ARGENTEX

2024
US Presidential Election

FX Analysis for

GBP/USD
EUR/USD

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Election outcome
and US Dollar impact

In one of the biggest global election years of all time, the "jewel in the crown" is finally here: the US Presidential election. Given the significance of the US on a global stage, the election outcome has various ramifications for the US Dollar.

In a year where the Dollar has oscillated from summer weakness to autumn strength, the election occurs at a time when the Dollar is rebounding due to higher odds of a Republican "Red Sweep", increasingly robust US economic data, and the potential for a more gradual rate cut process than previously thought.

While the election is an event risk, history shows us that over time, FX markets revert to being primarily driven by macro themes, rate policy, economic growth, and unforeseen global events.

The steady hand of Harris

Broadly speaking, a Harris win with a Democrat Congress would likely be the most benign outcome for the Dollar.

Democrat policies would largely continue, with an absence of the more volatile Trump policies, and markets would revert their focus to Fed monetary policy, US economic data, geopolitics, etc.

The volatility of Trump

Trump, who would become only the second president to serve a second non-consecutive term in office, embodies volatility in both his presidential style and policies, as well as his impact on the Dollar. Trump was very vocal on periods of dollar strength and weakness during his first term and is often critical of Fed policy.

Trump's high tariff, low tax approach, with an "America First" stance, is generally inflationary. Should Trump win, with associated Republican control of Congress, this would be seen as a driver of dollar strength, at least in the short to medium term.

US Dollar impact
Elections v. Events

When Harold Macmillan (UK PM 1957 to 1963) was asked 'what was the greatest challenge for a statesman?', his answer, was "Events dear boy, events", referring to how unforeseen events can significantly impact political agendas.

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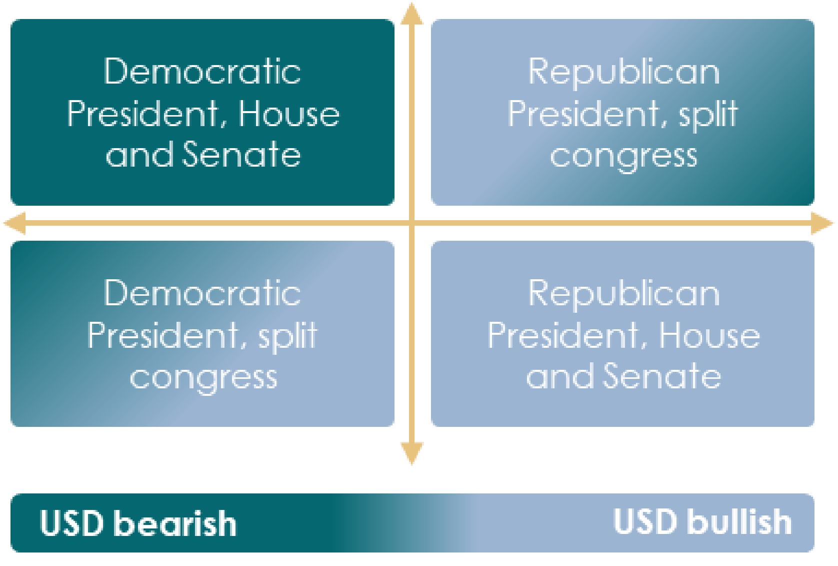
Major fundamental themes

Trump's recent interview on the Joe Rogan podcast illustrates this nicely; corporate tax income was growing and would have reduced the deficit…. then Covid hit. The point is that presidents can have a plan and an agenda, from which we can make assumptions on the likely impact on the dollar, but ultimately major fundamental themes can occur regardless of who's president

While the election is an event risk, history shows us that over time, FX markets revert to being primarily driven by macro themes, rate policy, economic growth, and unforeseen global events. For example, despite Biden's Presidency not being an overt driver of Dollar strength, events in 2022 (including Russia's invasion of Ukraine) drove significant Dollar strength that year. This would have happened regardless of who was president.

