

BM Political Highlights

Week Beginning 15/10/18

Top 3 Political Stories This Week

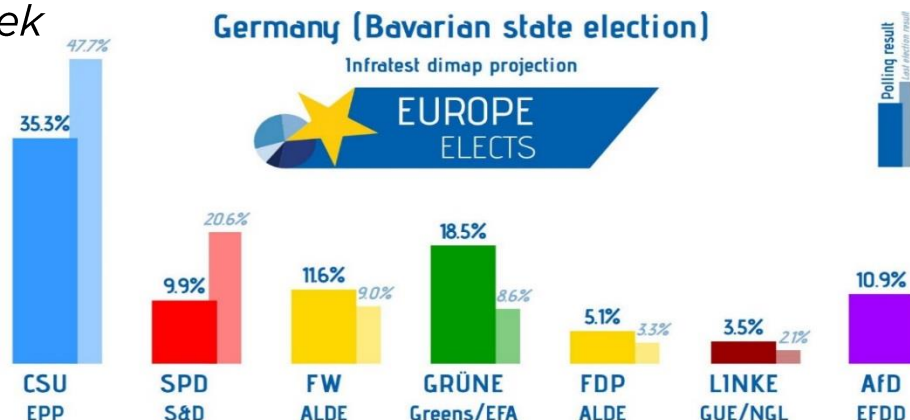
- Brexit talks stall as Brexit Sec [Raab sent to Brussels](#); EU leaders prepare [for deadlocked October summit talks](#)
- Pres [Trump threatens another round of Chinese tariffs](#) as they are a “*bigger problem*” than Russia; Pres Trump [attacks the Fed's independence](#) and [will not accept blame](#) if GOP lose in the midterms
- [Germany Bavaria State election](#): incumbent CSU fell from 47% to 38% with right-wing AfD winning +10% of the vote

