

# The German election as a long-term positive for the EUR



**Dr Valentin Marinov**  
**Head of G10 FX Research & Strategy**  
+44 20 7214 5289  
valentin.marinov@ca-cib.com



**David Forrester**  
**Senior FX Strategist**  
+852 2826 1529  
david.forrester@ca-cib.com

# The German election and the EUR – the long-term impact



## Most post-election coalition outcomes seems to favour a stronger EUR but risks remain

### ■ The German election and the EUR:

- Under most post-election scenarios, we see the EUR regaining ground. This is mainly because most of the possible coalition combinations after the election include either the SPD or the Greens or both.
- These parties are pro-European and, in the case of the Greens, want to pursue proactive official policies with more immediate growth-positive impact.
- Under the two main risk scenarios for the EUR, we could have a preservation of the status quo – a coalition between the SPD and CDU or the SPD, the CDU and the FDP.
- Indeed, both may see Germany reverting to the ‘arms-length’ relationship with the rest of the Eurozone from prior to the pandemic and thus weigh on the EUR.
- The results from our analysis confirm our constructive medium-term outlook for EUR/USD, EUR/CHF and EUR/JPY. We remain [long EUR/JPY](#).

## Post-election coalition scenarios and the long-term impact on the EUR

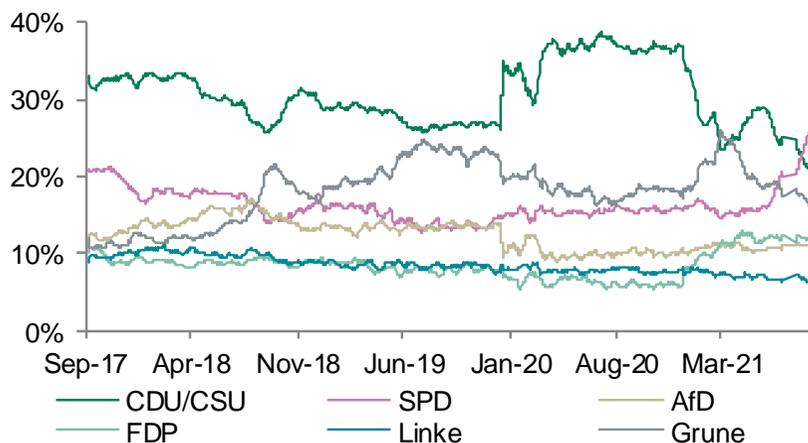
	Rationale	EUR/USD	EUR/CHF	EUR/JPY
1 SPD + Greens + FDP	The best of right and left - Mix of proactive fiscal and pro-European with some pro-business policies	1.24	1.16	138
2 CDU/CSU + Greens + FDP	Mix of pro-business and proactive fiscal policies but less pro-European policies	1.20	1.12	134
3 Greens + SPD + Die Linke	Mix of very proactive fiscal and pro-European policies but much less business friendly	1.23	1.15	136
4 CDU/CSU + SPD + FDP	Mix of pro-business and some fiscal activist policies with less pro-European stance	1.18	1.08	130
5 CDU/CSU + SPD	Status quo - unchanged official policy with little changed stance on Europe	1.17	1.07	128
6 SPD + Greens	Mix of proactive fiscal and pro-European but less aggressive than under 3	1.22	1.14	135

Source all charts: Cr dit Agricole CIB

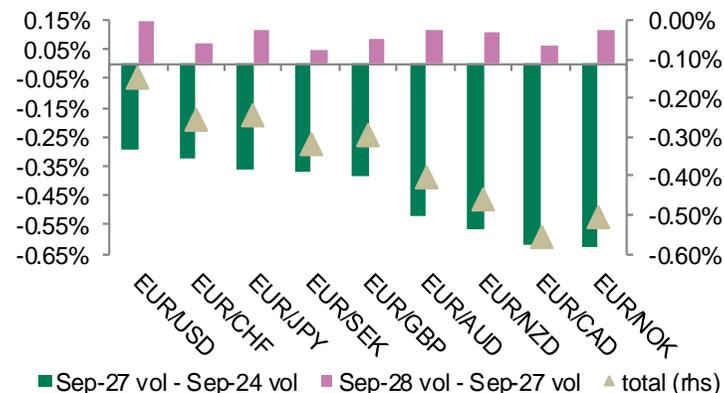
# The German election and the EUR – the near-term impact

