

Beyond Trump

What else to look out for as US elections loom?

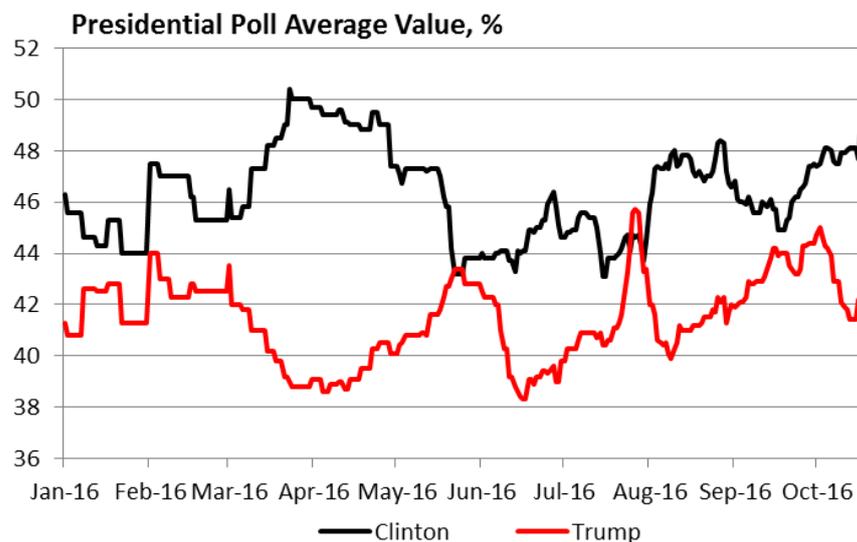
Oct 20, 2016

- The man probably wouldn't like it much, but global markets appear to be increasingly dismissing Donald Trump's chances at winning the US presidential contest against Hillary Clinton.
- Here, we move on to discuss what else is involved in the crucial November 8th election, including how a President Clinton might be more beneficial for global trade if the Republicans retain control of at least the House.
- This report takes a 'novel' approach of a hypothetical conversation with Mr. Q – a fictional character who's not afraid to ask real questions regarding the convoluted ways in which Americans choose their political leaders.

Tell me, is Hillary going to win?

Judging from various opinion polls, it does look like Hillary Clinton is on course to beat Donald Trump in the November 8th elections and be sworn in as the first female president of the United States on January 20th, 2017.

Going by the average of poll numbers compiled by RealClearPolitics, Clinton's support level has widened to more than 7 percentage points over that for Trump. Meanwhile, Nate Silver, a statistician who correctly predicted the 2012 US presidential election outcomes in all 50 states, reckons that the probability of a Clinton win has inched up to around 88%.



Source: RealClearPolitics.

So, your answer is, yes, Hillary is winning for sure?

No, not quite. To begin with, we still have almost three weeks to go before actual election. If "one week is a long time in politics", as Harold Wilson, UK's PM in the 1960s, once remarked, then we are potentially staring into what can still be an eternity where things can change, and quickly at that.

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While Trump's campaign has had an astounding galore of missteps in recent weeks, contributing to the wide chasm between the poll numbers for the two candidates, things might yet turn, without warning. Thus far, issues affecting Clinton's chances, such as her careless treatment of emails when she was the Secretary of State or her initial support for TPP trade deal, do not appear to deal long-lasting damages. Still, her Achilles' heels seem to be concerns about her health. Tellingly, the last notable dip in her poll numbers was around mid-September, right after she reportedly caught pneumonia.

Apart from factors affecting opinion polls from now until election day, there is also the much trickier issue of if we should pay this much heed to the poll numbers to begin with. Just this year alone, global markets can look back to how diametrically wrong opinion polls – which hailed that 'Bremain' would prevail over 'Brexit' – proved to be in June. A similar statistical snafu be seen more recently in a referendum on peace deal with FARC rebels in Colombia.

Wait a second. What does US election have to do with these?

On the surface, nothing, but you don't spend time hearing me out for superficial stuff, I hope. If we think more deeply about this, common to both forehead-smacking errors is that, perhaps, when asked how they would vote, a good proportion of the Brits and Colombians alike was simply not telling the truth. This may be partly due to the fear of being seen as irrational (in Brexit's case) or peace-hating (in Colombia referendum's case).

Now, if you have seen how low the mainstream perception of Trump is apparently heading, but you happen to still be itching to vote for him, would you readily admit it to the pollsters?

That's rhetorical, I assume.

