German election: Sunday’s TV debate no game changer

- As the highlight of a so far uninspiring election campaign, Chancellor Merkel and her SPD contestant Martin Schulz exchanged arguments in yesterday’s TV debate. Given the huge audience of 16.2 m, i.e. 26% of the electorate, Schulz understood the debate as an opportunity to challenge the Chancellor and to reverse the SPD’s downward trend in the polls. While the chancellor remained in her cautious rhetoric Martin Schulz tried to seize his chances by attacking Merkel’s policy course above all on migration and foreign policy as well as equality – issues voters consider most important in surveys. Schulz was able to hit the mark only occasionally. In polls conducted during and after the debate, viewers saw Merkel with a slightly better performance than Schulz but a relative majority saw no clear difference between the two.

- It is unlikely that the TV debate changed Merkel’s prospect to remain chancellor. Based on her popularity, Merkel’s CDU/CSU enjoys a clear lead over the SPD of around 13-15ppt according to various polls. Given the record-high number of undecided voters, though, Schulz’ performance might increase turnout. This would help to distance the smaller parties and improve the SPD position as renewed coalition partner given that a coalition of the CDU/CSU with the liberal FDP is still on the very brink of a majority in the Bundestag and a so-called Jamaica coalition between CDU/CSU, FDP and the Greens might meet political resistance.

- Differences in the future policy course between potential coalitions will be not particularly pronounced. The preference of the voters for the status quo is reflected in a substantial overlapping of the parties’ manifestos. All mainstream parties campaign on a pro-European platform and the impact of the next government composition on European politics might alter speed and scope of reforms but not question the need of progress.

- September 24th will deliver the parliamentary arithmetic for forming the next government but the process itself is likely to drag on for some time. Preliminary coalition talks will not start before mid-October as the potential partners will be campaigning in the state elections of Lower Saxony. A conservative-liberal coalition might find it easier to agree on the coalition contract. Both SPD and Greens announced to ask their members on whether to start coalition talks as well as approving the negotiation outcome. Given previous experience, it is likely that Merkel could be re-elected as chancellor just-in-time for the December EU summit.
Unexciting campaign so far

The media longed for the debate as they felt that the election campaign was somehow uninspiring and unexciting so far. Merkel started her campaign relatively lately only in mid-August after she returned from holiday. In contrast, SPD frontrunner Schulz has been campaigning since end-January when his party unexpectedly nominated him as Merkel’s contender. However, it was difficult for him to maintain the initially strong momentum of his campaign and persistently challenge Merkel as she enjoys the advantage of the incumbent chancellor. In Berlin, at the G20 summit in Hamburg, in Brussels, and during several visits abroad she could demonstrate her ability to act on the highest international levels to address major problems like the refugee crisis. Schulz who has no official position in Germany could only deliver speeches and present himself in media interviews. Also the CDU/CSU published its election platform only in July. Compared to the SPD’s manifesto the conservatives’ programme remains relatively vague with regard to various topics. For example, the SPD presents detailed, albeit expensive plans for increased pension benefits, while the CDU simply proposes to establish a pension reform commission next year. Merkel’s rhetoric is cautious, too, and she tends to avoid clear detailed commitments. Recently, e.g., she stated that Germany in principle should refrain from cars with a combustion engine but she refused to give a deadline. Already in the run-up to the TV debate Schulz provoked Merkel to come out of the wood but she has stuck to her caution, often defensive line of reasoning.

Mega media event with large audience

Therefore Mr. Schulz and his party, too, were eager to have the debate. They saw it as an ideal opportunity to challenge the Chancellor and to reverse the downward trend in the SPD’s approval ratings which have declined from 32% in February to only about 23% in the latest polls. Such reasoning was substantiated. Yesterday more than 16 million, i.e. about 26% of the electorate (about 62m), followed the TV debate. According to a survey (IfD Allensbach) conducted some days prior to the event, 46% of those who intend to cast their ballot are still undecided. And studies (e.g. from Mainz University) found out that the TV contest can have a noteworthy effect upon the audience, primarily those undecided on their election decision, and increase the voter turnout. However, to generate a lasting impact the respective participant has to clearly outperform his or her opponent.

