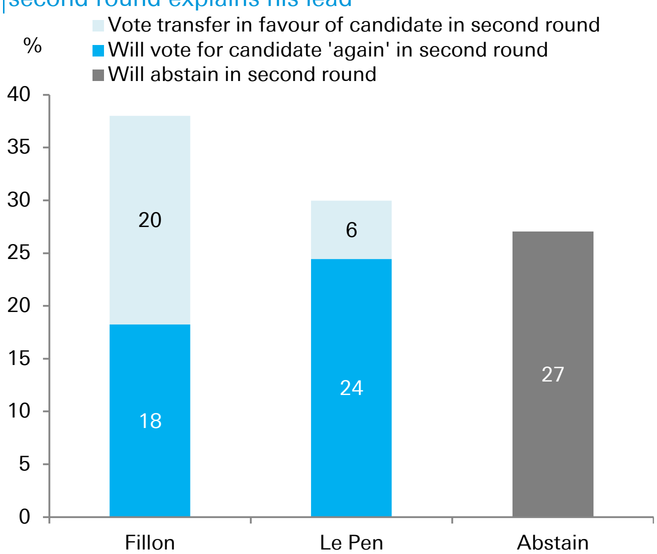
Figure 15: In a Macron-Le Pen second round, 25% of Fillon voters would switch to Le Pen



Note: this is from the 6 March poll when Bayrou had announced his support of Macron
Source: Deutsche bank, Ifop-Fiducial Paris Match I-tele, Sud-Radio "Rolling 2017 L'élection présidentielle en temps réel",last publication available sample size 1500, F Dabi

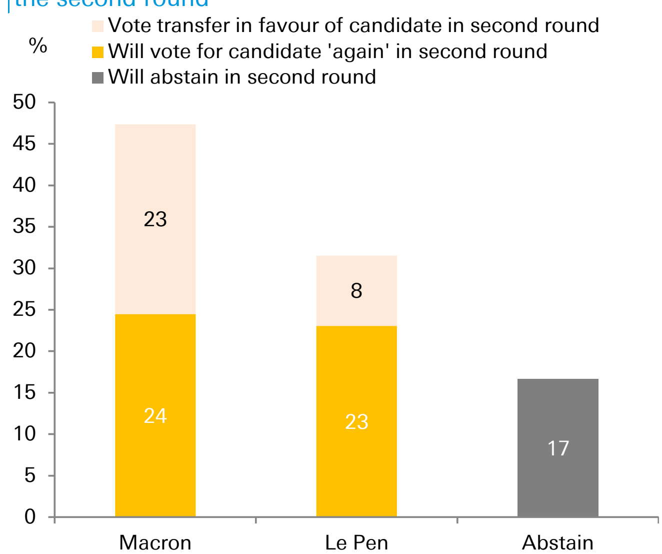
- We then show how these vote transfers among first-round voters could add up in the second round (Figure 16 and 17).

Figure 16: Fillon's ability to limit Le Pen gains in the second round explains his lead



Note: Only first round voters of principal candidates are considered. 5% of the first round votes are split among minor candidates whose vote transfers are not reported in the polls. The percentages in the graphs above also do not report voters abstaining in the 1st round but voting in the 2nd round.
Source: Deutsche bank, Ifop-Fiducial Paris Match I-tele, Sud-Radio "Rolling 2017 L'élection présidentielle en temps réel",last publication available sample size 1500, F Dabi

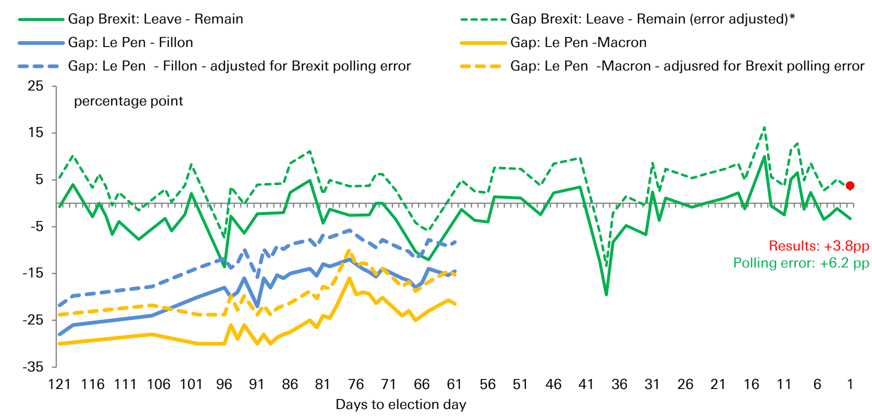
Figure 17: Macron's wider support explains his lead in the second round



