



Testing populism

The next test of the rise of populism will be the parliamentary election in the Netherlands on 15 March. Markets have three questions. Will the Dutch elect an anti-EU government? Would that government call an EU referendum? Would the Dutch vote to leave the EU? The anti-EU PVV party is on course to come first, but with about 20% support in the polls it remains unlikely to be able to form a government. The PVV supports an EU membership referendum. However, the current (non-binding) referendum law is unlikely to facilitate such a vote; a binding referendum would require support in both houses of parliament, which seems unlikely. In any case, 79% of Dutch respondents disagree that the country would be better off outside the EU (58% in France or 42% in Italy).

Opinion polls suggest the more likely outcome of the Dutch election is a broad coalition of nominally pro-EU mainstream parties. This raises two further questions. How long will government formation take and how fragile will the government be? Markets will be patient at first as long as populists are excluded. A fragile government less able to implement reforms will be less able to curtail the populists as time goes by, particularly if immigration and an unreformed EU remain voter concerns.

In France, Le Pen revealed her intentions to pursue a protectionist and anti-euro economic programme, hold an EU referendum and put forward deep French institutional reforms. In polls her support is stable. The race to face her in the second round has become very tight between centre-right Fillon struggling with the wider electorate and independent Macron trying to solidify his support. Markets have awakened to the possibility of a left-wing surprise if Socialist Hamon and far-left Mélenchon manage to form an unlikely alliance.

With the SPD Chancellor-candidate Martin Schultz having had an immediate positive impact on the party's standing in opinion polls in Germany, it makes even more sense that the CDU and CSU are closing ranks behind Chancellor Merkel. Unanimity was signaled by the sister parties this week with plans for a joint electoral platform. This is likely to focus on external and internal security, (income) tax reductions, support for families, prosperity and jobs and European policy.

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Figure 1: Economic Forecasts

	Real GDP % growth ^b			CPI % growth ^c			Current a/c % GDP ^d			Fiscal balance % GDP		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Euroland (top-down)	1.7	1.3	1.5	0.2	1.4	1.5	2.9	2.8	2.5	-1.8	-1.5	-1.5
Germany ^b	1.9	1.1	1.5	0.4	1.7	1.6	8.8	8.2	7.8	0.5	0.5	0.2
France	1.1	1.3	1.1	0.3	1.2	1.3	<u>-1.2</u>	-0.3	-0.1	-3.2	-3.2	-3.1
Italy	0.9	0.7	0.7	-0.1	1.0	1.2	2.9	2.7	2.3	-2.3	-2.3	-2.3
Spain	3.3	2.5	2.2	-0.4	1.7	1.7	2.3	1.7	1.7	-4.4	-3.2	-2.8
Netherlands	2.1	2.1	1.5	0.1	1.0	1.2	10.5	10.2	10.2	-1.1	-0.7	-0.5
Belgium	1.2	1.1	1.3	1.8	2.0	1.8	1.0	1.0	1.0	-3.0	-2.5	-2.6
Austria	1.5	1.5	1.6	1.0	1.8	1.6	2.6	2.8	3.1	-1.4	-1.2	-1.0
Finland	1.5	1.2	1.5	0.4	1.3	1.4	-0.6	-0.4	-0.3	-2.3	-2.2	-1.7
Greece	0.3	1.4	1.6	0.2	1.3	1.0	1.0	1.2	1.5	-3.7	-2.4	-2.2
Portugal	1.2	1.2	1.1	0.7	1.4	1.5	0.5	0.7	0.7	-2.8	-2.5	-2.5
Ireland	3.3	2.8	3.0	-0.2	1.1	1.4	12.0	10.0	8.0	-1.1	-1.1	-1.0
UK	2.0	1.2	1.1	0.7	2.3	2.7	-5.2	-4.8	-4.0	-3.3	-2.9	-2.5
Sweden	3.2	2.0	2.3	1.0	1.7	1.9	4.6	4.2	4.4	0.1	-0.2	0.0
Denmark ^g	1.0	1.7	1.8	0.3	1.1	1.4	6.5	6.5	6.5	-2.1	-2.5	-1.9
Norway	0.7	1.6	1.8	3.5	2.7	2.5	4.4	6.2	7.0	3.7	3.9	4.2
Switzerland	1.4	1.5	1.7	-0.3	0.5	0.7	9.5	9.3	9.0	-0.1	-0.1	-0.1
Poland	2.8	3.2	3.4	-0.6	1.7	2.0	-0.5	-1.2	-1.4	-2.6	-3.0	-2.9
Hungary	2.4	3.0	2.8	0.4	2.2	2.9	5.6	4.5	4.1	-1.8	-2.5	-2.3
Czech Republic	<u>2.5</u>	2.7	<u>2.8</u>	0.7	<u>2.3</u>	<u>2.0</u>	<u>2.0</u>	<u>1.2</u>	<u>1.1</u>	<u>0.1</u>	-0.6	-0.6
US	1.6	<u>2.5</u>	3.6	1.3	1.9	2.2	-2.8	-3.4	-4.1	-3.2	-3.0	-2.5
China	6.7	6.5	6.0	2.0	2.5	2.6	2.4	2.1	1.8	-3.8	-4.0	-4.0
Japan	1.0	1.1	1.4	-0.1	0.6	1.2	3.7	3.6	3.7	-4.7	-4.5	-4.0
Advanced Economies	1.6	1.9	2.4	0.7	1.6	1.9						
Emerging Markets	4.1	<u>4.5</u>	4.8	6.7	7.8	6.1						
World ^e	3.1	<u>3.4</u>	<u>3.8</u>	4.2	5.2	4.4						

Source: See below

Figure 2: Forecasts: Euroland GDP growth by components and central bank rates

Euroland, % qoq	Q1 16	Q2 16	Q3 16	Q4 16F	Q1 17F	Q2 17F	Q3 17F	Q4 17F	2016F	2017F	2018F
GDP	0.5	0.3	0.4	0.5	0.3	0.3	0.4	0.4	1.7	1.3	1.5
Private Consumption	0.7	0.3	0.3	0.4	0.4	0.4	0.4	0.4	1.7	1.5	1.2
Gov. Consumption	0.6	0.4	0.4	0.6	0.3	0.3	0.3	0.3	2.0	1.5	1.1
Investment	0.4	1.1	-0.5	0.6	0.7	0.3	0.5	0.7	2.8	2.2	2.1
Stocks (contribution)	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	0.1
Exports	0.1	1.1	0.1	0.8	0.8	0.6	0.8	0.8	2.3	2.8	3.2
Imports	-0.1	1.1	-0.4	0.8	1.1	0.7	1.0	0.9	3.0	3.4	3.3
Net Trade (contribution)	0.1	0.0	0.2	0.0	-0.1	0.0	-0.1	0.0	-0.2	-0.2	0.1
HICP inflation, % yoy	0.0	-0.1	0.3	0.7	1.4	1.4	1.5	1.5	0.2	1.4	1.5
Core inflation, % yoy	1.0	0.8	0.8	0.8	0.9	1.0	1.1	1.2	0.9	1.0	1.3
EMU4 GDP, % qoq											
Germany	0.7	0.4	0.2	0.5	0.4	0.3	0.4	0.4	1.9	1.1	1.5
France	0.6	-0.1	0.2	0.4	0.5	0.1	0.5	0.6	1.1	1.3	1.1
Italy	0.4	0.1	0.3	0.3	0.2	0.1	0.2	0.2	0.9	0.7	0.7
Spain	0.8	0.8	0.7	0.7	0.6	0.5	0.5	0.6	3.3	2.5	2.2
Central Bank Rates (eop)											
ECB refi rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
BoE bank rate	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25			
US Fed funds target rate	0.375	0.375	0.375	0.625	0.625	0.875	1.125	1.125			
PBOC 1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50			
BoJ O/N call rate ^f	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10			

Source: National statistics, national central banks, Haver Analytics LP, DB forecasts. (a) Euro Area and the Big 4 forecasts are as of 14/12/2016. All smaller euro area country forecasts are as of 14/12/2016. Blue figures signal upward revisions. Blue, underlined figures signal downward revisions. (b) Annual German GDP are not adjusted for working days. (c) HICP figures for euro-area countries/UK (d) Current account figures for euro area countries include intra regional transactions. (e) The regional aggregates have been calculated based on the IMF weights released in April 2016. (f) Since Feb-2016, Bank of Japan introduced a negative interest rate (interest rate on bank reserves) and the overnight call rate is no longer the policy rate for Japan. (g) Denmark fiscal balance % GDP forecasts are EC forecasts.



Netherlands: the next test for populism

- On 15 March the Netherlands holds a general election. If opinion polls are correct, the populist anti-immigration and anti-EU PVV will be the largest party in parliament with around 20% of seats. In this article we look at the Dutch election and the likely new government through the lens of the economy to think about the risks to growth and markets.
- The 1.6% consensus for Dutch GDP growth for 2017 appears too pessimistic. The bursting of the housing bubble hit the economy hard. Housing is now recovering and there is a sense of a virtuous cycle between easier monetary and fiscal policy, improving credit supply and signs of a nascent export recovery. We forecast 2.1% growth in 2017 and see upside risks.
- Structural headwinds may absorb some of the cyclical tailwinds. The consensus view is that the Dutch economy is structurally sound with relatively low public debt, large current account surplus, strong education and infrastructure. However, there is a risk of overstating the strength of the economy. Material reforms are needed in pensions, housing and the labour market to ensure fairness, efficiency and sustainability.
- Markets have three questions. Will the Dutch elect an anti-EU government? Would that government call an EU referendum? Would the Dutch vote to leave the EU? The anti-EU PVV party is on course to come first, but with about 20% support in the polls it remains unlikely to be able to form a government. The PVV supports an EU membership referendum. However, the current (non-binding) referendum law is unlikely to facilitate such a vote. A binding referendum would require support in both houses of parliament, which seems unlikely. In any case, 79% of Dutch respondents disagree that the country would be better off outside the EU (58% in France and 42% in Italy). More likely is the use of non-binding referenda on specific EU-related issues, e.g. the EU-Canada trade deal.
- Opinion polls suggest the more likely outcome of the election is a broad coalition of nominally pro-EU mainstream parties. This raises two questions. How long will government formation take and how fragile will the government be? Markets will be patient at first as long as populists are excluded, but extended negotiations could be used to discredit the establishment parties. A fragile government less able to implement reforms will be less able to curtail the populists as time goes by, especially if immigration and an unreformed EU remain voter concerns.
- We draw three conclusions. First, populism is likely to remain a medium-term risk even if a PVV government is avoided in 2017. Second, a weak mainstream government may be nominally pro-EU but will be critical of the EU to curtail populism. If this impedes integration, it could loop back into euro area instability. Third, the stronger is the populist support, the more the market will react. We caution against assuming that the large current account surplus means EU exit risk would result in net financial inflows into the Netherlands. The markets most affected in the short run

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by a PVV surprise could be France, with its presidential election later this spring, and the periphery if fears of a systemic euro crisis were to increase.

Economy: a strong cyclical recovery but don't overestimate the structural strengths

This section is a summary of the economy sections (pages 2-11) of our [Special Report](#) on the Netherlands published on 9 February.

Cyclical Conditions: Positive with upside risks

In our view, the consensus on Dutch growth in 2017 (1.6%) is too cautious. We see risks skewed to the upside of our 2.1% GDP growth forecast.

The bursting of the housing bubble hit the economy hard but housing is now in recovery mode and there is a sense of a virtuous domestic cycle emerging, supported by easier monetary and fiscal policy and improving credit supply. Employment growth has accelerated to nearly 2% yoy and the unemployment rate should continue to decline and fall clearly below the long-term average of 5.5%. Real wage growth will suffer this year as inflation rises but we expect it to remain above 1% yoy and support solid domestic demand growth. Export dynamics are improving too. This is supporting a vibrant manufacturing sector — the Dutch PMI is roughly 57, the highest since 2011 — machinery investments should also expand strongly. The improving fiscal situation reinforces the positive cyclical position of the economy into 2017.

