

MNI POLITICAL RISK ANALYSIS-Germany Election Preview

by Moritz Arold, Felicia Grosse, and Tom Lake

Germany goes into a federal election on 23 February amid an upheaval in the country's political landscape. Deep splits have emerged between major parties concerning the policies required to revive Germany's flagging economy – and crucially the possibility of reform to the constitutional 'debt brake' – as well as how to deal with rising public anger over high levels of immigration and terrorist attacks. These domestic concerns do not exist in a vacuum and come during one of the most turbulent periods for regional and global geopolitics in years.

Germany faces an inflexion point amid looming trade tariffs and demands for major increases in defence spending as the US looks to draw down its European security commitments. There is also the issue of ensuring energy security having turned away from the direct supply of Russian natural gas, and of maintaining support for Ukraine in an effort to deter further Russian expansionism on the European continent.

The November 2024 collapse of the first tripartite coalition government in the Federal Republic of Germany's history ushered in the early election. The impact on German economic, domestic, and foreign policy remains uncertain and could come down to the number of parties represented in the *Bundestag* post-election. Should only the four main political parties cross the electoral threshold and win seats it will allow for a more stable two-party coalition and smooth the path towards reform of the constitutional debt brake. However, with each additional party winning representation diluting the number of seats won by other parties the fine margins opinion polls are showing could see up to seven parties in the *Bundestag*.

The situation outlined above could force the formation of a less stable three-party coalition and may limit the prospect of the required two-thirds majority being reached in favour of reforming the debt brake. In any case, coalition negotiations are going to take some time and it is unlikely that a new government with all cabinet positions assigned will be in place before the end of spring or even early summer.

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Electoral System

Elections to the *Bundestag* (Federal Diet), the lower chamber of the German parliament, are carried out via a mixed-member proportional representation system of voting that sees both first-past-the-post and proportional representation systems used. Prior to 2023, the Bundestag had a minimum of 598 seats that could be topped up with 'overhang' and/or 'levelling' seats in order to ensure seat totals matched national vote shares. In the 2021 election, the vagaries of the result led to a Bundestag with a record 736 members.

The electoral system for the German Bundestag is notoriously complex, with voters casting two ballots, making the accurate projection of exact seat totals based on opinion polling and hypothetical vote shares almost an impossibility. The Bundestag nominally has 598 members, with the seats distributed among Germany's 16 states based on their respective number of eligible voters.

Of this 598, 299 represent single-member geographic constituencies and are elected via first-past-the-post system, with the candidate receiving a plurality of the votes winning the seat. It is for candidates in these seats that voters cast their first ballot. The second ballot is cast for a political party on a regional list. These remaining seats are distributed via the Sainte-Lague proportional system on the state basis, then in the Bundestag.

Reforms Alter Overhang Mandates

The complicating factor comes in the form of overhang seats. In the event a party wins a greater number of single-member constituencies in a state than it would win based on its share of second ballots they are afforded additional overhang seats to ensure the two proportions matched up. Other parties are then entitled to compensatory seats to ensure the spread of seats in the Bundestag remains proportional to the overall vote share. These are known as 'levelling seats'. There is a vote-share threshold for winning seats based on the second party-list vote. A party must win either three or more single-member constituencies or 5% of the nationwide share of the second votes in order to win seats.

Following the passage of an electoral reform law in 2023, the number of seats in the Bundestag will be limited to 630. Provisions to eliminate the three-constituency rule were overturned by the Constitutional Court in July 2024. However, the rule that sees seat distribution determined solely by the nationwide second vote ('*zweitstimme*') remains in place. As such, if a party wins overhang seats they will have their number of seats won in constituencies reduced by the same quantity in order of their vote share from the narrowest margin of victory upwards.

Polling Day

On voting day, polling stations are open from 0800CET (0200ET, 0700GMT) and close at 1800CET (1200ET, 1700GMT). As soon as polls close, news outlets will publish exit polls. In Germany, these are usually reliable and accurate. From ~1820CET outlets will begin to put out "trend projections" based on the vote count so far. By 1900CET (1300ET, 1800GMT) it is likely to be fairly clear the broad outcome of the election. Delays and uncertainty could come if one or more parties is very close to the 5% electoral threshold.

Main Political Parties and Lead Candidates

Ordered by seats in Bundestag

Social Democratic Party of Germany – *Sozialdemokratische Partei Deutschlands* – SPD – Founded: 1863 – Social democracy, centre-left, pro-EU – Chancellor Candidate: Olaf Scholz (Chancellor 2021-, Vice-Chancellor 2018-21, Finance Minister 2018-21, Mayor of Hamburg 2011-19, Bundestag Member 1998-2001, 2002-11, 2021-) – European group: Progressive Alliance of Socialists and Democrats (S&D) – Seats in Bundestag: 207/630

Christian Democratic Union – *Christlich Demokratische Union* – CDU – Founded: 1945 – Conservative, pro-EU, centre-right, Christian democrat – Chancellor Candidate: Friedrich Merz (CDU leader 2022-, Bundestag member 1994-2009 and 2021-, MEP 1989-1994) – European group: European People's Party (EPP) – Seats in Bundestag: 153/630

Christian Social Union – *Christlich-Soziale Union* – CSU – Founded: 1945 – Conservative, Christian democrat, Bavarian regionalist – Chancellor Candidate: Friedrich Merz (see CDU above) – European group: European People's Party (EPP) – Seats in Bundestag: 43/630

Alliance 90/The Greens - *Bündnis 90/Die Grünen* – Greens – Founded: 1993 – Centre-left, environmentalist, pro-EU, anti-nuclear power – Chancellor Candidate: Robert Habeck (Vice-Chancellor 2021-, Minister for Economic Affairs and Climate Action 2021-, Greens' leader 2018-22, Deputy Minister-President of Schleswig-Holstein 2012-18, Bundestag Member 2021-, Bundesrat Member 2012-18) – European group: Greens/European Free Alliance (G/EFA) – Seats in Bundestag: 117/630

Free Democratic Party – *Freie Demokratische Partei* – FDP – Founded: 1948 – Centrist/centre-right, classical liberal, pro-business, pro-EU, libertarian – Lead Candidate: Christian Lindner (Minister of Finance 2021-24, FDP leader 2013-, FDP leader in Bundestag 2017-21, Bundestag member 2009-12, 2017-) – Renew Europe (RE) – Seats in Bundestag: 89/630

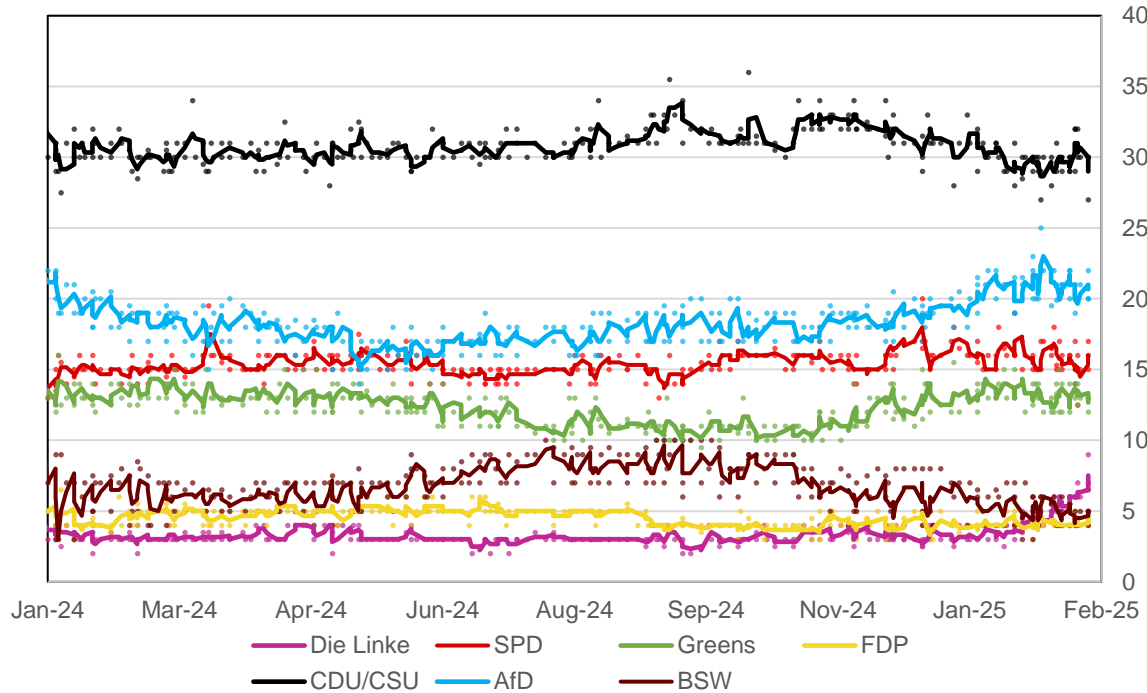
Alternative for Germany – *Alternative für Deutschland* – AfD – Founded: 2013 – Far-right, populism, anti-immigration, Eurosceptic, social conservative – Lead Candidate: Alice Weidel (AfD leader 2022-, AfD co-leader in Bundestag 2017-, co-Leader of the Opposition 2017-21, Bundestag member 2017-) – European group: Europe of Sovereign Nations (ESN) – Seats in Bundestag: 76/630

