



March 10, 2022

Eurex

France Decides 2022: Trading the Election and Economics of Europe's 2nd Largest Market

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France Decides 2022

Economics, Elections & the EURO STOXX®

by Tariq Dennison

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Image credit: <https://www.weforum.org/agenda/2018/01/macron-at-davos-i-will-shut-all-coal-fired-power-stations-by-2021/>

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About Tariq Dennison TEP

- Independent Advisor Managing Accounts on the IBKR platform
 - US Advisor: GFM Asset Management LLC
 - HK Advisor: GFM Group Limited
- In the market since 1998
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Lecturer at ESSEC Singapore
 - Fixed Income
 - Alternative Assets
- Focus on US-Asia corridor
- Author “Invest Outside the Box”



French Election & Economy

- The candidates: Macron vs his opposition
- The unemployment problem
- High taxes, high debts
- Past and projected economic growth

Trading Strategies & Spreads

- OAT vs Bund
- EURO STOXX® 50 vs CAC
- VSTOXX® vs VIX

The 2022 Candidates:



Emmanuel Macron
La République En Marche!

Incumbent



Valérie Pécresse
Les Républicains

"2/3 Merkel
1/3 Thatcher"



Marine Le Pen
Rassemblement national

No longer focused
on "Frexit"



Éric Zemmour
Reconquête

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Source: Wikipedia

Their odds, according to one prediction market

Winner of the 2022 French presidential election

TRADED: £357,899

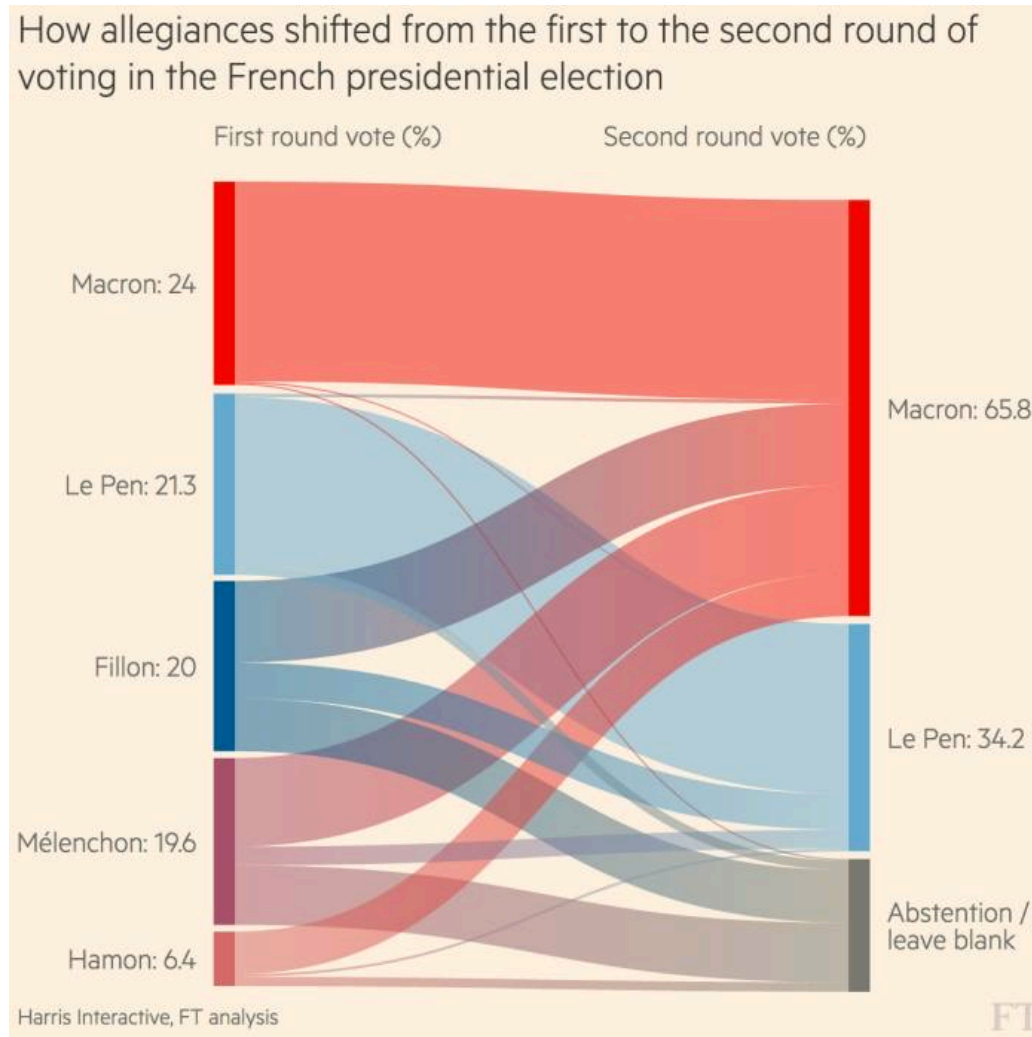
Which candidate will win the 2022 French presidential election?



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Source: <https://smarkets.com/event/41620572/politics/europe/france/french-presidential-election-2022>

How 2017 1st vs 2nd Round Went



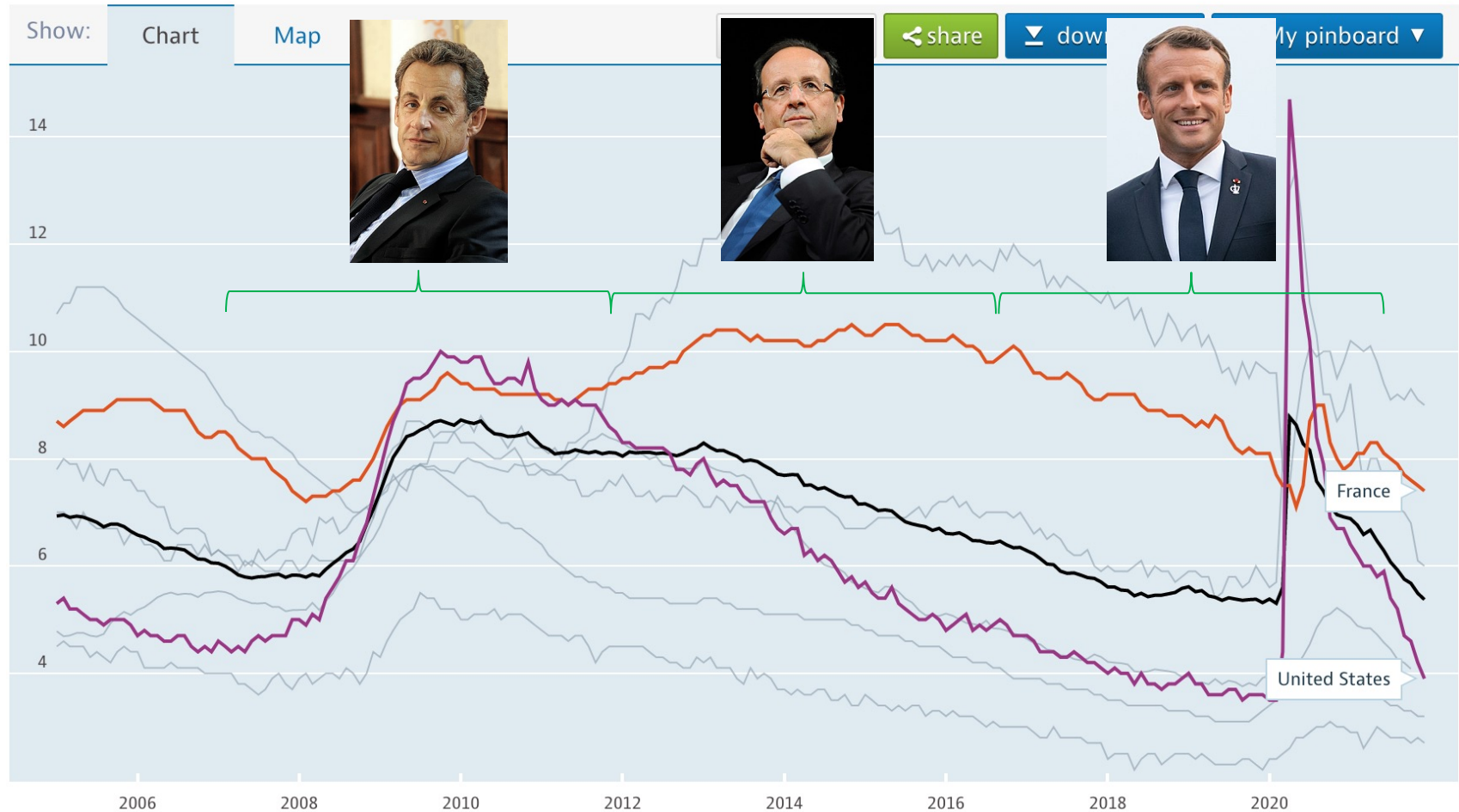
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Source: <https://www.ft.com/content/62d782d6-31a7-11e7-9555-23ef563ecf9a>