There are potential downside cyclical risks: slower global and European growth and trade; an earlier than expected ECB tightening; political risks, both external and domestic, but so far these have not emerged to impact the economy.

Structural Conditions: Strengths and weaknesses

The Dutch economy features a number of underlying strengths. It is one of the strongest in the euro area in terms of the fiscal position — expected to be the first of the eleven largest EMU economies to fall below 60% public debt ratio — and the external position — with a current account surplus running at close to 10% of GDP in recent years and the net international investment position (NIIP) of the economy increasing to the strongest among the larger EA countries. High quality education, world class infrastructure and a business-friendly environment are competitive strengths.

However, there is a risk of overstating the structural strengths. The size of the current account surplus is inflated due to the country's position as a shipping hub (through re-exports) and a centre for financial activities of multinationals. At the same time, a number of domestic imbalances exist. Tax incentives for mortgages fuel high household debt, making domestic demand more vulnerable to financial shocks, and contribute to distortions in the housing market. The strong labour market recovery masks an increased duality between permanent employees versus temporary and self-employed workers. A 'major overhaul' of the large occupational pension system is called for to improve its sustainability, transparency, fairness and flexibility.

Structural weaknesses entail political costs

The underlying strengths of the Dutch economy and its stronger cyclical position mean that existing structural weaknesses are unlikely to present serious problems or precipitate a crisis in the near future. However, the risk is that a broad

Figure 3: A stronger, mostly domestic recovery

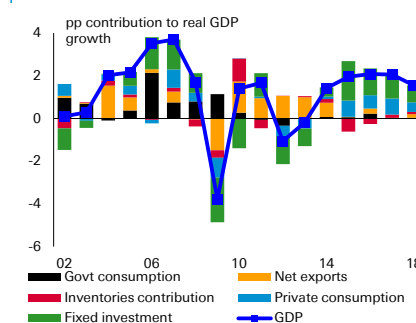


Figure 4: Strong employment growth masks labour market duality

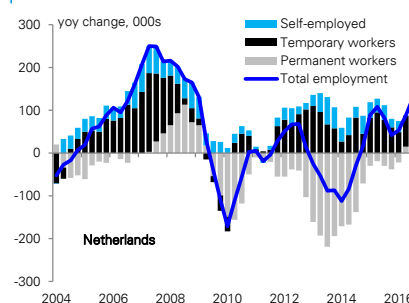
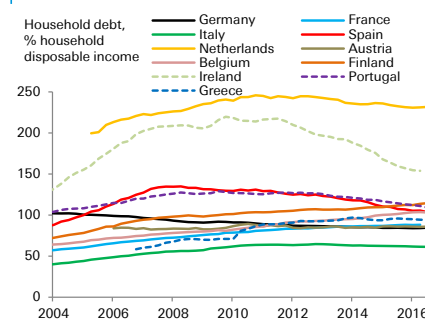


Figure 5: Dutch households are the most indebted in the euro area





but fragile coalition after the election makes little reform progress allowing existing imbalances to feed into increased populist sentiment. Some of the above structural topics (e.g. labour market duality and pension reform) have featured in parties' pre-election positioning, while others, notably the housing market, could become hotter political issues.

General Election 2017: An increasingly fragmented parliament

On 15 March the Netherlands holds a general election. Polls indicate the populist, anti-immigration and anti-EU PVV will be the largest party but will probably lack the support to form a government. Coalition formation is likely to be complicated. Other parties, including outgoing PM Mark Rutte's VVD¹, have pledged not to form a coalition with the PVV but the party landscape is highly fragmented. A strong result by PVV is likely to have repercussions for Europe. Even in opposition, a strengthened PVV could push its anti-EU agenda more forcefully, impeding European integration.

Election details

On 15 March the Netherlands holds a general election for the 150 seat lower house of parliament, the House of Representatives (called the *Tweede Kamer*). The election system is proportional representation. Polling stations will be open from 07.30 until 21.00 CET. Exit polls are expected in the media when polls close. No more than one week after the election the new House of Representatives debates the election result. Assuming no outright victor — the Netherlands has not had a single-party government in the post-war period — the House usually designates a so-called *informateur* to explore which coalition of political parties could form a viable new government. The government formation process can take weeks and in some cases months.

The Dutch political system: "Who's who"?

The political landscape is normally quite diverse in the Netherlands and has become even more fragmented in recent years. 31 parties have submitted candidate lists and, aside from PVV and VVD which are likely to be the top two parties, there are currently six parties that score between 5% and 12% percent in polls. The table below briefly summarises the main political parties, their seats in the current parliament and what current opinion polls are indicating for the new parliament.

¹ On Rutte ruling out a coalition with Wilders see e.g. <http://www.dutchnews.nl/news/archives/2017/01/vvd-leader-mark-rutte-says-zero-chance-of-coalition-with-geert-wilders/>



Figure 6: The main political parties

		# of seats (150 total)		
Party	Brief description	2012 Election	Average latest polls [^]	change
VVD	Conservative Liberal	41	24	-17
PvdA	Social democrat (Labour)	38	11	-27
PVV	Radical right Eurosceptic	15	31	16
SP	Radical left (Socialists)	15	13	-2
CDA	Christian Democratic	13	16	3
D66	Social liberal	12	15	3
CU	Christian Democratic (Social Conservative)	5	6	1
GreenLeft	Green (left wing)	4	16	12
SGP	Christian (right wing)	3	3	0
PvdD	Special interest/Animal	2	4	2
50PLUS	Special interest/Pensioners	2	9	7
Others	Incl. VNL (Radical right Eurosceptic), DENK (pro-Muslim)	0	2	2

[^] Average of five latest polls conducted between 30 Jan - 05 Feb. Source: Peil (05-Feb), Ipsos (02-Feb), TNS NIPO (01-Feb), I&O Research (31-Jan), De Stemming (30-Jan), Deutsche Bank, Netherlands Electoral Council

Figure 7: Simple classification of the political parties

	Pro-European	Eurosceptic
Social	PvdA, D66, GL	SP, PVV
Conservative	CDA, VVD	PVV, CU, SGP, VNL
Single Issue	50+, DENK	PvdD

Source: Deutsche Bank

Key campaign issues

Dutch election campaigns are short. This one will gain momentum during February and it remains to be seen which issues among the following will drive the debates:

- **Immigration.** Immigration is the second most important issue facing the Netherlands according to Dutch respondents to the Eurobarometer survey. (first is health and social security, third is “the environment, climate and energy”). Dutch voters have been sensitive to higher migration rates. During the recession the PVV remained below 20% in polls. But in 2015/16, during the migration influx into the EU, PVV support rose to a peak of almost 30%. As the volume of new asylum seekers fell, with help from the EU-Turkey deal, support for the PVV ebbed. This theme, which resonates with PVV voters, is not lost on the other parties. Parliament approved a ban on the wearing of burqas in Dutch public institutions in November 2016. The VVD have run a campaign telling immigrants to “integrate or leave the Netherlands”² in January 2017. The Labour (PvdA) party – the decimated junior coalition party in the VVD-led government – announced that it wants to restrict labour migration within the EU.
- **Pensions.** With effect from 1 January 2017, the state pension (1st pillar) age increased to 65 years and 9 months. By 2021 it will rise to 67 years and afterwards will be linked to life expectancy. This unpopular measure may partly be countered by higher pensions and additional pension spending thanks to better than expected public finances. The party manifestos of the PVV, the Socialist Party (SP) and the 50+ - the anti-reform parties - would like to roll back the reforms and promise to bring the pension age

² <https://vvd.nl/nieuws/lees-hier-de-brief-van-mark/>



back to 65 years. Among the other parties there is a broad agreement that the pension age has to rise with life expectancy, in particular as low interest rates may require structural changes to the second pillar of the pension system (see discussion above).

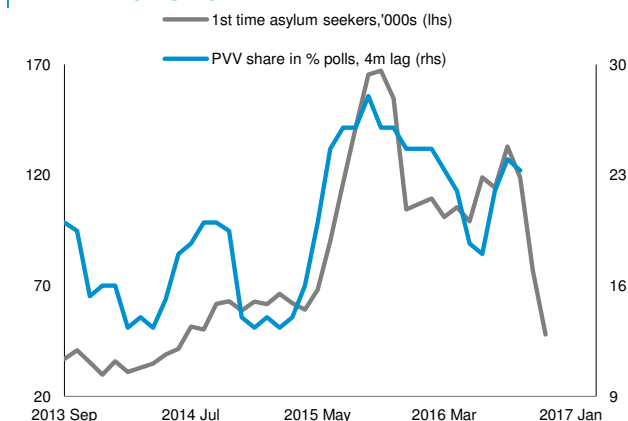
- **Healthcare.** Likewise, reforms in the healthcare sector seem necessary to address the expected strong rise in costs. But in the short-term lower contributions seem likely after the election as several centre parties seem willing to reduce the healthcare deductibles. The austerity measures of the Rutte II government raised the deductibles from EUR 220 in 2012 to currently EUR 385 per year³. The current almost balanced budget gives the next government some leeway in reducing them. A complete scrapping as proposed by the anti-reform parties is unlikely as it would cost roughly EUR 4 bn (~0.6% GDP) according to the CPB.
- **Employment.** The current coalition under PM Rutte has demonstrated economic competence. Despite medium-term austerity budgets, harsh pro-cyclical measures were avoided. The domestic economy has rebounded and public finances have improved. But there are weaknesses. One focus in the election will likely be the dual labour market, which we described earlier. Promoting education, offering more high-quality jobs and the reduction of underemployment are likely to be important campaign issues. Several parties want to close the gap between permanent and temporary contracts. The centre-left parties prefer reducing incentives for employers to hire temporary workers and conservative parties rather prefer less protection of permanent workers. It seems likely that labour laws are changed after the election. But the strong domestic economy might have a larger impact on closing the gap, at least temporarily until the momentum loses steam.
- **Trust.** Another notable cultural topic, “trust in the establishment”, is strongly pushed by the Christian-conservatives (CDA). Two recent cases are to the detriment of PM Rutte’s VVD, the current senior-coalition partner. First, the recent resignation of the Justice Minister who stepped down before a motion of no confidence was submitted is likely to dent the popularity of the VVD . Second ⁴, at the end of last year PM Rutte announced the government’s support for the EU-Ukraine association agreement. After the rejection of the agreement in a non-binding referendum in April 2016, the PM enforced amendments to the treaty to reconcile the treaty with the will of the Dutch electorate. But Rutte’s Eurosceptic critics have already portrayed the signing of the agreement as evidence that the government does not keep its promise to respect the outcome of the vote. The referendum organizers argue that the “No” in the referendum does not contain any basis for amendments.

³ See www.rijksoverheid.nl for details on the deductibles.

⁴ <http://www.reuters.com/article/us-netherlands-politics-resignation-idUSKBN15A2QR?feedType=RSS&feedName=worldNews>

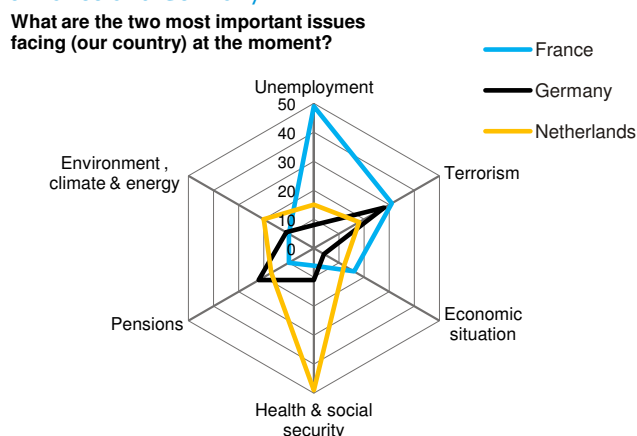


Figure 8: Support for PVV closely related to migration influx in the EU-28



Source: EC, peil.nl, Deutsche Bank. First time asylum seekers series refers to monthly numbers for the EU-28 aggregate.

