

CAUTION: Greek Elections Could Spur Immense Volatility, Euro Outlook Unclear

By Christopher Vecchio
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Greece is headed back to the polls this weekend following the inconclusive results of the May 6 parliamentary elections. Unlike the first elections, the June 17 elections have significant consequences tied to it that will likely result in exceptional market volatility, directly impacting the Euro.

CAUTION: Uncertain Landscape ahead due to Greek Elections Warrants Reduced Leverage

Greece is headed back to the polls this weekend following the inconclusive results of the May 6 parliamentary elections. Unlike the first elections, the June 17 elections have significant consequences tied to it that will likely result in exceptional market volatility. With the significant event risk expected to occur during hours FXCM's trading platform is offline (17:00 EDT / 21:00 GMT on Friday to 17:00 EDT / 21:00 GMT on Sunday), Sunday's open poses the threat of not only a significant gap, but spreads wider than usual as well. Accordingly, we believe that this is not the trading landscape to speculate, and we suggest reducing position sizes given the significant amount of uncertainty forthcoming.

To help traders make the best informed decision headed into the weekend's critical event, please find below a concise summary of the likely outcomes of the Greek parliamentary elections, and for those interested, a fact sheet on each of the main parties competing in the Greek elections.

THE TAKEAWAY: June 17 Greek Parliamentary Elections > Outcome Could Determine Greece's Fate in Euro-zone

There are two main parties vying for control of Greece's government this weekend, the pro-bailout New Democracy party and the anti-bailout Syriza party. In a sense, and especially given the rhetoric deployed by non-Greek European leaders, these elections will determine the fate of Greece's inclusion in the Euro-zone. It boils down to this: a vote for New Democracy is considered pro-Euro; and a vote for Syriza is considered anti-Euro.

We believe there are four likely outcomes to these elections, with the highest probability of a Euro-negative outcome this weekend. They are:

- **SCENARIO #1:** New Democracy wins elections *and* has parliamentary majority (> 151 votes) – **EUR BULLISH** – 10%
- **SCENARIO #2:** New Democracy wins elections *but* does not have majority – **EUR BEARISH** (least bearish outcome) – 45%
- **SCENARIO #3:** Syriza wins elections *but* does not have majority – **EUR BEARISH** (increasingly bearish outcome) – 40%
- **SCENARIO #4:** Syriza wins elections *and* has parliamentary majority – **EUR BEARISH** (most bearish outcome) – 5%

In light of these expected outcomes, we find it most likely that the elections will not yield the most bullish outcome (scenario #1), but instead, falling somewhere between the least bearish and moderately bearish outcomes (scenario #2, #3). We have derived these probabilities from recent poll figures as well as commentaries from citizens and reporters in Greece.

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Recent Poll Numbers

- **Public Issue**, one of the leading opinion companies in Greece, carried out a phone opinion survey from May 25-30 across a general population sample of 1210 adults from across Greece. The results estimated **31.5% support for Syriza**, **25.5% for New Democracy**, 13.5% for Pasok, 7.5% for Dimar. Compared to poll results from the week prior, support for Syriza had risen 1.5% (from 30%), fallen 0.5% (from 26%) for ND and fallen 2% (from 15.5%) for Pasok. *The margin of error was +/- 2.8 percentage points.*
- **Kapa Research SA** surveyed 1012 people for the Athens-based Ta Nea newspaper, in a poll conducted from May 29 to 31. The results estimated **26.1% support for New Democracy**, **23.6% for Syriza** and 9.9% for Pasok. Compared the last poll held on May 23-24, support for ND rose 0.3% (from 25.8%), rose 3.5% (from 20.1%) for Syriza, and fell 3.1% for Pasok (from 13%). *The overall margin of error is +/-3.1 percentage points.*
- **A Rass poll** conducted for Eleftheros Typos showed **26.5% support for New Democracy**, **24.2% for Syriza** and 9.9% for Pasok.

For those interested in learning more about each of the main parties competing in the Greek elections on June 17, please find below a summary of New Democracy's then Syriza's platforms.

New Democracy – Platform Points

- Scale back taxes and boost jobs as part of an overall renegotiation of the country's debt deal with its international creditors
- Replace some taxes, such as a property tax introduced last fall, with “fairer” levies
- Revoke cuts to lowlevel pensions and to the salaries of police and air force employees, as well as boost the job market
- Support low income households and small businesses that have been hit hardest by the debt crisis.
- Help indebted households to repay their dues to banks
- Accelerate structural reforms and the privatization program, with the “rebirth” of the public sector with no mass layoffs of civil servants
- In regards to the €11.7 billion in public spending cuts that Greece's creditors have demanded by the end of 2013, ND (Samaras) said these should be made gradually over the next four years
- Declaration of exclusive economic zones in the sea to exploit natural resources
- Enforce a harsh line against illegal immigration

Syriza – Platform Points

- Creation of a shield to protect society against the crisis
 - Unconditional guaranteed minimum income or unemployment benefit, medical care, social protection, housing and access to all services of public utilities for all citizens
- Protection of and relief measures for indebted households
 - Price controls and price reductions, VAT reduction, and abolition of VAT on basicneed goods
- Disposal of the debt burden, specifically through:
 - Moratorium on debt servicing
 - Negotiations for debt cancellation
 - Regulation of remaining debt to include provisions for economic development and employment
 - European regulations on the debt of European states
 - Radical changes to the European Central Bank's role

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- Prohibition of speculative banking products
- A pan-European tax on wealth, financial transactions and profits
- Income redistribution, taxation on wealth and elimination of unnecessary expenses
- Productive social and environmental reconstruction
 - Nationalization/socialization of banks
- Stable employment with decent wages and social insurance
- Deepening Democracy: democratic political and social rights for all
- Restoration of a strong welfare state
 - Immediate rescue of the pension system
 - A rise in unemployment benefits
 - The introduction of a guaranteed minimum income. *“Diverse fragmentary reforms and policies must be united in a national system of guaranteed funds from the national budget. An unconditional basic income, accomodation with heating, electricity and telecommunications, food and clothing, transport, help at home, legal coverage and representation can thus become rights of all citizens.”*
- Free health care, which will be financed through a Public Health System
- Protection of public education, research, cultures, and sports from the Memorandum’s policies
- An independent foreign policy committed to the promotion of peace
 - Peace-seeking foreign policy
 - Disengagement from NATO and closure of foreign military bases on Greek soil
 - Aiding the Cypriot people in the reunification of the island

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