Yes. Anyway, long story short, it does look like Hillary is on course to win the presidency, but I cannot help but feel uneasy about the market seemingly not even countenancing the alternative much. Given what we discussed earlier, there is just no absolute certainty until the last actual vote is counted.

And, when would that be?

The final vote count will typically only come out a few days after November 8th. However, by late evening of the voting day, which corresponds to Wednesday, November 9th morning in Asian hours, we are going to see a roster of results from exit polls and quick counts done by media networks across the country.

These organizations would typically 'call' on who the winner of each state is, using sampling techniques. Such exercise is usually fairly accurate in predicting the ultimate winner, but it can be problematic when the race is close and margin is thin. That is precisely why on that very day, you might well hear a lot of the term "Too close to call."

By the way, Mr. Q, I am not sure how familiar you are with the election process. Just wondering if it's worth having a quick run-through. Have you heard of the electoral college system before, for instance?

The...what?

Uhm, okay. The winner of the US presidential race is not determined by popular vote but by electoral college counts. Rather than tallying up all the millions of votes cast by Americans that day and see who wins the outright majority of the valid ballots nationwide, US has this slightly quirky system of apportioning votes by states according to the electoral college roster.

Speak English, would you?

Okay. Let's start with this. What we know of as the United States of America is really that, an amalgamation of 50 states plus the federal capital city area called the District of Columbia, a.k.a. Washington, D.C.

D.C., I like D.C. It has free museums!

Well, most museums there are indeed free. Come springtime, the cherry blossoms are pretty nice too. If you live there, though, you don't get to vote for congressmen, even if your town is swamped with their sort.

Anyway, let's get back to what we were saying. Each of these states has a pre-set number of electoral college votes, with a total nationwide aggregate of 538 electors. Typically, states with more residents get more electoral college seats, with California having the meatiest of them all at 55 electors. So if, say, Hillary wins the majority of total votes cast in California, then she would have bagged all of those 55 electors. Nevada and Maine deviate slightly from this majority-wins-all rule, by also having a district-level overlay, but never mind them.

That sounds unnecessarily confusing!

I'll have to agree. But just know that, overall, the magic number is 270, i.e. just more than half of 538. Whoever wins enough state-level majorities to clock at least 270 electoral college votes would thus win the nationwide presidential race.

Easy enough. Just now you mentioned something about congressmen. Are they running for election too?

Yes, they are. I was just going to move on to that topic. How convenient!

Congress is an umbrella term for the US legislature, in charge of making laws, akin to parliaments in other countries. This body comprises of two chambers: The House of Representatives and the Senate.

The House consists of 435 voting members, and 6 non-voting ones called delegates (including a token one for D.C. area). Unlike the president, who stays in power for 4 years, the members of the House, usually referred to as congresswomen and congressmen, have 2-year terms in office. Meanwhile, the Senate consists of 100 members, who enjoy 6-year terms. Thus, altogether, all of the 435 House seats and one-third of the 100 Senate seats are up for election every two years, including this year.

So, who's going to win control of the Congress? Does it matter?

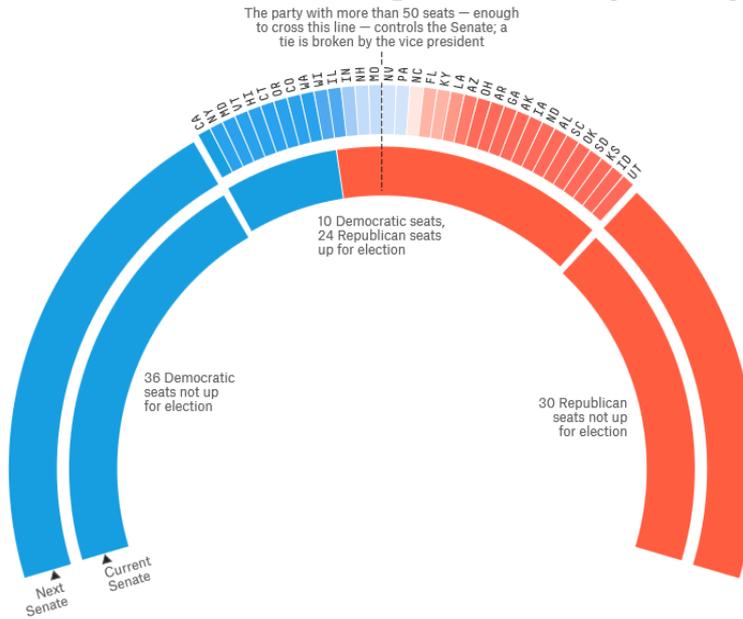
Yes, it matters. Actually, it matters a great deal. But, before I dwell on why that's the case, let's talk about who might win what first.