Of course, the SPD hoped that the 61 year old Schulz could do so, as he is widely deemed as a passionate politician and an outspoken speaker knowing to address the broad public. For the more cautious Chancellor such debates are said to be purely a matter of duty and not her favourite turf. Therefore, the SPD wanted at least two debates. However, Merkel accepted only one as she did in her previous three campaigns. In addition her team insisted on a relatively rigid Q&A format that largely prevented spontaneous exchange of views between the candidates. Under these circumstances the scope was relatively limited for Martin Schulz to meaningfully challenge Merkel. What is more, in the debates in the past three campaigns Merkel performed reasonably and did not slip. And this time, of course, she competed with all the experience and self-confidence of an incumbent who has been in office for nearly twelve years now.

Nevertheless Schulz tried hard to drive the chancellor into an elaborate debate. During the debate the contenders touched all major issues, however, migration and foreign policy assumed the major part of the debate. Schulz was able to...
use his position outside of the cabinet to take a more critical stance towards foreign leaders. He made clear, in particular, that he would end accession talks with Turkey and demand more solidarity of Eastern European member states on the migration issue. European politics, i.e. reforms of the euro area, were not discussed. Despite Schulz’ attempts to distance himself from the Chancellor, differences remained marginal on the vast majority of topics. Given the relatively lengthy debate on refugee and foreign policy, Schulz was hardly able to elaborate on his campaign’s major issue, social justice. And Germany’s business community seemed disappointed that their requests as well as the economy in general played a marginal role only in the debate.

According to polls conducted around the TV debate (Forschungsgruppe Wahlen), Schulz was able to outperform the expectations of the viewers with 51% (36% as expected) whereas for 77% Merkel performed as expected (11% better than expected). On expertise Merkel scored better than Schulz (41 vs 18%) on social politics Schulz (49 vs 15%). Merkel took a clear lead in the question who would better prepared to steer Germany through globally uncertain times (55 vs 15%).

Asked about possible coalitions Merkel distanced herself from the AfD. Schulz, however, avoided to rule out a coalition with the Left party, a contentious issue in the SPD and in the broader SPD electorate. Schulz might feel emboldened by the fact that he made up some ground in his overall positioning as 44% of those polled have a better impression of him after the debate than before and more people could think of him as chancellor (39 vs 33% before the debate). However, 53% of the viewers still want Merkel to remain chancellor, a lead of 14ppt over Schulz.

Merkel likely to remain chancellor

While over the next days, commentators and spin doctors will further analyse the debate, in our view it is unlikely that the TV debate has fundamentally changed the prospect for Merkel to remain chancellor. Merkel and her party have entered the campaign’s final stage from a strong position. In the past weeks the major surveys always indicated a clear lead of the CDU/CSU over the SPD of around 13-15ppt (about 38% vs. 23% to 24%). So while polls suggest that the runner-up slot will clearly go to the SPD, the excitement is more in the battle for the third place.

In the major surveys the average approval ratings of the four smaller parties which will likely gain seats in the Bundestag have recently all hovered between 7.5% and 9%. Amongst these, the AfD has gained slightly following the terrorist attacks in and near Barcelona. The Left seem to have got some tailwind from the SPD’s ongoing weakness. The FDP has reached about 9% in past weeks polls. Therefore, the party which failed to pass the 5% threshold in 2013, will likely be able to celebrate its return to the Bundestag. Compared to the other smaller competitors the Greens performance has been less stable. For more than a year the party has been in a slight downward trend. This might reflect the Green’s difficulties with profiling given the parties ideological divide between a more leftist fundamentalist wing and a centrist camp represented by the Greens’ two top candidates. At present it is hard to tell which of the four parties will finish third on September 24, but for the FDP and the Greens it matters in particular as a strong result place would vastly improve their chances to join a coalition government.
Coalition talks likely to drag on for some time

While CDU/CSU grandees, especially Finance Minister Schäuble, have repeatedly stated to prefer a coalition with the liberals (FDP), it is open whether such an alliance will reach the necessary majority of Bundestag seats. According to most of the recent polls only a renewed grand coalition or a so called Jamaica coalition among the CDU/CSU, the FDP and the Greens would work.

