US

6 November 2024

US Election Updates and Possible Scenarios

- Donald Trump has been declared the President of the United States and his victory will have clear implications for the economy and financial markets.
- The potential policy implications include higher fiscal spending and increased tariffs on key trading partners.
- From here, market attention will gradually shift to the 7 November FOMC meeting, where we are expecting a 25bp rate cut.

Red sweep on the cards?

Donald Trump has been declared the President of the United States, and Arnold Schwarzenegger's memorable line "I'll be back" comes to mind. Republicans have taken control of the US Senate and Trump has declared victory after winning both Pennsylvania and Georgia. His catch phrase of "Trump will fix it" evokes market excitement about his potential policy changes for domestic issues of inflation, immigration and abortion, but also for external issues such as foreign and trade policies.

Market reactions have been swift but largely expected. While the House results are still pending, nevertheless, there are some key takeaways.

Market reaction was swift and predictable

USD, UST bond yields, and US equity futures are up in an initial kneejerk reaction, but as the count continues and market digests the potential policy implications, the regional economies may be more pre-occupied with potential tariffs and their likely adverse growth effects.

In the FX market, the USD was up, while the Mexican Peso, Japanese Yen and the Euro fell against the USD. The equity market reacted with S&P500 futures higher, but 10-year UST bond yields also spiked 14bps to a four-month high of 4.4%. Bitcoin hit a record and Trump Media & Technology Group Corp also jumped. The sectors perceived to be favoured in a Trump 2.0 administration include Energy (specifically Oil & Gas), Defence, Mining, Natural resources, etc.

US-China relations are already frosty, and trade tariffs (if implemented) may exacerbate the situation. However, Trump is also a negotiator and may be inclined to cut a deal if he gets what he wants. Hence, the question is whether there will be a deal. The strategic industries most at risk remain advanced manufacturing, especially semiconductors, EVs, solar panels etc.

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For the Fed, Trump has been quite vocal. However, he did not replace the Fed chair as earlier threatened in his last term. Hence, we need to separate noise from facts. Since the Fed is already cutting interest rates, he may heed sound counsel and leave the Fed alone for the moment. However, the question is whether tariffs will reignite inflation and complicate the picture for the Fed (i.e., they cannot cut rates as much as they intended).

Election results (as of 6 November 2024, 6.39PM SGT)

Electoral college count

Donald Trump's victory has been confirmed. His margin of victory is higher than the pre-election polls had suggested. As of 6.39PM SGT, Donald Trump has 277 electoral college votes after securing the state of Wisconsin.

Interestingly, Donald Trump is also on course to win the popular vote. His base of support this round came from heavily white working-class, and heavily college-educated white and majority Hispanic segments. Kamala Harris currently has 224 electoral college votes.

Senate count

The Republicans have already secured the Senate, with 51 seats against the Democrats 42 (as of 6.39PM SGT). The Republicans successfully flipped West Virginia and Ohio, while fending off strong challenges in Florida, Nebraska and Texas. The trends for Arizona, Michigan, Montana, Nevada, Pennsylvania and Wisconsin suggest that the Republicans are currently lead for all states except Arizona.

House Elections

The House of Representatives remains the Democrats last chance to prevent a clean 'red sweep' of Congress and the Presidency. The Republicans are currently leading 196-176 as of 6 November, 6.39PM SGT, with the Republicans flipping 3 seats in North Carolina and 1 in Michigan. Meanwhile, the Democrats have flipped 3 seats as well, with 1 in Alabama and 2 in New York.

Separately, early voting trends are unlikely to shift the final results at this point. More than 82mn Americans had already voted via the mail-in and early in-person ballots, even though some of these votes are still in the process of being counted, they are unlikely to change the outcomes as it stands.

Economic implications under various scenarios

The election outcome will likely have implications for the fiscal deficit, growth, inflation and the broader macroeconomic outlook. A comprehensive analysis by the Committee for a Responsible Federal Budget (CRFB) indicates that former President Donald Trump would likely increase federal deficits and debt beyond current projections. In its central estimates, the CRFB noted that Trump's plan could increase it by about USD7.8trn. However, the estimates vary significantly, with the range from USD1.7trn to USD15.6trn, reflecting uncertainty in policy interpretations.

