US Politics Watch:
Impeachment deepens the divide

Oxford Analytica

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Jan (date uncertain)
Impeachment trial likely held in the Senate

22 Feb
Nevada Democrat caucus

3 Mar
Super Tuesday
15 Democrat primaries and 13 Republican primaries

13-16 Jul
Democrat National Convention (Milwaukee)

29 Sep
1st Presidential Debate (Notre Dame, Indiana)

7 Oct
Vice presidential debate (Salt Lake City, Utah)

3 Nov
Election Day

| Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |

20 Jan 2021
Inauguration Day

3 Feb
Iowa caucuses

11 Feb
New Hampshire primary

29 Feb
South Caroline Democrat primary

Mar-Jun
primaries continue by state

24-27 Aug
Republican National Convention (Charlotte)

15 Oct
2nd Presidential debate (Ann Arbor, Michigan)

22 Oct
3rd Presidential debate (Nashville Tennessee)

Mid Dec
Electoral College formally votes for President and vice president

Source: ING

The likelihood of President Trump being removed from office remains small

President Trump has become only the third President to be impeached. But despite the solid support of Democrats in the House of Representatives, the likelihood of President Trump being removed from office remains small, given the strong Republican majority in the Senate. Nevertheless, impeachment has major implications for the electoral landscape, both for the Democratic party primaries as well as the 2020 general election.

Since early October, public opinion polls have consistently shown greater support for impeaching President Trump than opposition to it, though that gap has narrowed slightly. Critically however, the Republican party shows no sign of abandoning the President. No Republican congressman has yet indicated his or her support for the articles of impeachment. Under the impeachment process, the House decides whether a president should stand trial in the Senate; the Senate tries the President, and all 100 Senators vote on whether to convict. Polarized partisanship in the present Congress means that President Trump, having been impeached by the House, will be acquitted by the Senate, where the entire Democratic caucus, every Independent, and 20 Republican Senators would need to vote against the president for him to be convicted.

But if public opinion started to turn on Trump then we could see a rapid shift towards conviction

If public opinion started to turn on Trump – and, crucially, if Republican senators decided that it was more costly to their own political standing to keep him in office than to replace him – then we could see a rapid shift towards conviction. If certain former Republican senators are correct in claiming that the votes for conviction would be there if the voting were secret, it may be inferred that Trump's support among Republican senators is wide but shallow and instrumental: their support is based on political calculations that they would risk primary challenges or general election defeat through depressed turnout if they voted to convict.

Whether or not the Senate chooses to convict the President will affect the four election scenarios outlined in our initial report published in April 2019 'Politics watch: 4 scenarios for America's next presidential election' and in the September update 'US politics: Trump weathers the storms'. Impeachment is now set to be a key driver of the 2020 election.

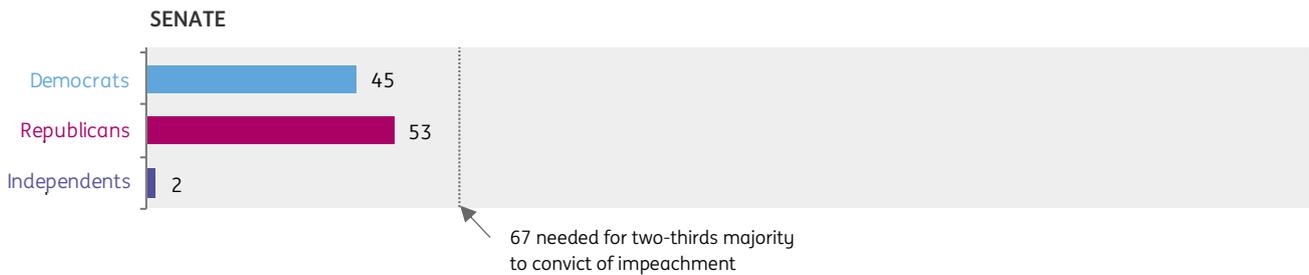**Public attitudes to impeachment, as of 16 December 2019 (% of respondents)**

Starting impeachment inquiry

| 41.9 Against | In favour 52.3 |

impeaching/Impeaching and removing

| 46.7 Against | In favour 46.9 |

Source: projects.fivethirtyeight.com/impeachment-polls

Public attitudes to impeachment, as of 16 December 2019 (% of respondents)