The Left – *Die Linke* – LINKE – Founded: 2007 – Far-left, progressivism, democratic socialism, anti-NATO, populist – Lead Candidates: Jan van Aken (Co-leader of The Left 2024-, Bundestag member 2009-17) and Heidi Reichinnek (Co-leader of The Left in Bundestag 2024-, Bundestag member 2021-) – European group: The Left in the European Parliament (The Left) – Seats in Bundestag: 28/630

Sahra Wagenknecht Alliance – Reason and Justice - *Bündnis Sahra Wagenknecht – Vernunft und Gerechtigkeit* – BSW – Founded: 2024 – Far-left, socialism, social conservatism, euroscepticism, left-wing nationalism – Lead Candidate: Sahra Wagenknecht (BSW co-leader 2024-, BSW leader in Bundestag 2023-, Leader of the opposition 2015-17, co-leader of *Die Linke* in Bundestag 2015-19, Bundestag member 2009-, MEP 2004-09) – European group: *Non inscrites* – Seats in Bundestag: 10/630

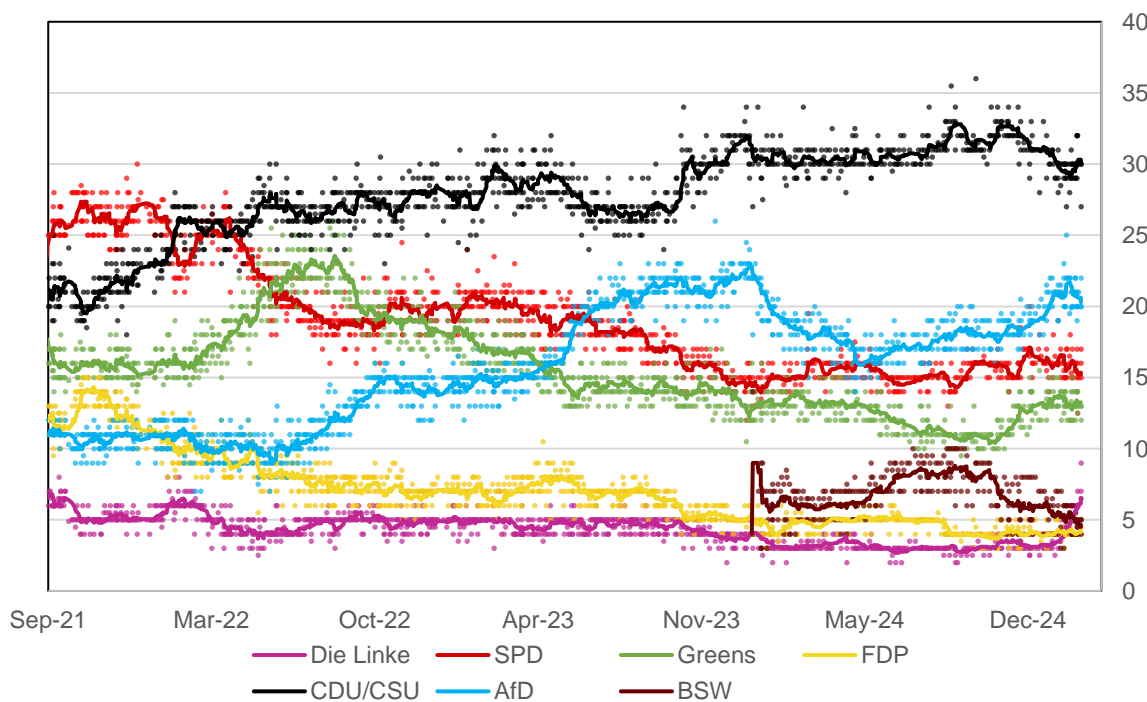
Opinion Polling Chartpack

Chart 1. Federal Election Opinion Polling (Short Term), % and 6-Poll Moving Average



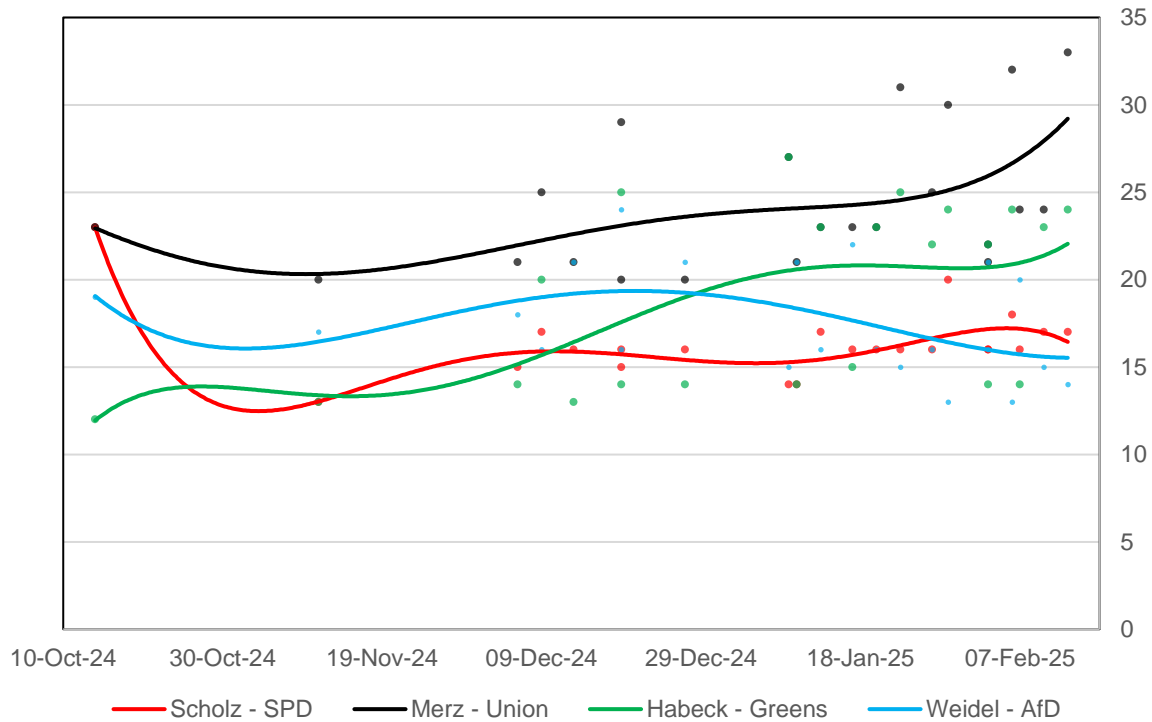
Source: INSA, Forsa, Verian, FGW, Civey, GMS, Allensbach, YouGov, Wahlkreisprognose, Infratest dimap, MNI

Chart 2. Federal Election Opinion Polling (Long Term), % and 10-Poll Moving Average