French Unemployment: Back around 7% “lows”

Unemployment rate Total, % of labour force, Jan 2005 – Dec 2021

Source: Labour: Labour market statistics



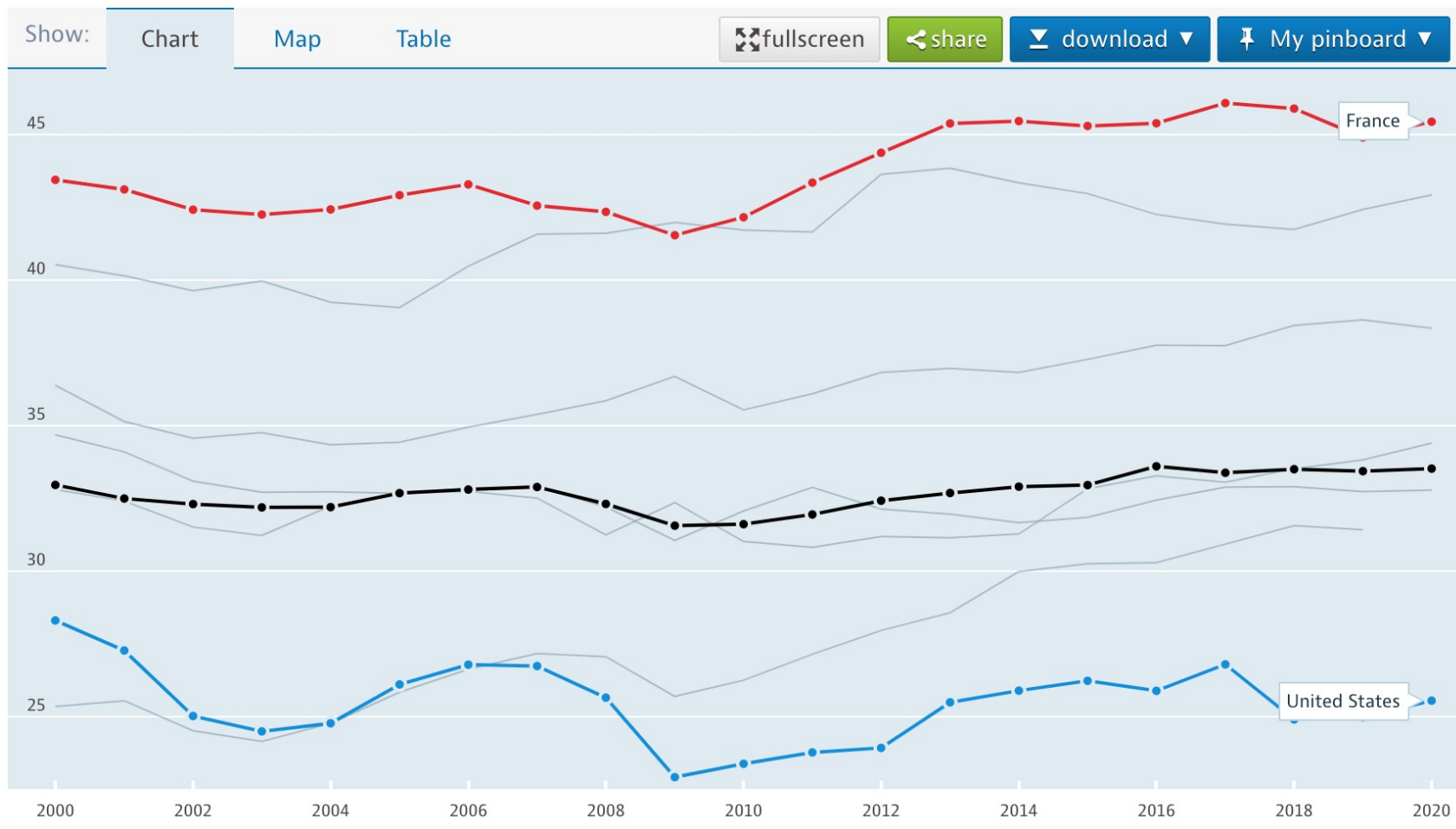
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Source: <https://data.oecd.org/unemp/unemployment-rate.htm>