Figure 9: Different priorities in the Netherlands compared to France and Germany

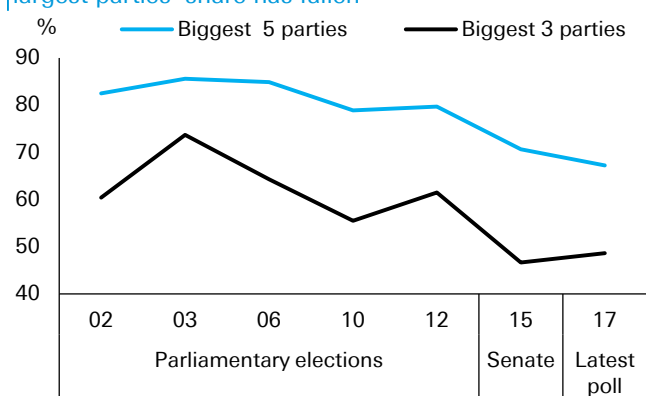


Source: Deutsche Bank, Eurobarometer November 2016

Complex coalition formation process

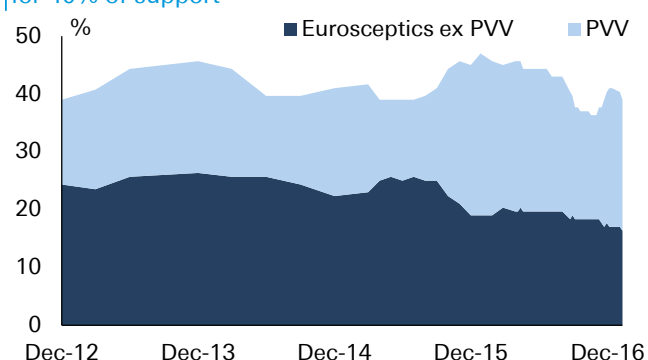
A fragmented party landscape is nothing new to the Netherlands as the country uses proportional representation and has a low threshold for representation⁵. Political fragmentation looks set to increase further with the 2017 election — the largest five parties are on course to garner approximately 65% of votes, about 20pp less than 10-15 years ago — and the formation of a coalition will likely be very complex. Current polls suggest that more than 12 parties will enter the new House of Representative (currently featuring 11 parties and a few independents). When the House meets after the election an informateur is usually selected to act as the middleman between parties to help identify a coalition. In 2012 the formation of the Rutte II government was completed in 52 days and the historic average is almost 3 months.

Figure 10: Increased fragmentation in Dutch politics as largest parties' share has fallen



Source: peil.nl, Deutsche Bank

Figure 11: All parties with Eurosceptic leanings account for 40% of support



Source: peil.nl, Deutsche Bank. Eurosceptics except PVV comprise SP, CU, SGP and PvdD (see Figure above for the party descriptions). However, apart from the PVV none of the parties support an EU membership referendum.

⁵ In the last election, a party had to gather about 63,000 votes to obtain a seat in parliament. The electoral quota is calculated by dividing the overall number of votes cast by 150, equivalent to about 0.67% of the vote.



Don't forget the Senate

The coalition formation process gets even more complicated when one takes into account the strongly fragmented Senate (called the *Eerste Kamer*). The successful passage of legislation also requires a majority there. It can only adopt or reject a bill – no right to amend a bill. The outgoing coalition government did not have a majority in the Senate, meaning each piece of legislation required additional one-off majorities. The last Senate election was in 2015. The PVV has 9 of 75 seats (12%) – this low representation is an additional headwind to any PVV-led coalition. The next Senate election will be in 2019.

Opinion polls: What they say about the likely next government

On the basis of the latest opinion polls from the five main polling organizations, the PVV is leading with approximately 20% of votes. Second is PM Rutte's centre-right VVD in the high teens. These are followed by three parties with approximately 10% each: the Christian-conservatives (CDA), the centre-party D66 and the centre-left GreenLeft (GL). Another three parties score between 5% and 10%: the outgoing junior coalition Labour Party (PvdA), the Socialist Party (SP) and single-issue 50+ party.

Despite being on course to come first in the election, two things raise the hurdle to a PVV-led coalition emerging. First, all centre-left and centre-right parties have ruled out working with the PVV⁶. Second, the PVV has only 12% of the votes in the Senate. We view the pre-election promises to not share power with the PVV as credible as long as the PVV does not reach the 30% threshold. As polls indicate that the PVV remains clearly below this threshold, markets have remained sanguine about the Dutch election. The more the PVV surprises to the upside of current opinion polls, the more complex it will be to form a stable government without the PVV and the more informative PVV success will be for other parties. Otherwise, if the PVV performs in line with current opinion polls it would need to find common ground with 7 or more smaller parties with fairly contrarian views to secure a 50% majority.

Assuming no change from current polls, the most likely scenario appears to be a coalition of centre-left and centre-right parties plus a single-issue party. Given current opinion polls, we think the most stable coalition includes VVD, PvdA, D66, CU, CDA and 50+ which would have a majority in both chambers. One could make various permutations to change this coalition, though these would probably be less stable. For example, one can exchange the 50+ for the GreenLeft (GL). Another coalition option, but presumably the least stable, would be one excluding the VVD – containing instead the GreenLeft and the Socialists (SP). All these coalitions would have a majority in both houses. A minority government with abstentions could be another option but this would be the most fragile political situation.

The table below graphically summarises our thinking. Given the current configuration of support in opinion polls and pledges to not support the PVV, the most likely outcome appears to be a broad coalition excluding the PVV and the least likely appears to be a narrow coalition with the PVV.

Figure 12: A broad coalition of mainstream parties appears the most likely outcome

Party	Seats (average latest polls) ^A	%	PVV coalition ruled out? [*]
PVV	31	21	-
VVD	24	16	Yes
CDA	16	11	Yes
GreenLeft	16	10	Yes
D66	15	10	Likely
SP	13	9	Likely
PvdA	11	7	Yes
50PLUS	9	6	No
CU	6	4	Yes
PvdD	4	3	-
SGP	3	2	No
Others	2	1	-
Total	150	100	

Example coalition	Seats
VVD, PvdA, D66, CU, CDA, 50Plus	81

All parties with 'Yes' in this column have made statements ruling out a coalition with PVV. D66 and SP have not officially ruled it out but we consider it to be highly likely that they will not consider such an option given their divergent position to the PVV on key issues. ^AAverage of five latest polls conducted between 30 Jan - 05 Feb. Source: Peil (05-Feb), Ipsos (02-Feb), TNS NIPO (01-Feb), I&O Research (31-Jan), De Stemming (30-Jan), Deutsche Bank

⁶ In 2012 the current coalition partners (PvdA, VVD) had also excluded to work together before the election. But as the election result was a big surprise (polls had not indicated two strong centre parties), leaving few if any other coalition options, both parties rapidly refrained from their campaign position.



Figure 13: Most and least likely outcomes to the election

	Coalition without PVV	Coalition with PVV
Narrow coalition	Next most likely (2)	Least likely (4)
Broad coalition	Mostly likely (1)	Next least likely (3)

(Numbers) indicate our estimate of the ranking of likelihood from most to least likely

Source: Deutsche Bank. Numbers in brackets indicate our view of the ranking of likelihood from most to least likely.

If no agreement among parties can be reached, another election may be called. As with other parts of the coalition formation process there are no formal election rules, meaning there is no upper time limit on government formation. The willingness to wait for a government to form will be a function of social, political and economic risks. The current strong recovery may allow for greater patience. The parties could decide to call new elections if the process is proving futile but there has never been a precedent of government formation reaching an irresolvable impasse.

Finally, note that the above discussion assumes the current opinion polls are correct. Polls can be inaccurate. They can also change. Polls have been volatile not only in the past few years. For example, the anti-austerity Socialist Party (SP) were on course to win the 2012 election when there was a major swing back to the mainstream parties in the final few weeks. As the campaign has only started there is plenty of room for new surprises.

What about a 'Nexit' referendum?

From a market point of view, the more significant question is not whether the Netherlands elects a populist government per se but whether a referendum on EU membership will be called. Given the current legislative framework as well as the more nuanced debate about the Dutch relationship with the EU, a binding 'Nexit' vote is unlikely in the short term, in our view. Single-issue referenda on aspects of EU participation, such as CETA (the comprehensive economic and trade agreement with Canada), are more likely.

Advisory (non-binding) referendum law does not easily facilitate Nexit; a binding referendum would require a constitutional amendment.

Concerns have been fuelled by PVV leader Geert Wilders' anti EU stance and call for an EU membership referendum.

The Netherlands does not have a strong tradition of direct democracy at the national level. The country held two referenda in recent history, one on the EU constitution in 2005 (based on a temporary referendum law) and another on the EU-Ukraine association agreement last year. Both resulted in rejections and have to some extent been interpreted as anti-establishment and anti-EU votes. Nevertheless, the chances that the Netherlands hold a binding vote on Nexit in the near-term remain very low, in our view.

The legal framework in place since 2015 and which formed the basis for last year's vote on the EU-Ukraine agreement provides for advisory (non-binding) referenda only. Under the Advisory Referendum Act, citizens can request a referendum only on laws and treaties that have been approved in parliament but not yet enacted into law. Given this setup, a referendum request on EU exit looks rather difficult since there is no approved but not yet enacted law likely to facilitate it and it is highly unlikely that parliament would pass such a law.



Current legal provisions simply do not provide for a binding Nexit vote. Binding votes would require a constitutional amendment and constitutional changes require discussion of two successive legislatures. There is a proposal to change the constitution to allow for binding referenda. The first reading already passed but a second reading would need a two-thirds supermajority in both chambers of parliament. As there is no majority in the Senate, it looks unlikely to be taken up until at least the 2019 municipal/Senate elections. Also, support for strengthening direct democracy does not necessarily equal support for calling a Nexit vote.

Of course, a vote does not need to be legally binding to have political ramifications, e.g. the Brexit vote. Another option might be to introduce a revised referendum bill or a special bill to allow for a referendum on Dutch membership. Technically, such a step would require an absolute majority in both houses, a very difficult task to achieve for the PVV given the traditionally high party fragmentation and the current composition of the Senate. Thus, the crucial question is whether there would be sufficient political support.

Constitutional obstacles to leaving the EU in the Netherlands are not explicit as, for instance, in Germany and France where EU membership is constitutionally enshrined. However, while the above constitutional changes may not be technically required to exit the EU, there would be issues as to whether a government decision to revoke EU membership is indisputably within the government's exclusive competences. Dutch parliamentary involvement in EU matters has increased over time and a government decision on membership without parliamentary backing seems highly unlikely (also, Parliament would have to agree to any follow-up arrangements). Coalition politics and the fragmented party scene remain very high obstacles to such a scenario, particularly as the question of exit is hard to separate from what would follow afterwards.

Dutch voters pro-'EU reform' rather than anti-EU; non-binding referenda on single EU-related items are more likely

Only the PVV has taken a clearly pro-Nexit stance. Other (soft) Eurosceptic parties have been more cautious, for instance, suggesting separate votes on aspects of EU participation rather than complete 'in or out'. A poll by TNS Nipo asking the hypothetical Nexit question suggests that it would get a majority only among PVV voters.

The result might be different if the question were put to the people in a referendum, of course. However, Nexit might not be the most promising way to attract voters. Opinion polls tend to show pro-EU majorities and the upcoming electoral campaign seems to be more focused on domestic issues (e.g. pensions and labour market reform). Despite the headlines, PVV might be more inclined to push for stricter refugee policies than for an EU referendum when campaigning.