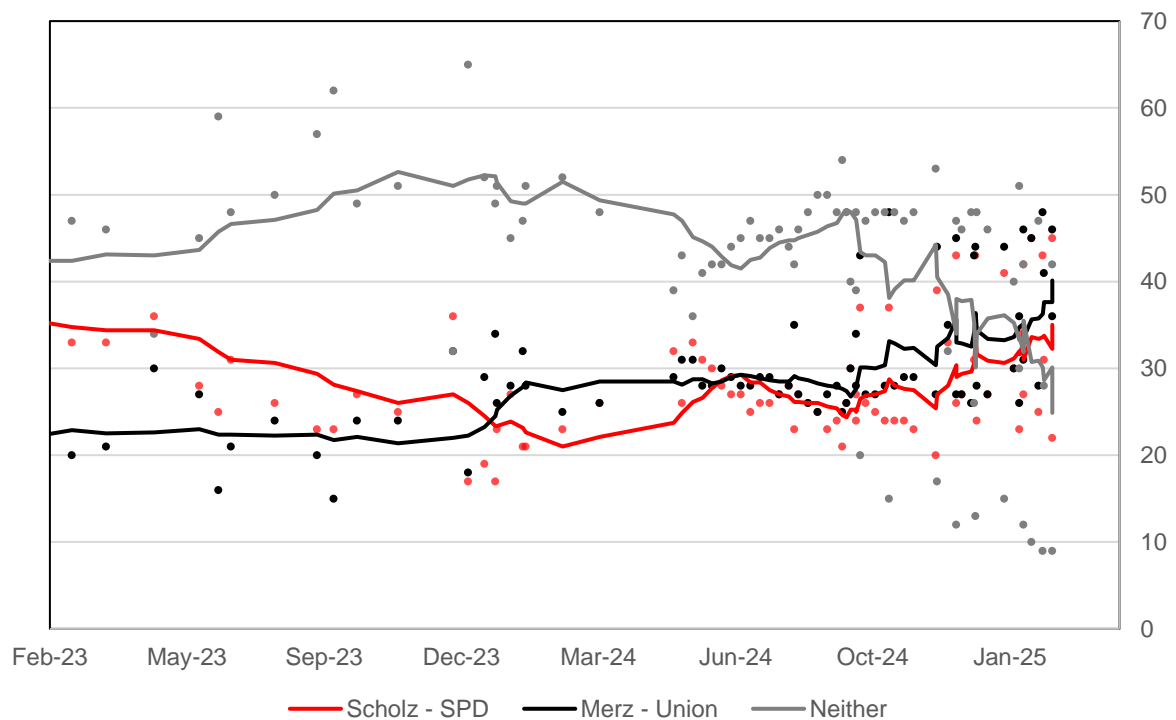
Source: INSA, Forsa, Verian, FGW, Civey, GMS, Allensbach, YouGov, Wahlkreisprognose, Infratest dimap, MNI

Chart 3. Preferred Chancellor Opinion Polling (Four Main Candidates), %



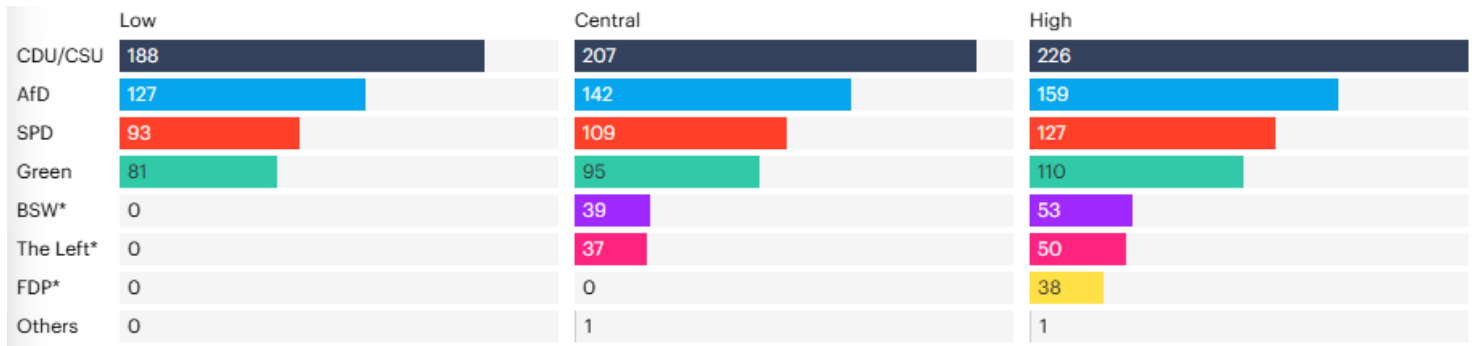
Source: INSA, Forsa, FGW, MNI

Chart 4. Preferred Chancellor Opinion Polling (Two Main Candidates), %



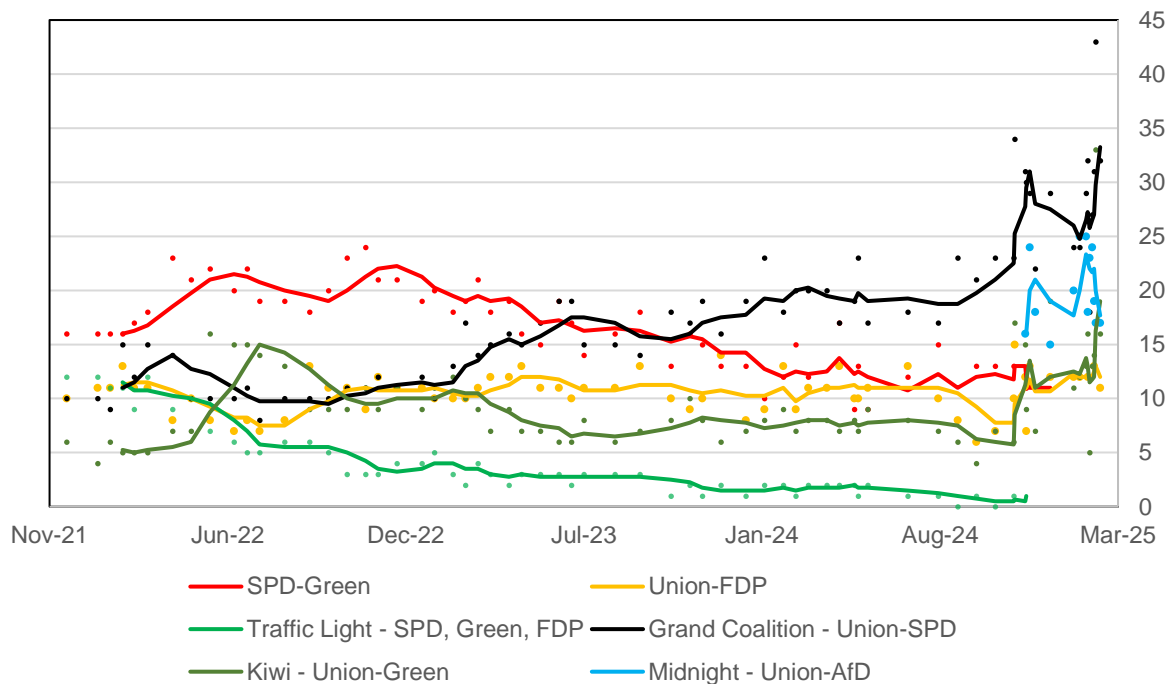
Source: INSA, Forsa, FGW, Walhkreisprognose, Infratest dimap, YouGov, MNI

Chart 5. Low, Central & High Seat Estimates Based On YouGov MRP



Source: YouGov. Lower and higher range of estimated national-level results based on modelled responses from 9,322 adults in Germany. Fieldwork 17 Jan-5 Feb.

Chart 6. Preferred Coalitions, % and 4-Poll Moving Average



Source: Infratest dimap, Forsa, INSA, Ipsos, FGW, MNI

Scenario Analysis

Union Forms 'Grand Coalition' with Social Democrats – 50% Probability

- MNI's core scenario for the German federal election sees a moderate 'grand coalition' being formed after the election between the Union parties (the CDU and CSU) and the SPD with CDU leader Friedrich Merz becoming chancellor at the expense of Olaf Scholz. This would be the first '*GroKo*' since the 2017-21 government of then-Chancellor Angela Merkel.
- During the election campaign the rhetoric between the Union and SPD has been bitter and ill-tempered, raising speculation that the two camps may find it difficult to work together. However, this is partly to be expected as part of the cut-and-thrust of political campaigning. Moreover, much of the opprobrium can be put down to the personal animosity between Merz and Scholz. With the SPD expected to come in third place, Scholz has already confirmed he will not serve in a Merz-led cabinet. This could facilitate smoother coalition talks between the Union and SPD.
- While the Union and SPD have formed four grand coalitions in the post-war era, the CDU's shift to the right under Merz – in a rejection of the liberal centrism of the Merkel years – could limit cooperation and make agreeing on a joint policy platform difficult. The CDU is in favour of tax cuts and deregulation in an effort to spur business investment and lift the economy, while the SPD favours increased taxation on high-income earners to pay for more generous welfare payments.
- Regarding the war in Ukraine and wider security issues, Merz has pledged to send to Ukraine German-made long-range Taurus missiles, previously blocked by Olaf Scholz. Merz has also talked up the prospect of loosening fiscal restraints in order to boost defence spending. Such a move would have been anathema to the CDU years ago when committed wholeheartedly to the constitutional debt brake and *schwarze null* budget deficit.
- There is a greater prospect of reaching agreements to curtail migration under a grand coalition, with both parties having moved in a more hard-line direction vis-à-vis reducing inward migration in recent years. The SPD did not back the CDU in a high-profile vote in parliament in late-January, which resulted in a motion passing with AfD support for the first time. However, a more centrist SPD figurehead such as Defence Minister Boris Pistorius or SPD co-leader Lars Klingbeil directing the party's policy stance could facilitate an agreement.

