Maybank

FX

Global

# FX Flash

# The Red Wave

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## Republican Sweep Looks Likely

At time of writing (around 720 PM SG/MY time), it looks like a red (Republican) wave is poised to take over the US. Trump has beaten Harris 277 to 224 (270 to win), the House is 196 to 176 in favour of Republicans (218 to win) and the Republicans have already won the Senate 51 to 42 (51 to win). As we suggested in our 22 Jul 2024 FX Flash - *Understanding the Trump Trade*, the balance of risks for FX are on net skewed to the upside for the USD.

## Taking Stock of the Moves Today

Market moves today are largely in line with expectations. US equities, cryptocurrency, UST yields and the USD are all higher. Commodities are also being pressured lower by the stronger USD. We compare the moves of the USD today against that of the trade war episode of 2018 and find that they are largely similar. The hallmark of Trump's articulated policies are tariffs, tax cuts and increased fiscal spending. This should lead to a ballooning US fiscal deficit and higher yields which should at least in the short run boost the USD. CNY remains somewhat resilient possibly on optimism about the National People's Congress Standing Committee (NPCSC). THB and JPY are the weaker currencies in the Asian space, while EUR and CHF are the G10 currencies that are underperforming. The underperformers are among the more yield sensitive currencies and market could be expressing the view that a Republican sweep would spell higher yields on a ballooning fiscal deficit.

## Some Uncertainty Going Forward

In line with Trump's capricious nature, there is still a fair bit of uncertainty involved over what the actual implemented policies will be and consequently the implications of said policies on FX. In addition, we have an FOMC due later tonight and a BOE decision tomorrow. The NPCSC has also been convened and some reason for China optimism could be announced. Note that even though Trump has beaten Harris, the election determines which electors get to cast a vote in the Electoral College. They will vote on 17 Dec for their respective President and Vice-President. Electors have on rare occasions cast votes for other candidates. Trump's inauguration is scheduled on 20 Jan 2025 and there is some time yet for more moves in markets. Given that this bout of USD strength is likely to continue in the short run, we do see opportunities to buy gold on dips. We continue to monitor developments and suggest to stay nimble. Given our base case for a Harris victory, we may revise our forecasts.

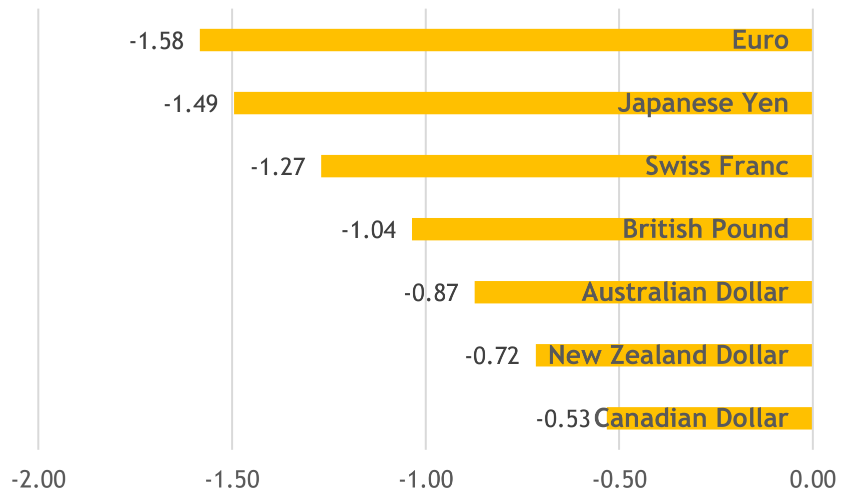
## Taking Stock of FX Moves Today

The USD is broadly stronger today, in line with higher US yields and expectations of what a Trump victory or Republican clean sweep would bring. The red wave extends itself across currencies, with around 10 Asian and G10 FX pairs down by more than 1% against the USD in the matter of a day (Chart 1 and 2).