With a new legislature, things will depend on the new majority. However, from an economic perspective the Netherlands would face higher exit costs than the UK given Euro membership and stronger reliance on intra-EU trade (about 60% compared to just under 50% for the UK). Its relatively small size and function as a hub for international financial flows add to the vulnerability. Economics might not stop the Nexit question being asked, but economics suggests that such a step would be weighed very carefully.

Figure 14: Three potential legal bases for Dutch referenda

Type	Details
Non-binding advisory referendum	Law in force since 2015; can be held on approved but not yet enacted legislation; the referendum on the EU-Ukraine association agreement was triggered under this law
Non-binding referendum based on new/temporary law	Currently no such plans exist; new law would require absolute majority in both houses; temporary law was the legal basis for the referendum on the European constitution in 2005
Binding referendum	Not currently legislated; requires a change of the constitution; 1st reading already passed but 2nd reading needs a super majority (two thirds) in both chambers – currently not planned and unlikely to be taken up before 2019 at the earliest

Source: Deutsche Bank

Figure 15: Process of an advisory referendum

Law published in the official gazette (Staatscourant)
4 weeks to submit a preliminary request of at least 10,000 voters
Electoral Council counts the number of valid requests
If less than 10,000 valid requests, law enters into force
If at least 10,000 valid requests, 6 weeks to collect at least 300,000 requests
If less than 300,000 valid requests, law enters into force
If at least 300,000 valid requests, referendum takes place
Electoral Council counts the number of valid requests within 2 weeks
Referendum organized by the Referendum Commission
Referendum has to take place within 6 months – on a Wednesday
There exists a quorum - results are only valid if at least 30% of the total number of voters turn out

Source: government.nl, Deutsche Bank



Public opinion suggests that Dutch voters see room for improvement in the relationship with the EU. The share of respondents stating that the EU needs a clearer message is very high (9 out of 10 would agree). Along these lines, the Dutch have often been at the forefront of the push for a more efficient / less bureaucratic EU (e.g., proposals to emphasize subsidiarity and better regulation). However, 79% disagree that their country would be better off outside the EU — the highest share across the EU (58% on average) and quite distinct from France (58%) or Italy (42%) for example (Eurobarometer). In such an environment, non-binding referenda on single EU-related issues, such as the Canada trade deal, are a more likely avenue for anti-EU sentiment than a Nexit referendum. These can be stumbling blocks for further integration but at the same time, the idiosyncratic nature of referendum campaigns and voting hardly allows for overgeneralization.

Conclusions

Dutch populism risk may be a slow burning fuse

According to current opinion polls and assuming the parties stand by their pledge not to engage in power-sharing with the PVV, a populist anti-EU government is not the most likely outcome to the election on 15 March. The most likely outcome is a nominally pro-European broad coalition excluding PVV.

The first challenge will be forming a government. The Netherlands has a history of coalitions, but current polls say that 5-6 parties will be required for a majority. It could take time to find a consensus for a programme for government. Markets will probably be patient as long as the populists are excluded. However, the longer the government formation process takes, the more the populists will capitalize on the ineffectual establishment parties.

The second challenge will be curtailing the risk of a populist government in the future. A broad coalition with or without the PVV could be relatively fragile, in particular if the current strong economic momentum were to lose steam. The shorter the life of any new coalition, the less likely that much needed reforms in the pension sector, the labour market and housing will be undertaken. A perceived lack of fairness, transparency and efficiency in these key parts of the economy could maintain support for populist parties. Ongoing migration concerns, an unreformed EU and a Brexit at minimal cost to the UK could be other sources of rising support for Dutch populists.

A potential negative feedback loop into euro area stability

The most likely outcome of the election is a broad coalition that is nominally pro-EU. However, this government will need to be critical of EU integration to keep the domestic anti-EU vote contained. For example, at Davos, PM Rutte declared “ever closer union” dead. There have been reports in the Dutch press recently that the Dutch parliament will not support joining the EU’s new fraud public prosecution office.

We expect criticism of the EU by mainstream Dutch politics to remain constructive and pragmatic but there is still a risk that Dutch opposition to integration could come at a cost to euro area stability in the medium-term. Resolution of the euro debt crisis comes from economic rebalancing, structural reforms and integration (burden-sharing). A Dutch government that fails to reform and opposes EU integration risks creating a negative feedback loop. By maintaining euro area imbalances and vulnerabilities, such a government could

Figure 16: Only PVV voters are in majority against EU membership



Source: TNS Nipo / Kantar Public, Deutsche Bank



make it all the more likely that the Netherlands moves increasingly towards a populist government in the future.

A stronger-than-expected cyclical recovery won't necessarily reduce the populist risk either. Economic inequality seems less of an issue in the Netherlands, e.g. poverty rates are low. The populist views in Dutch politics seem more dominated by migrant concerns on the one hand and an outright anti-EU stance on the other.

Flow of funds to be primary adjustment channel if PVV forms a government

What if the opinion polls are wrong? What if the PVV exceeds expectations and gets into a government formation position? The fear would be that a PVV government pushes for a referendum on EU membership. What the UK experience showed was that sterling was the primary adjustment channel after the referendum. The Netherlands does not have an independent nominal exchange rate, but there can be a flow of funds effect (which can change the real exchange rate⁷). The common assumption that a rising risk of euro exit could be positive for Dutch flows given the large external surplus might not be correct.

Positive/Inflows. Funds flowed into the Netherlands in 2011/2012 when markets were assuming a spiraling euro break-up. Perversely, a rising risk of Nexit — we assume euro exit goes hand in hand with EU exit — could work in *favour* of Dutch assets by attracting an inflow of funds to take advantage of an assumed increase in the new Dutch currency relative to the euro. Assuming ongoing structural economic weaknesses, the Dutch economy's capacity to absorb an inflow of funds would be weaker than otherwise. The inflows would, nevertheless, change the financing of the Dutch current account surplus (e.g., reduce the positive Dutch Target2 balance) and would push Dutch asset prices and bank deposits higher.

Liquid financial flows have been going into the Netherlands in 2016. We strip official sector flows — Target2, ESM payments, PSPP — out of the Balance of Payments to look at private financial flows. With these adjusted data we can say a number of things. First, Dutch gross BoP flows are dominated by FDI, consistent with the large role of the corporate sector in the current account. Second, foreign purchases of Dutch portfolio investments increased the most last year since 2010, the first year of the euro sovereign debt crisis. Third, foreign inflows of deposits ('other investment') into the Netherlands increased sharply in 2016 and were the largest since 2011.

Negative/Outflows. There are counter arguments. First, the 2011/2012 experience might not be wholly relevant. Markets might have been pricing the exit of weak peripherals but not a complete euro system breakup. In other words, there were no specific exit costs assumed for the Netherlands. A populist victory that makes Nexit more likely is a different scenario. This would entail adjustment costs and uncertainties directly for the Netherlands, despite a strong financial position. Second, if Nexit is only a more likely outcome with a populist government, this scenario may be correlated with: (a) the underlying structural vulnerabilities (e.g., pensions, labour market, housing market, healthcare costs, etc) increasing rather than decreasing, and (b) the corporate sector contribution to the current account surplus becoming disrupted and hence declining rather than improving.

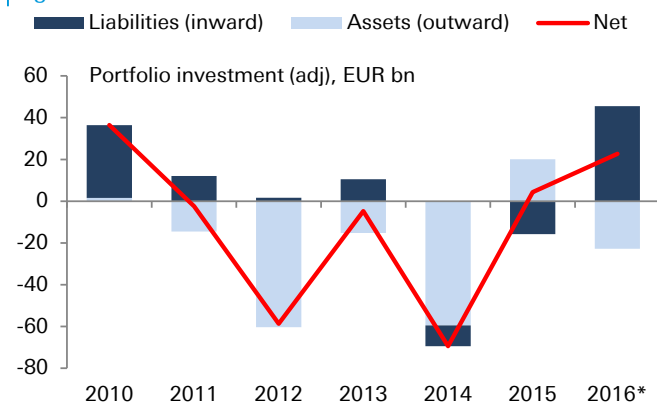
⁷ The nominal exchange rates between countries in a single currency area are fixed but the real effective exchange rates can still vary depending on relative price and cost differentials. If one member state receives an influx of funds — for example, in anticipation of that member state exiting the single currency and their new currency rising relative to the euro — it compresses risk premia, eases financial conditions and thereby boosts growth and inflation relative to the other member states. In other words, the REER rises.



In short, this scenario would entail a relative weakening of the financial stability and sustainability of the Netherlands, although it may take time for the negative arguments to emerge.

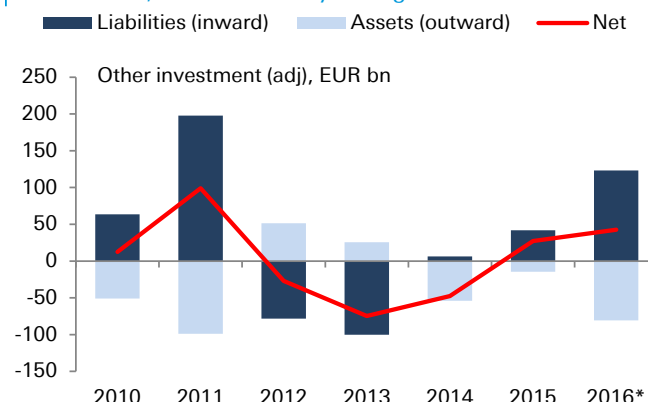
Third, it is not obvious that were the Dutch currency to detach from the euro that it would appreciate, as is popularly assumed. Germany's real effective exchange rate depreciated 12% since the creation of the euro in 1999 as it gained competitiveness relative to the rest of the euro area. The Dutch real effective exchange rate has appreciated 6%. Dutch productivity growth has been similar to Germany but wages have increased more rapidly. This reinforces our point that the Dutch current account surplus is distorted to the upside.

Figure 17: Foreign portfolio inflows were at a six year high in 2016



Note: * Q1-Q3 2016. Source: DNB, Haver Analytics LP, Deutsche Bank

Figure 18: Foreign deposit inflows (adjusted for official sector flows) were at a five year high



Note: * Q1-Q3 2016. Source: DNB, Haver Analytics LP, Deutsche Bank

Net impact. The better the anti-EU populists do relative to current opinion polls, the greater the potential for a reaction in Dutch markets. However, as we have just argued, it is not obvious that the large current account surplus necessarily means that a rising risk of an EU membership referendum should translate into net financial inflows into the Netherlands. It is not clear whether i) the Netherlands' strong external position or ii) the potential exit costs in the event of Nexit would dominate the market reaction.

In fact, the consequences for other euro area countries could be clearer. An outperformance by PVV relative to expectations could fuel fear of another populist surprise in France, in its presidential election in late April/early May, leaving it potentially vulnerable to the short term market reaction. Further, if a PVV-led Eurosceptic government is the outcome, the euro area periphery may suffer as the euro breakup story gains greater prominence.