'Kenya' Coalition Formed by Union, SPD & Greens – 25% Probability

- Such a coalition (named so as the black, red, and green colours of the parties match the flag of the African nation) would be the worst-case scenario for the CDU in having to form a government with two centre-left parties. This outcome would carry the highest likelihood of a government collapse at some point during the next parliamentary term.
- The prospect of such a coalition has increased in recent weeks as support for smaller parties, most notably Die Linke, has ticked up. A higher number of smaller parties crossing the 5% threshold and entering the Bundestag will dilute the number of seats the larger parties can win. This in turn could make a two-party coalition either

numerically impossible or with such a small majority that it proves unworkable. In such a scenario, a Kenya coalition could be the only possible coalition.

- While this outcome is less favoured by the CDU, we have assigned it a greater probability of occurring compared to a 'Germany' coalition (see below) due to the certainty that all three parties win seats in the Bundestag, whereas the FDP have often polled below the 5% threshold. Of the main 'smaller parties' likely to win seats in the Bundestag, a late surge in support for the progressive left-wing *Die Linke* makes it appear more likely to win seats than the FDP. This would narrow the coalition options for the CDU, pushing it towards a Kenya coalition if a two-party government was not possible.
- Of the most likely coalition scenarios, we believe that this combination would have the highest probability of failing to last the full four-year parliamentary term. Whereas a two-party coalition has a clear 'senior-junior' division, with a three-party coalition there is the prospect that the centre-left SPD and Green parties would have similar or in the Bundestag to the CDU. If the 'junior' partners consistently block CDU efforts to cut tax on businesses, boost provision of weaponry to Ukraine, or enact much stricter immigration reforms it could see the coalition break apart before the end of its term. This would particularly be the case if the AfD begins to poll as Germany's most popular party in the months or years following the election.

Union Forms 'Kiwi' Coalition with Greens – 20% Probability

- Coalitions between the CDU and the Greens govern three German states (Baden-Württemberg, North Rhine-Westphalia and Schleswig-Holstein). As such it could be seen that the formation of a first 'Kiwi' (black and green) coalition at the federal level could be a likely outcome from the election.
- However, internal dissent within the Union could make the formation of such an alliance unlikely. In particular, the leader of the CSU Bavarian Minister-President Markus Söder. Söder has been a [frequent and vocal critic](#) of the Greens, declaring in December 2024 that he rejected a post-election coalition with the Greens, "I am absolutely clear about that." While the Greens have seemingly shed much of their pacifist leanings from the 1980s and 1990s, with Robert Habeck in particular advocating a more hawkish line on Russia than many SPD politicians, the disagreements with the Union on migration is a major obstacle.
- Söder and the CSU have demanded a hard line on migration (given that Bavaria has borne the brunt of Germany's migration inflows over the past decade). However, the Greens have argued that closing Germany's borders – as vowed by Merz – would be illegal. A schism between the CDU and CSU is unlikely given the deep links between the two parties. However, it could see pressure on Merz from Bavaria to opt for the SPD when coalition negotiations reach a crunch point.
- A possible route to a Kiwi coalition could be the removal of Robert Habeck from his senior position within the party. The antagonistic relationship between the Vice Chancellor and Söder, as well as other senior CDU figures, could prove an unscalable obstacle during coalition talks. However, if Habeck does not take part in coalition negotiations or confirms that he will not take up a cabinet position in a Kiwi coalition it could smooth the path towards such an agreement. Such a government

would likely prove more open towards providing more high-power military support to Ukraine.

‘Germany’ Coalition Formed by Union, SPD & FDP – 5% Probability

- In the event that a two-party coalition is impossible or unworkable, the CDU’s preferred option would most likely be a ‘Germany’ coalition (so-called as the black, red and gold/yellow of the party colours match the German flag). This is in spite of comments from Merz made during a 16 February televised debate in which he said “I have great doubts about the FDP”. It had been assumed the two would be natural partners. Nevertheless, if the options are for a three-party coalition involving the Greens or the FDP we would expect the CDU to prefer to work with the latter.
- As noted above, the low probability assigned to this scenario is due primarily to the FDP’s constant position generally below the 5% nationwide vote threshold in opinion polling making it uncertain that the party will even win seats in the Bundestag, let alone be invited to take part in the government.
- Moreover, relations between the SPD and FDP are at rock bottom. The situation came to a head following Christian Lindner’s [dismissal](#) in November from Scholz’s cabinet after disagreements over the 2025 budget. The situation was exacerbated by the revelations surrounding the ‘[D-Day scenarios](#)’, and it is unclear whether the SPD would be willing to bring the pro-business liberals into coalition talks.
- In the event such a coalition was formed it would retain the instability seen during the ‘traffic light’ coalition. Splits on policy in this scenario would be more likely between the CDU and FDP on one side, and the SPD on the other, compared to the ‘traffic light’, where the FDP was often the party opposing government policy.

Wildcard Scenario – Union Minority Government Supported by AfD – >1% Probability

- Friedrich Merz, alongside all other party leaders, has ruled out working with the AfD after the election. This comes after the first breach of the ‘firewall’ that has kept the AfD at arms-length from German policymaking since its founding in 2013 came in late January. A non-binding CDU motion regarding asylum claims [passed](#) in the Bundestag with support from the AfD sparking outrage from parties of the left.
- There was also backlash from within the CDU, with former leader Angela Merkel criticising Merz for voting alongside the AfD. A subsequent vote on an immigration bill failed as moderate CDU lawmakers refused to vote with the AfD for a second time.
- While it is almost certain to carry a majority, the formation of a formal CDU-AfD ‘midnight’ coalition (black and blue) in 2025 is essentially a non-starter, at least following this election.
- Should coalition talks between the Union and centre-left parties prove fruitless, the CDU/CSU could seek to govern as a minority administration. This could see the situation in which the AfD props up a CDU government, voting through legislation and opting to back Merz in any confidence votes without formally joining the government.
- This scenario would spark outcry and potential defections on the left of the CDU, which remains wholly committed to keeping the AfD as far from policymaking as possible. However, there are those on the right of the party that have argued the

firewall around the AfD is counterproductive, and that keeping the party away from government again will only boost its popularity come the 2029 election, risking it becoming the largest force in the Bundestag. This would be a particular risk if the next government does not deal effectively with Germany's sclerotic economic outlook and at least make inroads in addressing mounting public concerns about immigration and social integration.

- A CDU minority supported by the AfD would certainly implement much stricter controls on migration and asylum, risking confrontation with neighbours and the EU if this comes in the form of permanent checks or restrictions on Germany's borders in breach of the Schengen agreement.
- It would also limit the prospect of debt brake reform, to which the AfD is opposed on the grounds that the increased spending could be used as part of support packages for Ukraine. Even if the two-thirds majority is reached with the support of other parties, the AfD could threaten to withdraw its support from the CDU minority government if it proceeded with the plan.

Markets Overview

The polls point towards a sizeable CDU win and anything other than that would be a huge surprise at this point. We think the base case priced is a slim majority for a CDU/SPD coalition and a qualified majority of parties seeing some room for a debt brake reform. We thus identify three scenarios, with the main consideration if debt-brake reform will be possible:

- **Scenario 1 – Base Case:** A clear, qualified majority for parties supporting debt brake reform.

This would result in a higher likelihood of such reform vs current expectations (as the outside chance of scenarios 2/3 would be priced out), which would, on the margin, raise net issuance expectations, resulting in slightly bearish Bund momentum, and some contained ASW tightening.

- **Scenario 2 – Unchanged Debt Brake:** Smaller parties unlikely to support any debt-brake reform bill (FDP, AfD) and ones with which negotiation could prove difficult (BSW, die Linke) reach above 1/3rds of seats in Bundestag.
- FDP and AfD reaching above 1/3rds of Bundestag seats would imply that the current German fiscal rules, limiting cyclically adjusted net issuance to 0.35% of GDP, would likely remain in place unchanged for at least the legislature period – keeping net issuance close to current levels. This scenario would arguably be a net-negative for growth in Germany as per more limited incoming fiscal stimulus.

The likely continued limitation in net issuance should outweigh lower growth expectations here, resulting in bullish momentum in the Bund curve, acting prohibitively on yields. Assuming unchanged 3m EURIBOR, this should yield some ASW widening.

- **Scenario 3 – Fringe-heavy:** Fringe parties (AfD, die Linke, BSW) outperform massively (~38%+ vs currently polled around 31%), making both a debt-brake reform more unlikely but also raising some stability concerns for the next government. In this

case, a CDU/SPD coalition would likely not suffice for a majority in Bundestag, making government building more difficult.

