

# US election monitor #3

## Standstill as US criticises China trade policy

- **With less than three weeks to go, the Democrats are still leading significantly in the opinion polls.** FiveThirtyEight models still point towards a divided Congress (79% probability of the Republicans taking the Senate and 84% probability of the Democrats winning the majority in the House of Representatives). Trump's approval rating has risen (and disapproval fallen) slightly in recent weeks but Trump remains unpopular.
- **As expected, the Trump administration did not officially declare China as a currency manipulator in its semi-annual report** (despite Trump claiming it). China simply does not live up to the three criteria. Still, the report included very hawkish language against China. It is difficult to see a solution to the trade war/strategic conflict in the short term, as the US economy is strong and China does not want to negotiate under pressure and seems to be preparing for a long fight. Due to monetary policy divergence, we expect CNY to weaken further and forecast USD/CNY in 7.20 in 12M.
- **US Commerce Secretary Wilbur Ross has indicated that he is annoyed with the lack of progress in the trade talks with the EU by saying that 'the President's patience is not unlimited'.** It is difficult not to see the trade disputes in light of the upcoming mid-term elections, as many Republican voters are in favour of a more protectionist trade policy (see chart page 3).
- **FOMC minutes released this week revealed a central bank on track to deliver hikes until the 'neutral' 3% is reached** (probably in June 2019 after hikes in both December-18 and March-19). After that, monetary policy will be more 'stop and go' depending on how the economy and markets are doing, but 'a substantial majority' expect policy to turn contractionary. In other words, **the FOMC minutes did not give any indications that the Fed is listening to President Trump's critique.**
- **Look out for the rising tensions between the US and Saudi Arabia on the back of the killing of the Saudi journalist Jamal Khashoggi.** President Trump now acknowledges that high-level Saudis played a role.
- A divided US Congress means that Trump would be unable to push his domestic policy agenda through. **In our view, the mid-term 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

#### Mid-term elections

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

#### Trade war

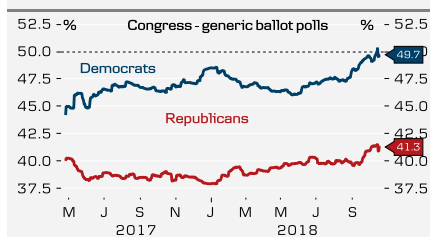
*US-China Trade Update: China unlikely to give in to Trump's demands despite new tariffs, 17 September*

#### Federal Reserve

*FI Research: Next step is 3.50% for 10Y US treasury yield, 15 October*

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

### Democrats are still leading significantly in polls



Source: FiveThirtyEight, Macrobond Financial

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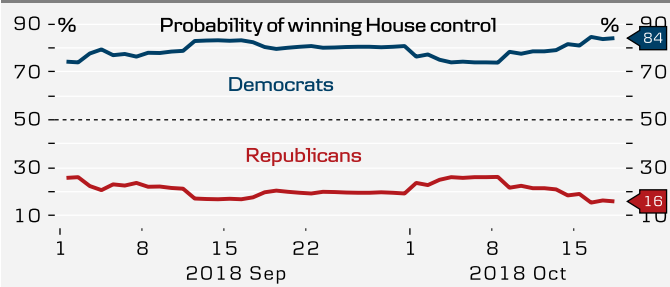
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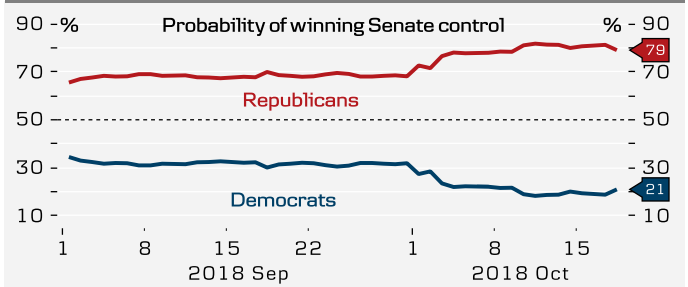
# Charts

Democrats are very likely to win the House...