Lingering uncertainty in the immediate aftermath of the vote can weigh on the EUR and boost EUR vol

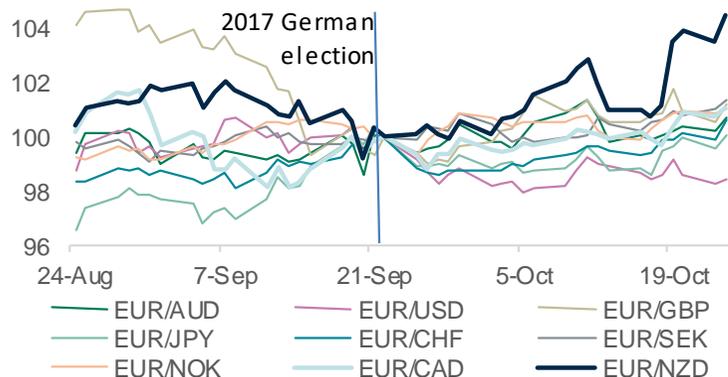
German federal elections polls now and back in 2017



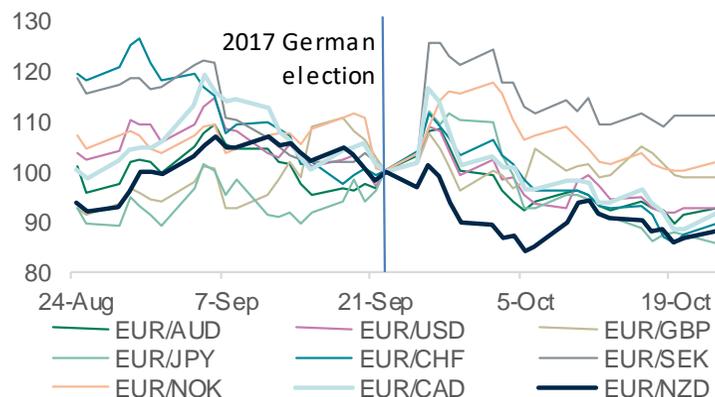
Is the FX vol market complacent ahead of the German vote?



