

ANALYSING

THE GERMAN FEDERAL ELECTION



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ANOTHER ELECTION BECKONS

FOREWORD

Elections can be significant market movers. That's why many traders and investors focus on their outcomes.

Recently, we've had three major electoral events. They include the British EU Referendum, the US Presidential Election - and the French Presidential Election.

Next up is the German Federal Election on 24 September 2017. The purpose of this eBook is to inform you on how these elections work, who is likely to win - and the potential implications for the financial markets.

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THE GERMAN FEDERAL ELECTION

HOW THE ELECTION WORKS

The German Federal Election - which typically happens every four years - gives the German population the chance to elect Bundestag members. The newly elected members then vote for a new Chancellor (effectively the German head-of-state).

There are two major parties in Germany. The current German Chancellor, Angela Merkel, leads the Christian Democratic Union Party (CDU) and its sister party Christian Social Union (CSU). There's also the Social Democratic Party (SDP), which is lead by Martin Schulz. It's widely anticipated that one of these candidates will be elected as Germany's Chancellor.

In addition, there are a number of smaller parties. Those that acquire noteworthy support are:

- The Left
- Alliance 90/The Greens

- Free Democratic Party
- Alternative for Germany

In Germany, parties tend to struggle to win outright majorities. That's why Germany is often governed by a government coalition. In fact, Germany is governed by a coalition at this moment in time - between the Christian Democrats (CDU & CSU), along with the Social Democratic Party (SDP). This is known as the grand coalition.

The Christian Democrats (CDU & CSU) are conservative in nature. They can be described as a centre-right party. Meanwhile, the Social Democratic Party (SDP) are a centre-left party. They have clear ideological differences on a variety of different issues.

SMALL DETAILS

The role of Germany's smaller parties shouldn't be overlooked. In fact, they can play a pivotal role in the election as they can splinter support for the two major parties. For instance, Alliance 90/The Greens and The Left can syphon support from the left-leaning Social Democratic Party, as some of their policies do share common ground.

However, in this election, traders should pay attention to one party in particular. The Alternative for Germany (AfD) is a nationalist party that has gained traction in the polls. They can be compared to Britain's UKIP party. Their surge in popularity has been attributed to the wave of anti-globalisation sentiment gripping many major economies - the same wave that resulted in Brexit and the election of President Trump.

Like UKIP, the Alternative for Germany party has demonstrated an ability to garner support from both the left and right of politics. They also have a similar policy platform to UKIP on headline issues such as the eurozone's free movement of people, the European project as a whole and liberal political correctness.

However, the support for the Alternative for Germany party has tapered throughout 2017. As Brexit and the presidency of Donald Trump have unfolded, the enthusiasm for nationalist voting has dampened on continental Europe.

As with all recent elections - nothing should be taken for granted. That's why traders should monitor polling closely up until election day.

WHO WILL WIN THE ELECTION?

WHAT'S ON THE BALLOT?

Immigration is the most important issue in this election - along with the future of the European Union post-Brexit.

Angel Merkel's immigration policy - which saw Germany accept just under one million refugees from Syria and Afghanistan - has seen her face fierce criticism from many in Germany. This hasn't been helped by the recent terrorist attacks across Europe and isolated waves of crime.

Connected to this is the future of the European Union after 2019 - when Britain will formally leave the union. Questions remain about the practicalities of the free movement of people, especially when relating to terrorism and national security.

This election is really about whether Angela Merkel - who is seen as the de facto leader of the European Union - can help the organisation adapt to the challenges of the future.

Ironically, something which has helped Angela Merkel is the unpopularity of both Brexit and President Donald Trump in Germany. The election of Emmanuel Macron as French President has also seen renewed optimism about the future of the European Union, coordinated by the French-German axis.

WHO IS MOST LIKELY TO WIN?

Recent polling suggests that Angela Merkel is likely to secure a fourth term. However, in early 2017 there was an increase in support for Martin Schultz and the Social Democratic Party (SPD) - making the election look competitive. However, in recent months, the gap between the Christian Democrats (CDU & CSU) has increased.

Again, it's important to emphasise that recent history tells us to take nothing for granted when it comes to predicting elections. Traders should keep a close eye on the polls over the coming weeks.

EFFECT ON FINANCIAL MARKETS

A Merkel win will be interpreted as a rejection of anti-globalisation - and another shot in the arm for the European Union. This is something that the markets would favour - as it means continued economic stability for Germany. By extension, this will help stabilise the euro - which is so far enjoying a positive 2017.

Anything other than a Merkel win would constitute an upset. This could cause some short-term volatility for the euro - but nothing

like we saw with the pound after the EU referendum. Remember, both candidates for Chancellor are pro-Europeans. They both believe in the European Union.

Our advice to traders is simple. Monitor the polls closely in the coming weeks and look out for any signs that could suggest an electoral shock. Otherwise, we anticipate that the euro will continue to perform well against its peers - especially as the pound and dollar experience periods of volatility.



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