Candidate proposals impact - Central estimate (rounded to nearest USD50bn)	Trump
Extend and Modify Parts of the Tax Cuts & Jobs Act (TCJA)	5,350
Reduce Individual Taxes and Expand Tax Breaks	3,750
Reduce Business Taxes and Expand Tax Breaks	250
Increase Resources for Health Care and Long-Term Care	150
Increase Defence Spending	400
Support Paid Leave, Preschool, Child Care, and Education	n/a
Restrict Immigration and Strengthen Border Security	350
Increase Housing-Related Spending and Tax Breaks	150
Subtotal, Deficit-Increasing Policies	10,400
Increase Taxes on Corporations and High-Earners	n/a
Increase Tariffs	2,700
Reduce Other Spending and Tax Breaks	1,000
Subtotal, Deficit-Reducing Policies	3,700
Net Interest	1,050
Total, Net Deficit Impact	- 7,750

Source: Committee for a Responsible Federal Budget

President Donald Trump aims to modify the Tax Cuts & Jobs Act, cut taxes for businesses, and increase military spending, while proposing to eliminate taxes on tip income and Social Security benefits. To offset his plan's costs, he would impose new tariffs, cut environmental spending, and eliminate the Department of Education.

2024 Presidential Elections Policy Position Matrix					
	Taxes	**Energy and ESG**	**Industrial Policy**	**Immigration**	**Social Security**	**Trade**
Trump	Make 2017 TCJA permanent. Lower CTR and IIT, floated reducing CIT from 21% to 15%.	Rollback clean energy tax credit and subsidies for EVs and renewables Build Keystone pipeline and expand US oil & gas and coal production.	Rollback clean energy tax credit and subsidies for EVs and renewables Build Keystone pipeline and expand US oil & gas and coal production.	Reinstate Title 42 and heavy clampdown on illegal immigration via support for Dept of Homeland Security. Alluded to the reinstatement of family separations.	Leave social security system unchanged, campaigned on supporting current outlays via raising oil production. Has mentioned 'concepts of a plan' regarding the ACA.	Across the board 10-20% tariff, upward of 60% on all Chinese imports

The big question remains the extent to which the incoming President can follow through on his campaign promises. This extent of follow-through will have implications for US growth, inflation, monetary policy, fiscal and debt situations. Most of these policies will depend on the support the President gets from the House and the Senate.

President	Donald Trump	Donald Trump
House	Republican	Democrat
Senate	Republican	Republican
Implications	**Red sweep**	**Mixed progress on economic agenda**

An eye on tariffs

Tariffs have almost become President Trump's by-line for his economic campaign. For the scenario of a red sweep, markets may be anticipating a significant fiscal deficit hike with the TCJA proposals. As such, UST yields may be sensitised to the House control outcome, assuming that domestic policies take precedence over externally oriented policies. However, markets should not underestimate the possibility of tariffs hitting Mexico, Canada and Europe, apart from China for that matter. These will be closely followed by many of the Asian economies including China, Japan, South Korea, Vietnam, India and of course Singapore.

US: Top ten trading partners with deficits (2023)

USDbn
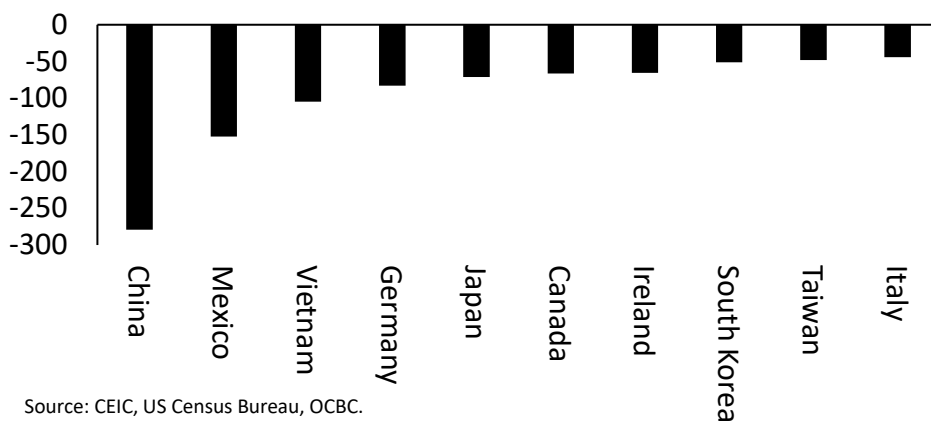
Source: CEIC, US Census Bureau, OCBC.

The President can make changes to tariff policies without Congressional approval[1]. Donald Trump has already made clear his intentions of raising tariffs on China and potentially, all of the US' trading partners.