Notable underperformers are among the more yield sensitive currencies and also currencies that could potentially be more vulnerable to Trump policies such as tariffs. In the G10 space, the EUR is the chief underperformer, which also is probably the most liquid pair that makes up more than half of the DXY index and therefore the most expedient way to express a long USD view. Another possible reason for EUR underperformance is a global 10% tariff is likely to hit auto exporters more than exporters of other relatively cheaper goods. Trump had also mentioned that jurisdictions that may be targeted include Europe, China and Mexico, which could be weighing on EUR sentiment. JPY, another currency that is sensitive to moves in UST yields is also an underperformer, which is unsurprising. In the Asian space, THB is also an underperformer likely as gold is pressured lower by the both higher yields and the broadly stronger USD.

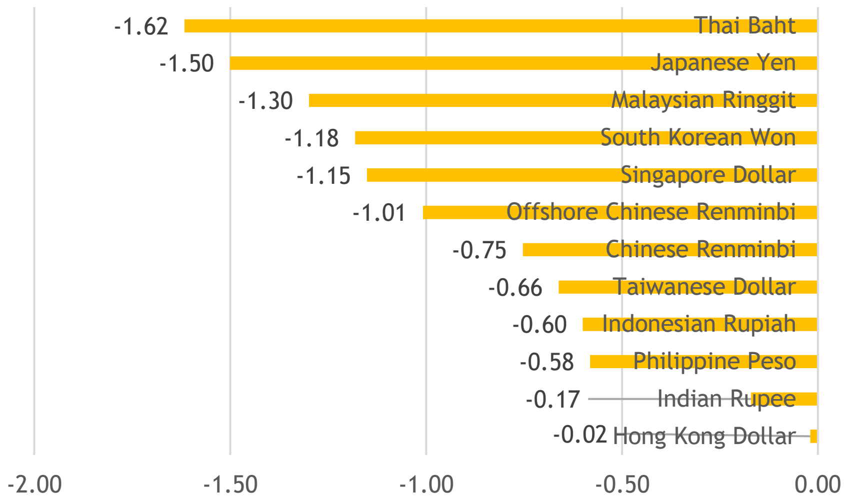
Looking at the more resilient currencies, the CNY looks relatively resilient possibly on optimism that some measures may be announced at the NPCSC. We also see that AUD and NZD are among the more resilient G10 currencies, which is also within expectations since a measure that is positive for CNY would also tend to be better for the antipodeans which are higher beta to CNY. Outperformers are the HKD, which is pegged to the USD and INR, which is tightly controlled by the RBI. The CAD is also more resilient, potentially because Canada has not been singled out by Trump as a target for more than the 10% global tariff. We think that USD strength should continue in the short run, although we do note that prior to today's move the USD had already been stretched against most currencies based on technicals.