Another Big Reason French Elections Matter So Much

Tax revenue Total, % of GDP, 2000 – 2020

Source: Revenue Statistics: Comparative tables



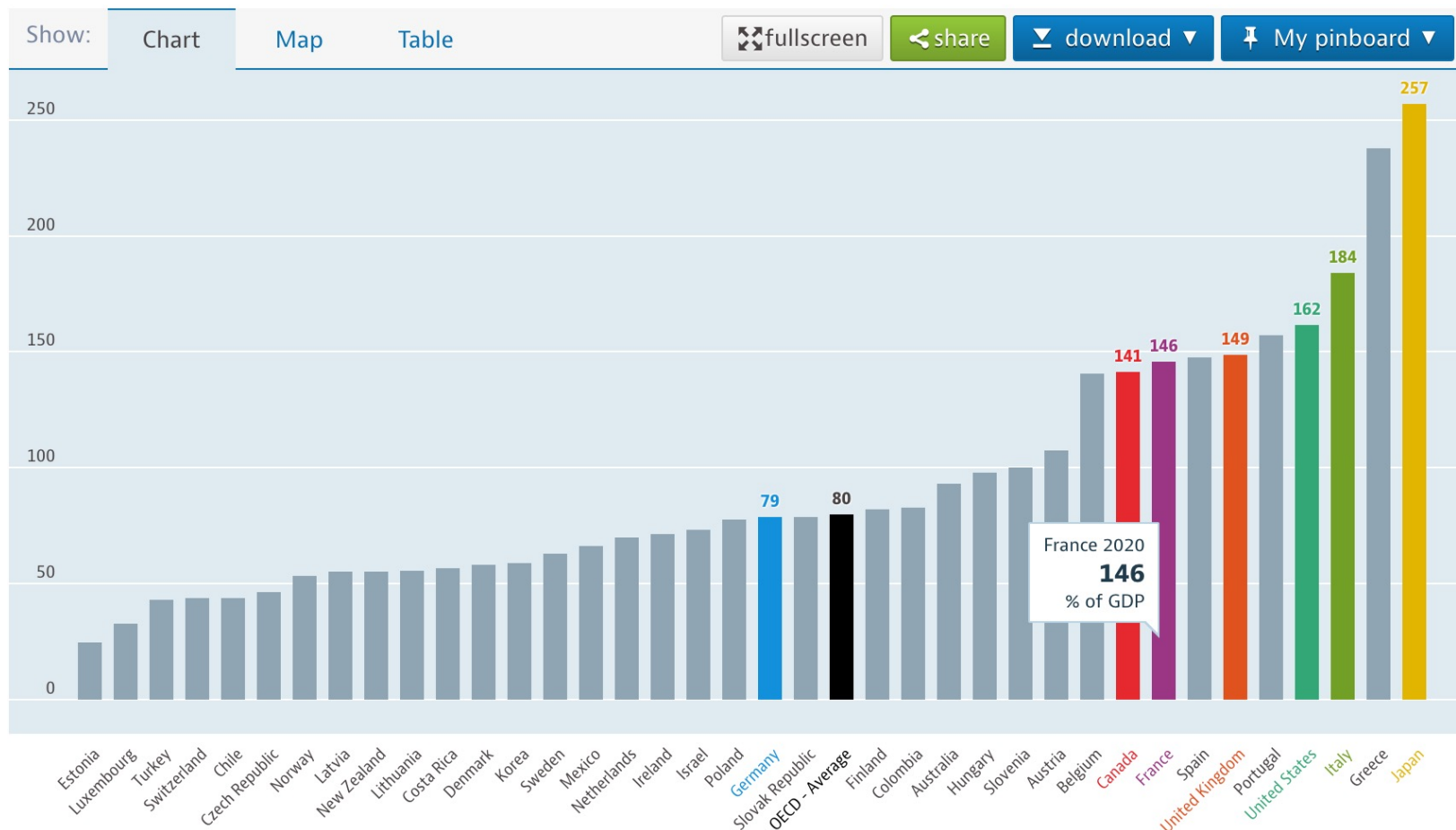
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Source: <https://data.oecd.org/tax/tax-revenue.htm>

French Government Debt vs OECD

General government debt Total, % of GDP, 2020 or latest available

Source: National Accounts at a Glance



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In USD Terms, French GDP Still < 2008 Highs

GDP (current US\$) - France

World Bank national accounts data, and OECD National Accounts data files.

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Source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=FR>

Of course, that's mostly due to the EUR/USD FX...

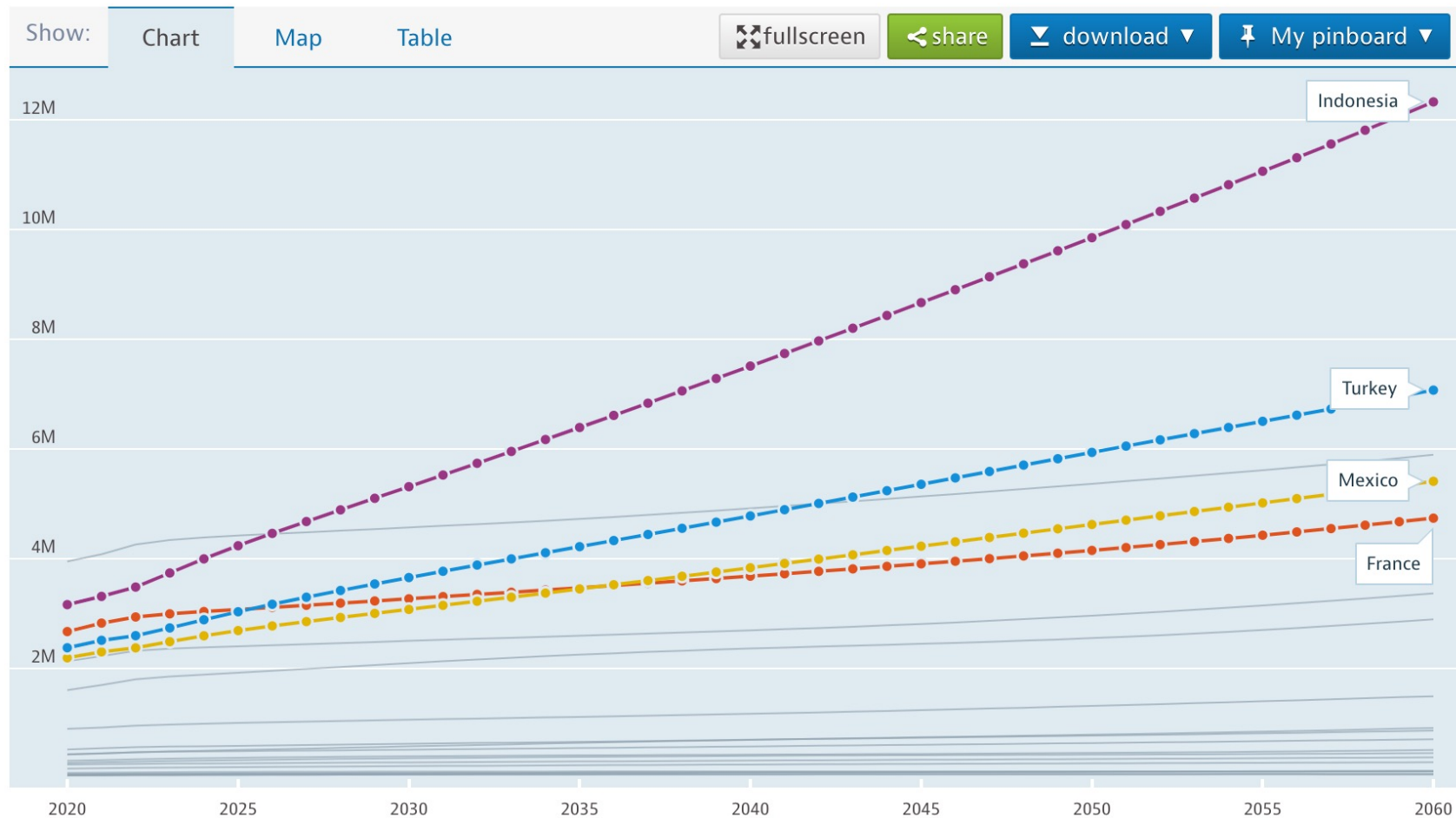


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Longer-term, OECD Forecasts Slow Growth