Following Trump's victory, the offshore Chinese Yuan weakened by about 1%, while the Hang Seng Index declined by over 2%. The correction in Chinese assets aligned with market expectations amid concerns over renewed tariff threats from a "Trump 2.0" administration.

What might Trump 2.0 mean for China? The immediate impact is likely to centre on trade ties between the world's two largest economies. China faces two primary risks: a potential revocation of its Most Favoured Nation (MFN) status, which could elevate average U.S. tariffs on Chinese imports to around 40%, and the possibility of an additional 60% tariff. However, unlike the president's unilateral power to impose tariffs, removing MFN status requires Congressional approval, meaning its implementation would depend on the political landscape in Congress.

The main legal provisions for U.S. tariff imposition include Sections 201, 232, and 301. Sections 201 and 232 generally target specific goods, while Section 301 addresses broader actions against countries, as seen during the U.S.-China trade war in 2018. Future tariffs under a Trump 2.0 administration are likely to rely on Section 301. Based on the 2018-2019 trade war timeline, it took about 11 months from the start of a Section 301 investigation to the initial tariffs. Even with an expedited approach, new tariffs would likely require at least 6 months, potentially impacting trade by the second half of 2025 if Trump assumes office in January.

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[1] CRS Reports: Presidential Authority to Address Tariff Barriers in Trade Agreements (15 October 2024): Since the 1930s, Congress has periodically authorized the President to negotiate trade agreements and, among other actions, proclaim changes to U.S. tariff rates— known as Trade Promotion Authority (TPA). For example, Section 103(a) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (TPA-2015) authorized the President to enter into trade agreements with foreign countries to reduce "duties or other import restrictions" that the President determines are "unduly burdening and restricting" the United States' foreign trade and to proclaim limited changes to U.S. tariff rates without further congressional action. In December 2020, President Donald Trump implemented a trade agreement with the European Union regarding tariff barriers using his proclamation authority under Section 103(a) of TPA-2015.
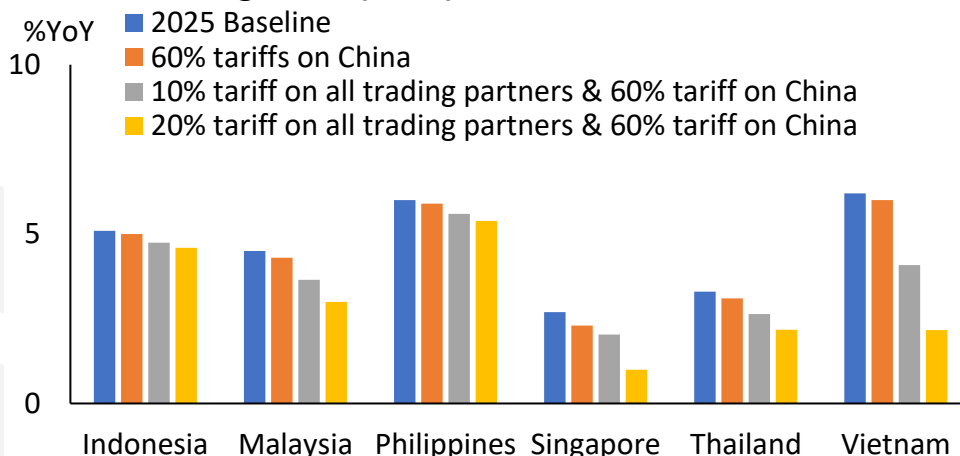
To estimate the direct impact of potential tariff increases on China's exports to the U.S., export elasticity with respect to tariffs provides a helpful measure. Studies from the first trade war estimate China's export elasticity to tariffs at approximately -1.7 to -2.5, indicating that for every 1% increase in tariffs, China's exports to the U.S. could decline by 1.7% to 2.5%. If this elasticity holds, an MFN revocation could slash China's exports to the U.S. by up to 60%, assuming an additional 30% tariff increase, while an additional 60% tariff could reduce exports to roughly 10% of current levels.

Nonetheless, transshipment, or re-routing through third countries, may offset some of these impacts. Chinese scholars estimate a 40% mitigation effect from the first trade war. Given that the U.S. accounts for around 15% of China's total exports in 2023, the net effect on overall Chinese exports in an extreme scenario could be an approximate 8% decline after transshipment adjustments, translating to a potential around 1% GDP loss for China.