Commodities and Power Overview

Energy

The start of the Russia-Ukraine conflict in February 2022 and the consequent European energy crisis hit Germany hard due to the nature of its energy mix and its dependency on Russian natural gas pipeline flows. Several German industrial firms announced they would relocate their production sites abroad, partly due to high energy prices, while soaring consumer energy prices have continued to burden households. Consensus amongst parties is to lower energy prices and to ensure the security of energy supplies in the future, however, the approaches differentiate substantially.

Nuclear Energy

The German election is highlighting a potential shift in energy policy, with nuclear energy re-emerging as a debated topic. Germany decided to phase out nuclear power in 2011, with the last plant shutting down in April 2023. However, the current European energy crisis has reignited discussions:

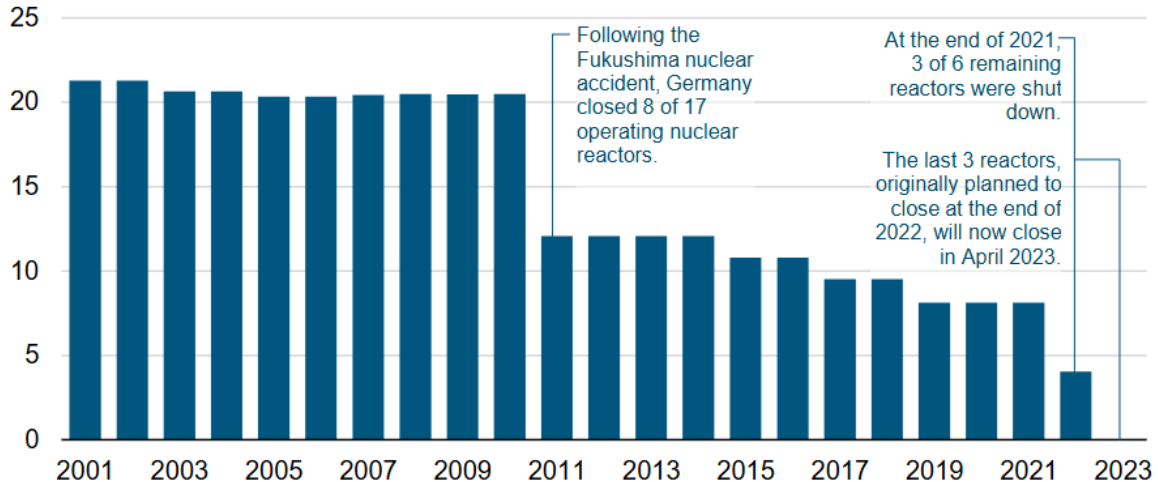
Political Positions:

- **AfD:** Strongly supports bringing back nuclear power, including reactivating decommissioned plants and exploring new tech.
- **CDU:** Shows openness to nuclear revival, focusing on small modular reactors (SMRs) and fusion, potential for reactivating decommissioned plants, with a critique of the earlier phase-out decision.
- **FDP:** Advocates for nuclear fusion and next-gen nuclear technologies like thorium reactors, though they see the reactivation of old plants as the operators' decision.
- **BSW:** Supports nuclear research but opposes the construction of new conventional or SMR plants.
- **SPD, Bündnis 90/Die Grünen, and Die Linke** remain opposed to nuclear energy, with the Greens citing unresolved issues like waste and risk, while Die Linke pushes for a broader phase-out.

Industry leaders from RWE and Eon have expressed scepticism about the feasibility and cost-effectiveness of restarting decommissioned plants, suggesting instead a focus on alternative energy solutions for supply security.

Germany, nuclear power capacity (2001–2023)

gigawatts



Data source: U.S. Energy Information Administration, International Energy Statistics—Germany; International Atomic Energy Agency

Renewable Energy:

Renewable energy plays a pivotal role in Germany's energy strategy, with significant developments noted in recent years:

Share in Electricity Generation: In 2024, renewables contributed to 62.7% of Germany's net electricity generation, with wind power at 33% and solar PV at 14%.

Challenges with Intermittency: The phenomenon known as "Dunkelflaute" highlights the challenges of relying heavily on intermittent sources like wind and solar, leading to debates on energy security and price stability.

- **Future Targets:** Germany has ambitious goals for renewable capacity. By 2030, the country aims for:
 - Solar PV capacity to increase to 215GW from 99.2GW in 2024.
 - Onshore wind to grow to 115GW from 63.5GW.
 - Offshore wind to reach 30GW from 9.2GW.

Political Positions:

- **CDU:** Promotes expansion of all renewable technologies, with plans to use gas-fired capacity as a temporary measure.
- **SPD:** Focuses on renewables and battery storage for energy stability.
- **FDP:** Advocates for renewable energy growth but opposes both subsidies and government-set capacity targets.
- **Bündnis 90/Die Grünen:** Envisions a completely carbon-neutral, renewable-based power sector by 2035, encompassing various renewable sources.
- **BSW:** Supports repowering existing wind facilities and expanding solar on public spaces.

- **Die Linke:** Pushes for renewable expansion with an emphasis on community involvement, battery storage, and mandatory solar installations on new and renovated buildings.
- **AfD:** Advocates for economic competitiveness without subsidies, oppose further wind expansion, and have expressed controversial views about removing existing wind turbines, though this is not officially in their program.

The political discourse in Germany reflects a broad consensus on the necessity of renewable energy but with significant debate over methods, network charges, support mechanisms, and the integration into the current grid infrastructure. This conversation is crucial as Germany navigates the balance between energy security, environmental goals, and economic considerations.

Fossil-Fuel Energy:

Germany's approach to phasing out fossil fuels, particularly coal, has been a focal point of its energy policy:

Coal Phase-Out: Germany aims to end coal-fired power generation by 2038, with an aspiration to achieve this by 2030. Legislation set in 2020 requires coal generation capacity to be significantly reduced by specific deadlines.

Political Positions:

- **CDU:** Supports the coal phase-out but insists on no further closures until new gas and CHP plants are operational. Plans include building 50 new gas power plants.
- **SPD:** Backs the coal phase-out but lacks explicit mention in their recent election program, though they supported the installation of hydrogen-ready gas plants within the Ampel coalition.
- **FDP:** Advocates for new gas plants while promoting diversification of gas supply sources, including domestic production from the Borkum field and fracking.
- **AfD:** Opposes the coal phase-out, promoting continued use of fossil fuels until nuclear power can be reinstated. They plan to extend plant lifespans and repair Nord Stream pipelines.
- **BSW:** Has not detailed much on coal but emphasizes securing affordable energy, potentially from resuming Russian gas supplies via Nord Stream.
- **Bündnis 90/Die Grünen:** Wants to accelerate the coal phase-out to 2030 and end gas-fired power by 2045, opposing new long-term gas contracts and reviewing LNG terminals.
- **Die Linke:** Aims to advance the coal phase-out to 2030 and end gas power by 2035, advocating against new gas infrastructure and for the nationalization of energy networks.

Climate:

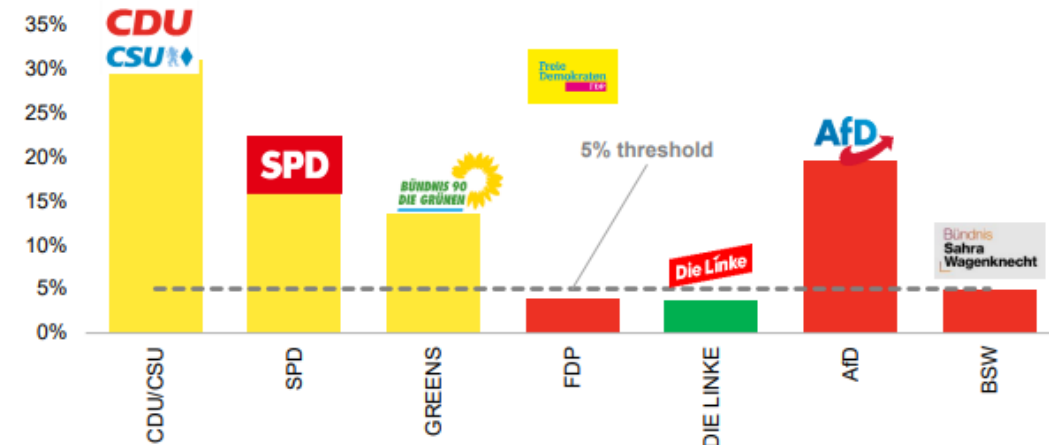
Germany is targeting climate neutrality by 2045 -five years ahead of EU targets - aiming for significant emissions reductions by 2030 and 2040 in alignment with the European Green Deal:

- **Emission Targets:** Germany plans to cut emissions by 65% by 2030 and 88% by 2040, compared to 1990 levels.