Right now, pre-election, the Republicans control both chambers of the Congress. But there is a significant likelihood that they might lose control of the Senate to the Democrats.

First, the math works against them. Recall that I said that only one-third of the Senate seats is up for election this year. To be precise, 34 seats are up for grabs. Now, among the 66 seats that are not contested, a minority of 30 seats are held by Republicans, leaving Democrats with a 6-vote advantage already.

Among the contested 34 seats, polls suggest Democrats will be getting a good chunk of currently Republican-held ones. And, for the Democrats, the beauty of it all is that they only need to win 14 of these contests, to wrest control of the Senate, if Hillary wins the race and her running mate Tim Kaine gets to be the next Vice President. This is because at a 50-50 tie, the US system is such that the seating VP holds the power to cast a vote in the event of a deadlock.

US Senate: Current make-up and how it might change



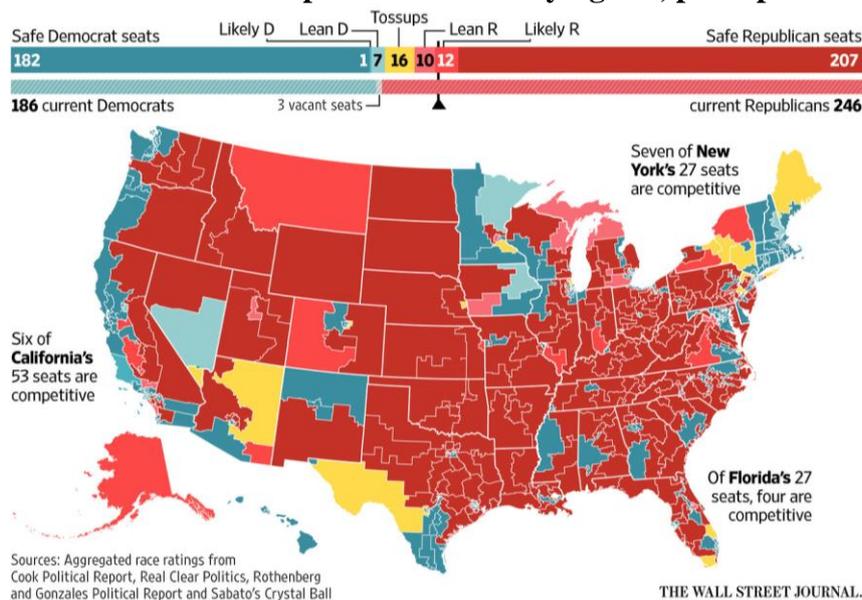
Source: FiveThirtyEight.com

Okay, a clear advantage for the Dems in the Senate. How about the House?

Not so clear-cut there, and most political analysts still do expect the Republicans to hold on to their majority in the House. Again, congressional math comes in, but in favour of the Republicans in this case.

First of all, the GOP now enjoys a 60-seat advantage over the Democrats in the current House. While all seats are up for grabs, incumbency helps. Going by a Wall Street Journal analysis of the poll numbers, there are 207 seats that are considered 'safe' for them, i.e. highly likely to remain Republican. If that turns out to be true, then they would only need to win 11 more seats to retain its majority control of the House.

US House of Representatives: Staying red, perhaps



Source: Wall Street Journal.

But, wait a second, Wellian. Didn't you tell me to take poll numbers with a pinch of salt?

Yes, I did. And, if we have learned anything from this election cycle is that things can turn out rather unpredictably. Remember this guy called Jeb Bush, who was supposed to be shoo-in candidate for the Republican presidential ticket?

(Mr. Q shrugs his shoulders woodenly)

Apart from misgivings about the efficacy of polls, there is also the Trump Effect to consider. The logic is that, if Trump is indeed losing support for his presidential bid, he might also drag the whole Republican party down with him, hurting its chances of retaining the House.

In particular, his infamous video grabbed so much attention that it left the Republican leadership in a bind. Those Republicans running for the House seats who came out and denounced Trump risk blowback from hard-core Republican supporters, who see it as an act of betrayal. On the other hand, those that chose to still side with him or even just trying to hide away by saying nothing, risk losing support from those swing voters in the middle who had not made up their minds.

Again, the entire situation is more fluid than usual, making it harder to pin anything down. We simply do not know how much damage Trump is causing the Republican party. But if we do have to have a baseline, it looks like a Clinton presidency and a split in Congress where the Democrats recapture an effective Senate majority and with the Republicans still in control of the House.