Markets will focus on the National People's Congress Standing Committee this week, as China may increase fiscal stimulus to counter the potential effects of a renewed trade war on growth in 2025. We have revised China's 2025 growth forecast up to 4.8% to reflect the anticipated stimulus, maintaining a "wait and see" approach to evaluate tariff impacts, which may not take full effect until the latter half of 2025 at the earliest.

We took a deep dive into the implications for ASEAN (see *ASEAN: Assessing the impact of potential tariffs*, 30 October 2024). Our analysis shows that Vietnam is among the most exposed in the ASEAN region given that its export share to the US is close to 30%. This will be followed by the more open economies of Thailand, Malaysia, and Singapore. Singapore, however, has a bilateral Free Trade Agreement (FTA) with the US. An imposition of tariffs by US on Singapore would likely require an amendment of the US-SG FTA. There remains a high degree on ambiguity on whether the FTA can be amended, and if so, what will be the timing and nature of the amendments. The more domestic oriented economies of Indonesia and the Philippines could be slightly less exposed.

GDP growth (2025) under various scenarios

%YoY
- 2025 Baseline
- 60% tariffs on China
- 10% tariff on all trading partners & 60% tariff on China
- 20% tariff on all trading partners & 60% tariff on China

Source: CEIC, UNComtrade, OCBC.

Rates and FX markets

Markets are still digesting the election outcome and potential implications. UST yields rose through the Asia morning session as election vote counts showed Trump gaining traction in some of the swing states. The bond market showed some signs of a stabilisation as Europe came in despite a Trump victory becoming clearer. Investors may still want to stay on the sidelines, awaiting reactions in the NY session. Running into the elections, we had mentioned asymmetric risk, in that potential downside to the 10Y yield might be bigger than potential upside to the 10Y yield. Now given the election outcome, investors may need to be patient waiting for the market to settle. The first test is the 30Y coupon bond auction tonight. At the front end, comparing how short end UST yields performed around past US elections, we reckon there had mostly been a continuity in monetary policy direction and in the trend move, which was in turn based on the prevailing economic fundamentals. The Fed's rate cut agenda may not be materially affected by a certain election outcome, especially in the current cycle which is more of a monetary policy normalisation. There could be adjustments in the pace of rate cuts in so much as the inflation outlook is affected – indirectly by policies on the fiscal front and on tariffs; but after all, there will be constant adjustments in the expected pace of rate cuts over time as data come in. From here, market attention will gradually shift to the 7 November FOMC meeting, where we are expecting a 25bp rate cut.

2Y Treasury Yield 90 days before and after US elections (Index = 100)
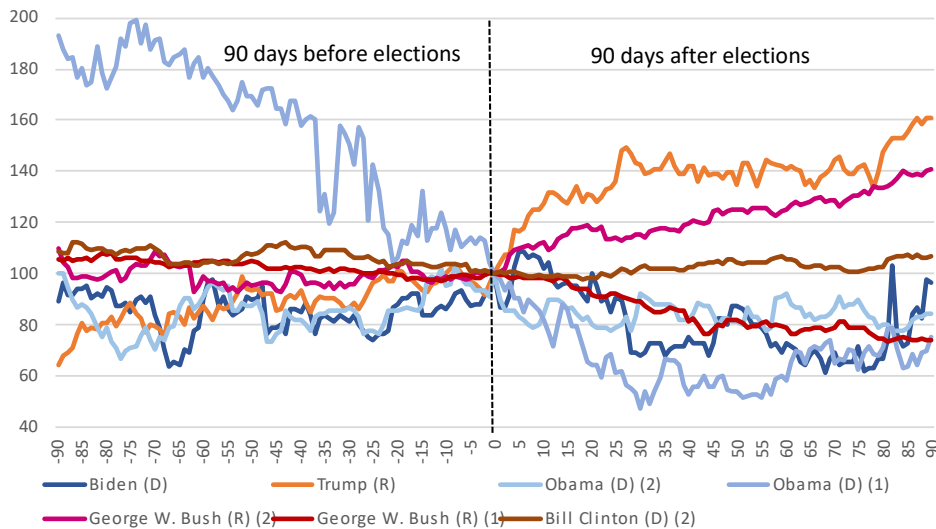
Source: Bloomberg, OCBC Research. Note: (D) refers to Democrat Presidents and (R) refers to Republican Presents. (1) refers to the first term and (2) refers to their second term in office. Values are indexed to 100 on the day of the elections.