Political Positions:

- **CDU:** Supports the 2045 neutrality goal, focusing on the CO2 levy and expanding the EU ETS, while proposing a "Climate Bonus" to offset costs for households and businesses.
- **SPD:** Backs the current climate targets, viewing climate action as part of public service, with subsidies for electric vehicles and heat pumps, maintaining the CO2 tax.
- **Bündnis 90/Die Grünen:** Committed to the existing climate laws for neutrality by 2045, also using the CO2 levy, and introducing a "Climate Bonus" for low-income groups.
- **FDP:** Proposes to extend the neutrality target to 2050, emphasizing EU ETS for meeting EU targets.
- **BSW:** Endorses Paris Agreement objectives but seeks to abolish the German CO2 levy, arguing it increases costs and shifts production, preferring a global emission trading system.
- **AfD:** Plans to withdraw from the Paris Agreement and aims to eliminate the German CO2 levy, following a Trump-like approach to climate policy.
- **Die Linke:** Wants to advance climate neutrality to 2040, opposes EU ETS expansion into heating and transport, but demands strict climate and emission limits.

German federal election weekly poll average and parties' stances on the 2045 net zero target



Yellow indicates **unchanged** ambition;
Green indicates an **increase** in ambition;
Red indicates a **reduction** in ambition

Source: Pollsters, Political party manifestos, Bloomberg calculations. Note: Data for 20-25 January 2025.

Analyst Views

ABN AMRO

- The elections take place against the backdrop of a weak economy that has shrunk for two consecutive years and faces rising unemployment. The threat of higher U.S. import tariffs also clouds the outlook for this year. The problem is that the contraction is not cyclical but structural. The industry, traditionally the pillar of the economy, suffers from high energy costs, deterring investments.
- Based on current polls, a repeat of the 'Grand Coalition' between Union and SPD is most likely. A combination of Union and the Greens would also yield a majority on paper. However, CSU leader Markus Söder has indicated a preference not to partner with the Greens, although he may set aside his reservations if FDP joins.
- The 'Grand Coalition' could also theoretically be supplemented by FDP, whose party program most closely aligns with that of Union. However, this is not very likely. Firstly, because FDP must first surpass the electoral hurdle. Secondly, because Olaf Scholz may be reluctant to join another cabinet with Christian Lindner.
- One measure on the agenda for the next government is adjusting the debt brake. Union was not in favour, but this stance is shifting. SPD's desire for adjustment has also increased. In a 'Grand Coalition,' there is room to soften the sharpest edges, for example, by incorporating exceptions for investments, defence, or climate policy.
- ...the party programs of Union and SPD have few overlaps, and where they do, they lack ambitious goals. This means that few far-reaching structural reforms are expected, although they are necessary, for example, in reforming the inefficient

banking sector, revising the unsustainable healthcare and pension systems, and improving education.

- If important choices are postponed, uncertainty may persist, [...]. This would result in an economy that continues to falter, creating an ideal breeding ground for growing discontent, a situation that AfD would thrive in. That could mean that the AfD could score well during the next elections and will be difficult to exclude from government participation by 2029.

Berenberg

- While Merz is still far in the lead, another issue has become key for the outlook: Will populists protest parties win one third of the seats in the German parliament and thus be able to block any significant change to country's fiscal straightjacket? [...]. If both the Left and a separate left-wing outfit BSW clear the 5% threshold to gain seats, they might – jointly with the right-wing AfD – command a third of the votes in the Bundestag.... If so, they could jointly veto any change to the constitution and hence to the debt brake enshrined in the constitution.
- A key part of any debt brake reform would be to raise defence spending and put it on a secure footing. The special €100bn fund created right after Russia's full-scale attack on Ukraine will be depleted during the next parliamentary term. 90% of the money has already been committed. The three populist protest parties from the right and left disagree on many counts. But they all oppose aid to Ukraine, de facto doing the bidding of Russian president Vladimir Putin.
- A constitutional veto for the fringe parties is the biggest risk to our base case that Germany is heading for major supply-side reforms and significant extra fiscal space after the election. Even without changing the constitution, a new coalition between, say, the CDU/CSU and the SPD, could still find some fiscal space by pruning some welfare spending, reforming the inefficient energy policy and injecting capital into semi-public institutions such as KfW development bank or the railways to enable them to borrow more.
- Our base case remains that a Merz-led coalition with either SPD or Greens will command a narrow majority of seats in the Bundestag and be able to change the constitution with the support of the other centre-left party that is not part of the new coalition in order to attain the two-thirds majority for this task. In this case, we would expect major reforms including a significant overhaul of the debt brake with a higher annual deficit ceiling (say a cyclically adjusted 1% instead of 0.35% of GDP) in addition to an expansion of the special defence fund by, say, €200bn.

Citi

- Our economists expect a government coalition of CDU/CSU with either SPD or greens and Merz as the next chancellor. For the markets, the risk is from more extreme scenarios where the AfD becomes absolute or relative Parliamentary majority. Under such scenarios, it's not clear to us how the balance of risks around the ECB's interest rate policy response function or the timing around the likely end of QT would change.
- ...while such scenarios of an AfD majority look relatively unlikely for this election, our economists ascribe a non-insignificant likelihood that the non-mainstream parties

achieve a blocking minority. This could be significant in the near-term as AfD is against a debt brake reform. The market might perceive such an outcome as ultimately leading to a non-mainstream majority, via two channels. One, due to an increased risk of a stalled debt brake reform increasing government instability and leading to an early next election. Second, by pushing electorate towards more extreme parties, like in France. Overall, this could eventually result in wider periphery spreads.

- Our economists expect [the debt brake] to be modified to allow a structural deficit of 1% of GDP under their central scenarios, a 0.65pp increase worth €26bn for current GDP, but only likely from the 2028 budget given the protracted process. Any new SPVs (unless enshrined in the constitution like the €100bn military fund) would have to be included within these limits following the 2023 [constitutional court] decision. This could be in the form of a €100bn military or infrastructure fund for 2025-27, expected under different CDU-led coalitions, implying a similar spending of €33bn/year until the debt brake is reformed.
- Under the most likely scenarios of a CDU-led mainstream majority, any decline in volatility as the risk event passes is likely to support periphery spreads more near-term, while implications of any improvement in German GDP growth for its trading partners should provide some medium-term support.

Danske

- The German voting system makes both a 'Grand Coalition' and a 'Black-Green' coalition more likely despite poll numbers not adding up to 50%, as the FDP, the Left, and BSW risk not reaching the 5% threshold.
- Following the election, we see 50% probability of a small reform of the debt brake that will give a special treatment for investments, but we do not anticipate an abolishment...The SPD, the Greens, and the Left all wish to relax the debt break, making a two-thirds majority in favour of a smaller reform seem possible in our view. Yet, given current polls the decision relies entirely on the CDU/CSU, so we estimate a 50% chance of it occurring.
- We expect a possible reform to allow a special treatment of public investment by excluding them in the calculation of new debt...By allowing the deficit to increase from 0.35% to 1.50% an additional EUR 50 bn (1.15% of GDP) could be spend on annually investments in this scenario while the maximal structural deficit excluding investments remain at 0.35% GDP.

