

World First briefing note:

# Going Dutch – The risk from the Netherlands





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## Going Dutch – The risk from the Netherlands

2017 has afforded us little time to catch our breath and the first European political test is already upon us. While the French elections have garnered the most headlines and column inches, the elections in the Netherlands have almost snuck up on us but represent a real risk for the European Union, Britain’s Brexit negotiations and the outlook for the single currency.

The rise in nationalist, far-right, identity politics is not a new phenomenon in Europe and so to say the genesis of the lead for the PVV party in Holland are a direct spawn of the Brexit vote or the election of Donald Trump would be incorrect. It is of course very easy to try and fit new and upcoming events into an existing narrative and while some of the characteristics of the Brexit/Trump vote – immigration, a distrust of the economic status quo – are very much in play, there is a lot of idiosyncratic risk as well.

### How do the Dutch elections work?

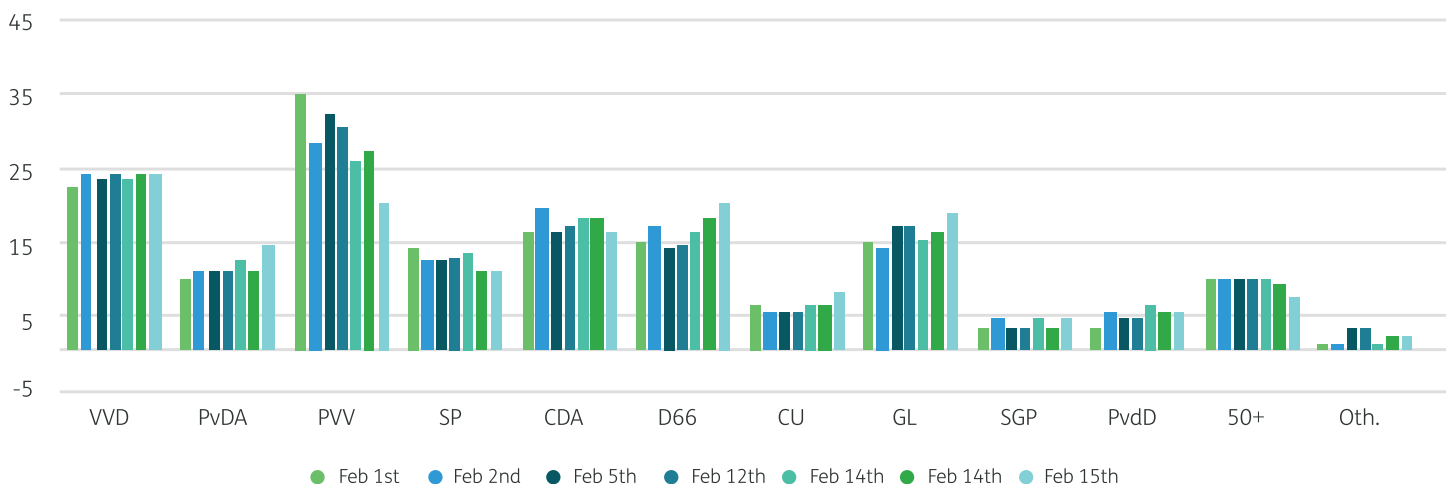
If there is one thing that symbolises the Dutch elections more than anything is the level of party participation. With a little under a month until the election on March 15th somewhere between 28 and 31 parties are expected to run and under the system of Proportional Representation, see as many as 16 parties take up seats in the Lower House of the Dutch Parliament.

Naturally this leads the Netherlands to be a country of coalitions. While a rare sight in British politics, the Netherlands has been governed by coalition governments since before World War 2. At the moment however, many party leaders have said they will not form a coalition with the far-right poll leaders, the PVV, leaving the electoral landscape very confused.