Real GDP long-term forecast Total, Million US dollars, 2020 – 2060

Source: Long-term baseline projections, No. 109 (Edition 2021)



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Sample 1: OAT vs Bund

French vs German Bonds

- Obligations Assimilables du Trésor
- Bund = 10yr, Bobl ~5yr, Schatz ~2yr, Buxl ~30yr
- Both national “full faith & credit” bonds in EUR
 - Neither’s own FX
- Both super-liquid, and serve as clear Eurozone “benchmark” rate

Bond Basics

- Deflation or slow economic growth drives both yields down
- Inflation or strong economic growth drives both yields up
- “Frexit” or fears of French credit worthiness widens the spread
- French fiscal strength tightens the spread

French vs German 10 Year Yields, 2017-2022



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Right Click > Financial Instrument Info > Description

OAT ∞ Mar08'22 @DTB	◆	157.25	+0.89	0.57%
GBL ∞ Mar08'22 @DTB	◆	166.05	+1.10	0.67%

DESCRIPTION

File

Configure

Stock Description

Euro-OAT French Government Bond

Security Type

FUT

Underlying

OAT IND

Contract Month

MAR22

Expiration Date

MAR 08 '22

Last Trading Date

MAR 08 '22 12:30 MET

Currency

EUR

Multiplier

1000

Exchange

DTB

Trading Class

FOAT

Symbol

FOAT MAR 22

Product Type

Fixed Income

Settlement Method

Physical Delivery

Physical Delivery

Not permitted at Interactive Brokers

Trading Schedule:

February 14, 2022

Calendar

Total Available Hours

01:15 - 22:05 (08:15 - 05:05 your time)

Exchange Time Zone

(UTC+01:00) MET

Note:

Trader Workstation follows timezone adjustments for daylight savings time

Margin Information

Margin Requirements Per Contract

More

Initial

4257.56 EUR

Maintenance

3406.05 EUR

DESCRIPTION

File

Configure

Stock Description

Euro Bund (10 Year Bond)

Security Type

FUT

Underlying

GBL IND

Contract Month

MAR22

Expiration Date

MAR 08 '22

Last Trading Date

MAR 08 '22 12:30 MET

Currency

EUR

Multiplier

1000

Exchange

DTB

Trading Class

FGBL

Symbol

FGBL MAR 22

Product Type

Fixed Income

Settlement Method

Physical Delivery

Physical Delivery

Not permitted at Interactive Brokers

Trading Schedule:

February 14, 2022

Calendar

Total Available Hours

01:15 - 22:05 (08:15 - 05:05 your time)

Exchange Time Zone

(UTC+01:00) MET

Note:

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Margin Information

Margin Requirements Per Contract

More

Initial

4053.75 EUR

Maintenance

3243.00 EUR

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Sample OAT vs Bund Pair of Trades

Order Confirmation

Euro-OAT French Government Bond
Financial Instrument

Bid
Ask

OAT ∞ Mar08'22 @DTB
157.21
157.22

Order Description

SELL 1

Order Type LMT
Routing DTB
Time in Force DAY

Limit Price 158.00
Clearing IB

Messages

Amount

Amount

158,000 EUR

Commission (est.)

1.13 EUR

Total

157,998.87 EUR

Balances (in USD)

Current

Change

Equity with Loan

83,656

-1

Initial Margin

13,871

4,403

Maintenance Margin

10,764

3,522

Position

0

-1

*This is a current projection and is subject to change.

[Margin Requirements Per Contract](#)

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Cancel

Order Confirmation

Euro Bund (10 Year Bond)
Financial Instrument

Bid
Ask
Last

GBL ∞ Mar08'22 @DTB
166.06
166.07
166.06

Order Description

BUY 1

Order Type LMT
Routing DTB
Time in Force DAY

Limit Price 165.50
Clearing IB

Amount

Amount

165,500 EUR

Commission (est.)

1.13 EUR

Total

165,501.13 EUR

Balances (in USD)

Current

Change

Post-trade*

Equity with Loan

83,663

-1

83,661

Initial Margin

13,871

4,410

18,281

Maintenance Margin

10,764

3,528

14,292

Position

0

1

1

*This is a current projection and is subject to change.

[Margin Requirements Per Contract](#)

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Cancel

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Outright OAT

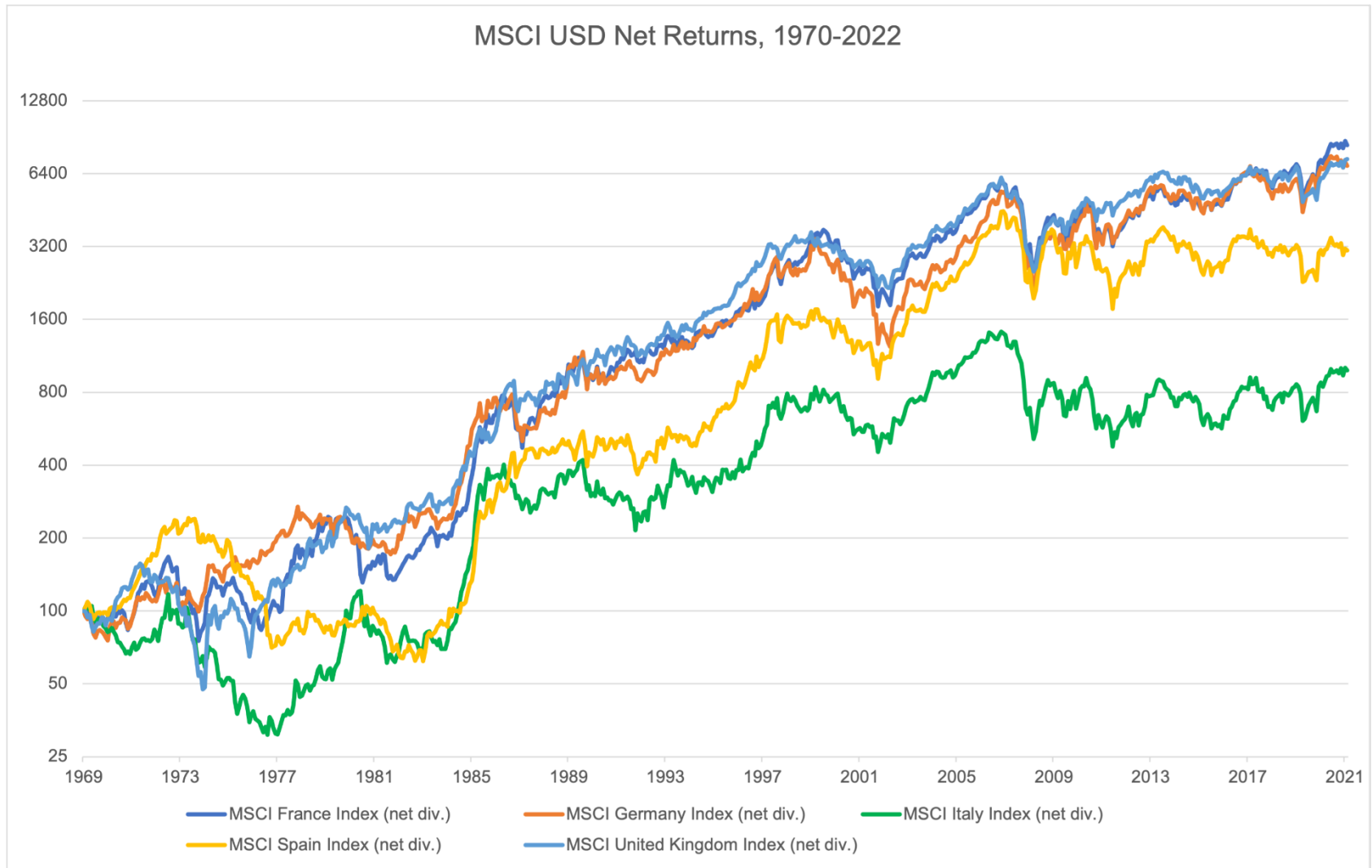
- Need to be right about direction, means having a view on absolute:
 - Inflation
 - Economic growth, or
 - ECB policy
- Remember how quickly this moved 10 points, and what that means for margin