Overview of Selected Party Programmes

	CDU/CSU	SPD	Greens	AfD
Economic /fiscal	<ul style="list-style-type: none"> • End solidary surcharge "solid" tax • Reduce VAT in hospitality from 19% to 7% • Lower corporate tax to 25% • No increase in retirement age • "Active pension" to allow pensioners to earn €2000 eur per month tax free 	<ul style="list-style-type: none"> • €100 bn investments fund • Raise minimum wage to €15 from €12 per hour • "Made in Germany" premium, giving 10% tax rebate on certain company investment • Tax cuts for most earners • Tax increase on wealthy, reintroduce wealth tax on ultra-rich, and raise in inheritance taxes • Higher tax on capital income and financial transactions 	<ul style="list-style-type: none"> • Investments in infrastructure, energy systems, and industry • German fund' to unlock investments • Maintain flat rate public transport ticket of EUR 49 • Reduce electricity taxes and grid fees • End production of combustion engine vehicles faster • 10% state aid premium for industry investments • Support for purchase of electric vehicles • Climate bonus for low and middle income households 	<ul style="list-style-type: none"> • Fiscal hawks • More trade with Russia and resume energy imports • EU/euro area exit
Debt brake	<ul style="list-style-type: none"> • Supports the debt brake • "The debts of today are the tax increases of tomorrow" • But willing to reform if money is used on pro-growth investments 	<ul style="list-style-type: none"> • Relax debt brake • More capital to state owned corporations 	<ul style="list-style-type: none"> • Reform of debt brake 	<ul style="list-style-type: none"> • No reform of debt brake
Defence	<ul style="list-style-type: none"> • 2% of GDP spending • CSU wants well above 3% 	<ul style="list-style-type: none"> • 2% of GDP defence and off-budget fund 	<ul style="list-style-type: none"> • 3.5% of GDP 	<ul style="list-style-type: none"> • No European defence integration, national sovereignty, lift sanctions on Russia

Source: Danske Bank, party election programmes

Goldman Sachs

- The polls still point to a two-party CDU/SPD coalition as the most likely outcome. However, the odds of a three-party coalition (which would take longer to form and entail higher risk of only modest policy changes) and a blocking minority (which would make fiscal reform extremely difficult) have slightly increased recently and remain substantial.
- We attach a 50% probability to a limited upside scenario, in which we assume a moderate reform of the fiscal framework and an off-budget defence fund to increase military spending to 2.5% of GDP. We would also expect modest tax reform, measures to reduce energy prices and some additional public investment, as well as labour market reform. We estimate that growth would increase by 0.2pp on average until 2027 in this scenario, with the deficit up 0.3pp of GDP.
- We attach a 15% probability to a substantial upside scenario. In this scenario we assume a more meaningful reform of the debt brake and an off-budget defence fund

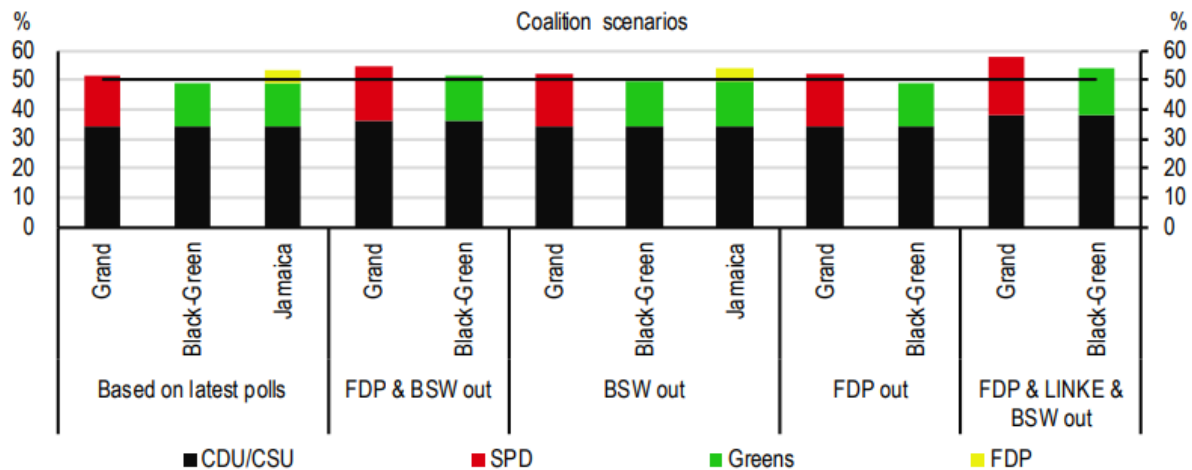
to increase defence spending to 3.0%. A larger tax reform, measures to reduce electricity prices and additional public investment are financed through additional deficits and labour market reforms. In this scenario, growth increases by 0.5pp on average until 2027, and the deficit rises by 0.9pp.

- We attach a 35% probability to a gridlock scenario in which we see very limited change in economic policies resulting in no change to our growth outlook. In particular, a constitutional blocking minority prevents major fiscal changes in this scenario.
- A potential blocking minority against fiscal reform makes the gridlock scenario very likely and is in many cases associated with a three-party coalition. However, even in this case there are several options to get additional fiscal spending. First, joint European funding could be used to increase military spending outside of the debt-brake rules. If dispersed as a grant, EU debt is not counted against the current German debt brake rules. Second, FDP could support a military defence fund as in 2022 if there is substantial pressure on Germany to increase defence spending to 3% of GDP. This would likely require concessions by the government in other areas such as taxation or social spending. Third, despite being opposed to increase defence spending, the Left party might support a reform of the debt brake but condition it on increased investment spending.

HSBC

- Depending on how many of the smaller parties (FDP, LINKE, BSW) clear the 5% threshold to enter parliament, a coalition will need a total share in the popular vote between 40% and 48% for [the] minimum 315 seat majority.
- Based on the current polls, the most likely arithmetically and politically feasible coalition is a Grand Coalition of CDU/CSU and SPD. A “black-green” equivalent looks less likely to gather sufficient voter share. If the FDP manages to clear the 5% threshold and BSW also wins seats, the CDU/CSU may need a third partner, most likely the FDP, to put together a majority.
- ...were a Grand Coalition the only viable two-party coalition option, this would put the SPD in a strong negotiating position. Given little overlap in policy proposals, it raises the risk that Germany ends up with another four years of standstill. Previously, government formation has taken between 24 to 86 days – with the exception of 171 days in 2017 due to the breakdown of talks between CDU/CSU, Greens, and FDP. This time, we expect a new government to be up and running by mid-May at the latest.
- ...Chancellor Olaf Scholz will remain in place as acting chancellor until a new government is sworn in. In this interim period, he spearheads a caretaker government which is fully operational and could propose new legislative initiatives. However, typically a caretaker government abstains from doing so and rarely diverges from any policy measures that were already decided during their official legislative period...

Chart 1. Coalition feasibility hinges on election outcome of smaller parties



Source: Macrobond, HSBC

Natixis

- Based on latest polls, a coalition between the centre right CDU/CSU and the centre-left SPD seems to be the most likely outcome, followed by a coalition between the CDU/CSU and the Greens. But a three-party coalition between CDU/CSU, SPD and Greens cannot be ruled out either. None of these potential coalitions will work smoothly, though the pressure to “deliver” in the face of a growing support for the far-right AfD should enforce some discipline.
- There are some areas where we would expect sufficient common ground for the next government. Tax cuts, some reform of the debt brake, immigration and a renewed push to reduce red-tape are such areas. A potential reform of the social security and pension system and a recalibration of the energy transition will be dependent on which coalition will be formed.
- ...all parties want to either reduce the tax burden for corporates or provide some financial incentives for higher corporate investment spending. The parties also want to generally reduce the tax burden for households, though some parties (SPD, Greens) also want higher taxes for high income/high wealth households.
- Clear differences emerge when it comes to financing tax cuts but also how to fund higher spending for public infrastructure. While SPD and Greens propose a change of the debt brake (that would allow to run higher deficits), the CDU/CSU and the FDP seem to rely on expenditure cuts as well as stronger growth triggered by tax cuts and reforms of the social security system.
- CDU/CSU – SPD: Moderate reform of the debt brake; creation of an infrastructure fund; cut in corporate tax rates; some relief on income tax; moderate re-calibration of energy transition, with better coordination of build-up of renewables and the underlying infrastructure; no genuine reform of the social security and pension system.
- CDU/CSU – Greens: Moderate reform of the debt brake; creation of an infrastructure fund; cut in corporate tax rate; some relief on income tax; no real change to the pace or direction of energy transition, with continuing focus to ramp up renewable energy

production; moderate reform of the social security system, in particular with respect to providing incentives to taking up work.

Table 1. Election Platforms of Major German Parties

	Corporate taxes	Income/wealth tax	Fiscal policy/infrastructure	Labour market/social security	Energy/climate change	Total fiscal impact of all measures*
CDU/CSU	Reduction to 25% from currently 30%. Decline in tax burden by €20bn.	Increase of the threshold at which the to income tax starts to €80k from currently €67k. Decline in tax burden by €35bn.	No reform of the debt brake. Little details how to address past shortfall in infrastructure spending.	Reform of social security, by cutting benefits. Introduction of incentives to work more/longer.	No change of climate targets. Potential recommissioning of nuclear power plants. Reduction of climate friendly technologies.	€89 billion
SPD	10% tax rebate for corporate investment spending in Germany; estimated cost: €20bn.	Lower income taxes for most households. Higher rates for top income households. Tax rebate for Made in Germany EVs.	Reform of the debt brake. Create a €100bn infrastructure and technology fund, financed through debt.	Increase of the minimum-wage to €15% (17% increase).	No change in climate targets. Reduction of energy costs for companies and households, funding of which is vague.	€30 billion
Greens	10% investment bonus for corporates	Increase of income tax threshold. Introduction of "climate money" for low income households; estimated costs. Taxation of high wealth households.	Reform of the debt brake. Creation of a Deutschlandfonds (of more than €100bn) to finance Green Transition.	Introduction of incentives for unemployed to pick up work. Increase of minimum-wage to €15.	No change in climate targets. Reduce energy costs.	€48 billion
FDP	Reduction in the corporate tax rate below 25%. Terminate the "solidarity"	Reduction of the income tax, estimated costs: €95bn	No change to the debt brake.	Stricter rules for unemployment benefits.	Postpone climate neutrality to 2050. Recommissioning of nuclear power plants. Domestic drilling for	€138 billion
AfD	Reduction in taxes, with little details provided.	Permanent abolishment of wealth tax. Higher income threshold at which income tax is paid	No change of the debt brake. Creation of a "growth program infrastructure", though no details on funding. Exit from monetary union	No welfare benefits for foreigners living in Germany.	Withdrawal of Germany from international climate treaties. Significant slowdown of expansion of renewables.	€149 billion

Source: Natixis, Party Platforms. * estimates by IW Institute.