BlondeMoney View

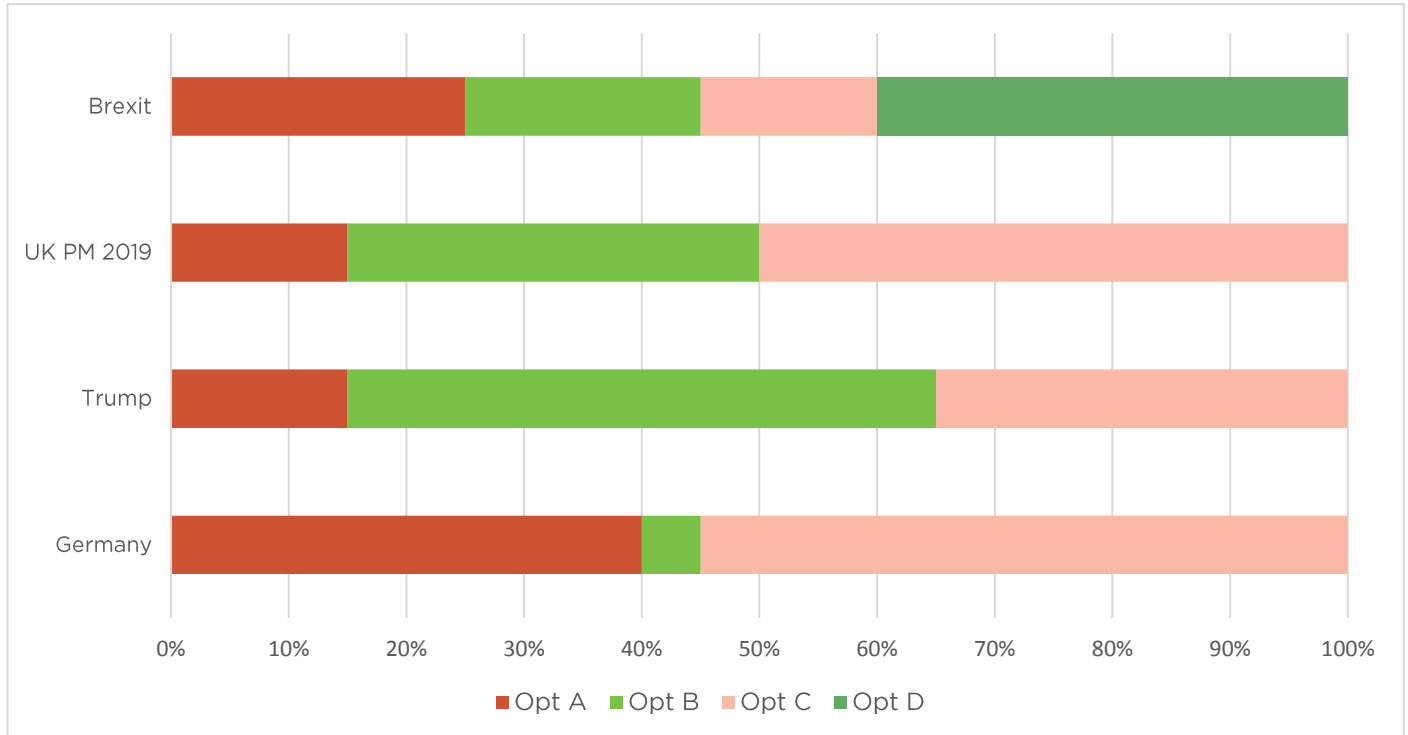
- As UK PM May heads off to the October EU Summit, the long touted ‘crucial date’ for any Brexit deal, it looks unlikely that any progress will be made. EU Tusk said there was “*no grounds for optimism*” on a breakthrough with Downing St briefing ministers not to be “*downhearted*” if there was no progress. For the first time, Theresa has a cabinet who are united; a [meeting of pro-Brexit ministers](#) including Brexit Sec Raab, Home Sec Javid and Foreign Sec Hunt resulted in them choosing to back the PM, despite rumours [they would do otherwise](#). The UK’s mutual distaste for the Irish Backstop and the EU’s insistence upon it remains the main block in talks. We are still where we were in December 2017, and that in the event of a No Deal, N Ireland remains in the Customs Union and Single Market – creating a Customs Border in the Irish Sea. This is [unacceptable to the UK](#) and [the DUP](#). Where do we go from here? The EU has demanded that the UK “*get creative*” to solve the deal. EU Barnier has also suggested [extending the transition period](#) to give the UK more time. This is [backed by Intl Trade Min Fox](#) – and would be a way of kicking the Irish problem down the road. For the markets, it is important to remember all outcomes lead to Parliament regardless of the European level deal. The Govt needs a deal which will be palatable to all factions, and the current Chequers’ Agreement is not that (the govt Chief Whip said the [deal does not have the votes](#)). PM May needs to come up with something that will.
- Pres Trump continued his one-man GOP promotion this week. He remains assured of his star power: “*I think I'm helping people... I don't believe anybody's ever had this kind of an impact*”. However, it was caveated with: I will not accept responsibility should the Republicans lose. While many see [DJT's denial to accuse S Arabia](#) over the disappearance of journalist Khashoggi as a negative into election day, we expect this have to little-to-no impact. The Trump voter base will see the President’s move of sending [Sec of State Pompeo to Riyadh](#) and then to Istanbul as ‘acting Presidential’ and in the US’ national interest given the Saudi oil problem. Despite the Mueller probe being [pressured to announce their conclusion](#), Pres Trump thinks “*my biggest threat is the Fed... [they are] raising rates too fast, and it's too independent*”. Donald the candidate made an election promise to better people’s lives through his experience as a ‘successful businessman’. While he has been in office, the market has continued to grow, and he has delivered on tax-cuts. Should the market fall, voters would affiliate a market downturn with his presidency (Obama never shook the image). DJT’s actions, while spooky for the markets, are his insurance policy to protect himself from disillusioned voters should the economy tank. We expect Trump’s rhetoric to continue up to election day with plenty more ‘easy wins’ along the way.
- Much like midterms in the US, Germany’s State elections are a bellwether for national political sentiment. It was bad news for Chlr Merkel and her Bavarian sister party the CSU. The centre-right suffered their worst election performance since 1950, dropping from [47.7% of the vote to 37.2%](#). Their Federal allies, the SPD, suffered worse dropping from 20.6% to below 10%. Far-right populist party AfD benefitted although the [Green party also gained 20+ seats](#). This major shift shows how the domestic issue of migration has still not been addressed the ruling Conservative bloc. CSU leader [Seehofer's decision earlier in the year](#) to force through migration reform was too little too late, and only serious reform – like that seen in Italy and Austria – will be enough to stem the slide. Merkel now has a precious balancing act to perform: her political coalition hanging by threads after SPD politicians said [there was “no benefit”](#) to the pact, all major parties languishing in political doldrums and an electorate demanding change. However, Merkel benefits from the timing of other geopolitical events as Brexit will dominate the EU agenda until the new year. Mutti has some time to catch her breath.

Chart of the Week

Source: [EuropeElects](#)



BlondeMoney Probabilities:



n.b. these are subjective estimates made by BlondeMoney

	OPTION A	OPTION B	OPTION C	OPTION D
BREXIT	No Brexit	Leave March 2019	Leave after March 2019	Disorderly Brexit
	0%	-5%	+5%	0%
UK PM JAN 2019	Jeremy Corbyn	Theresa May	Other	-
	0%	0%	0%	
TRUMP	Trump leaves before end of term (resigns, removed, Impeached etc)	Trump wins a second term	Trump leaves after one term	-
	+10%	-10%	0%	
GERMANY	Merkel leaves before end of term (resigns or removed)	Merkel stays, AfD national support falls	Merkel stays, AfD national support increases	-
	+10%	0%	-10%	

Change in percentage points from last week's edition