OAT-Bund Spread

- Only need to be right about the spread, not the absolute direction of yield movements.
- This spread hasn't moved as much as each bond, so be careful of size.
- Leverage means even small errors can wipe you out.

Sample 2: CAC40 vs ESTX50

Historically, French Equity Performance ~ Germany's



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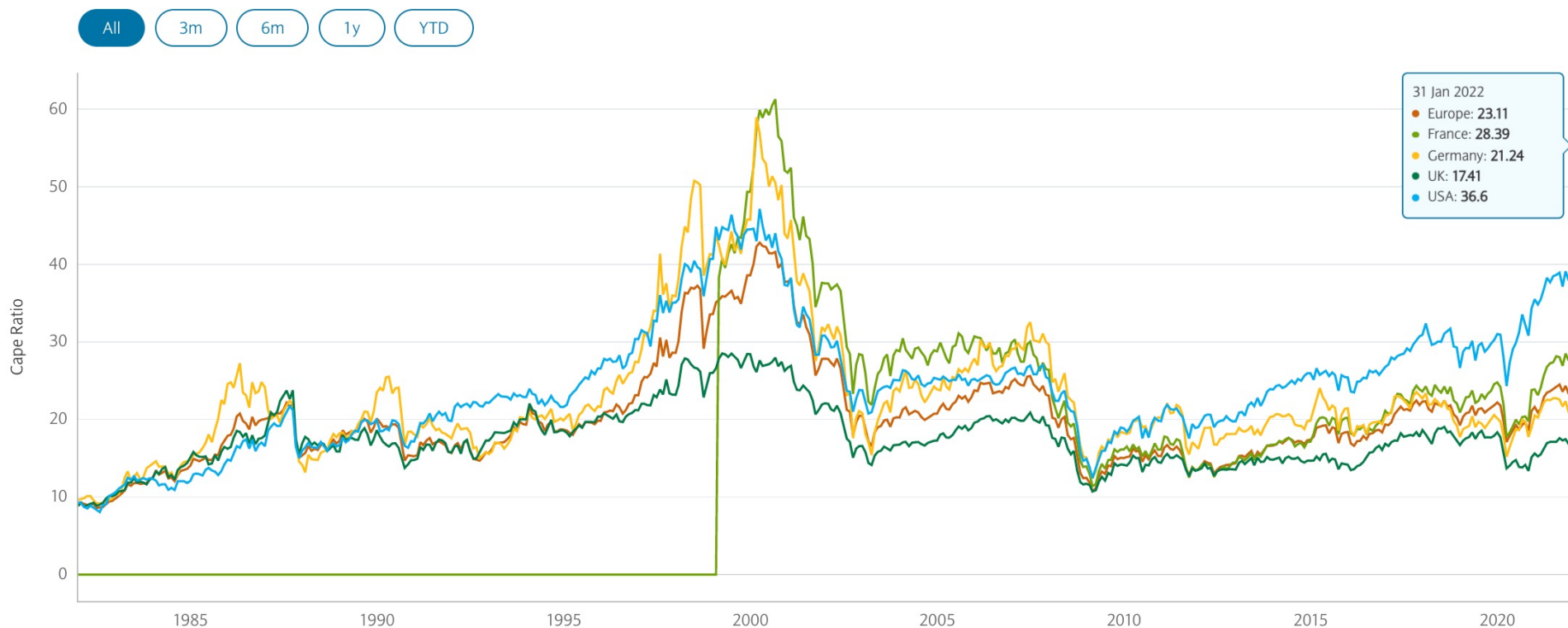
Source: MSCI

Though French Equities Are Now More Expensive

Historic CAPE[®] Ratio by country

View the historic CAPE[®] ratios for some of the largest economies in the world

Select a country in the chart below to compare historic CAPE[®] ratios over time.



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Source: <https://indices.barclays/IM/21/en/indices/static/historic-cape.app>

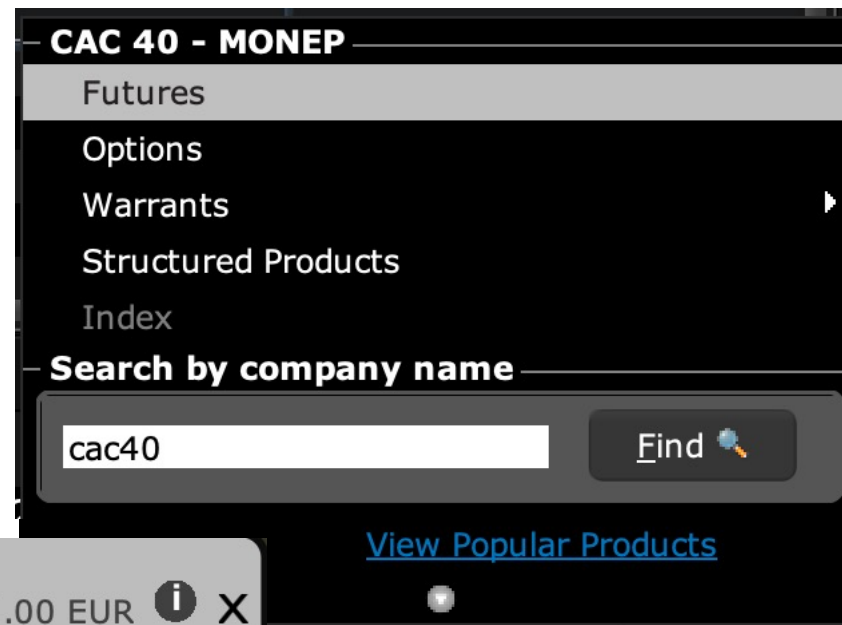
A look at the top names: ESTX50 vs CAC vs DAX