France: Le Pen's programme and political developments

- On 4 February, Le Pen revealed the headlines of her programme in the form of 144 pledges and a 14-page document⁸ explaining the need to replace the euro with a basket of currencies and a broad strategy to do so⁹.
- Either way, the National Front plans to take France out of the euro and bring back the Franc, end the Bank of France's independence, redenominate French debt into Francs and get the Bank of France to finance budget deficits. Note that the National Front plan does not outline a detailed timeline or specific procedure to modify the French monetary system. According to Article 34 of the French Constitution, the currency regime is determined by the Parliament.
- Le Pen's first pledge is to organize an EU referendum. This would entail revising the French constitution and using Article 89. We previously highlighted the challenges to organizing such a referendum without a Parliament majority. She mentioned in a radio interview that if she were to lose the referendum, she would have no reasons to stay in power¹⁰.
- Interestingly, Le Pen's second to fifth pledges are a list of significant constitutional revisions she would put through a referendum. Theoretically, this would need to go through the Article 89 route, requiring Parliament backing. The institutional changes she would hope to make would give her the tools to implement her programme and stay in power durably.
- In the last few weeks, Le Pen's chances in the polls appear to have not moved very much. Thanks to grass-roots support, Fillon appears to have stabilized ~20% but needs to regain the wider electorate's support if he is to reach the 2nd round. According to polls, Macron now appears as the favourite but he needs to consolidate his support. At the moment he could be considered more of a "default" candidate than a candidate of "choice".
- The recent performance of Socialist candidate Hamon in the polls has surprised many. A potential alliance with far-left candidate Mélenchon could potentially help him qualify for the second round against Le Pen. But such an alliance would be difficult to forge and maintain. In the unlikely case that the second round sees Hamon face Le Pen, the outcome could depend critically on whether Fillon's supporters abstain or switch to Le Pen. If they do, it could leave an uncertain tight outcome to the race.

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⁸ <https://www.marine2017.fr/wp-content/uploads/2017/02/projet-presidentiel-marine-le-pen.pdf>

⁹ <http://www.frontnational.com/pdf/fin-euro.pdf>

¹⁰ http://www.lemonde.fr/election-presidentielle-2017/live/2017/02/07/en-direct-apres-ses-excuses-aux-francais-fillon-veut-relancer-sa-campagne_5075684_4854003.html



- The hope of each mainstream party to see a clear leader and Presidential favourite emerge after the primary campaigns has not materialized. If mainstream candidates remain very close and within polling errors, the race would remain uncertain and dependant on potential disruptive events and news flow, leading to a possible continuation of market volatility.

Le Pen's programme

On 4 February, Marine Le Pen revealed the headlines of her programme in the form of 144 pledges. The National Front also revealed a 14-page document explaining the need to replace the euro with a basket of currencies and its broad strategy to do so.

Economic protectionism and Euro exit

The National Front plans to take France out of the Euro and bring back the Franc. It would convert Euros into Francs (1 Euro = 1 Franc). It aims to call for a European summit where the Euro would be replaced with a basket of currencies that would be allowed to fluctuate by 20%. 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.

The National Front would end Bank of France's independence, redenominate French debt into Francs and get the Bank of France to finance budget deficits. It also plans an annual QE programme equivalent to ~5% of GDP. The National Front expects the currency to devalue by potentially up to 20%, inflation to rise to 3% in that new regime and French 10y yields to rise between 2-3%. French debt would be re-denominated in Euros. According to S&P this would count as a default¹¹.

Note that the National Front plan does not outline a detail timeline or specific procedure to modify the French monetary system. According to Article 34 of the French Constitution, the currency regime is determined by the Parliament.

The National Front also put forward 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.

EU membership referendum and constitutional revisions.

Marine Le Pen's first pledge in her programme is to organize an EU referendum. This would entail revising the French constitution. Theoretically, only Article 89 of the French constitution may be used for such a procedure. In a recent [article](#) we highlighted the difficulties of organizing such a referendum without a clear majority in Parliament. We discussed the possibility of organizing a referendum that is not a constitutional revision via Article 11. Organizing an EU referendum via the Article 11 would likely put intense pressure on the French institutions and the Constitutional Court.

¹¹ <http://www.reuters.com/article/us-france-election-fn-debt-idUSKBN15J00D>



Interestingly, Le Pen's second to fifth pledges are a list of constitutional revisions that she would put through a referendum. Theoretically, this would again need to go through the Article 89 route, requiring Parliamentary backing. The institutional changes she would hope to make would give her the tools to implement her programme:

- Extend the use of Article 11 for referenda and make it easier to organize a referendum via popular demand (only 500,000 signatures and nothing else would be sufficient under her proposal). This would likely make it much easier to organize an EU referendum.
- Change the electoral law for the National Assembly into a full proportional system with a majority premium for the first party. This would make it much easier for the National Front to obtain a durable majority in the National Assembly.

These proposed changes are interesting in that they may highlight Le Pen's awareness of the challenges she could face as a President with the current institutional design. But if she were able to call a referendum on these changes, she would not need those changes anymore. Such reforms could make it easier for the National Front to stay in power in the long-run though.

In the last few weeks, Le Pen's chances in the polls appear to have not moved very much (see figures below). Recent political news in France has worried markets and brought the spotlight back on the race to the Elysée. In the next section we discuss the momentum and potential scenarios facing each candidate.

Can a favourite emerge to challenge Le Pen in the second round?

Plus ça change, moins ça change ¹²

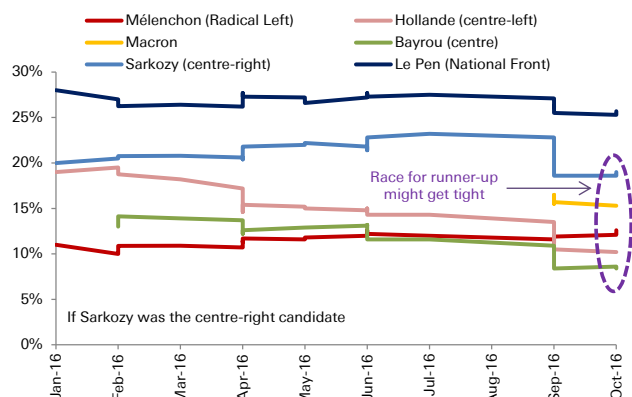
Polls now probably reflect the true underlying preferences of the electorate. Back in September and November 2016 (see [here](#) and [here](#)), we made the point that with a weak centre-right candidate the race for runner-up might get tight. We reproduce the graph we published then below. While Sarkozy has been replaced by Fillon and Hollande by Hamon, the position of each party does not appear to have moved much. Back in October, under a Sarkozy candidacy, far-left and Socialists would get ~23%, centrists Bayrou and Macron represented ~24%, centre-right Les Républicains ~20% and Le Pen ~26%.

The hope of each party to see a clear leader and Presidential favourite emerge after the primary campaigns has not materialized. Will the last two months of the Presidential campaign finally see a clear favourite emerge? Or will mainstream candidates remain very close and within polling errors? The latter would make the race more uncertain and dependant on potential negative events and news flow, leading to a continuation of market volatility.

¹² (the more things change, the less things change)

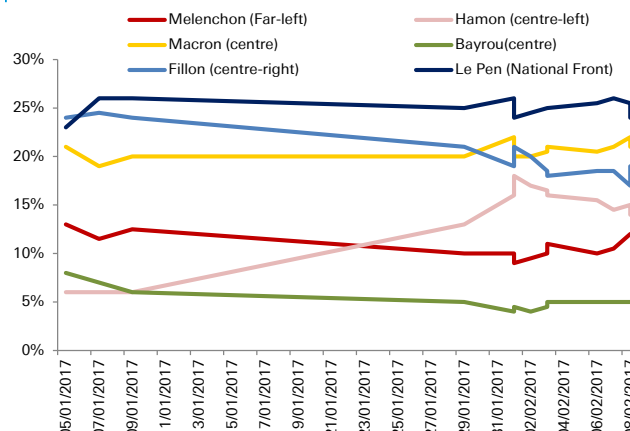


Figure 19: Party support in polls 3 months ago if centre-right candidate not widely popular



Source: Deutsche Bank, average of last 5 polls, see appendix for details

Figure 20: Party support in last month polls



Source: Deutsche Bank, see appendix for details

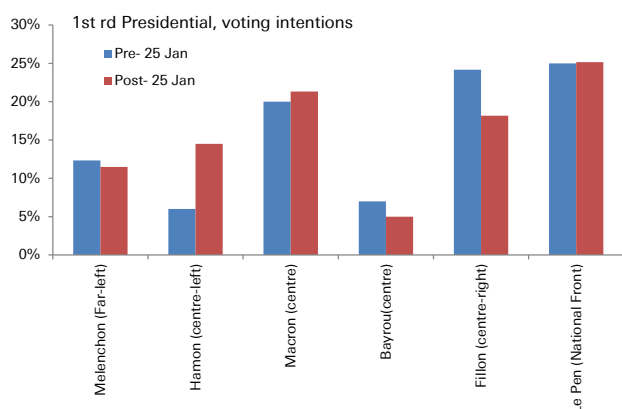
Fillon needs to win back wider electorate support

Allegations regarding Fillon's wife's employment continued this week. Following a press conference on Monday 6 February, Fillon appeared to have officially maintained party unity. He is now trying to bring focus back to his programme and appears to have stabilized just under 20% in the polls. Fillon can rely on strong and faithful grass-roots support (Figure on the right below). He will hope to recover his position as favourite in the polls in the coming weeks. If he is unable to climb up in the polls and get focus back on his programme, he might have to step down. This does not appear to be an easy choice for his party who would have to choose a new credible candidate less than two months before the election.

Macron needs to consolidate his voter base

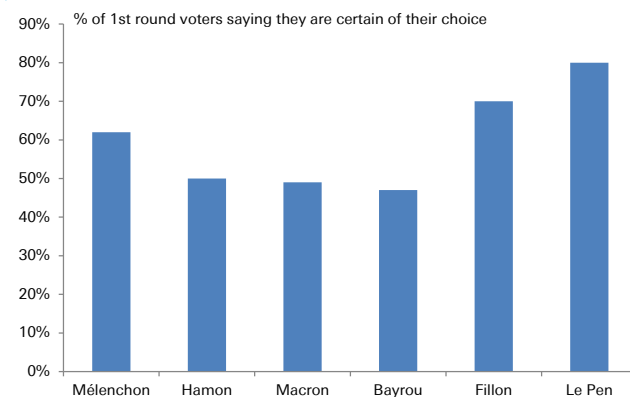
Macron is now slightly above 20% in the first round polls, consistently appearing as runner-up to Le Pen, but within the margin of error of Fillon. While the electorate waits for his full programme at the end of February or early March, he needs to consolidate his support. At the moment he could be considered more of a "default" candidate than a candidate of "choice" (Figure on the right below).

Figure 21: Fillon down, Hamon up, Le Pen stable



Source: Deutsche Bank, average of last 3 polls, see appendix for details

Figure 22: Centrist voters least certain of their choice



Source: Deutsche Bank, Harris interactive, France Televisions l'émission politique, "Intentions et motivations de vote pour l'élection présidentielle de 2017", 9 Feb 2017, JD Levy, sample size 5432



Hamon-Mélenchon : can they join forces or not?

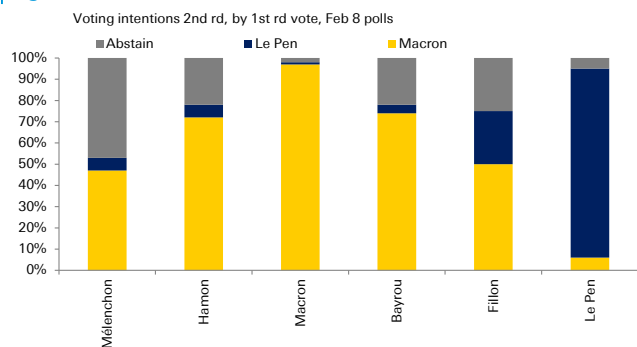
Following the Socialist primaries, Hamon went up by ~10pp in the polls. In the last week he has lost a bit of support. He is still up by 8pp in three weeks and not too far from Macron's margin of error (Figure on the left above). As a Socialist candidate, Hamon appears to have gained some support at the expense of the far-left candidate Mélenchon and Macron. This is unlikely to be a sustainable place for the Socialist candidate, he will have to choose whether he goes left or to the centre:

- *Hamon could go left and capture Mélenchon's support:* In that scenario, polls today suggest that they would get to a similar support as Le Pen in the first round and make it to the second round against Le Pen. Such an alliance appears difficult today. Mélenchon acknowledged the possibility but asked for clear commitments from Hamon to move away from the majority of Socialist politicians that supported Hollande during his term. Such a move to the left by the Socialist party would likely alienate the centrist-reformist Socialist voters towards Macron.
- *Hamon could move to the centre:* by doing so, he could try to reproduce Hollande's 2012 success in holding the party together. He would have to gain back the previous Hollande voters who turned towards Macron without losing support on the left to Mélenchon.