Dollar assumptions Presidential / Congress outcomes

A representation of widely held assumptions around the short-term dollar reaction to the various outcomes for the president and Congress.



The most 'dollar supportive' scenario

A Trump win and a "Red Sweep", the Republican party gaining control of both the House of Representatives and the Senate would allow the Republicans to implement their legislative agenda with fewer obstacles. As discussed, this agenda is generally dollar-supportive.

The most benign outcome

A Harris win / Democrat control of Congress would be seen as the most benign outcome and is currently seen as an unlikely outcome.

Although Republican policies support a stronger dollar, Trump has recently been very vocal about the negative impact (for US exporters) of a stronger dollar.

We should also note that the time it takes to know the outcome of congressional elections can vary. The outcome for the House of Representatives is still unclear. In 2020, for example, it took several days to finalise the outcome due to the high volume of 'mail-in' ballots. So, there can be a scenario where we know the Presidential outcome (e.g. Trump) but there may be a lag until we know the extent of Republican control of Congress and thus a potential delay to dollar reaction (i.e. how easy it is to pass legislation or not).

How did the last two US presidential elections affect the dollar?

The first three months marked:

A stronger dollar post-Trump's victory in 2016

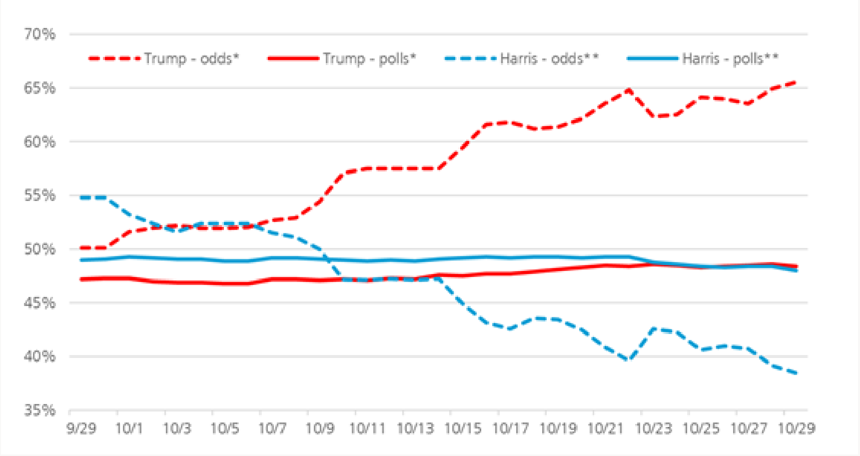
v.

A weaker USD after Bidens win in 2020

Source: Bloomberg as of 20 Sept 24

Empirical evidence confirms the short to medium-term assumptions currently in place for a Republican or Democrat win. Previously, USD reaction saw *gains* in the first two months of the post-Trump 2016 win, and a *weaker* USD over the same period after the Biden 2020 win.