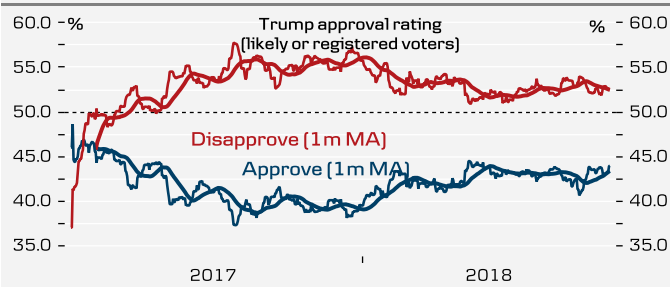
Source: FiveThirtyEight.com, Macrobond Financial

...but Republicans seem likely to retain Senate control



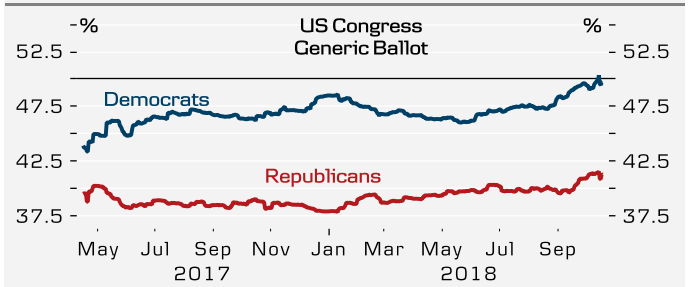
Source: FiveThirtyEight.com, Macrobond Financial