Second-round developments

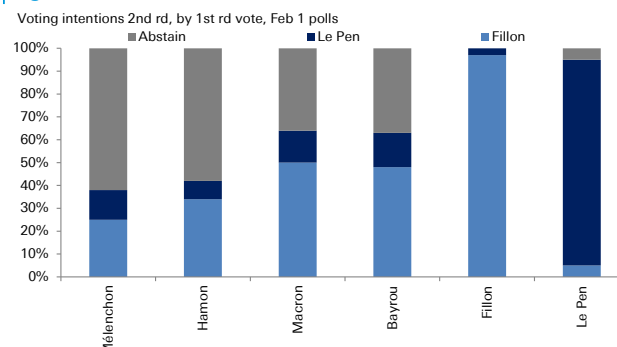
Second-round polls continue to point towards a victory by Macron over Le Pen by 65% to 35%. In such a scenario, nearly a quarter of interviewees in polls do not respond. Fillon, despite the press reports from the last two weeks, would beat Le Pen 60% to 40%. Note that in such a case, more than a third of interviewees in polls do not respond.

Figure 23: Vote transfers in Macron-Le Pen second round



Source: Deutsche Bank Ifop-Fiducial (see appendix for details)

Figure 24: Vote transfers in Fillon-Le Pen second round



Source: Deutsche Bank, Ifop-Fiducial (see appendix for details)

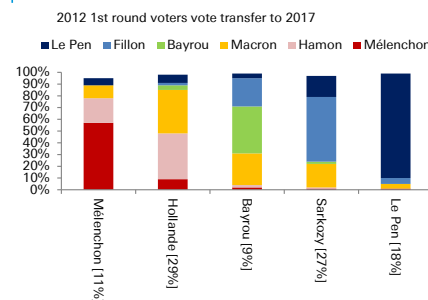
What if a Hamon-Mélenchon alliance was to face Le Pen?

There have been no polls testing the possibility of Hamon facing Le Pen in the second round. Looking at how votes would transfer among candidates in-between rounds and the previous Presidential election results, certain tendencies can be highlighted:



- 40% of voters who supported Hollande in 2012 support Macron today and 10% of 2012 Mélenchon voters support Macron (see margin chart). This would represent 11% of the electorate. Macron's current polls suggest that slightly more than 20% of the electorate supports him. Macron is campaigning on a pro-European stance while Le Pen is doing the opposite. Macron has repeated many times that he considers himself a centre-left politician.
- The real uncertainty is likely to fall on the attitude of centre-right voters: would a majority of them abstain or switch to Le Pen? In the latter case, the final outcome could be tight. According to the latest polls, among centre-right voters, Le Pen is perceived positively by 28% of them, while Hamon is at 21%. Recent polls suggest that a quarter of Fillon's voters would support Le Pen in a second round with Macron while a quarter would abstain and about half would support Macron (Figure on the right above).

Figure 25: ~40% of Hollande's 2012 voters now in favour of Macron



Note: the graph shows the first-round 2012 Presidential candidate on the horizontal axis. It reports their 2012 final score in brackets. For example: in 2012, Hollande gathered 29% of the votes at the first round. Now, 9% of his voters would vote for Mélenchon, 39% of his voters now would support Hamon, 37% of his voters would support Macron, 4% would support Bayrou, 2% Fillon and 7% would support Le Pen. Source: Deutsche Bank Ifop-Fiducial Feb 8 2017 (see appendix for details)

Appendix: polls used

BVA- Pop2017-Salesforce-Orange-Presse régionale "Présidentielle 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 Français a l'élection présidentielle de 2017", 26-27 Jan 2017, sample size 1032, E Riviere, C Marce, L Salvaing

Elabe-Les Echos-Radio classique "Intentions de votes présidentielles 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'élection présidentielle en temps réel", F Dabi, sample size 1500

BVA- Pop2017-Salesforce-Orange-Presse régionale "Présidentielle intentions de vote vague 9, Janvier 2017", A Zulfikarpasic, sample size 955, 6-8 Jan 2017

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

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

Harris interactive, France Televisions l'émission politique, "Intentions et motivations de vote pour l'élection présidentielle de 2017", 9 Feb 2017, JD Levy, sample size 5432

IPSOS-Cevipof-Sopra Steria- Le Monde EEF 2017 wave 2, 22-31 Jan 2016, Martial Foucault & Madani Cheurfa, 21326 persons



IPSOS-Cevipof-Sopra Steria- Le Monde EEF 2017 wave 3, 11-20 Mars 2016, Martial Foucault & Madani Cheurfa, 20319 persons

IPSOS-Cevipof-Sopra Steria- Le Monde EEF 2017 wave 4, 13-22 May 2016, Martial Foucault & Madani Cheurfa, 19455 persons

IPSOS-Cevipof-Sopra Steria- Le Monde EEF 2017 wave 5, 17-26 June 2016, Martial Foucault & Madani Cheurfa, 19100 persons

Odoxa-Dentsu-BFM TV-Le Parisien, 16-April 2016, collected between 14-15 April 2016 on 949 persons

Odoxa-Le Parisien, 14-15 January 2016, 1011 persons

Ifop-Fiducial, iTélé, Paris Match, Sud Radio, Barometre de l'élection présidentielle, 25 February 2016, collected on 2 000 persons between 17-19 February 2016

Harris interactive-We demain, 14 April 2016, Nicolas Hulot quel avenir politique selon les Français?, collected on 1535 persons between 11-13 April 2016

Ifop-Fiducial, iTélé, Paris Match, Sud Radio, Présidentielle 2017: les rapports de force électoraux a un an du scrutin, 20 April 2016, collected on 1876 persons between 12-14 April 2016

TNS-Sofres One Point-Le Figaro-LCI-RTL, Intentions de vote des Français a l'élection présidentielle de 2017, 17 April 2016, collected between 15-16 April 2016 on 1011 persons

BVA-Orange-Presse régionale, Intentions de vote a un an de l'élection présidentielle, 21 April 2016, collected between 15-17 April on 949 persons.

Elabe-Les echos-Radio classique, Présidentielle 2017: les intentions de vote a un an du scrutin, 28 April 2016, collected between 26-27 April 2016 on 911 persons

BVA-Orange-Presse régionale, Intentions de vote vague 2, 20 May 2016, collected between 13-16 May on 927 persons.

BVA-Orange-Presse régionale, Intentions de vote vague 3, 15 Juin 2016, collected between 10-12 June on 910 persons.

Elabe-Les echos-Radio classique, Intentions de vote présidentielle vague 2, 22 June 2016, collected between 20-21 June 2016 on 926 persons



Germany: CDU & CSU team up to clip Schulz' rise

- At a meeting in Munich, the executive committees of the CDU and the CSU have largely demonstrated unanimity and the willingness to close the ranks behind Chancellor Merkel in the imminent election campaign after months of tension over Merkel's refugee policy.
- The meeting is meant as the start signal of a joint campaign which aims at keeping Chancellor Merkel in office and preventing a "left republic", the term the CSU uses to describe a coalition among the SPD, the Left and the Greens.
- As an anchor for a common campaign a joint election platform shall be launched. The platform is likely to focus on external and internal security, (income) tax reductions, support for families, prosperity and jobs and European policy.
- The Bavarian CSU, however, will stick to its demand for an upper limit on migration of 200,000 p.a. as a major element of its own complementary platform for Bavaria, weakening the signal of unanimity at a time when the SPD is surging in polls.

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At the start of the week the executive committees of the CDU and the CSU headed by Chancellor Merkel and the Bavarian MP Seehofer respectively have met in Munich to discuss the sister parties' campaign for the federal election on September 24. The meeting is also meant as the start signal of a joint campaign. The grandees from both parties have largely demonstrated unanimity and their willingness to close the ranks behind Chancellor Merkel. With the meeting both sides seem to have put an end to an extended period of bickering among the sister parties and their leaders, Merkel and Seehofer, too.

The accord became more likely in recent weeks, given Mr. Seehofer's hints in this regard. The CDU and Chancellor Merkel have paved the way for the confirmation of this traditional cooperation by moving to a more restrictive asylum policy stance over the course of the past year. The revised policy approach is based on new laws and regulations from the federal government which reduced benefits for immigrants and lowers the barriers to deportations, among others. The refugee influx has also lost relevance as an explosive political topic, given the substantial decrease in the relevant figure from about 900,000 in 2015 to 280,000 in the past year and around 200,000 in 2017 extrapolating recent numbers. Also, the nomination of the popular Martin Schulz as the SPD's chancellor candidate is likely to have forced the two parties to come to terms. After the nomination a few days ago Mr. Seehofer, e.g., stated that it would make the campaign more challenging.

And in fact, Schulz has had an impressive start which also has benefited his party. According to recent surveys (Infratest dimap, Emnid) the SPD's popularity rating has jumped by 5 to 6pps (to 28% and 29% in the respective surveys) while the CDU/CSU, the Greens and the AfD have lost. In one poll (INSA) the SPD even comes in ahead of the CDU. According to the most recent ARD-Deutschland-



Trend (Infratest dimap) Mr. Schulz' approval ratings even surpassed Chancellor Merkel's ratings.

Given the SPD's unexpectedly strong recovery, commentators (from FAZ newspaper e.g.) have argued that Seehofer might have overplayed his power game with Merkel to her and to both sister parties detriment. At the moment this is speculative and time will tell with seven and a half months to go until the election.

While now the CSU's grandees, too, have clearly expressed their support of a fourth term for Chancellor Merkel, neither the representatives from the CDU nor from the CSU have revealed preferences for a future coalition partner. Instead, they have stressed their common goal to prevent a "left Republic" (CSU), i.e. a coalition government of the SPD, the Left and the Greens.

Both sister parties have emphasised to primarily promote the conservatives' own attractiveness. As an anchor for a common campaign a common election platform shall be launched. The platform is likely to focus on external and internal security, (income) tax reductions, support for families, prosperity and jobs and European policy. The latter issue is likely to play a major role in the contest with the SPD's candidate, as campaigners from the conservatives have already confronted Mr. Schulz with his former plea for Eurobonds ¹³ and accused him of laxness with regard to the Euro area fiscal/ deficit rules ¹⁴. Moreover, it remains to be seen, whether Schulz will propose new policies, or whether he will largely stick with the known SPD policies, which could dampen the appeal of a "fresh" candidate.

The CSU's major request, an upper limit on migration, however, will not be included in the common election platform. This is no surprise, as the CDU and especially Chancellor Merkel have repeatedly opposed such a limit. The Chancellor has argued that Germany needs to act flexible with regard to the admission of refugees depending on the situation in countries of origin like Syria.

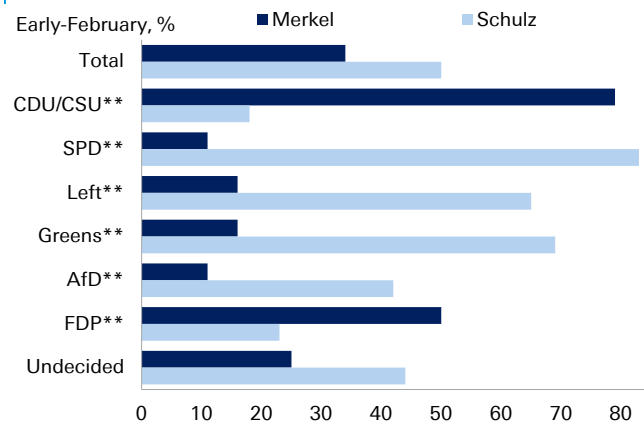
For the CSU, however, the upper limit on immigration (of 200,000 people p.a.) has become part of its mantra and therefore the party will stick to it. As an alternative to the common platform, it will become a major element of its own supplementary platform, the plan for Bavaria. This plan shall underline the CSU's self-reliance in the imminent campaign but it also aims at securing the CSU's majority in the state elections in Bavaria in autumn 2018. While this is quite some time in the future, the intention is to prevent a further strengthening of the AfD on the regional level, too.