Market pricing for a Trump win seems stretched vs the polls



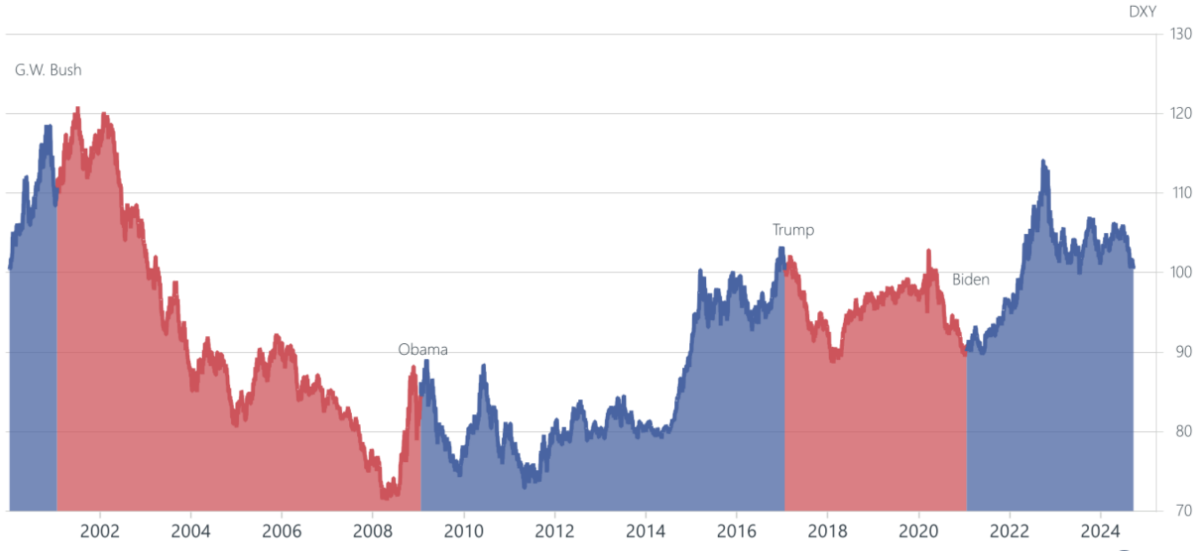
This graph shows a divergence between the polls (which suggest a close-run contest) and the betting markets (that suggest a Trump win).

Source: UBS

We would give more credence to the betting markets, although statistically, the two have about the same accuracy. The recent dollar strength aligns more with an assumed Trump win, suggesting the USD could weaken quite sharply on a Harris victory.

US dollar and presidencies

DXY with presidents and their parties highlighted



Source: Bloomberg

Importance of separating short-term reactions from longer-term thematic drivers

As highlighted, although the dollar can initially react to the policy implications of a particular president, very **meaningful FX moves tend to be driven by pervasive macro themes**.

In the last 20 years, these have included equity market crashes, the pandemic, geo-political escalations and an inflation cycle.

A couple of examples are evident above:

1.
During the G.W. Bush era, USD consistently declined, but a strong USD rally occurred in 2008 during the great financial crisis (USD safe haven appreciation).

2.
Despite early USD weakness during the Biden era, a meaningful USD **rally** occurred in 2022 as the Federal Reserve aggressively raised rates (to combat inflation) and the Russian invasion of Ukraine negatively affected some other G10 FX (GBP and EUR weakened all year).

GBP/USD

	2016 election (1 week move)	2020 election (1 week move)
GBPUSD	0.6%	1.6%
EURUSD	-2.8%	0.9%

Possible election scenarios
(short term post-election reaction)

While it is difficult to pinpoint or predict exact election outcomes, we can create possible price zones for election outcomes.

The downside scenario (1.25 to 1.27) highlights the risk of downside potential, predicated on some short-term dollar strength, while incorporating technical chart support at 1.2450.

The upside scenario (1.31 to 1.33) would allow for some post-election dollar weakness as dollar longs exit the Trump trade and accommodate the more benign Harris policy playbook.

EUR/USD

Possible election scenarios
(short-term post-election reaction)

The downside scenario (1.05 to 1.0650)highlights the risk of downside potential, predicated on some short-term dollar strength, while incorporating technical chart support at 1.0530.

The upside scenario (1.0950 to 1.1050) would allow for some post-election dollar weakness as dollar longs exit the Trump trade, and accommodate the more benign Harris policy playbook. However, the EURUSD upside reaction may not rally to these levels given the current lack of appetite for the euro on a fundamental basis.

About the Author

Joe Tuckey has been Argentex's lead analyst for five years. He regularly publishes market commentary, both technical and fundamental, for clients, as well as bespoke content to help with market timing and hedging, establishing a balance of probabilities in market analysis. Joe has appeared in the financial press, including The Times, Euromoney, Reuters, Radio 4 and various FX websites, discussing currency related themes. Prior to Argentex, Joe was a derivatives trader for over twelve years, across equities, commodities and FX.

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