Democrats	83.8
Independents	43.6
Republicans	9.5
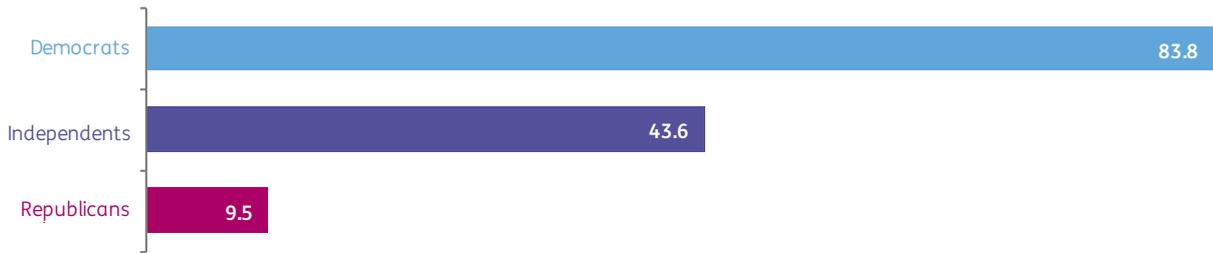
Source: projects.fivethirtyeight.com/impeachment-polls

Makeup of the United States Congress and votes needed for conviction

SENATE

Democrats	45
Republicans	53
Independents	2

67 needed for two-thirds majority
to convict of impeachment

Source: The United States Congress, www.congress.gov (3 November 2019)

The impeachment proceedings are likely to influence the Democratic party primary contests that begin with the Iowa Caucus on 3 February, and also the wider general election, where President Trump will seek a second mandate from the US electorate.
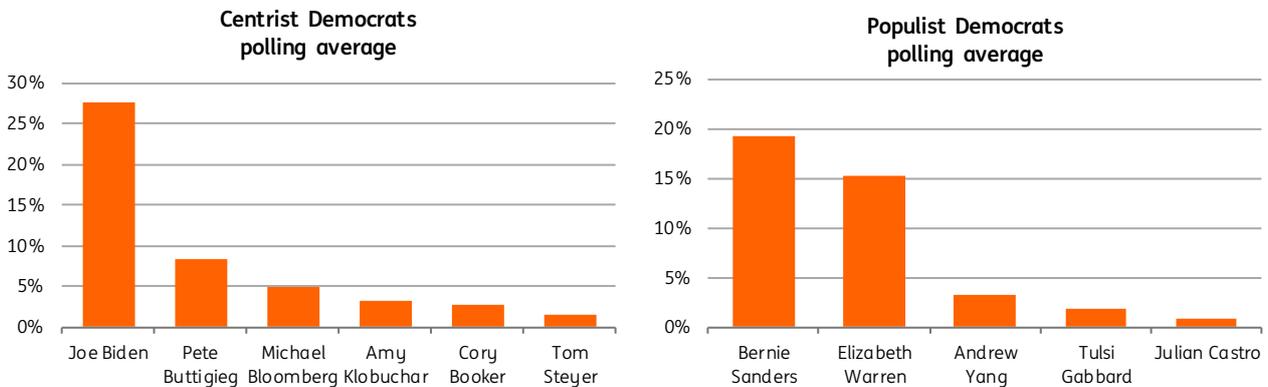
Biden maintains a fragile lead in the Democratic race

Michael Bloomberg's entry into the race will leave the ultimate outcome in flux

With the end of the year approaching, former Vice President Joe Biden remains the front runner for the Democratic nomination. However, four candidates are jockeying for the lead in the early voting states of Iowa and New Hampshire, solidifying themselves as the top tier candidates. Moreover, Michael Bloomberg's entry into the race will eat away at advertising time in Super Tuesday states, leaving the ultimate outcome in flux.

Democrats polling above 1%

Categorization is based on November estimates of likely voter appeal, although many candidates appeal to both camps.

Centrist Democrats polling average

Candidate	%
Joe Biden	~28%
Pete Buttigieg	~8%
Michael Bloomberg	~5%
Amy Klobuchar	~3%
Cory Booker	~2.5%
Tom Steyer	~1.5%

Populist Democrats polling average

Candidate	%
Bernie Sanders	~19%
Elizabeth Warren	~15%
Andrew Yang	~3%
Tulsi Gabbard	~2%
Julian Castro	~0.5%

Source: RealClearPolitics

While the positive momentum for Elizabeth Warren and Pete Buttigieg has livened up the Democratic primary, structurally little changed. The primacy of electability is evident among the majority of the Democratic party electorate as the most important factor in the minds of voters.