¹³Ein Linker ist er nicht. FAZ 25.01.2017 http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/spd-kandidatmartin-schulz-ein-linker-ist-er-nicht-14754979.html?printPagedArticle=true#pageIndex_2

¹⁴Eg. the CDU's general secretary Tauber. See <https://www.cdu.de/artikel/zukunftstreffen-von-cdu-und-csumuenchen>



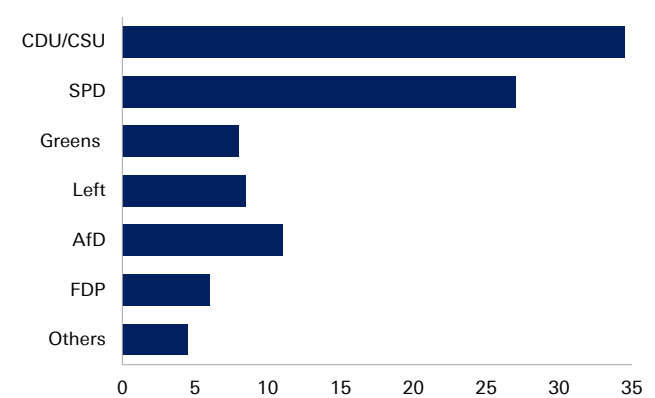
Figure 26: Whom the Germans would elect as chancellor*



* if there was a direct election ** Supporters of the respective party . Source: Infratest dimap: ARD Deutschland-Trend, Deutsche Bank

Figure 27: Major German political parties' popularity*

Surveys from end-January to early-Feb. 2017, %



* Average of major surveys (Allensbach, Infratest Dimap, Forsa, Forschungsgruppe Wahlen, TNS Emnid). Source: Wahlrechte.de, Deutsche bank



SIREN: tracking euro-area macro news

- Both **SIREN-Momentum** and **Surprise** remained broadly stable, as underlying movement in December hard data released this week offset each other.
- Among the EMU4, there was a broad based fall in December industrial activity with the exception of Italy. Based on country-wise data released so far, euro area December IP could fall by 1.5% mom led by Germany. [Industrial production](#) in Germany slumped by 3.0% mom, posing downside risks to Q4 GDP growth (14 Feb). On the other hand, German [manufacturing orders](#) jumped by 5.2% mom (Nov: -3.6%).
- SIREN** continues to signal an underlying GDP growth momentum for the euro area of 2% in annualised terms. This is consistent with the January PMI print.
- SIREN-Surprise** remains in positive territory but has fallen from its mid-January high. Given the robust *Momentum*, weakening of the sister surprise index suggests that growth expectations are rising. Consensus Economics Inc's survey of the most recently-revised projections points to euro-area 2017 GDP growth of 1.6%, up from 1.4% two months ago.
- The ECB has an above consensus forecast for GDP growth in 2017, is "looking through" headline inflation at the more unconvincing core rate (still only 0.9%) and is aware that the political calendar could yet throw a curveball. **Our baseline is the ECB announces tapering in September. Given the recent economic momentum, the risks are skewed towards a June decision.**

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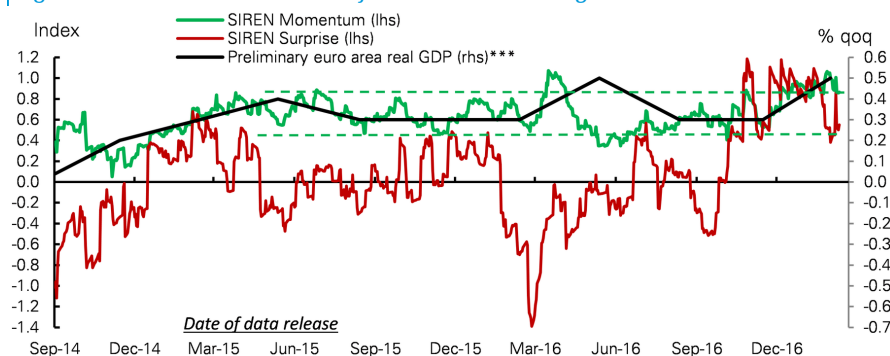
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Figure 28: What is SIREN?

SIREN (Summary Index of Relevant Economic News) monitors daily both how quickly the euro-area is growing (*Momentum*) and how outcomes compare with expectations (*Surprise*). Both *SIREN* components correlate closely but tend to lead similar indices. *SIREN* is reported based on release dates (see chart below and first two charts on next page) as well as on reference dates (see last two charts on the next page). *DB-Point* combines *SIREN-Momentum* and *Surprise* in a single metric (see last two charts on the third page). *SIREN Momentum* and *Surprise* are available in Bloomberg daily under *DBSRMEA Index* and *DBSRSEA Index* respectively

[Link to full guide](#)

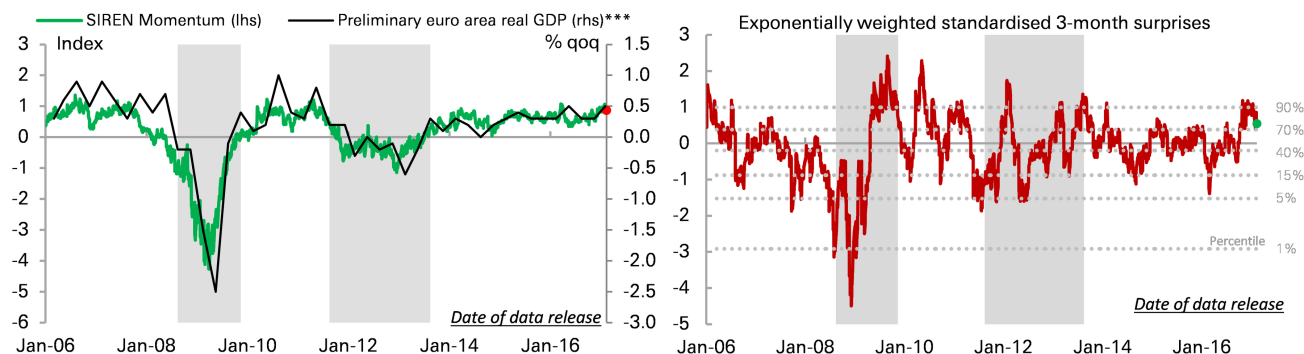
Figure 29: *SIREN- Momentum just below recent highs*



Source: See chart on next page



Figure 30: *SIREN-Momentum* (Left) – Is the euro-area economy accelerating or decelerating? (BBG: DBSRMEA Index)* and *SIREN-Surprise* (Right) – Is euro-area growth faster or slower than expected? (BBG: DBSRSEA Index)*



Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, various statistical sources *At any date on the horizontal axis no ex-post data were employed, we only used information that had already been published. Grey shaded areas in charts above represent declining qoq GDP. ***Data for Q4-16 based on advance print of euro area real GDP.

SIREN based on reference quarters

SIREN by reference quarter captures the macro momentum and surprises (see charts below) across quarters by summing news based on reference dates.

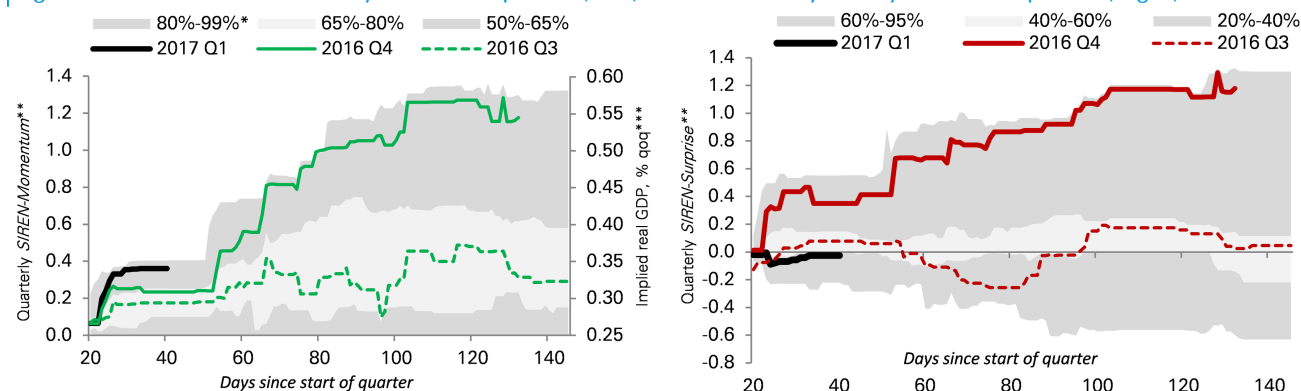
- Euro area [Q4-2016 GDP](#) grew by 0.5% qoq in line with our expectations and message from *SIREN-Momentum* (figure on the left below). We do not have the breakdown of euro-area Q4-16 GDP yet, but consumption is likely to have been a strong growth driver. We expect German and Italian Q4-2016 GDP next week to print at 0.5% qoq and 0.3% qoq respectively.
- For Q1-2017, the January euro-area composite PMI suggests GDP growth of close to 0.5% qoq – above our moderate view (0.3%). Recent strong data pose upside risks to our moderate growth forecast in H1 2017, a continuation of which would likely lead us to upgrade our projections. *SIREN-Surprise* from Q1-2017 has started on a neutral note.

Figure 31: News by quarter

Indicators published around the same date may refer to different quarters. E.g. in mid-January, industrial production for November of the previous year is released followed the week after by the Flash PMIs for January of that year. Both indicators can affect asset prices on the release date but they refer to different quarters, i.e. the PMIs provide a more up-to-date picture. Separating outcomes based on reference rather than release dates helps to (i) spot turning points and (ii) more generally better capture current dynamics.

Source: Deutsche Bank

Figure 32: *SIREN-Momentum* by reference quarter (Left) and *SIREN-Surprise* by reference quarter (Right)



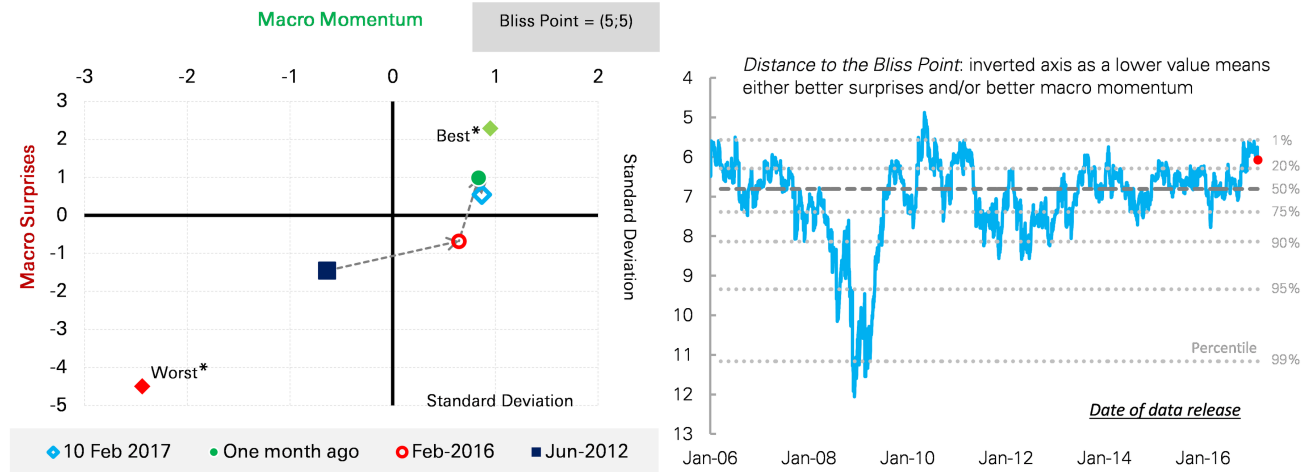
Source: Deutsche Bank, Haver Analytics, National Statistical Offices, Bloomberg Finance LP, various statistical sources. * Shaded areas capture percentiles across quarters since Q4-2005. **News weighted by the indicator's ability to forecast GDP out of sample (one quarter ahead). *** The right hand axis in chart above links the end of quarter level of SIREN-Momentum to a corresponding quarterly euro-area GDP growth.