EUR-crosses around the 2017 German vote



EUR-crosses vols around the 2017 German vote

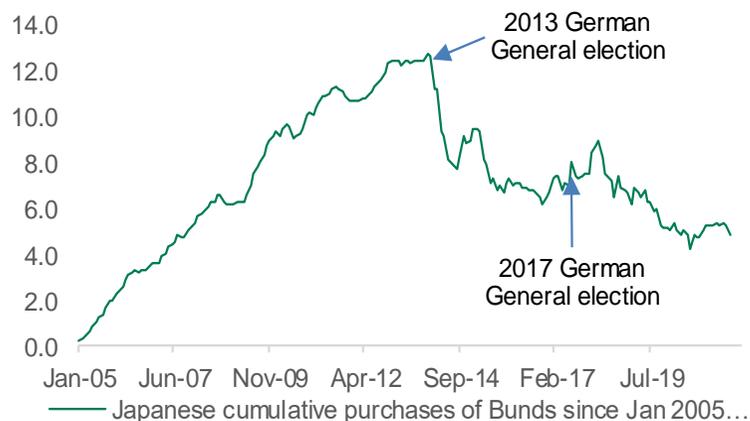


Source all charts: Crédit Agricole CIB, Bloomberg

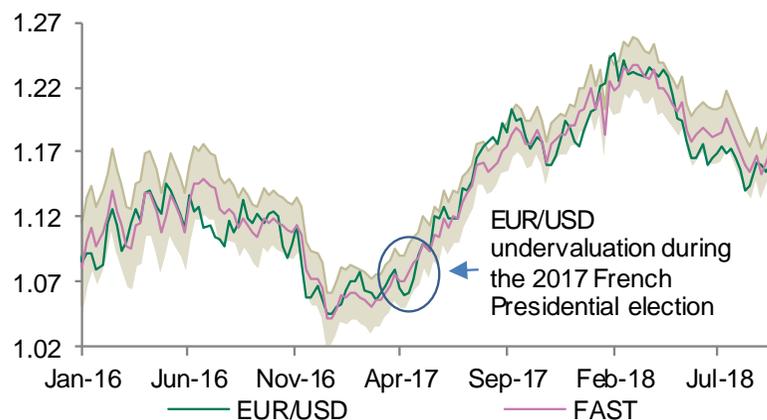
# The European election season and foreign demand for the EUR

## Recovering foreign demand for EUR-assets could boost the EUR vs the JPY and the CHF

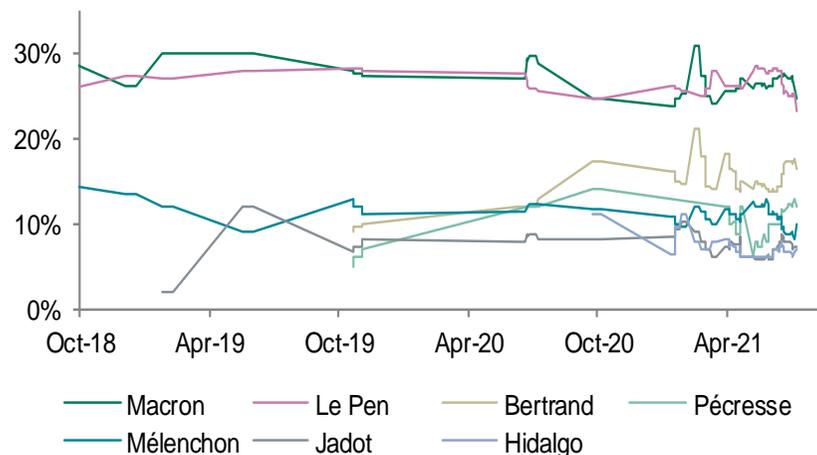
Japanese investors have been reducing their Bund holdings since the European debt crisis



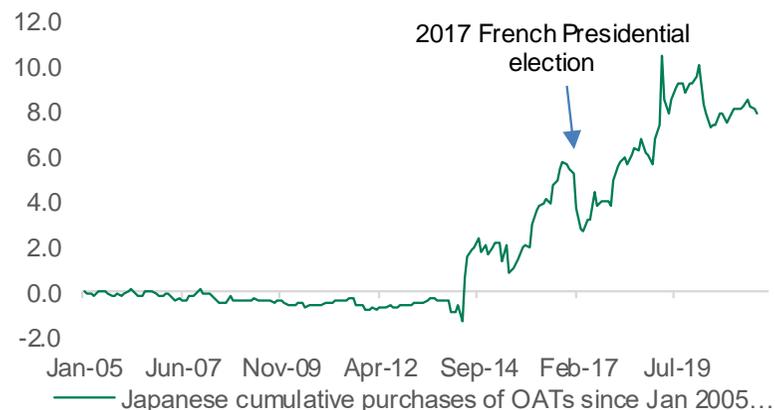
The 2017 French Presidential election led to EUR/USD underperformance relative to its short-term fair value



## 2022 French presidential election polls



Japanese investors reduced their exposure to OATs ahead of the 2017 French Presidential election