The fight between centrist and populist Democrats has become more complex. Senator Bernie Sanders and Senator Warren are both competing for Populist support (although their politics differ sharply); Buttigieg and Biden are competing for Centrist votes; and Warren and Buttigieg are competing for college-educated white voters, which overlap in both groups. Donors appear to doubt that Biden can win the nomination which is why other centrist candidates are still entering the race, despite the long odds of success joining at this late hour without a campaign organization in place. No candidate has won a presidential election in decades having entered a race so close to the Iowa caucuses.

Former New York City Mayor Michael Bloomberg has entered the race, spending 30 million dollars in one week of advertising – more than all other candidates raised in the entirety of the third quarter. He won his mayoralty as a Republican and then an Independent, and has apologized for one of his key policies as mayor. After entering the race, he polled at 8%, but the numbers dropped afterwards; the Monmouth Poll (rated at A+) has him nationally at 5%.

Bloomberg's chances appear to be slim. But this could change if Biden continues to perform poorly in debates

At the moment, Bloomberg's chances appear to be slim. But this could change if, for example, Biden continues to perform poorly in debates, and Buttigieg does not do well in the South. However, exempting oneself from the first four competitions speaks to Bloomberg's organizational weakness as well as to the probability that by the time he gets his campaign underway, he will face candidates with higher polling averages and momentum that will make them more difficult to stop.

But Bloomberg is not popular with African-Americans and Latinos, about 40% of the Democratic primary electorate

Bloomberg is not popular with African-Americans and Latinos, in part due to his Mayoral policy of 'stop-and-frisk' which disproportionally targeted these ethnicities. They represent around 40% of the probable Democratic primary electorate and are overrepresented in Southern and Southwestern states that will vote on Super Tuesday (3 March). Since Bloomberg is skipping the first four states, this would be his first test before the voters. Furthermore, it may not be an easy task to persuade working-class white voters in Iowa, Minnesota, Wisconsin, Ohio and Pennsylvania that he is the candidate who understands their concerns.

What the impeachment means for Biden

The impeachment process was spurred by a whistleblower's complaint about President Trump's dealings with Ukraine. In a July phone call, Trump asked his Ukrainian counterpart, Volodymyr Zelensky, to investigate his political rival Joe Biden and his son, Hunter, who previously worked for a Ukrainian energy firm. Emails show that Trump then sought to withhold aid from Ukraine. However, Republicans contend that the two issues were unrelated and there was no 'quid pro quo'. They continue to allege wrongdoing by Biden, and Senator Lindsey Graham has promised an investigation.

This poses a major unknown for the Biden campaign. Although numerous impeachment witnesses and the Western foreign policy community say the former Vice President did nothing wrong, an investigation could still cause political problems for him. A precedent is the investigation into the 2012 Benghazi attack, which put Hillary Clinton's tenure as Secretary of State on trial. In 2015, the current Republican leader in the House of Representatives admitted this inquiry was politically motivated. Similarly, the FBI investigation into Clinton's email practices revealed no major wrongdoing but were still politically damaging.

Based on the small sample size of past precedents, and given that allegations about Biden are circulating mostly in media not followed by Democratic primary voters, it is unlikely to cause significant damage to him. One indicator that there is an effect will be if primary voters lower their opinion of his electability, the most important quality a candidate can have in this cycle. But we may not see evidence of such a shift for weeks.

Impact of impeachment on the 2020 election scenarios

The impeachment process now moves to the Senate, which will have to decide whether or not to convict the President and remove him from office. The outcome will change the dynamics for the four scenarios of the 2020 election we have outlined in our foundation report from April 2019 'US politics watch: Four scenarios for 2020'

These scenarios highlight the high stakes involved in the 2020 elections. There is plenty of time for surprises along the way and we will continue to watch developments closely and update our views accordingly.

Impacts of the impeachment process on different 2020 scenarios

		OUTCOME	
		Not convicted	Convicted and removed
SCENARIO 1	**A second term for President Trump**	● Neutral	● Strong negative
SCENARIO 2	**Another Republican wins office**	● Strong negative *Effectively rules out the chances of standing*	● Strong positive *Strong boost*
SCENARIO 3	**A Centrist Democrat**	● Positive	● Negative
SCENARIO 4	**A Populist Democrat**	● Negative	● Positive

Impact of each outcome: ● Strong positive   ● Positive   ● Neutral   ● Negative   ● Strong negative

Source: Oxford Analytica

Scenario 1: A second term for President Trump

Not convicted

Given the current makeup of the House of Representatives, this is currently the default outcome.