Combining SIREN-Momentum and Surprise into one metric

- *DB-Point* was broadly stable, in line with *Momentum* and *Surprise* indices.

Figure 33: Combining *SIREN-Momentum* and *Surprise* into *Distance from the Bliss Point (DB-Point)*



Source: Deutsche Bank, Haver Analytics LP, National Statistical Offices, Bloomberg Finance LP, various statistical sources

* Best = minimum distance from bliss point (7 May 2010); Worst = max distance from bliss point (5 Dec 2008). Note that dates do not coincide with min and max for the individual momentum and surprise indices



Central Banks & Financial Forecasts

Euro Area

After the QE slowdown to EUR 60bn (coupled with 9m extension) announced in December, in January Draghi signaled a patient approach, looking through the rise in headline inflation. We expect the ECB to make its next "taper" decision in September but continued strong data flow could bring this forward to June.

UK

Brexit is still a negative growth shock but it is "balanced" against the sterling impact on inflation. We expect the BOE to maintain its neutral stance for now – that is, keep interest rates on hold and let the QE programme expire after February.

Switzerland

The pressure on the SNB will remain given Switzerland's comparative safe haven status, the ECB's slow taper and the euro area's structural problems. Thus, we expect the SNB not to change its exceptionally loose stance before H2 2018.

Sweden

The Riksbank last cut rates 15bp to -0.50% in Feb-16. Its profile suggests rates will remain at current levels with a hike in 2017 unlikely. A quick appreciation of the Krona weighing on inflation could keep QE discussions alive, however.

Norway

Norges Bank last cut rates by 25bp to 0.50% in March 2016. The risks of a further cut have fallen, its rate profile now showing a trough of 0.40% in 2017.

Denmark

Denmark cut its deposit rate to -0.75% in 2015, reversing 10bp of this in January 2016 (to -0.65%).

Poland

The NBP retains its watchful approach with intensified bias for a neutral stance. We retain our long-held call for rates on hold this year.

Hungary

The NBH has committed to flat rates at 0.9% but explicitly signaled bias for further unorthodox easing. We do not expect any change in the near future.

Czech Republic

The CNB continues to stick by its FX intervention regime. We expect the floor to remain in place at least until late 2017. We do not expect a move to negative rates.

Figure 34: Central Banks & Financial Forecasts

Euro Area	Latest	Mar-17	Jun-17	Dec-17
Refi rate	0.00	0.00	0.00	0.00
Deposit rate	-0.40	-0.40	-0.40	-0.40
3m Euribor	-0.33	-0.30	-0.30	-0.30
10Y govt bond	0.24	0.40	0.45	0.85
EUR/USD	1.07	1.03	1.00	0.95

UK				
Bank rate	0.25	0.25	0.25	0.25
3m Libor	0.36	0.40	0.40	0.40
10Y govt bond	1.29	1.50	1.70	1.90
GBP/USD	1.23	1.14	1.12	1.06
EUR/GBP	0.87	0.90	0.89	0.90

Switzerland				
3m Libor Tgt	-0.75	-0.75	-0.75	-0.75
EUR/CHF	1.08	1.06	1.04	1.00

Sweden				
Repo rate	-0.50	-0.50	-0.50	-0.50
EUR/SEK	9.56	9.46	9.39	9.25

Norway				
Deposit rate	0.50	0.50	0.50	0.50
EUR/NOK	9.06	9.08	9.05	9.00

Denmark				
Lending rate	0.05	0.05	0.05	0.05
EUR/DKK	7.43	7.46	7.46	7.46

Poland				
2w repo rate	1.50	1.50	1.50	1.50
EUR/PLN	4.39	4.40	4.38	4.40

Hungary				
Base rate	0.90	0.90	0.90	0.90
EUR/HUF	307.15	313.27	315.51	320.00

Czech Rep.				
Repo rate	0.05	0.05	0.05	0.05
EUR/CZK	27.0	27.0	27.0	26.0

Memo

Japan				
Bank res. rate	-0.10	-0.10	-0.10	-0.10
3m Tibor	0.06	0.05	0.05	0.05
10Y govt bond	0.04	0.05	0.05	0.00
USD/JPY	115.1	117.0	120.0	125.0

US				
Fed Funds Tgt	0.625	0.625	0.875	1.125
3m Libor	1.02	0.98	1.23	1.48
10Y govt bond	2.39	3.00	3.60	3.10

Source: Deutsche Bank, Bloomberg Finance LP, National Central Banks. "Latest" data updated as of 12:15 BST, 10 February, 2017.



The Week Ahead: Euro area

Preliminary estimate of Q4 2016 GDP for euro area, Germany and Italy are scheduled for release next week. As per advance estimate, euro area GDP grew more than expected by 0.5% qoq in Q4 2016. This will be the first release for Germany and Italy. We expect German and Italian GDP to grow by **0.5% qoq and 0.3% qoq** respectively in the last quarter of 2016.

December **industrial production** data for euro area are lined up for release next Tuesday. Based on the country-wise data available so far, euro area could fall by 1.5% mom led by Germany. Other December hard data release include **trade statistics** in euro area and Italy and euro area construction output. We also have February **ZEW survey** for Germany and euro area. Elsewhere, ECB will publish **minutes of its January monetary policy meet**.

Figure 35: Key Data & Events

Day	Time (GMT)	Release	DB Forecast	Consensus	Previous
Tue	07.00	German GDP preliminary estimate (Q4)	0.5%	0.5% (1.8%)	0.2% (1.7%)
	07.00	German HICP final (Jan)		-0.8% (1.9%)	1.0% (1.7%)
	09.00	Italian GDP preliminary estimate (Q4)	0.3%	0.2% (1.0%)	0.3% (1.0%)
	10.00	German ZEW survey current situation (Feb)		77.2	77.3
	10.00	German ZEW survey econ.Sentiment (Feb)		15	16.6
	10.00	Euro area ZEW survey current situation (Feb)			-0.4
	10.00	Euro area ZEW survey econ. sentiment (Feb)			23.2
	10.00	Euro area GDP preliminary estimate (Q4)		05%(1.8%)	0.3% (1.7%)
	10.00	Euro area Industrial production (Dec)		-1.4% (1.7%)	1.5% (3.2%)
Wed	08.00	Spanish HICP final (Jan)		(2.1%)	0.5% (1.4%)
	10.00	Euro area Trade balance (Dec)		EUR23.3bn	EUR22.7bn
Thu	06.30	French Unemployment rate (Q4)			10.0%
	07.00	Euro area New car registration (Jan)			(3.8%)
	09.00	Italian Trade balance (Dec)			EUR4.20bn
Fri	09.00	Euro area Current account (Dec)			EUR36.1bn
	09.30	Italian Current account balance (Dec)			EUR4.6bn
	10.00	Euro area Construction output (Dec)			0.4% (0.0%)

dbCalendar: For more forward-looking calendars of data and events, as well as various tools to analyse data surprises, go to our online calendar: <http://gm-secure.db.com/dbCalendar> * Release time is based on previous release

Thu 16

ECB minutes of MPC meeting - 12:30 GMT

ECB's Coeure to hold speech in Maastricht- 14:45 GMT

Source: Various National Statistical Offices, Bloomberg Finance LP, Reuters, S&P MMS, DB Global Markets Research. Growth rates in parentheses are year-on-year, while those without parentheses are this period over last period. **Release time based on previous release.



The Week Ahead: Rest of Europe & the USA

In the US, January hard data release include CPI, retail sales, IP, housing starts, building permits and capacity utilization. In February survey data, we have Empire state survey, NAHB housing market index and Philly Fed. Elsewhere, **Fed chair, Yellen, will deliver her first semiannual testimony to the house panel since President Trump took office.**

In the UK, we have **CPI, retail sales and claimant count rate for January**. **In rest of the Europe**, we have the **Q4-16 GDP** lined up for release in **CEE countries**. **Riksbank to hold monetary policy meeting** on Wednesday and we expect rates to be on hold.

Figure 36: Key Data & Events

Day	Time (GMT)	Release	DB Forecast*	Consensus	Previous
Tue	08.00	Czech GDP, prelim (Q4)	(2.2%)	(2.3%)	(1.9%)
	08.00	Hungarian GDP, prelim (Q4)	(2.7%)	(2.0%)	(2.2%)
	09.00	Polish GDP, prelim (Q4)	(2.5%)	(2.5%)	(2.5%)
	09.30	UK CPI (Jan)		-0.5%(1.9%)	0.5% (1.6%)
	09.30	UK Core CPI (Jan)		(1.7%)	(1.6%)
	09.30	UK RPI (Jan)		-0.4%(2.8%)	0.6% (2.5%)
	13.30	US PPI (Jan)	0.2%	(1.5%)	0.3% (1.6%)
Wed	09.30	UK Claimant count rate (Jan)		2.3%	2.3%
	09.30	UK ILO unemployment rate (Dec)		4.8%	4.8%
	13.30	US CPI (Jan)	0.2%	0.3% (2.4%)	0.3% (2.1%)
	13.30	US Core CPI (Jan)	0.2%	0.2% (2.2%)	0.2% (2.2%)
	13.30	US Retail sales (Jan)	0.1%	0.1%	0.6% (4.1%)
	13.30	US NY fed empire state survey (Feb)	6.0	7.0	6.5
	14.15	US Capacity utilization (Jan)	75.7%	75.5%	75.5%
	14.15	US Industrial production (Jan)	0.2%	0.0%	0.8% (0.5%)
	15.00	US Business inventories (Dec)	0.7%	0.4%	0.7% (1.5%)
Thu	15.00	US NAHB housing market index (Feb)	67.0	68.0	67.0
	13.30	US Building permits (Jan)	1,300.0k	1,230.0k	1,210.0k
	13.30	US Housing starts (Jan)	1,300.0k	1,230.0k	1,226.0k
Fri	13.30	US Philly fed (Feb)	15.0	17.5	23.6
	09.30	UK Retail sales (Jan)			-2.0% (4.9%)

dbCalendar: For more forward-looking calendars of data and events, as well as various tools to analyse data surprises, go to our online calendar: <http://gm-secure.db.com/dbCalendar>
* Forecast for US from last week's US Economics weekly. ** Release time based on previous release.

Tue 14

Fed's Lacker to hold speech at University of Delaware- 13:50 GMT
Fed's Yellen to appear before senate banking Panel-15:00 GMT
Dallas Fed's Kaplan to hold speech in Houston- 18:00 GMT
Fed's Lockhart to hold speech on economy in Huntsville, Alabama- 18:15 GMT

Wed 15

Swedish Riksbank interest rate- 08:30 GMT
Fed Chair Yellen to deliver semi-annual testimony to house panel- 15:00GMT
Fed's Rosengren to address NY Assoc for business economics- 17:00 GMT
Fed's Harker to hold speech in Philadelphia- 17:45 GMT

Source: National Statistical Offices, Bloomberg Finance LP, Reuters, Deutsche Bank. The list of data and events for the US are not complete. Please see web-based week ahead for a more complete list



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Appendix 1

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