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European Union Elections 2019

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EU elections 2019

Voters across Europe head to the polls between 23rd and 26th May to elect 751 MEPs to the European Parliament in what is set to be another trend-setting election in Europe. Markets will be primarily focused on the potential rise of Eurosceptic parties in the Parliament amid a rise of anti-EU populist parties in recent national elections, with concerns persisting that such an outcome would mark the first step towards further disintegration of the EU.

In the UK, the vote is likely to be treated as a proxy second referendum on membership of the EU, with opinion polling suggesting that the vote is likely to be split between the heavily Eurosceptic Brexit Party, led by Nigel Farage, and the pro-remain Change UK and Liberal Democrats. The UK's major political parties, Labour and the Conservatives, are likely to receive a drubbing in elections as voters express their frustration at a lack of progress over Brexit.

Markets will be paying close attention to the potential rise of anti-EU parties as this would act as a headwind to further integration of Europe and potentially lead to further fragmentation of the European Union.

Call us today on **+44 (0) 207 042 7614** or visit **caxtonfx.com/business** to help plan for 2019.

“Vote is likely to be treated as a proxy second referendum on membership of the EU...”

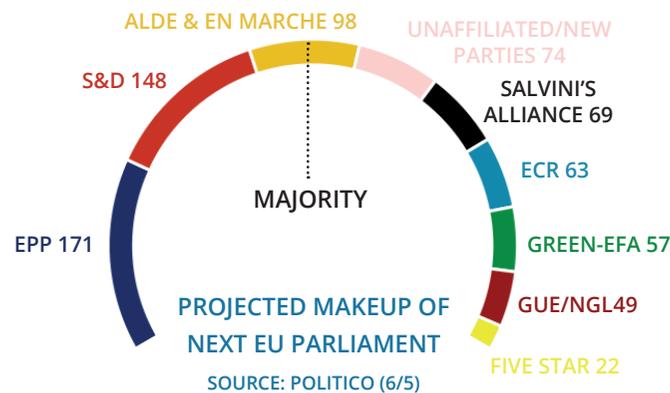
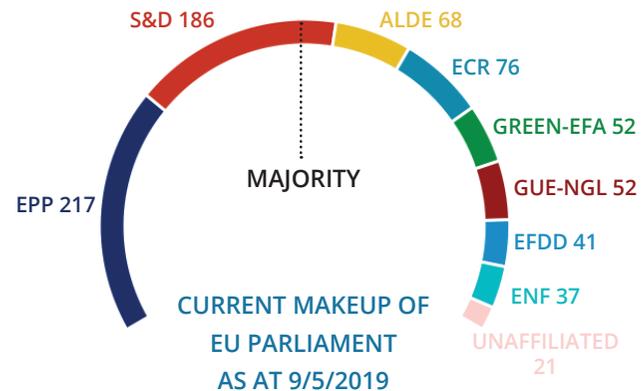
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A shift for EU politics

The European Parliament is currently, and has for much of the time since inception, been dominated by a grand coalition between the European People's Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D). This alliance of pro-EU parties has allowed the Parliament to adopt policies advocating further integration of Europe and has, with few exceptions, seen most measures adopted by the Parliament with a large majority.

EUROPEAN PARLIAMENT

Looking at the European Parliament as a whole, current polling points towards the breakup of the ruling 'grand coalition' of the centre-right European People's Party and centre-left Alliance of Socialists and Democrats. However, to the relief of the financial markets, pro-EU parties are likely to maintain overall control of the Parliament due to expectations that the liberal ALDE group will make gains. Key for Eurosceptic parties will be their ability to work in collaboration with each other with most of the populist groups having significant differences on a number of key issues. Should the anti-EU parties fail to agree, their ability to disrupt parliamentary proceedings and to prevent further EU integration is likely to be limited, thus diminishing the downside risks to the euro.