A pure partisan split in the House and Senate would enable President Trump to argue that the charges against him were merely an attempt to overturn the 2016 election result. The campaign would play to Trump's combative style, with his behavior remaining a key issue.

A House inquiry of two months or so and a Senate trial of six weeks might direct considerable public attention to facts that hurt Trump's standing with voters.

Convicted and removed from office

Under these circumstances, the re-election of President Trump is the least likely, as he would have been forcibly removed from office with the assistance of his own party. Indeed, his removal would indicate that almost 40% of the Republican Senate caucus voted for his conviction, signaling that the Republican party had abandoned him. This would undoubtedly lead to him being excluded from the Republican party nomination for the 2020 election. However, unless convicted of a crime, which impeachment is not, he would not be barred from running for re-election as a third-party candidate -- a situation that cannot be ruled out depending on the manner of his removal from office.

Scenario 2: Another Republican wins office

Not convicted

If President Trump is not convicted, with votes falling along party lines, there will continue to be limited enthusiasm for a Republican challenger, particularly as there will be little to no support from the party apparatus. With the primary contests set to begin in a few months, this outcome would also kill off the potential for a non-Trump Republican to effectively seek the party's nomination.

Convicted and removed from office

In the event President Trump is removed from office, it is a near certainty that another Republican candidate would contest the 2020 general election as the party's nominee for President, significantly increasing the potential for this scenario to take place. Vice President Mike Pence would be the most likely individual to become the nominee under these circumstances, although he has been implicated in the Ukraine scandal and might, depending upon the extent of voters' perceptions of his involvement, be at risk of being replaced by a nominee with no connections to the matter. While this would be challenging for the Republican party, time still exists for such a candidate to move the discussion away from President Trump and potentially win in November 2020.

Scenario 3: A Centrist Democrat

Not convicted

This outcome is favorable for Centrist Democrats because the Democratic primary contests will be dominated by the need to replace President Trump with the most electable candidate. As the Centrist Democratic candidates have positioned themselves along those lines, this result strengthens them significantly. This narrative, which is also likely to have an impact on independent voters, would remain the key point of the 2020 general election, minimizing the importance of policy positions and any policy successes from the White House.

Convicted and removed from office

Conversely, this outcome is the most damaging to a centrist Democrat. With President Trump removed from office, centrist Democrats would be forced to win a primary campaign without their main political foil, which would allow Populist Democratic candidates to define the primary agenda. Similarly, during a general election campaign this advantage would shift to the eventual Republican nominee, who would be free to discuss the policies of the Trump Presidency, without the personal baggage associated with it.

