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CURRENCIES & MORE OUR INSIGHT INTO THE WORLD'S LARGEST MARKET

Pound: In her keynote speech today in Florence, will PM Theresa May be able to convince the E.U.-27?
Euro: A victory by Chancellor Angela Merkel in this Sunday's federal election is a foregone conclusion
Kiwi: Contrary to the German elections, the outcome in New Zealand this Saturday is completely open

Pound: All eyes on May's Florence speech

Prime Minister Theresa May has chosen Florence as a venue to deliver her first major Brexit speech after the badly brought-up snap election last June. Ironically, she selected a city which once was the most important financial center in Europe – as London is today – only to decline into insignificance later on.

What's in that folder today?



Source: Matt Dunham / AP

May has the opportunity today to make steps towards removing roadblocks between the U.K. and the E.U. Progress in the Brexit negotiations thus far has been held back by the combination of the U.K.'s unwillingness to lay out its position on financial settlement and the E.U.-imposed phased structure of negotiation (divorce first, then a trade deal). According to sources close to May, she will say that Britain will continue to pay the E.U. until 2020 when the budget period runs out. Recent comments from key figures of May's government suggest that she is striving for a transition period in which the U.K. remains within

the Customs Union and Single Market in all but name. In this case, payments could be presented as "fees" to cover this period of "associate membership", while the U.K. would also be paying down its outstanding liabilities. Based on an average "exit bill" estimate of € 60 billion, payment around £ 10 billion a year could reduce the size of any final balloon payment. In the meeting with her Cabinet yesterday, she signaled publicly that she will use her address today to try to bypass E.U. Brexit negotiator Michel Barnier and appeal directly to the leaders of the 27 other E.U. Governments. Apparently, she is still hoping they will be willing to sanction trade talks soon.

Conclusion: In her keynote speech today in Florence, May will try to achieve some progress on the future relationship with the E.U. We doubt that she will be successful.

Euro: Angela Merkel will remain Chancellor

The German federal election this Sunday will probably be the most boring of all parliamentary elections this year. The weighted average of Germany's seven pollsters of voting intentions indicate clearly that Angela Merkel's CDU and its Bavarian sister party CSU will comfortably remain the largest block (see table below).

The latest polls ahead of the Federal Election

Institute	GMS	dimap	FGW	Emnid	INSA	Allensp.	Forsa	Ø
Date	07-Sep	14-Sep	15-Sep	16-Sep	18-Sep	19-Sep	19-Sep	
CDU/CSU	38.0%	37.0%	36.0%	36.0%	36.0%	36.5%	36.0%	36.5%
SPD	22.0%	20.0%	23.0%	22.0%	22.0%	22.0%	23.0%	22.0%
AfD	8.0%	12.0%	10.0%	11.0%	11.0%	10.0%	9.0%	10.1%
FDP	10.0%	9.5%	10.0%	9.0%	9.0%	11.0%	9.0%	9.6%
Die Linke	9.0%	9.0%	9.0%	10.0%	11.0%	9.0%	10.0%	9.6%
Greens	9.0%	7.5%	8.0%	8.0%	7.0%	8.0%	8.0%	7.9%
Others	4.0%	5.0%	4.0%	4.0%	4.0%	3.5%	5.0%	4.2%

Source: wahlrecht.de, Julius Bär

In the “Bundestag”, 299 seats are reserved for constituency MPs elected on a first-past-the-post basis. The remainder of the MPs come from party lists, allocated to closely approximate the distribution of the party vote in each of Germany’s 16 federal states after taking into account the directly-elected MPs. At least another 299 MPs gain their seats this way, although the number can be higher. For example, the outgoing Parliament has 631 seats. Another rule is that a party must win at least 5 percent of the national vote – or win 3 constituencies – to be included in the seat allocation process. This process results in a seat distribution that is very close to the proportions of the national popular vote won by the included parties. Consequently, there are only two possible new governments: Again a Grand Coalition of CDU/CSU and SPD with about 58 percent of the votes or a “Jamaica Coalition” named after the party colours of CDU/CSU (black), FDP (yellow) and the Greens. The tame debate between Merkel and SPD leader Martin Schulz is widely seen as a prelude to renewed cooperation.

Conclusion: Whether it is a Grand Coalition or a “Jamaica Coalition”, CDU/CSU will be in the lead and Angel Merkel remains Chancellor. Stability in the Euro-zone’s most important economy will be supportive for the Euro going forward.

QUICK NEWS HEADLINES (time in CEST)

The following four headlines might have an impact on currency markets today:

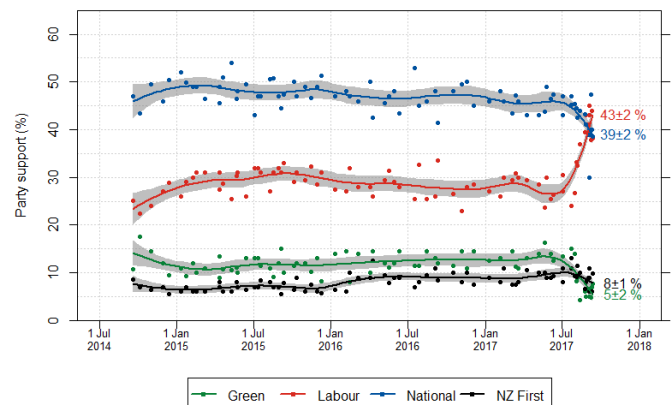
- Euro-zone: The Manufacturing PMI for September is expected at 57.2, the Services PMI at 54.8 (09:30).
- Poland: The unemployment rate for August is expected at 7.0% (10:00).
- Canada: CPI is expected to have increased 1½% in August y/y (14:30).
- U.S.: The Manufacturing PMI for September is expected at 53.0, the Services PMI at 55.7 (09:30).

Kiwi: Jacinda Ardern or Bill English?

New Zealanders go to the polls tomorrow to choose their next government. Much attention recently has been focused on the meteoric rise of Jacinda Ardern, the new Labour leader, who is attempting to unseat the incumbent National Party of Prime Minister Bill English. Since Ardern took the helm of Labour on 1 August, voter approval for her party increased substantially. In 5 out of the latest 9 opinion polls, Labour has led over the National Party and is leading as of yesterday by 43 to 39 percent with a margin error of plus/minus 2 percent (see chart below). Next to different views on education, environment and abortion, there are two issues that will likely impact FX markets’ perception of the Kiwi: Trade and taxes. Labour

would like to withdraw from TPP while National supports it and would continue trade negotiation with the Pacific Alliance and launch trade talks with the E.U. and Britain. Then, Labour intends to cancel plans for next year’s tax cuts and has proposed several new taxes. On average, economists estimate that with a Labour victory workers on average wage would pay about NZ\$ 1’000 a year more in taxes than under the National Party.

Labour support has picked up strongly



Source: Wikipedia

Conclusion: We think on Monday the Kiwi will decline if Labour wins and stay at current levels following a victory of the National Party.

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