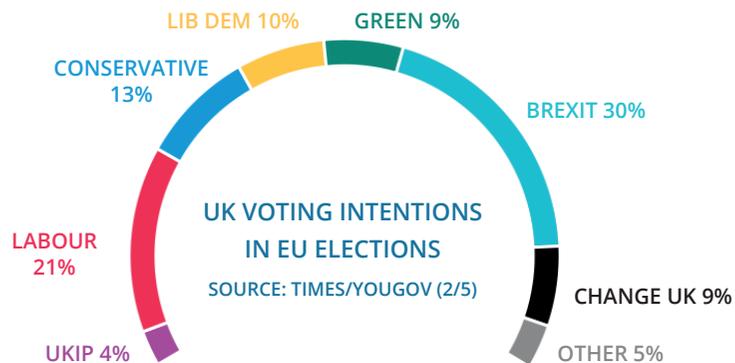
KEY TO PARTY ALLIANCES

- **EPP** – European People's Party
- **S&D** – Alliance of Socialists & Democrats
- **ALDE** – Alliance of Liberals & Democrats for Europe
- **ECR** – European Conservatives & Reformists
- **Green-EFA** – Greens-European Free Alliance
- **GUE-NGL** – European United Left-Nordic Green Left
- **EFDD** – Europe of Freedom & Direct Democracy
- **ENF** – Europe of Nations & Freedom
- Unaffiliated

A shift for EU politics

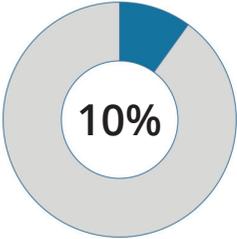
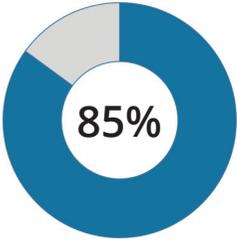
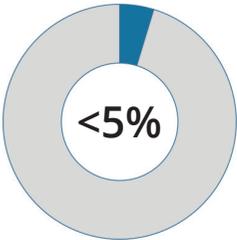
UK OPINION POLLING

As mentioned, voting in the UK is likely to be split between the anti-EU Brexit Party and the pro-EU Lib Dems and Change UK. The elections are likely to be seen as both a proxy 2nd referendum on EU membership in addition to another chance for the electorate to express their discontent with the current 2-party structure and lack of progress on Brexit. Expectations are for the Eurosceptic Brexit party to top the polls, with such an outcome likely to result in further pressure on the government to push for a harder Brexit – an eventuality that would increase uncertainty in the markets and ultimately be negative for the pound.



KEY EVENTS	
20 – 21 Jun	EU Council Meeting
2 Jul	First session of new European Parliament
25 – 27 Aug	G7 Summit
17 – 18 Oct	EU Council Meeting
31 Oct	ECB President Draghi term ends
31 Oct	European Commission President Juncker term ends
31 Oct	Planned UK exit date from EU
30 Nov	European Council President Tusk term ends

Market Impact

Scenario	% Likelihood	Market Impact	Rationale
Current 'Grand Coalition' maintained	 <p>10%</p>	£/€ ►	Maintaining the current agreement between ruling parties in the Parliament would be a 'business as usual' outcome and likely result in muted, if any, reaction in the market.
Pro-EU majority (EPP, S&D, ALDE coalition)	 <p>85%</p>	£/€ ►	The most likely outcome, pro-EU parties would command a majority in the Parliament, though the breakup of the 'Grand Coalition' may result in some additional headwinds for legislation. For markets, little impact would be likely, with populist parties being kept at bay.
Anti-EU rise (populism)	 <p><5%</p>	£/€ ▲	Voters expressing their discontent at the polls in sufficient numbers to result in a significant rise in anti-EU parties is unlikely, though cannot be ruled out. Parties pushing for less EU unity, or a breakup of the union altogether, would be negative for the euro.

Protecting your profits

As a business, implementing a simple but effective 4 step currency plan will help protect your currency exposure before the EU election and beyond.



1. Define your objectives

Understand your appetite to currency risk which can also be influenced by your cash flow requirements



2. Decide a hedging ratio

Define your hedging ratio appropriate for your business risk



3. Evaluate hedging approaches

Determine a hedging approach that best meets your risk management needs – rolling, static, or layered approach



4. Evaluate your plan

We will help you implement the right plan at the most optimal time whilst continually monitoring it for you

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Planning and managing your currency risk doesn't have to be complicated. At Caxton FX, we can help you build a simple currency plan to protect your business against adverse movements in the FX markets.

Speak to us today to help you manage your currency risk.
For more information call
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