### What are the polls currently showing?

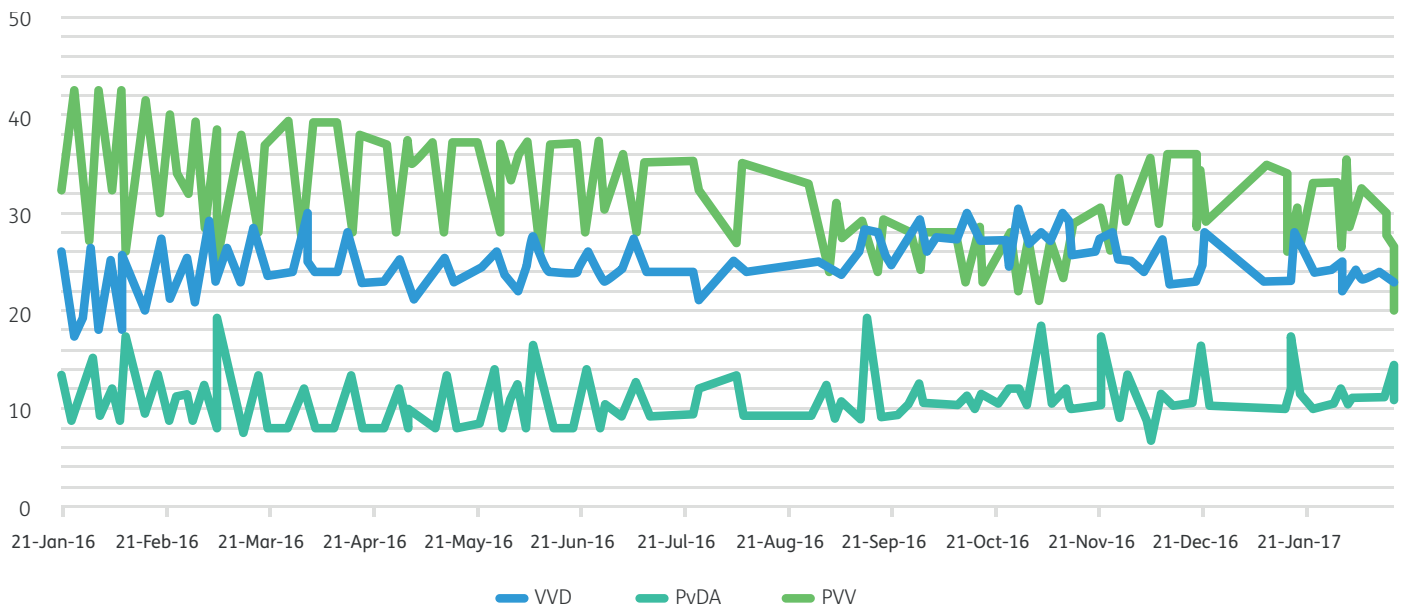
In short, a mess. Not a single one of the main 10 parties within the election are even halfway to obtaining a majority of the votes with the PVV and current governing VVD party tied for first place.

**Nobody close to a majority**



Source: Multiple polling organisations

## PVV weakness only a recent issue



## So where does the coalition come from?

At the moment, this is where a lot of the uncertainty comes from as these polling averages.

Polling Average	VVD	PvdA	PVV	SP	CDA	D66	CU	GL	SGP	PvdD	50+	Oth
Feb Average	23	11	28	12	17	16	6	16	3	5	9	2
Jan Average	25	12	30	12	16	15	6	15	4	4	9	2
Dec Avg	24	11	33	12	15	15	6	13	4	5	9	2

Source: Multiple polling organisations

As we can see from this table, absent the PVV with whom everyone has agreed to not form a coalition with, the road to a majority of 76 seats looks very difficult. Any grand coalition of centre left and centre right (VVD, PvdA, CDA and D66) is currently 8 seats short and would need the anti-immigrant votes of the 50+ party or the Green party to obtain a majority. Similarly a right wing coalition of the VVD, CDA, D66, CU, 50+ and SGP are 1 vote short although the SGP party has previously expressed a distaste for partnering with anyone.

A left wing coalition of the PvdA, SP, D66, GL and PvdD is also doomed to failure, 20 seats away from a majority.

A majority therefore must include the PVV it seems.

History suggests that this level of fragmentation is not conducive to long, sustainable government. In the 70s, two 5 party coalitions were formed – one only after nearly 5 months – and both fell apart pretty quickly.

## The wider European setting

Of course, the Dutch elections are taking place at a delicate time for the European Union with previous elections garnering nowhere as near as much comment or analysis, with very good reason. The Netherlands could easily set the stage for a fractious, populist summer or go some way to limiting European breakdown.

## Going Dutch – The risk from the Netherlands

While the PVV have made comments in the past about the wider EU, ending the free movement of people and possibly reverting to the guilder we think that the wider Dutch electorate would snuff out any referendum on a ‘Nexit’ before it started. Referendums in the Netherlands are only ‘advisory’ but a petition of 300,000 signatures triggers the need for one and while any result is not legally binding last year’s referendum on the EU’s position on Ukraine caused the VVD government to change its stance.

It is our estimate however that the wider European issues that would stem from a PVV win in the Dutch elections would be a softening of the EU stance against the UK within the Brexit negotiations.