**Chart 1: % Spot Returns of G10 FX vs USD (Today, 6 Nov 2024)**




Source: Bloomberg, Maybank FX Research & Strategy

**Chart 2: % Spot Returns of Asian FX vs USD (Today, 6 Nov 2024)**

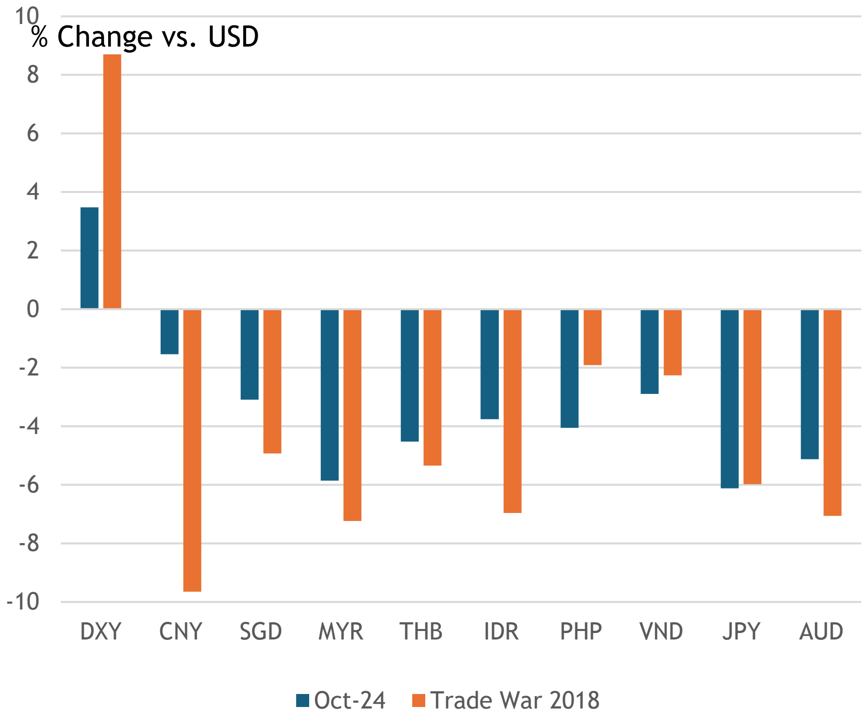



Source: Bloomberg, Maybank FX Research & Strategy

### Comparing Pre-Election Moves to Trade War

Looking at how much the "Trump trade" was being priced in prior to today, there had been a rather uneven move against the USD. The JPY had been weakened against the USD on the back of political uncertainty and the widening US-JP yield differential. This did drag the rest of Asia along weaker against the USD. Nevertheless, the magnitudes of the moves suggest that there could be more pain to come for some currencies, most notably the CNY, AUD and SGD (Chart 3).

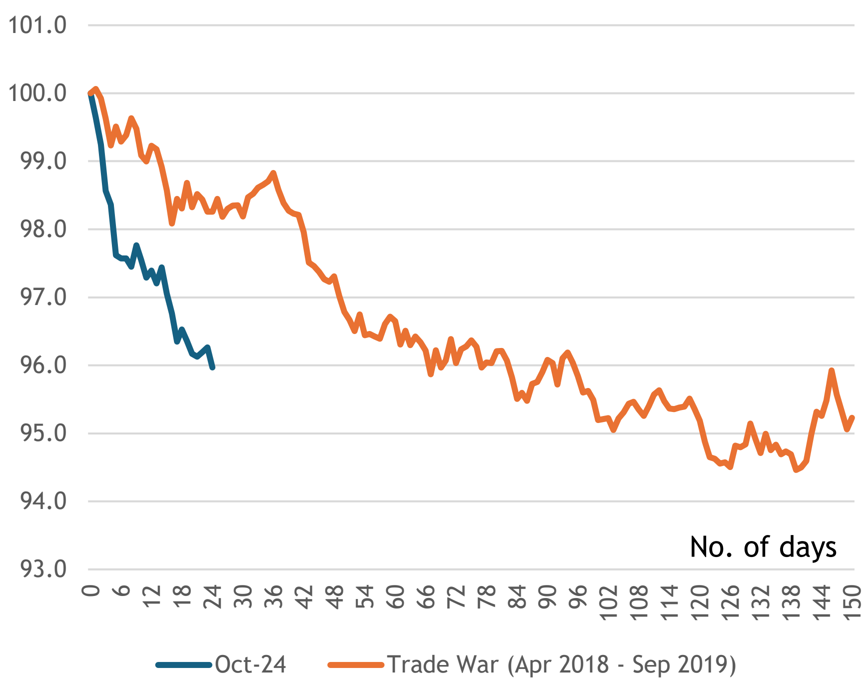
**Chart 3: Asian Currencies against the USD (Oct 2024 vs Trade War 2018)**




Source: Bloomberg, Maybank FX Research & Strategy

The pre-election slide had also been much steeper than in the trade war episode (Chart 4). This is in line with the USD being technically stretched to the upside. We see two-way risks for the USD with an upside skew ahead for this reason, with potential rebounds coming from perhaps a more dovish-sounding FOMC or Trump doing about-turns on some of his policies.

**Chart 4: ASEAN Currency Index (Oct 2024 vs Trade War 2018)**




Source: Bloomberg, Maybank FX Research & Strategy
Note: ASEAN Currency Index is an equally weighted index of all ASEAN currencies.