#	Name	Country	Exchange	Rating	Industry Classification	ESTX50	CAC	DAX
1	ASML HLDG	Netherlands	Euronext Amsterdam	Baa2	Technology	7.5%		
2	LVMH	France	Euronext Paris	A1	Consumer Discretionary	5.7%	11.7%	
3	TOTAL ENERGIES	France	Euronext Paris	Aa1	Energy	4.4%	8.1%	
4	LINDE	United Kingdom	New York Stock Exchange	-	Basic Materials	4.3%		8.9%
5	SAP ST.	Germany	XETRA	-	Technology	3.7%		8.2%
6	SANOFI	France	Euronext Paris	A1	Health Care	3.4%	6.6%	
7	SIEMENS	Germany	XETRA	Aa3	Industrials	3.4%		8.0%
8	ALLIANZ	Germany	XETRA	Aa3	Financials	3.0%		6.8%
9	L'OREAL	France	Euronext Paris	-	Consumer Discretionary	2.8%	5.6%	
10	SCHNEIDER ELECTRIC	France	Euronext Paris	A3	Industrials	2.7%	5.1%	
11	BNP PARIBAS	France	Euronext Paris	Baa2	Financials	2.4%	4.5%	
12	AIRBUS GROUP	Netherlands	Euronext Paris	A2	Industrials	2.2%	4.3%	5.0%
13	AIR LIQUIDE	France	Euronext Paris	A1	Basic Materials	2.2%	4.2%	
14	BASF	Germany	XETRA	A1	Basic Materials	2.0%		4.6%
15	MERCEDES BENZ	Germany	XETRA	A3	Consumer Staples	2.0%		4.6%
16	DT.TELEKOM	Germany	XETRA	Baa1	Telecommunications	2.0%		4.5%
17	VINCI	France	Euronext Paris	Baa1	Industrials	1.9%	3.4%	
18	BANCO SANTANDER	Spain	Mercado Continuo Espana	Baa1	Financials	1.9%		
19	PROSUS	Netherlands	Euronext Amsterdam	-	Technology	1.9%		
20	AXA	France	Euronext Paris	A2	Financials	1.9%	3.6%	
21	IBERDROLA	Spain	Mercado Continuo Espana	Baa1	Utilities	1.7%		
22	BAYER	Germany	XETRA	A3	Health Care	1.7%		3.9%
23	ADYEN	Netherlands	Euronext Amsterdam	-	Industrials	1.7%		
24	ING	Netherlands	Euronext Amsterdam	-	Financials	1.7%		
25	INTESA SANPAOLO	Italy	Milan Stock Exchange	Baa2	Financials	1.7%		
26	DT.POST	Germany	XETRA	Baa1	Industrials	1.7%		3.7%

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Source: DWS, 14 Feb 2022

For CAC40
the ticker is “CAC40”,
and we need to select
a multiplier



CAC40@MONEP			1 pt = 1.00 EUR	i	X
CAC40 FEB	Feb18'22	6844.00			
CAC40 MAR	Mar18'22	6866.50			
CAC40 APR	Apr14'22	c6995.50			
CAC40 ∞ FEB	Continuous (Feb)	6844.00			
More/Multiple					
Futures Spreads					
Multiplier	1				
	10				
	1				

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“ESTX50” for EURO STOXX ® 50

Dow Jones Euro STOXX50 - DTB

- Futures
- Options
- Warrants
- Structured Products
- Index

Search by company name

estx50 Find

[View Popular Products](#)

ESTX50@DTB 1 pt = 1.00 EUR i X

ESTX50 MAR	Mar18'22	4056.81
ESTX50 JUN	Jun17'22	3983.00
ESTX50 SEP	Sep16'22	c4049.50
ESTX50 ∞ MAR	Continuous (Mar)	4056.81

More/Multiple

Futures Spreads

Multiplier 1 10 1

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And “DAX” for the DAX® 40

GLOBAL X DAX GERMANY ETF - NASDAQ

Stock (SMART) Options

DAX 40 Index (Deutsche Aktien Xchange 40) - DTB

Futures Options Warrants Structured Products Index

Search by company name

Find

[View Popular Products](#)

DAX@DTB

1 pt = 1.00 EUR

DAX MAR	Mar18'22	15117.00
DAX JUN	Jun17'22	15173.00
DAX SEP	Sep16'22	c15411.00
DAX ∞ MAR	Continuous (Mar)	15117.00

More/Multiple

Futures Spreads

Multiplier 1

1

5

25

ACTIVITY

Orders

Trades

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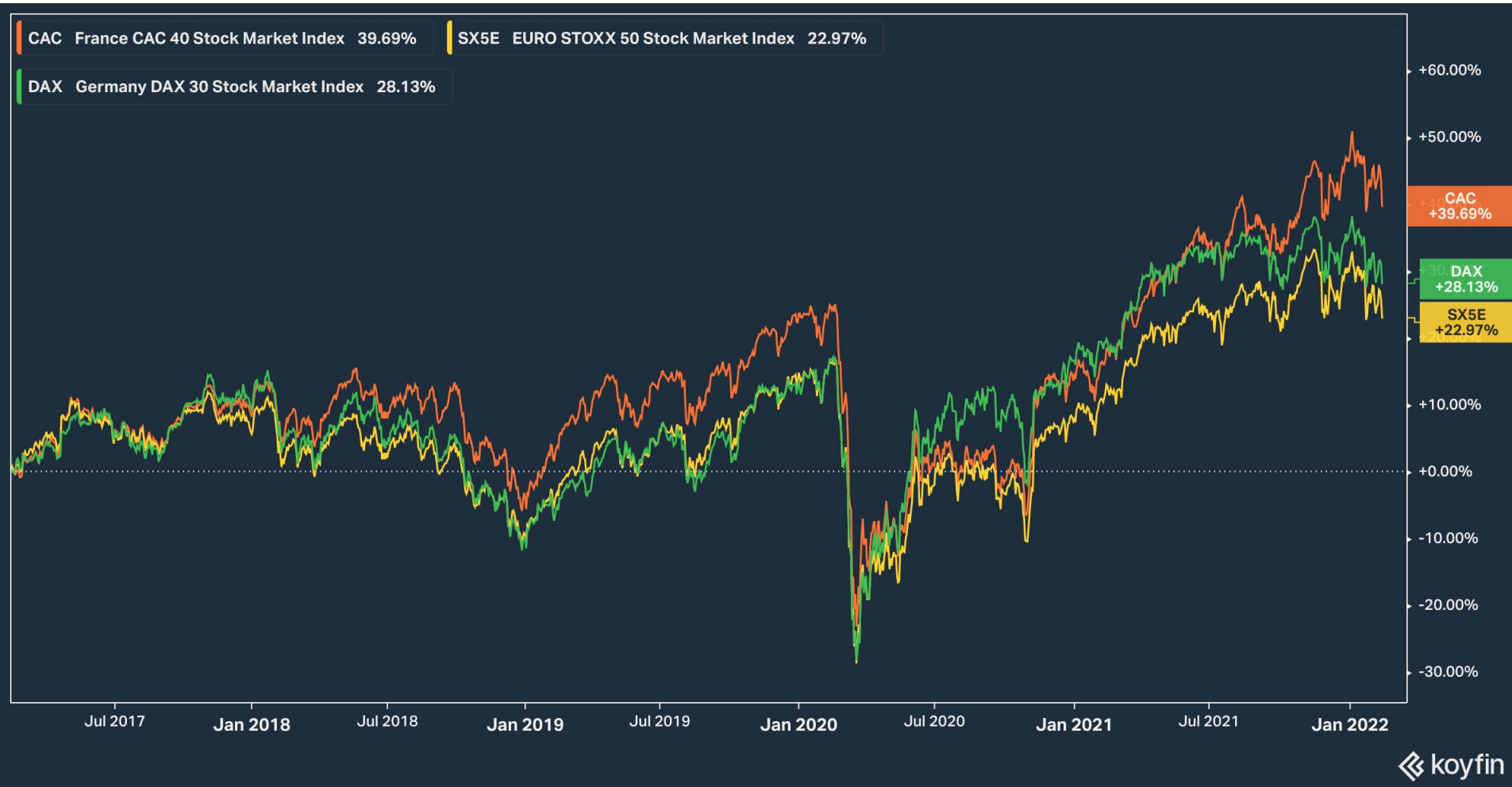
Right Click > Financial Instrument Info > Description