Nordea

- The German economy is in a bad state both cyclically and structurally and the list of problems is long. Unfortunately, none of the large parties seem to have a credible plan on how to solve the problem of relatively high energy prices in Germany (other than restarting gas imports from Russia), while finding an agreement on materially changing the so-called debt brake and thus enabling more public investment does not look great either.

- The CDU/CSU would like to cut taxes and regulation and limit social benefits. The stance on immigration is also stricter compared to the SPD and the Greens. The SPD and the Greens, in turn, would like to boost public investment more. Since many of the economic policies the CDU/CSU call for are quite different from the SPD and Greens, an eventual coalition government will have to find compromises.
- ...one should not expect huge changes in German policies after the election. A limited easing of fiscal policy could be possible, but no bigger boost to public investment looks likely, apart from investments in defence. The German stance towards further aid to Ukraine should remain positive in any case. That said, forming a stable government should at least help confidence to recover and with that support at least a modest recovery in the German economy.

Société Générale

- Currently, the CDU/CSU, as the largest party, would be in a situation to form a government with either the SPD or the Greens, or both. However, the CSU wants to exclude the Greens as a possible coalition partner, as the Green party's policies are viewed by many in the CSU as being at the heart of Germany's many problems, not least in terms of red tape and [...]. A coalition with the SPD thus seems more likely, especially if Olaf Scholz steps down after the election.
- ...each party would want to defend its own special interests in any budget negotiation: CDU/CSU would likely focus on military spending and tax cuts, the SPD on protecting social welfare, and the Greens on finding new funding for climate change investments – all the ingredients for mightily difficult negotiations that could take a long time (we expect a new government in April at the earliest).
- ...the manifestos reveal stark differences on economic policy, especially in relation to tax cuts (CDU/CSU, FDP) and additional borrowing (SPD, Greens). The CDU/CSU manifesto proposes major tax cuts but without providing clear answers on financing them. The SPD and the Greens, in contrast, want to avoid major cuts to social systems and easing the debt-brake rule to cope with additional spending on infrastructure and climate change investment. How to handle spending, savings and funding will be at the core of the coalition negotiations after the elections.

Table. Key Policy Messages in the Party Programmes

Christian Democrats / FDP	SPD / Greens
<ul style="list-style-type: none"> • Keep the debt brake • Reduce corporate tax gradually from 30% to 25% • Reduce employer social security contribution • Halve electricity grid fees for industrial users • Reduce VAT on hospitality from 19% to 7% • Raise inheritance tax allowance • Restore fuel subsidies for farmers • Abolish solidarity surcharge • Abolish citizens income and replace with tougher unemployment benefits • Active pension with up to €2,000/month tax-free • Incentives to work after retirement and flexibility on pension age • Annual target of 3.5% of GDP in R&D by 2030 • 3y moratorium on bureaucracy and bureaucracy-free year for firms • Reversal of EU ban on sales of petrol/diesel cars in 2035 • Nuclear should be an option • Pushback of carbon neutrality to 2050 • Tougher controls on immigration and citizenship • Reduce red-tape and regulation • Aim for transatlantic unity, spend min 2% of GDP on defence, support Ukraine and cooperation with France Poland (and UK) 	<ul style="list-style-type: none"> • Reform the debt brake (details missing) • Introduction of a €100bn 'Germany' fund to grant loans for energy transition, railways, critical technologies, housing (bridge until debt brake reform) • A 10% investment premium for investments in Germany • Cut industrial electricity prices and VAT on food (7% to 5%) • Raise minimum wage from €12/h to €15/h • Extend parental leave • Cut income tax for most levels but raise it for highest earners and on inheritance and capital gains • Expand power grids and reduce electricity tax • No to restarting nuclear • Climate neutrality in 2045 • Fight against organised crime and money laundering • Raise defence spending to 3.5% of GDP • Not send German medium-range missiles to Ukraine

Source: SG Cross Asset Research/Economics, Party election manifestos

TD Securities

- CDU/SPD "Grand Coalition": If zero or one of the minor parties makes it through, then the CDU & SPD "grand coalition" that has ruled Germany for a good chunk of the last 20 years has a route to power, with over 50% of the seats.
- With two small parties polling above 5%, a three-party coalition might be necessary, with the CDU & SPD either teaming up (yet again) with the FDP for a "Germany coalition" or the CDU & SPD teaming up with the Greens for a "[Kenya] coalition". The Germany coalition is likely more palatable to the CDU & SPD than the [Kenya] coalition.
- ...how many of the smaller parties cross the 5% threshold will matter as to whether the 2/3 majority exists:
 - If zero or one of the small parties crosses 5% support, then there should still be a large enough majority to revise the constitution and ease the debt brake.
 - If two parties pass the 5% threshold, it will be very close, and the FDP may be offered a position in government in exchange for their support on debt brake reform, even though they oppose it.
 - If all three small parties cross the 5% threshold, it will be very difficult to find a 2/3 majority, and the government will likely have to lean on special debt instruments to expand fiscal spending rather than looser rules.
- ...the timeline for forming a coalition is loose, but we would expect one to have formed by June, and much sooner should the Grand Coalition form the majority.

- Debt brake reform will take longer, and talks can only start after coalition negotiations. We look for the debt brake debate to go into the autumn, but wrap up in time for the 2026 budget. It's therefore far more important for 2026 fiscal policy, and will have little to no impact on 2025 spending.

Key Seat Outcomes for German Election		
Minor Parties Exceeding 5%	CDU & SPD Vote Share	Debt Brake Vote Share
Zero	58%	75%
One	54%	69%
Two	51%	65%
Three	48%	62%

Source: TD Securities. Minor Parties = FDP, Linke, BSW

UBS

- In one extreme scenario, none of the [FDP, Linke or BSW] end up in the Bundestag. In this case, there would be only four parties in parliament (counting the Union parties as one for this purpose), with the three centrist blocs dominating the seat distribution. This would likely be the most favorable outcome for the economic outlook, as it leaves plenty of space for a centrist two-third majority in favor of debt brake reform and a top-up of the military's special fund...
- The other extreme is if The Left, Alliance Sahra Wagenknecht (BSW), and the Free Democratic Party (FDP) all pass the 5% hurdle, which would lead to a highly fragmented Bundestag. Importantly, this outcome would make a reform of the debt brake difficult to achieve, as we assume that none of these parties would reliably support such a proposal, or only in return for other policies...
- ...if there were to be a one-third blocking minority against [defence fund and/or debt brake] amendments, Germany would need to contend with fiscal consolidation rather than easing after election. This would make a turnaround of the country's economic fortunes more difficult to achieve.
- In our base case of no blocking minority, there would be room to increase spending or lower taxes once the debt brake is reformed. However, the magnitude of any fiscal impulse is difficult to anticipate, as it depends both on what is technically feasible and what can be politically agreed. The EU's fiscal rules would still bind, and due to their highly complex nature after last year's reform, it is not clear how much extra borrowing they permit in practice.
- ...we broadly see three plausible developments for fiscal policy and economic momentum more generally after the election:
 - No blocking minority (60%): Strong fiscal push (15%): A two-party coalition, likely between the Union and SPD, comes into office and negotiates a fiscally expansive program. Modest fiscal easing (45%): A two-party coalition assumes office, but any fiscal easing is only implemented gradually and at a more modest scale.
 - Blocking minority (40%) Without a reform of the debt brake, there is no room for further fiscal easing, and the non-defense budget might need to be cut in future.

- In the 2021 elections, an official intermediate result was published at 4.30am, the preliminary result at 6am and the final result at 12.35pm.

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