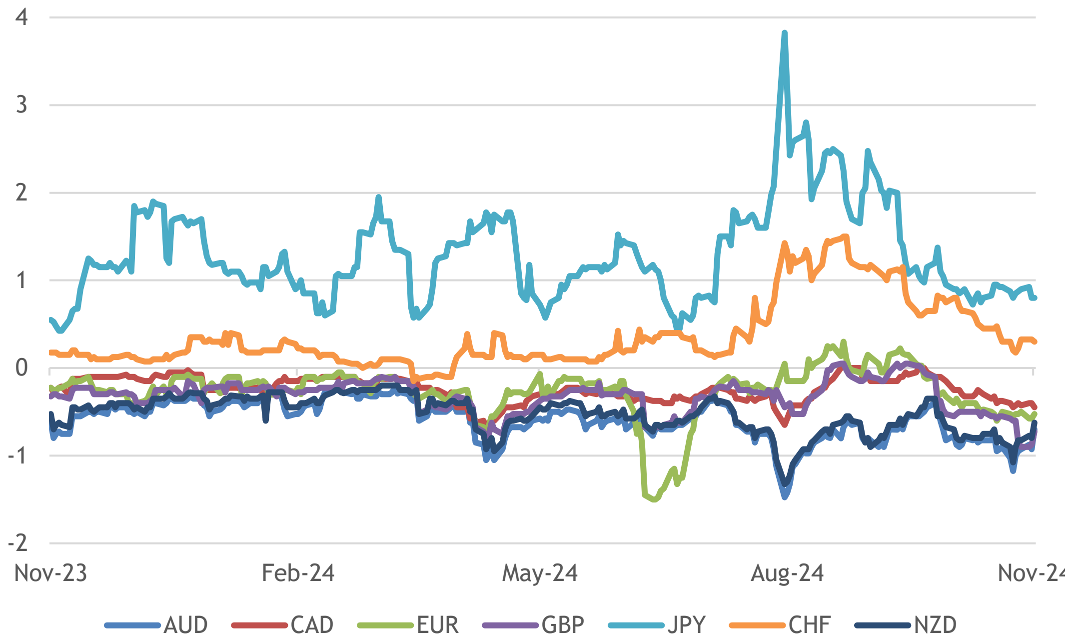
**Some Uncertainty Going Forward**

In line with Trump's capricious nature, there is still a fair bit of uncertainty involved over what the actual implemented policies will be and consequently the implications of said policies on FX.

Looking at G10 FX options, 1M 25D risk reversals show that bullishness for the USD could be limited (Chart 5). Puts are favoured for AUD, CAD, EUR, GBP and NZD. However, do note that the risk reversals are somewhat close to their 1-year lows i.e. potentially close to peak bearishness for these currencies against the USD. At the same time, there is uncertainty ahead, seen from the positive values for the safe-havens CHF and JPY. There is some distance away from JPY 1Y high in particular, and a reversal in JPY sentiment could be particularly sharp.

This is unsurprising considering we have an FOMC due later tonight and a BOE decision tomorrow. The NPCSC has also been convened and some reason for China optimism could be announced. Note that even though Trump has beaten Harris, the election determines which electors get to cast a vote in the Electoral College. They will vote on 17 Dec for their respective President and Vice-President. Electors have on rare occasions cast votes for other candidates. Trump's inauguration is scheduled on 20 Jan 2025 and there is some time yet for more moves in markets. Given that this bout of USD strength is likely to continue in the short run, we do see opportunities to buy gold on dips. We remain bullish on the precious metal that should do well in times of uncertainty. We continue to monitor developments and suggest to stay nimble. Given our base case for a Harris victory, we may revise our forecasts.

**Chart 5: 1M 25-Delta Risk Reversals Show Uncertainty Remains**




Source: Bloomberg, Maybank FX Research & Strategy

Note: 1M 25-delta risk reversals show the difference in price (volatility) between puts and calls on OTM options. Positive values indicate calls being more expensive than puts (upside protection on the underlying forex spot is relatively more expensive), while negative values indicate puts are more expensive than calls (downside protection is relatively more expensive). Negative values are bullish-USD and positive values are bearish-USD.

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