Note: Only first round voters of principal candidates are considered. 5% of the first round votes are split among minor candidates whose vote transfers are not reported in the polls. The percentages in the graphs above also do not report voters abstaining in the 1st round but voting in the 2nd round.
Source: Deutsche bank, Ifop-Fiducial Paris Match I-tele, Sud-Radio "Rolling 2017 L'élection présidentielle en temps réel",last publication available sample size 1500, F Dabi

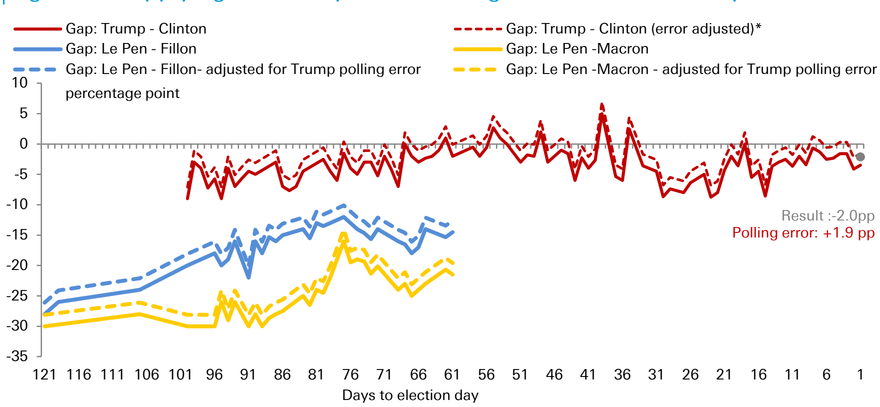
- Brexit and US elections polling errors applied to French polls: In the case of the US elections and particularly Brexit, polls underestimated the risks of a surprise. Figure 18 and 19 trace the history of polls in the six months prior to the vote for Brexit, and from the day Trump and Clinton were the official nominees in the US. The solid lines represent actual polling data. The dotted lines adjust for the margin of error. We apply the Brexit and US election margins of error to the Le Pen-Fillon gap and the Le Pen-Macron gap in the French second-round polls.

Figure 18: Applying the last week's Brexit margin of error to French polls



** Adjusted for average opinion poll estimation error in last week*
Source: Deutsche Bank
France: Ifop, BVA, Harris Interactive, Kantar Sofres - OnePoint, Elabe, Ifop-Fiducial, Ipsos, OpinionWay
Brexit - ICM, Panelbase, Survation, ICM, ORB, ComRes, Ipsos MORI, BMG Research, YouGov, YouGov/The Times, TNS, Opinium, Populus/Number Cruncher Politics, Greenberg Quinlan Rosner Research, NATCEN, ORB/Telegraph, Survation/IG Group, Populus

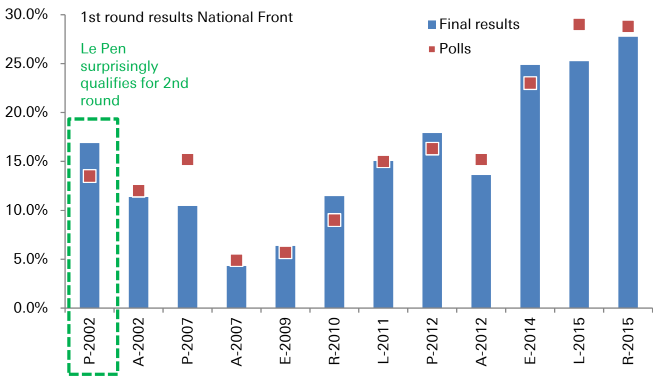
Figure 19: Applying the Trump-Clinton margin of error to French polls



** Adjusted for median opinion poll estimation error*
Source: Deutsche Bank
France: Ifop, BVA, Harris Interactive, Kantar Sofres - OnePoint, Elabe, Ifop-Fiducial, Ipsos, OpinionWay
US election: American Research Group, ABC New, Associated Press, Bloomberg, Boston Herald, CBS News, CNBC, CNN, CVoter, Echelon Insights, Economist, Farleigh Dickinson, Fox News, Franklin Pierce University, George Washington University, GFK, Gravis Marketing, Greenberg Quinlan Rosne, IBD, Ipsos, Los Angeles Times, Marist, McClatchy, Monmouth University, Morning Consult, NBC News, New York Times, Normington, Petts & Associates, One America News Network, ORC, Pew Research Center, Politico, PSRAI, Public Policy Polling, Public Religion Research Institute, Quinnipiac University, Reuters, Selzer, SSRS, Suffolk University, SurveyMonkey, The Atlantic, The Economist, TIP, UPI, USA Today, USC, Wall Street Journal, Washington Post, YouGov