DESCRIPTION		File	Configure
Stock Description			
CAC 40			
Product	CAC40		
Security Type	FUT		
Underlying	PX1 IND		
Contract Month	MAR22		
Expiration Date	MAR 18 '22		
Last Trading Date	MAR 18 '22 16:00 MET		
Currency	EUR		
Multiplier	1		
Exchange	MONEP		
Trading Class	MFC		
Symbol	MFCH2		
Product Type	Equity Index		
Settlement Method	Cash		
Trading Schedule: February 14, 2022 Calendar			
Total Available Hours 18:35* - 22:00* (01:35 - 05:00 your time) 08:00 - 18:30 (15:00 - 01:30 your time)			
Exchange Time Zone (UTC+01:00) MET			
Margin Information			
Margin Requirements Per Contract More			
Initial	706.60 EUR		
Maintenance	565.28 EUR		

DESCRIPTION		File	Configure
Stock Description			
Dow Jones Euro STOXX50			
Security Type	FUT		
Underlying	ESTX50 IND		
Contract Month	MAR22		
Expiration Date	MAR 18 '22		
Last Trading Date	MAR 18 '22 12:00 MET		
Currency	EUR		
Multiplier	1		
Exchange	DTB		
Trading Class	FSXE		
Symbol	FSXE MAR 22		
Product Type	Equity Index		
Settlement Method	Cash		
Trading Schedule: February 14, 2022 Calendar			
Total Available Hours 01:15 - 22:05 (08:15 - 05:05 your time)			
Exchange Time Zone (UTC+01:00) MET			
<i>Note: Trader Workstation follows timezone adjustments for daylight savings time</i>			
Margin Information			
Margin Requirements Per Contract More			
Initial	458.02 EUR		
Maintenance	366.42 EUR		

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How the indexes have moved over the past 5 years



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ETFs

- Buy and hold
- Borrow to short
- Margin financing
- Currency exposure
- Smaller lot sizes
- Withholding / Estate taxes

Index Futures

- Must roll monthly/quarterly
- As easy to short as long
- Financing built in
- Often “Quanto” USD
- Larger lot sizes
- Minimizes taxable x-border flows

Sample CAC vs ESTX50 (2x) Pair of Trades

Order Confirmation

CAC 40

Financial Instrument

Bid

Ask

Last

CAC40

Mar18'22 @MONEP

6721.00

6866.50

6751.00

Order Description

SELL 1

Order Type LMT

Routing MONEP

Time in Force DAY

Limit Price 7000.00

Clearing IB

Messages

Amount

Balances (in USD)

Amount

7,000 EUR

Commission (est.)

0.24 EUR

Total

6,999.76 EUR

Equity with Loan

83,451

-0.21

Initial Margin

13,867

806

Maintenance Margin

10,764

645

Position

0

-1

*This is a current projection and is subject to change.

[Margin Requirements Per Contract](#)

Don't display this message again.

Override and Transmit

Cancel

DATA POWERED BY GFS

Order Confirmation

Dow Jones Euro STOXX50

Financial Instrument

Bid

Ask

Last

ESTX50

Mar18'22 @DTB

4022.00

4028.00

4026.00

Order Description

BUY 1

Order Type LMT

Routing DTB

Time in Force DAY

Limit Price 4000.00

Clearing IB

Messages

Amount

Balances (in USD)

Amount

4,000 EUR

Commission (est.)

0.34 EUR

Total

4,000.34 EUR

Equity with Loan

83,463

-0.39

83,463

Initial Margin

13,868

374

14,242

Maintenance Margin

10,765

299

11,064

Position

0

1

1

*This is a current projection and is subject to change.

[Margin Requirements Per Contract](#)

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Sample Spread Trade

- Buy 2x ESTX50 (~€4,000 each, €8,000 total) vs selling 1x CAC (~ €7,000) or v/v
- Main exposure is convergence / divergence of the two index levels
- “Roll” every 3-6 months

Risks

- Easy and cost efficient, but also too easy to push margin limits
- The short leg can lose over 100% even without leverage
- Need to pay attention to “spread drift”, which may widen the mismatch of these contracts

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Sample 3: VSTOXX® vs VIX

What are the VSTOXX® / VIX

- The main volatility benchmarks measure the “market price” for how much the stock index will wiggle¹ over the following 30 days (constant rolling window).
- VSTOXX® does this for EURO STOXX® 50, VIX for S&P 500
- Widely watched as “fear barometer”
- VSTOXX/VIX futures point to the value of the index on the futures expiry date, so are very specific to the 30-day period following that expiry date.

¹Annualized standard deviation of “daily returns”

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Right Click > Financial Instrument Info > Description

DESCRIPTION

File

Configure

Stock Description

CBOE Volatility Index

Security Type

FUT

Underlying

VIX IND

Contract Month

SEP22

Expiration Date

SEP 21 '22

Last Trading Date

SEP 21 '22 08:00 CST

Currency

USD

Multiplier

1000

Exchange

CFE

Trading Class

VX

Symbol

VXU2

Sector

Indices

Industry

Volatility Index

Category

*

Product Type

Equity Index Volatility

Settlement Method

Cash

Trading Schedule:

February 14, 2022

Calendar

Regular Trading Session

08:30 - 15:15 (22:30 - 05:15 your time)

Total Available Hours

17:00* - 16:00 (07:00 - 06:00 your time)

Exchange Time Zone

(UTC-06:00) US/Central

Margin Information

Margin Requirements Per Contract

More

Initial (long)

11324.72 USD

Maintenance (long)

6768.80 USD

Initial (short)

14210.78 USD

Maintenance (short)

8493.80 USD

DESCRIPTION

File

Configure

Stock Description

VSTOXX Volatility Index

Security Type

FUT

Underlying

V2TX IND

Contract Month

SEP22

Expiration Date

SEP 21 '22

Last Trading Date

SEP 21 '22 12:00 MET

Currency

EUR

Multiplier

100

Exchange

DTB

Trading Class

FVS

Symbol

FVS SEP 22

Product Type

Equity Index Volatility

Settlement Method

Cash

Trading Schedule:

