

US election monitor #2

Kavanaugh confirmation not likely to affect the Senate battle

- Election day on 6 November is approaching.** In August and September, the generic ballot polls moved up in favour of the Democrats – from 47.6% at the beginning of August to 49.7% at the time of writing. **It remains our base case that the Democrats win the majority in the House and the Republicans retake the Senate.** Furthermore, according to FiveThirtyEight, **the probability of the Democrats winning control of the House of Representatives has risen in the past week to 78.0% from 73.9% (from a peak of 83.1%).** Support for the Republicans has grown lately (currently 41.4%); however, it seems as though Kavanaugh's hearing has increased enthusiasm for the Democrats. In this regard, President Trump's approval rating has fallen slightly in the past week to 42.8% from 43.6%.
- The Democrats still face a tough Senate map, as not many Republican seats are up for election. Some 24 of the 35 of the seats up for election are held by Democrats at the moment. **According to FiveThirtyEight, the Republicans have a 79% chance of retaking the Senate.** Actually, the Democrats' position in the Senate battle has worsened recently due to falling support in the deep red states. The reason for this is not clear but it could be a consequence of Kavanaugh's confirmation, which seems to have polarised voters.
- Some 52% of Americans said they believe the women who accuse Kavanaugh of sexual misconduct. Furthermore, 56% think that Kavanaugh would be influenced by personal political opinions when judging a case (*CNN poll*). This indicates that some voters question Kavanaugh's truthfulness and 51% in the poll oppose his confirmation. **Overall, we expect the controversy surrounding Kavanaugh to continue in the run-up to election day, hurting the Republicans' chances of retaking the House.**
- In the coming week, possibly on Monday, the US Treasury report on FX manipulation is due. **We do not expect the report to designate China a currency manipulator as China meets only one of the three criteria required to be legally classified as such.**
- This week **Trump criticised the Fed multiple times** and pinned the steep stock market sell-off on the Fed's monetary policy, rather than blaming the trade war. However, **we expect the Fed will ignore Trump's critique and continue its hiking cycle.**
- A divided US Congress means that Trump would be unable to push his domestic policy agenda through. **In our view, the midterm elections should have limited implications for markets and the economy, as it would be difficult for the Democrats to roll back Trumponomics even if they won both chambers.** However, the risk is that he becomes even more hawkish on foreign policy and trade policy after the election.

Recent US publications

Midterm elections

US Midterm Elections: Mostly a political event with limited implications for markets and the economy, 3 September

Trade war

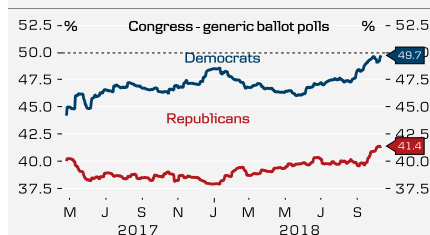
Flash Comment – Will the US label China a currency manipulator? Not likely, 10 October

US-China Trade Update: China unlikely to give in to Trump's demands despite new tariffs, 17 September

Federal Reserve

FOMC review: Gradual Fed hikes are set to continue, 26 September

Democrats are still leading significantly in polls



Source: FiveThirtyEight

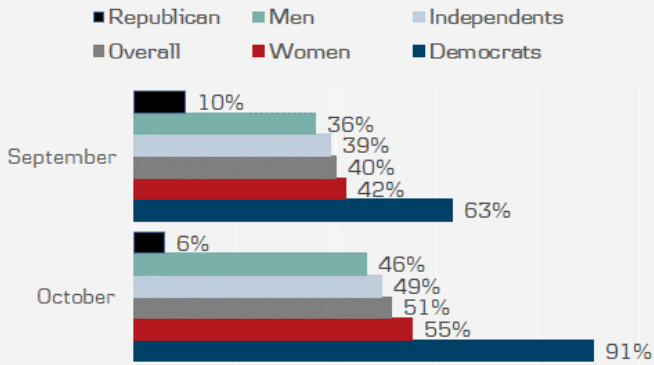
Senior Analyst

Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

Assistant Analyst

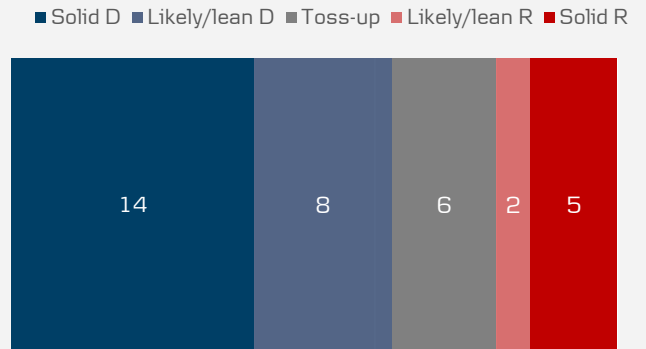
Pernille Nordlund Jonsson
+45 45 12 82 87
pno@danskebank.dk

Opposition to Kavanaugh growing
(Not voting in favour of Brett Kavanaugh as federal judge)



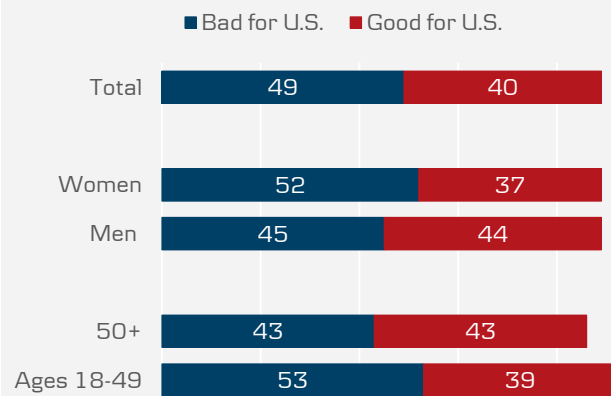
Source: cnn.com

Democrats face a tough election for Senate. Need to win not only their own seats but also Republican toss-ups to take the Senate



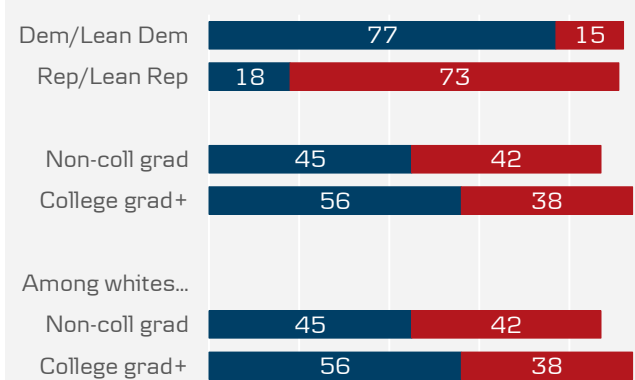
Source: cnn.com

Support for Trump's trade policy (%)



Source: Pew Research Center

Support for Trump's trade policy (%)



Source: Pew Research Center

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Mikael Olai Milhøj, Senior Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Weekly.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 12 October 2018, 14:45 CEST

Report first disseminated: 12 October 2018, 16:20 CEST