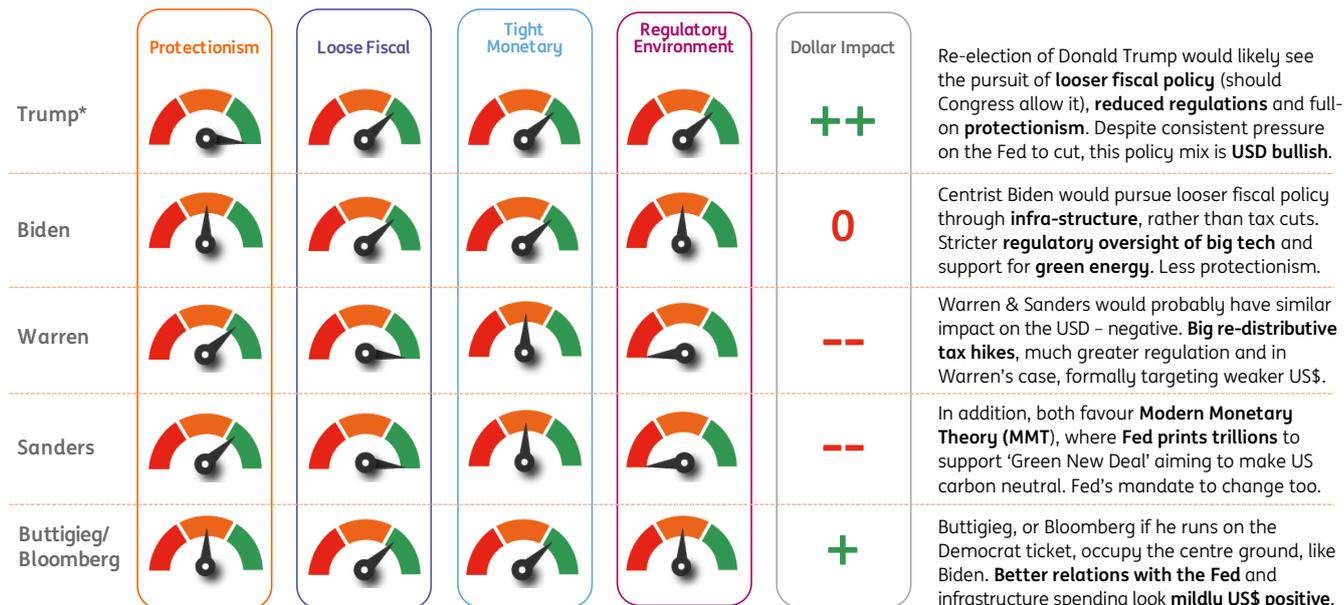## Scenario 4: A Populist Democrat

Not convicted

Failure to convict President Trump would have a slightly negative impact on the potential for a Populist Democrat to be elected. While strengthened by their early support for impeachment, a scenario under which President Trump remains in office will keep impeachment at the top of the primary campaign agenda, playing into the narrative that centrist Democratic candidates seek to present to the electorate. During the general election, populist candidates would be freer to pursue a campaign on issues, but such issues might not be the key driver of the election outcome in such a scenario.

Convicted and removed from office

This outcome favours the Populist Democratic candidates. By removing President Trump from the primary campaign and general election, Populist Candidates would be in a stronger position to campaign on central issues, such as Medicare for All, student debt forgiveness and a Green New Deal, and force the election to be about the domestic agenda, an area of strength, to the hindrance both of Centrist Democrats and the non-Trump Republican nominee.

Candidate policy preferences

	Protectionism	Loose Fiscal	Tight Monetary	Regulatory Environment	Dollar Impact
Trump*					++
Biden					0
Warren					--
Sanders					--
Buttigieg/ Bloomberg					+

*In the scenario of Republicans controlling Congress
Source: ING

Policy preferences and the USD

Re-election of Donald Trump would likely see the pursuit of **looser fiscal policy** (should Congress allow it), **reduced regulations** and full-on **protectionism**. Despite consistent pressure on the Fed to cut, this policy mix is **USD bullish**.

Centrist Biden would pursue looser fiscal policy through **infra-structure**, rather than tax cuts. Stricter **regulatory oversight of big tech** and support for **green energy**. Less protectionism.

Warren & Sanders would probably have similar impact on the USD – negative. **Big re-distributive tax hikes**, much greater regulation and in Warren's case, formally targeting weaker US$.

In addition, both favour **Modern Monetary Theory (MMT)**, where **Fed prints trillions** to support 'Green New Deal' aiming to make US carbon neutral. Fed's mandate to change too.

Buttigieg, or Bloomberg if he runs on the Democrat ticket, occupy the centre ground, like Biden. **Better relations with the Fed** and infrastructure spending look **mildly US$ positive**.

Economic policy preferences and the US dollar

When examining the presidential election and its implication for economic policy there are three key areas to focus on. Firstly, there is the stance of fiscal policy. Loose fiscal policy, either through lower taxes, more spending, or a combination of the two typically results in the Federal Reserve running tighter monetary policy. Historically this has been a positive backdrop for the US dollar.

Secondly, there is the regulatory framework. Tighter regulations may be interpreted as a hindrance to business activity and may lower growth even though, if properly implemented, it provides safeguards and can create incentives. The perception of slightly weaker growth may result in lower interest rates and be a mild dollar negative.

Then, thirdly, there is protectionism. The implementation of tariffs as a tool to extract trade concessions under Trump's Presidency has hurt business sentiment by creating uncertainty and raising costs. With China responding in kind, both economies have experienced headwinds. Amidst weak global growth the US economy has outperformed, and the dollar has stayed firm. If trade tensions were to persist then this could maintain a safe haven bid for the dollar. Should they ease then this could create an environment for better global growth and see investment flows start to move out of the US dollar.

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