February 15, 2022

Calendar

Total Available Hours

01:15 - 22:00 (08:15 - 05:00 your time)

Exchange Time Zone

(UTC+01:00) MET

Note:

Trader Workstation follows timezone adjustments for daylight savings time

Margin Information

Margin Requirements Per Contract

More

Initial (long)

1020.58 EUR

Maintenance (long)

610.00 EUR

Initial (short)

1543.11 EUR

Maintenance (short)

922.32 EUR

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Sample VIX vs VSTOXX® Quotes, 15 Feb 2022

	LAST	CHANGE			LAST	CHANGE	
VIX INDEX	28.36	+1.00	3.65%	V2TX INDEX	♦ c30.05		
VIX Feb16'22 @CFE	28.3500	0.0000	0.00%	V2TX Feb16'22 @DTB	♦ 29.80	+0.35	1.19%
VIX Mar15'22 @CFE	27.7500	0.0000	0.00%	V2TX Mar15'22 @DTB	♦ 27.95	0.00	0.00%
VIX Apr20'22 @CFE	27.1500	+0.1500	0.56%	V2TX Apr20'22 @DTB	♦ c26.70		
VIX May18'22 @CFE	26.9000	+0.2500	0.94%	V2TX May18'22 @DTB	♦ c25.90		
VIX Jun15'22 @CFE	26.7000	+0.2000	0.75%	V2TX Jun15'22 @DTB	♦ c25.25		
VIX Jul20'22 @CFE	26.8000	+0.1500	0.56%	V2TX Jul20'22 @DTB	♦ c25.15		
VIX Aug17'22 @CFE	26.6500	+0.2000	0.76%	V2TX Aug17'22 @DTB	♦ c25.15		
VIX Sep21'22 @CFE	c26.6500			V2TX Sep21'22 @DTB	♦ c25.30		

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For comparison: V2TX Futures on Oct 22nd

		LAST	CHANGE		VLM
V2TX INDEX	◆	16.17	-0.58	-3.46%	1.23K
V2TX Nov17'21 @DTB	◆	19.55	-0.45	-2.25%	4.28K
V2TX Dec22'21 @DTB	◆	20.40	-0.35	-1.69%	1.22K
V2TX Jan19'22 @DTB	◆	21.70	-0.35	-1.59%	211
V2TX Feb16'22 @DTB	◆	22.25	-0.15	-0.67%	185
V2TX Mar15'22 @DTB	◆	c24.10			
V2TX Apr20'22 @DTB	◆	c24.35			
V2TX May18'22 @DTB	◆	c24.10			
V2TX Jun15'22 @DTB	◆	c0.00			

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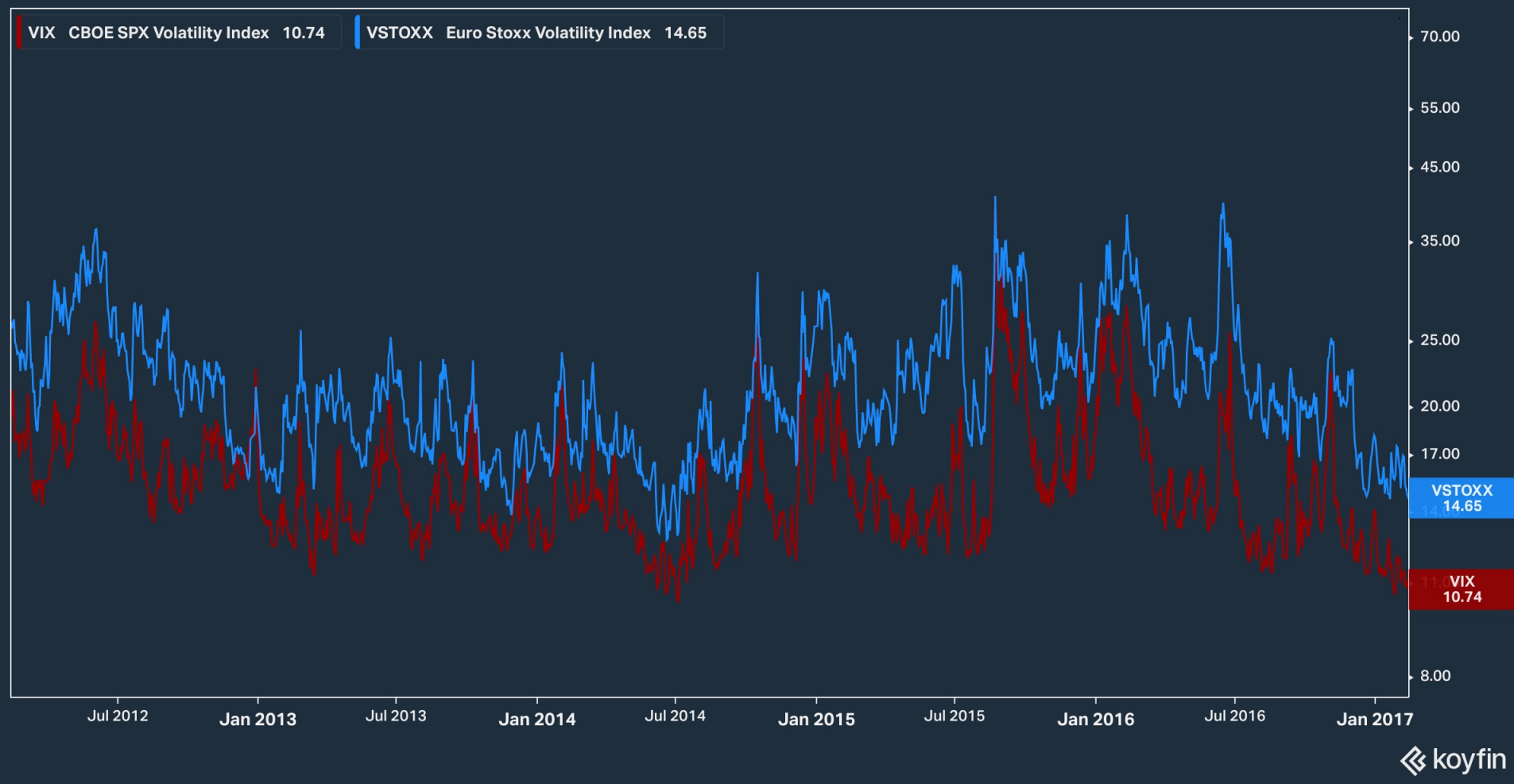
Source: Interactive Brokers

My Read On This: Market Worries Other Than Election



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Things were a little different last time...



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Source: Koyfin

Sample Spread Trade

- Sell 9x VSTOXX® vs buying 1x VIX of the same month, or v/v
- Choice of month is important, consider curves
- “Roll” as futures expire

Risks

- Choose the wrong maturity, and being early or late can be as bad as being wrong
- Easy to lose >100% on the short leg
- Watch for “FX drift”, where \$1,000 could become worth €1,000 or €800

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