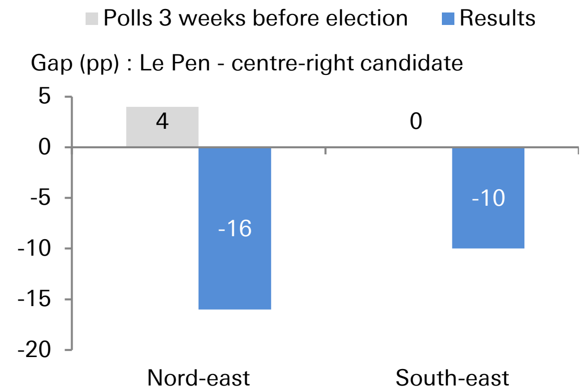
- Pollsters careful about not underestimating National Front support: In France, pollsters are careful in measuring National Front support. Figure 20 traces history of polling estimation error for National front since 2002. Also, the mobilization of the French electorate against the National Front should not be ignored. Recently in the 2015 regional elections – National Front candidates were defeated by wide margins against centre-right candidates in two regions contrary to opinion poll expectations (Figure 21).

Figure 20: Polls careful about National Front support



Note: P-Presidential elections, A-National Assembly elections, E-European elections, R-Regional elections, L-Local elections. We use the average of the last 5 available polls prior to the vote
Source: : Deutsche bank, Ifops, Sofres, BVA, OpinionWay, Ipsos, Elabe, Harris interactive

Figure 21: In 2015 regional elections, polls suggested a Le-Pen win in two regions



Source: Deutsche bank,BVA-Presse régionale "Elections régionales 2015, intentions de vote par région", sample size 1043 and 914, 17-23 Nov 2015, A Zulfikarpasic

Polls used for France:

Harris interactive, 27 Nov 2016, sample size 6093, "Intentions de vote a la Presidentielle de 2017", JD Levy

Elabe-Les Echos-BFMTV, Presidentielle 2017: Les intentions de vote a 5 mois du scrutin, 30 Nov 2016, sample size 941, YM Cann

BVA-Orange-Presse regionale, Presidentielle Itentions de vote vague 7, 2-4 Dec 2016, sample size 934, A Zulfikarpasic

Ifop-Fiducial-Itele-Paris Match-Sud Radio, "Presidentielle 2017: les rapports de force electoraux a cinq mois du scrutin", 6 Dec 2016, F Dabi, sample size 1876

Ipsos-Cevipof-Sciences-Po-Sopra Steria-Le Monde, "Enquete electorale francaise 2017 vague 9", 2-7 Dec 2016,sample size 12724, B Teinturier

Elabe-Les Echos-Radio Classique "Présidentielle 2017: Les intentions de vote a 3 mois et demi du scrutin", sample size 925, 3-4 Jan 2017, YM Cann

Ifop-Fiducial-Itélé-Paris Match-Sud Radio "Barometre de l'election presidentielle de 2017, vague 7", F Dabi, JP Dubrulle, sample size 1860,3-6 Jan 2017

BVA- Pop2017-Salesforce-Orange-Presse régionale"Presidentielle intentions de vote vague 8, Janvier 2017", A Zulfikarpasic, sample size 946,6-8 Jan 2017

Ipsos-Sopra Steria-Cevipof-Le Monde, "Enquete electorale francaise 2017-vague 10", B Teinturier, JF Doridot, F Vacas, sample size 15921, 10-15 Jan 2017

Kantar-Sofres-One point-Le Figaro LCI RTL, "Intentions de vote des Francais a l'election presidentielle de 2017", multiple waves, sample size ~1000, E Riviere, C Marce, L Salvaing

Elabe-Les Echos-Radio classique "Intentions de votes presidentielles a 2 mois et demi du scrutin", sample size 1053, 30-31 Jan 2017, YM Cann

IFop-Fiducial Paris Match Itele Sud Radio, "Rolling 2017: L'election presidentielle en temps réel", F Dabi, sample size ~1500

BVA- Pop2017-Salesforce-Orange-Presse régionale"Presidentielle intentions de vote 2017", A Zulfikarpasic, sample size ~950, multiple waves

OpinionWay-Orpi-Les Echos-Radio Classique, "Présditrack, rolling panel"sample size 1500, F.Micheau, daily polls

Elabe-BFMTV-L'Express "Intentions de votes a la presidentielle 2017, vague 1", sample size 1053, 7-8 Feb 2017, YM Cann

Harris interactive, France Televisions l'emission politique, "Intentions et motivations de vote pour l'élection présidentielle de 2017", JD Levy, sample size ~5000, multiple waves

Appendix 1

Important Disclosures

*Other information available upon request

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr. Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Analyst Certification

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