Leaders within the EU, particularly Angela Merkel and Francois Hollande, have made much of European unity coming into the UK’s triggering of Article 50 and wish to portray a united front so as to afford the UK few concessions. A Dutch government that includes anti-EU elements, possibly having to fight an advisory referendum on EU membership, are more likely at the margin to side with a UK looking to make a deal than an intransigent EU.

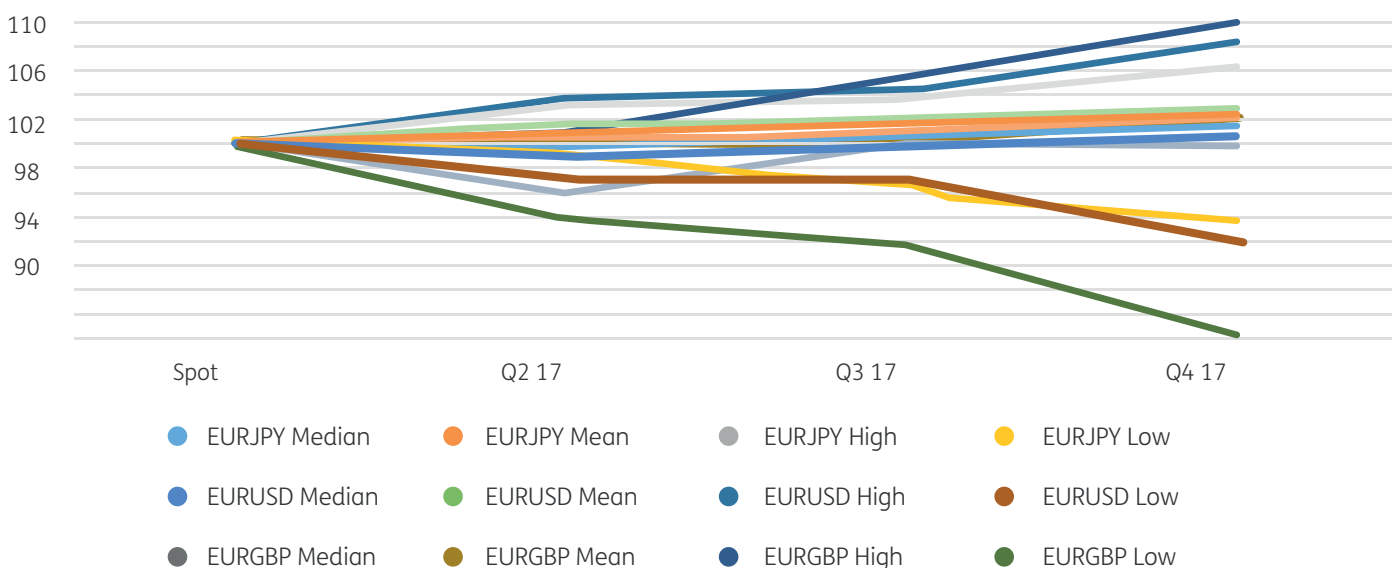
## The euro deserves better

We believe that the Dutch elections and the ensuing uncertainty surrounding the ability of a government to be quickly or easily formed at a critical juncture for the European Union represents a real risk for the euro in the early part of 2017. While the media and commentariat have chosen to focus on the French elections and the cartoon villainy of Marine Le Pen, there is a good chance that her own success is contingent on a victory for the PVV party in Holland, and this will become increasingly priced into the single currency between the Dutch elections in March and the first round of the French elections in April.

We do not believe that she will triumph however and the French election however will end up as a net positive for the European single currency.

On the basis of our expectations around the Dutch election we think that the euro will continue to trade heavily into and after the Dutch election vs US dollar, sterling, Japanese yen and the Swiss franc. Moves in options markets already have shown investors favouring the JPY as a way to express concerns over the European political situation given the inherent risks in sterling (Article 50 invocation) and Swiss Franc (intervention). The chart below represents expected percentage moves in the single currency over the course of the next year in EURUSD, EURGBP, EURCHF AND EURJPY.

Assymmetric Risk in EUR crosses in 2017



We would be targeting parity in EURUSD, 0.83 in EURGBP and moves below 1.04 and 115.00 in EURCHF and EURJPY respectively in this scenario.

## Conclusions

We are reticent to throw our eggs into the populist market reaction basket. While Brexit and Trump both caught the market on the hop last year, we believe that polls and the market reaction to said polls have a better handle on the European political risk this year compared to last year's political turmoil. Marine Le Pen and PVV Leader Geert Wilders have been members of the European political class for a number of years unlike Trump and campaigned on issues familiar to the electorate unlike Brexit.

These are not new risks but risks they most definitely are and anyone whose current or future plans involve exposure to the euro should be prepared.

## Wonder what this might mean for you?



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