Supposed these polls are right government formation will take quite some time as for neither of the parties involved a renewed CDU/CSU-SPD coalition or a Jamaica coalition would be a matter of the heart. Until October 15 the potential partners are campaigning in Lower Saxony. The competition there is all the more intense as the present SPD-Greens coalition is likely to lose its majority according to recent surveys (polling institut Infratest dimap). In this situation coalition talks in Berlin or even officially stated coalition preferences could hamper the competitors in Lower Saxony to fully exploit their pool of potential voters. Therefore, even preliminary talks will only start in mid-October. And after that every step will be complicated and take its time. The SPD has already announced to make official talks with the CDU subject of a party member referendum. According to observers the risk of a members’ veto or the party grandees’ immediate reluctance to join a coalition at all is the higher the poorer the SPD’s election result will be. If the members agree negotiation on a common government programme will be tricky given the parties different approaches in major fields such as fiscal policy (continued consolidation vs intensified public spending). In the end party members will be asked again to finally decide on the negotiation outcome. In case of a Jamaica coalition the Greens are likely to proceed similarly. Here potential negotiators have to consent on controversial issues, too, namely asylum policy, energy and traffic policy (future of the diesel).

All this could drag on for two months or so, as it did last time in autumn 2013. Thus, it should be no surprise, if the Germans once again will have to wait for Merkel’s potential re-election as Chancellor until mid-December. In contrast, a conservative liberal coalition would probably be established much sooner.
Appendix 1

Important Disclosures

*Other information available upon request

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.epsr. Aside from within this report, important conflict disclosures can also be found at https://gm/db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s). In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Barbara Boettcher, Dieter Braeuninger
Additional Information

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively “Deutsche Bank”). Though the information herein is believed to be reliable and has been obtained from public sources believed to be reliable, Deutsche Bank makes no representation as to its accuracy or completeness. Hyperlinks to third-party websites in this report are provided for reader convenience only. Deutsche Bank neither endorses the content nor is responsible for the accuracy or security controls of these websites.

If you use the services of Deutsche Bank in connection with a purchase or sale of a security that is discussed in this report, or is included or discussed in another communication (oral or written) from a Deutsche Bank analyst, Deutsche Bank may act as principal for its own account or as agent for another person.

Deutsche Bank may consider this report in deciding to trade as principal. It may also engage in transactions, for its own account or with customers, in a manner inconsistent with the views taken in this research report. Others within Deutsche Bank, including strategists, sales staff and other analysts, may take views that are inconsistent with those taken in this research report. Deutsche Bank issues a variety of research products, including fundamental analysis, equity-linked analysis, quantitative analysis and trade ideas. Recommendations contained in one type of communication may differ from recommendations contained in others, whether as a result of differing time horizons, methodologies or otherwise. Deutsche Bank and/or its affiliates may also be holding debt or equity securities of the issuers it writes on. Analysts are paid in part based on the profitability of Deutsche Bank AG and its affiliates, which includes investment banking, trading and principal trading revenues.

Opinions, estimates and projections constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank provides liquidity for buyers and sellers of securities issued by the companies it covers. Deutsche Bank research analysts sometimes have shorter-term trade ideas that are consistent or inconsistent with Deutsche Bank’s existing longer term ratings. Trade ideas for equities can be found at the SOLAR link at http://gm.db.com. A SOLAR idea represents a high conviction belief by an analyst that a stock will outperform or underperform the market and/or sector delineated over a time frame of no less than two weeks. In addition to SOLAR ideas, the analysts named in this report may from time to time discuss with our clients, Deutsche Bank salespersons and Deutsche Bank traders, trading strategies or ideas that reference catalysts or events that may have a near-term or medium-term impact on the market price of the securities discussed in this report, which impact may be directionally counter to the analysts' current 12-month view of total return or investment return as described herein. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof if any opinion, forecast or estimate contained herein changes or subsequently becomes inaccurate. Coverage and the frequency of changes in market conditions and in both general and company specific economic prospects make it difficult to update research at defined intervals. Updates are at the sole discretion of the coverage analyst concerned or of the Research Department Management and as such the majority of reports are published at irregular intervals. This report is provided for informational purposes only and does not take into account the particular investment objectives, financial situations, or needs of individual clients. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst’s judgment. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Prices and availability of financial instruments are subject to change without notice and investment transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor’s currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Unless otherwise indicated, prices are current as of the end of the previous trading session, and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank, subject companies, and in some cases, other parties.

The Deutsche Bank Research Department is independent of other business areas divisions of the Bank. Details regarding our organizational arrangements and information barriers we have to prevent and avoid conflicts of interest with respect to our research is available on our website under Disclaimer found on the Legal tab.
Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.

Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities, and as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the “Characteristics and Risks of Standardized Options”, at http://www.optionsclearing.com/about/publications/character-risks.jsp. If you are unable to access the website please contact your Deutsche Bank representative for a copy of this important document.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor’s home jurisdiction. Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

Deutsche Bank (which includes Deutsche Bank AG, its branches and all affiliated companies) is not acting as a financial adviser, consultant or fiduciary to you, any of your agents (collectively, “You” or “Your”) with respect to any information provided in the materials attached hereto. Deutsche Bank does not provide investment, legal, tax or accounting advice, Deutsche Bank is not acting as Your impartial adviser, and does not express any opinion or recommendation whatsoever as to any strategies, products or any other information presented in the materials. Information contained herein is being provided solely on the basis that the recipient will make an independent assessment of the merits of any investment decision, and it does not constitute a recommendation of, or express an opinion on, any product or service or any trading strategy.

The information presented is general in nature and is not directed to retirement accounts or any specific person or account type, and is therefore provided to You on the express basis that it is not advice, and You may not rely upon it in making Your decision. The information we provide is being directed only to persons we believe to be financially sophisticated, who are capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, and who understand that Deutsche Bank has financial interests in the offering of its products.
and services. If this is not the case, or if You are an IRA or other retail investor receiving this directly from us, we ask that you inform us immediately.

**United States:** Approved and/or distributed by Deutsche Bank Securities Incorporated, a member of FINRA, NFA and SIPC. Analysts located outside of the United States are employed by non-US affiliates that are not subject to FINRA regulations.

**Germany:** Approved and/or distributed by Deutsche Bank AG, a joint stock corporation with limited liability incorporated in the Federal Republic of Germany with its principal office in Frankfurt am Main. Deutsche Bank AG is authorized under German Banking Law and is subject to supervision by the European Central Bank and by BaFin, Germany’s Federal Financial Supervisory Authority.

**United Kingdom:** Approved and/or distributed by Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG in the United Kingdom is authorised by the Prudential Regulation Authority and is subject to limited regulation by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation are available on request.

**Hong Kong:** Distributed by Deutsche Bank AG, Hong Kong Branch or Deutsche Securities Asia Limited.

**India:** Prepared by Deutsche Equities India Pvt Ltd, which is registered by the Securities and Exchange Board of India (SEBI) as a stock broker. Research Analyst SEBI Registration Number is INH000001741. DEIPL may have received administrative warnings from the SEBI for breaches of Indian regulations.

**Japan:** Approved and/or distributed by Deutsche Securities Inc. (DSI). Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association and The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. We may also charge commissions and fees for certain categories of investment advice, products and services. Recommended investment strategies, products and services carry the risk of losses to principal and other losses as a result of changes in market and/or economic trends, and/or fluctuations in market value. Before deciding on the purchase of financial products and/or services, customers should carefully read the relevant disclosures, prospectuses and other documentation. "Moody’s", "Standard & Poor’s", and “Fitch” mentioned in this report are not registered credit rating agencies in Japan unless Japan or “Nippon” is specifically designated in the name of the entity. Reports on Japanese listed companies not written by analysts of DSI are written by Deutsche Bank Group’s analysts with the coverage companies specified by DSI. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan. Target prices set by Deutsche Bank’s equity analysts are based on a 12-month forecast period.

**Korea:** Distributed by Deutsche Securities Korea Co.

**South Africa:** Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10).

**Singapore:** by Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch (One Raffles Quay #18-00 South Tower Singapore 048583, +65 6423 8001), which may be contacted in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), they accept legal responsibility to such person for its contents.

**Taiwan:** Information on securities/investments that trade in Taiwan is for your reference only. Readers should independently evaluate investment risks and are solely responsible for their investment decisions. Deutsche Bank research may not be distributed to the Taiwan public media or quoted or used by the Taiwan public media without written consent. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be
construed as a recommendation to trade in such securities/instruments. Deutsche Securities Asia Limited, Taipei Branch may not execute transactions for clients in these securities/instruments.

**Qatar**: Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

**Russia**: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

**Kingdom of Saudi Arabia**: Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

**United Arab Emirates**: Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

**Australia**: Retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Please refer to Australian specific research disclosures and related information at [https://australia.db.com/australia/content/research-information.html](https://australia.db.com/australia/content/research-information.html)

**Australia and New Zealand**: This research is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act respectively.

Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published without Deutsche Bank’s prior written consent. Copyright © 2017 Deutsche Bank AG