And, that's good or bad? Or you are going to tell me it depends again.

Good foresight there, but it should be largely good for market sentiment if the Republicans carry the House with just a slim margin, or if the Republicans who are elected are those more in the middle rather than extreme right of the ideological spectrum.

Say again?

Okay. Let me try to clarify. Let's say one other scenario take place: the Democrats make a clean sweep of all three areas: White House and the two Congressional chambers. Outside of a Trump win, I actually think that is going to be next worst scenario. This is from the perspective of the global economy. Controlling everything would of course help her push through everything from annual budgets, to key personnel nominations including for Supreme Court justice and the head of Federal Reserve when Janet Yellen's current tenure ends in early 2018. However, given the still-heavy dependence on US market for Asian exports, trade channel remains the most important.

Thus, the key factor here is US trade policy and how open it is to trade deals in general. While Trump himself has been adamantly vocal about being anti-trade and anti-globalization, the mainstream Republican party is usually pro-business and more keen on trade deals. In fact, when President Obama wanted to have fast-track power to negotiate the terms of the TPP, or Trans Pacific Partnership – although, it should really stand for Totally Precarious Partnership now – he depended a lot more on support from across the aisle, i.e. the Republicans, rather than from his own party.

But, isn't Hillary opposed to TPP anyway?

Yes. Indeed, in the third and last debate today, she said "I'll be against it after the election, I'll be against it when I'm president." But, here's one big surprise for you, Mr. Q: Politicians tend to dial down the more extreme things they say in campaign, and to adopt more pragmatic stance once they are in office.

Moreover, Clinton's opposition towards the TPP has in many ways been forced upon her, by her tough primary race against free-college-but-hell-no-free-trade Bernie Sanders and now by hell-to-everything Trump. If she does get elected, however, I think she would utilize opportunities to inch back towards supporting the TPP again. She would perhaps do so after adding an overlay of protection for specific

groups of workers whose jobs may be threatened. This would be a playbook adopted from her husband, Bill Clinton, who inherited the NAFTA deal from his predecessor George Bush, Sr. but only sent it for ratification by the Senate after slapping on environmental and labor protection side agreements.

For her to be able to move back to more centrist grounds, however, she needs to find enough Republicans on the other side who she can work with on this issue, just because the alternative of finding enough Democrats bold enough to support the about-turn is tougher still. Her chances of doing so would be slim if Democrats end up winning both the House and the Senate. If nothing else, she cannot claim that 'giving grounds' on TPP is part and parcel of give-and-take political deals she has to strike with the other side.

That's a lot to take in. What's with your TPP obsession?

I wouldn't call it an obsession, but it is an area to keep an eye on. TPP itself would boost global trade somewhat, but the ultimate crucial effect is really more of a symbolic one.

First of all, TPP carries with it a heavy geopolitical weight, because it is seen as a way to form an American bulwark against China's influence in the Pacific region. A lot of political leaders have stuck their necks out to push through the deal in their own countries. For US to fail them on TPP now risks not only disappointing these leaders' ego but also shaking the confidence that Asian countries place in the other American policies towards the region, especially on the geopolitical security front.

Going back to the economic front, free trade is already under threat now. Indeed, in many ways Trump is just capitalizing on a populist and nationalistic trends, even if he could boost them much further if he wins, with all the talks about not only making sure that TPP is stillborn, but dismantling global trade deals that are already alive and well including WTO and NAFTA. If, despite the odds, TPP does become reality, then it would be a much-needed pushback against this anti-trade tide.

Your free-market thinking is at it again.

Perhaps. But, more than that, Hillary's ultimate stance on TPP can also be seen as a barometer of just how "Obama" she is, given that it is one of the outgoing president's policy babies. That is important for a market that more or less assumes that Hillary will be a 'continuity candidate' and major economic policies coming out under her presidency will retain the same flavour as Obama's.

Some heavy stuff there. Before I go, what should I take away from all of these?

It has been a messy and tiring election year, but if the current momentum holds, Hillary should win. Market will be encouraged by that, but it is pretty much the baseline for everyone by now. For Asia, I care foremost about trade openness, and for that, TPP is a key signalling point on whether she can turn around on her sheepish stance thus far. Even if the Democrats are likely to retake the Senate majority, a Republican-controlled House of Representatives would help her to counterbalance the "Bernie Sanders" camp in her own party.

Thanks for your time. This makes me want to watch House of Cards again.

Same here.

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