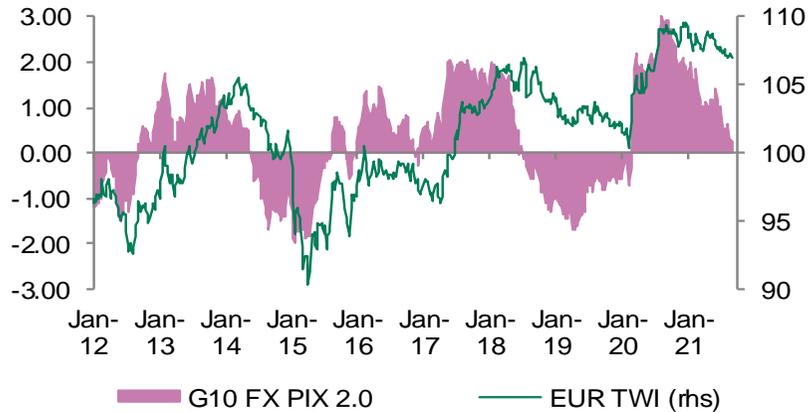


Source all charts: Crédit Agricole CIB, Bloomberg

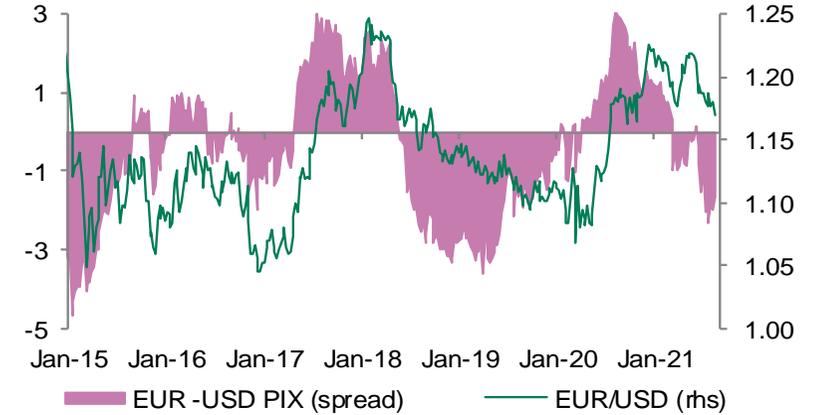
# EUR: further upside over the long term

The EUR is looking overbought but remains cheap relative to long-term fair value gauges

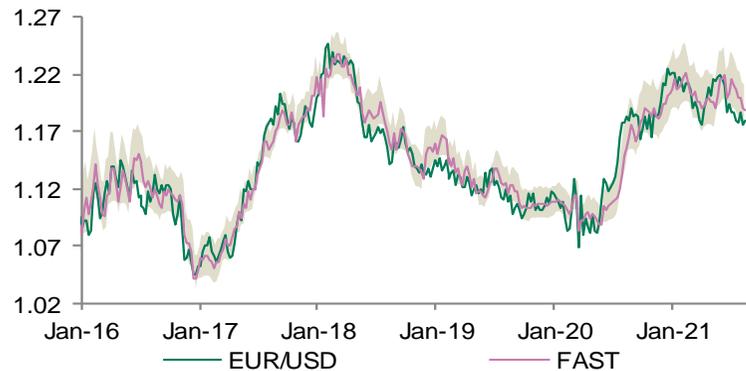
EUR: speculative accounts are still long



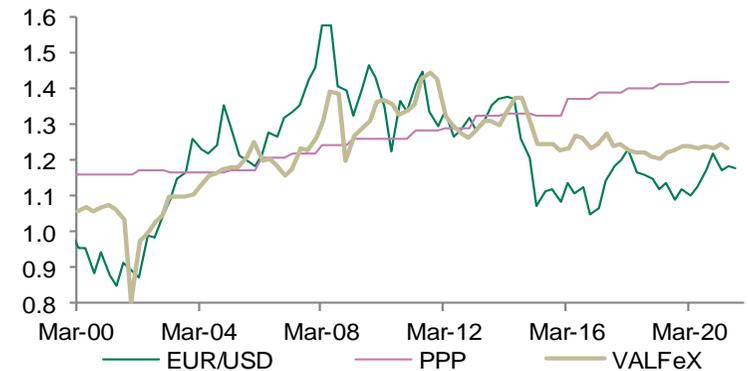
EUR/USD vs relative EUR-USD positioning



EUR/USD vs short-term fair value...



...and long-term fair value gauges (G10 VALFeX and PPP)



Source all charts: Cr dit Agricole, Bloomberg, ECB