Trump's approval rating has increased a bit



Source: FiveThirtyEight.com, Macrobond Financial

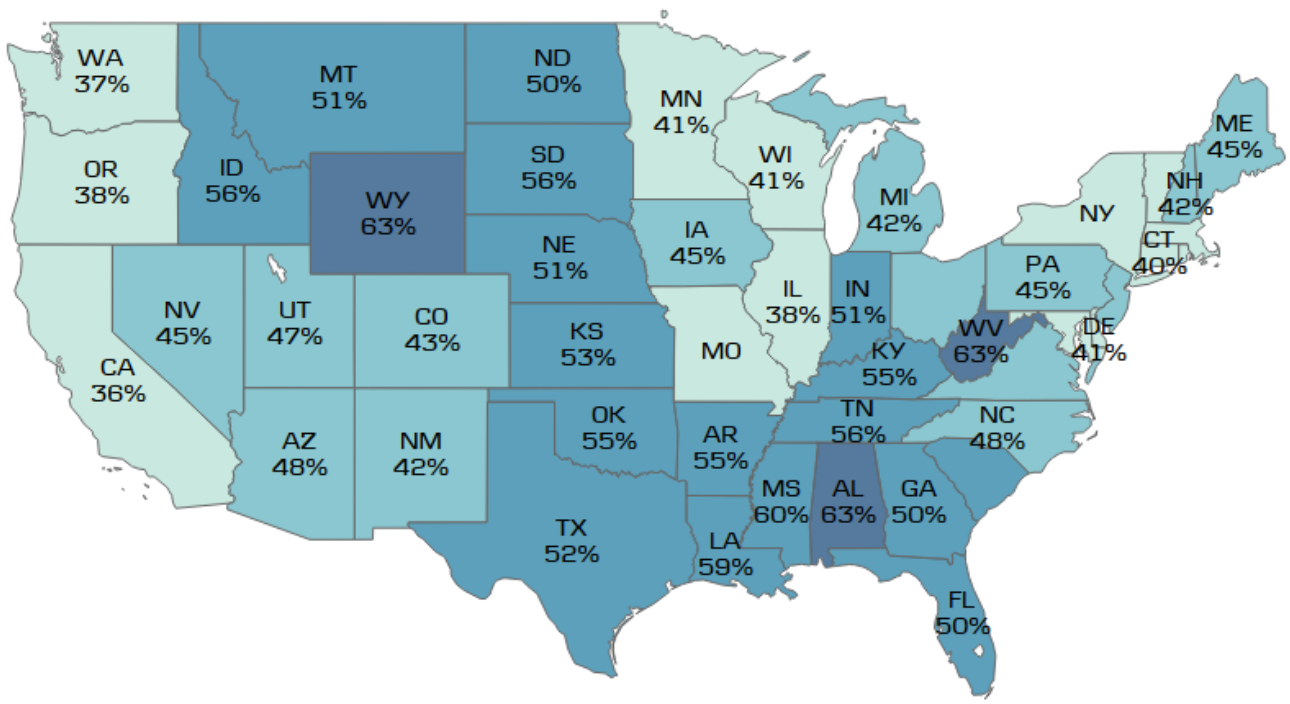
Democrats are still leading in polls



Source: FiveThirtyEight.com, Macrobond Financial

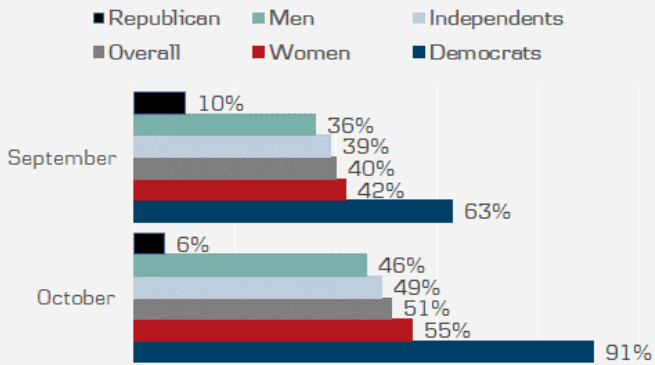
Trump more popular in rural/industrial states than in urban areas

Trump's approval rating by state, July 2018



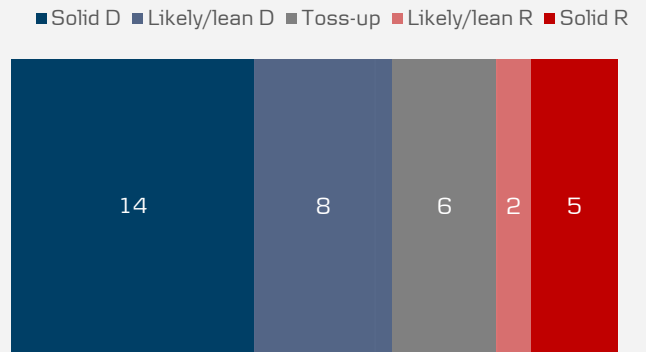
Source: momingconsult.com

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



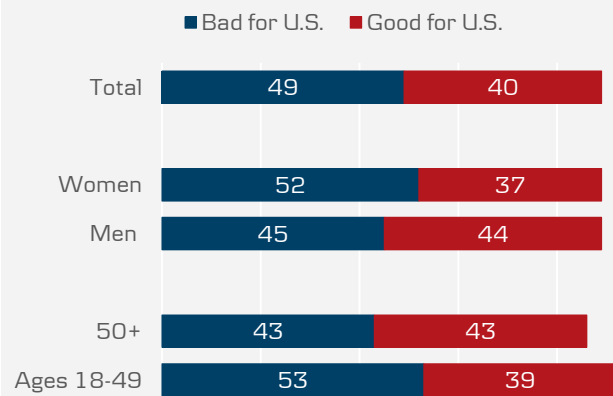
Source: cnn.com

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



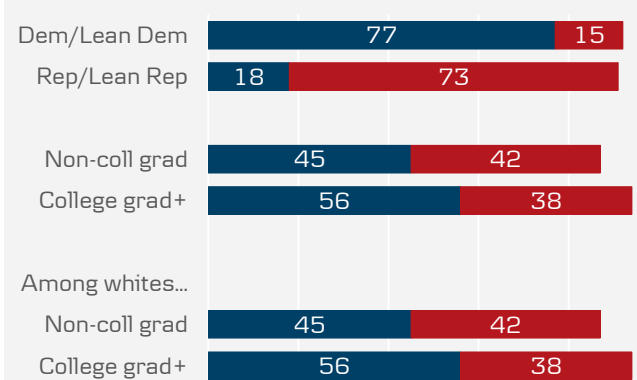
Source: cnn.com

**Support for Trump's trade policy (%)**



Source: Pew Research Center

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Source: Pew Research Center

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