In FX space, USD has broadly strengthened in the aftermath of Trump's victory. Market reaction was well flagged and expected. Near term, we may still see USD supported, largely on concerns of tariffs, inflation and debt (as they have yet to be implemented).

In particular, EUR, JPY, KRW, CNH may face more swings in the interim (due to higher sensitivity to markets re US elections).

- Threat of Trump tariff on all imports by up to 20% can hurt EUR as US was the largest partner for EU exports of goods in 2023.
- Deterioration in US-China relations over trade, tech should also undermine CNY (if we recall 2018-19 trade spat).
- Softer RMB, JPY may result in AXJ FX, including KRW, THB facing pressure.
- At the same time, however, we do expect policymakers to be more vigilant of the potential policy risks involved with Trump as President. Hence, excessive, one-side moves in FX markets may be countered with smoothing pressure.
- China's NPC 4 – 8 Nov is likely to factor in US election risk premium and we believe Chinese policymakers should still be fixated on delivering support measures to mend the economy and repair sentiment. Larger than expected stimulus may help to support sentiment and partially offset against CNH depreciation.

Over the next 24 – 48 hours, we should expect FX to trade with 2-way risks as markets continue to digest election outcome, including who takes the house and if there is any recount. FX volatility should continue to ease but remain elevated relative to year's average.
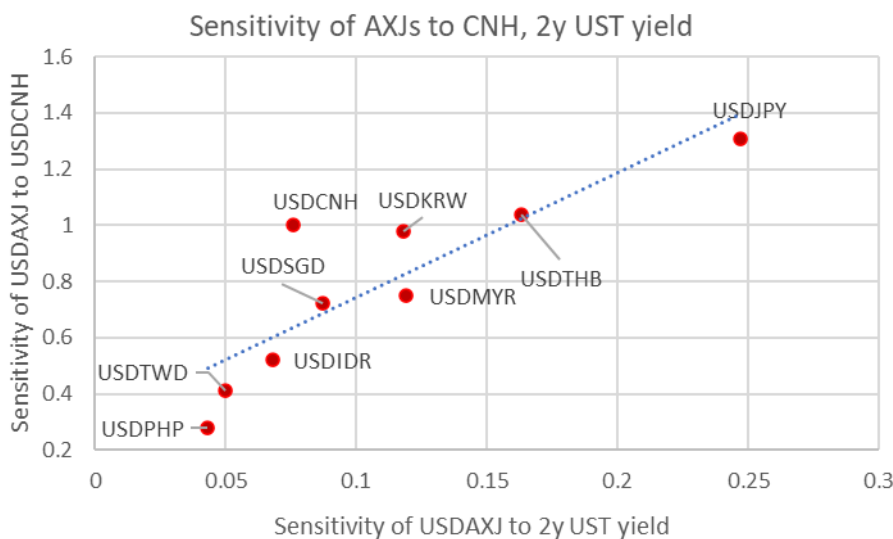
Note: OLS regression over 2y weekly frequency data (as of 6 Nov 2024)

Appendix:

Presidential Election:

Republicans lead 277 to 224

State	Vote share	Electoral Votes	2020 Winner	Called	State	Vote share	Electoral Votes	2020 Winner	Called
Alabama	R+25	9	R	R	Missouri	R+15	10	R	R
Alaska	R+10	3	R		Montana	R+16	4	R	R
Arizona	D+0	11	D		Nebraska	R+19	5	4R/1D	4R/1D
Arkansas	R+27	6	R	R	Nevada	D+2	6	D	
California	D+29	54	D	D	New Hampshire	D+7	4	D	D
Colorado	D+14	10	D	D	New Jersey	D+16	14	D	D
Connecticut	D+20	7	D	D	New Mexico	D+11	5	D	D
Delaware	D+19	3	D	D	New York	D+23	28	D	D
District of Columbia	D+87	3	D	D	North Carolina	R+1	16	R	R
Florida	R+3	30	R	R	North Dakota	R+33	3	R	R
Georgia	D+0	16	D	R	Ohio	R+8	17	R	R
Hawaii	D+29	4	D	D	Oklahoma	R+33	7	R	R
Idaho	R+30	4	R	R	Oregon	D+16	8	D	D
Illinois	D+17	19	D	D	Pennsylvania	D+1	19	D	R
Indiana	R+16	11	R	R	Rhode Island	D+21	4	D	D
Iowa	R+8	6	R	R	South Carolina	R+12	9	R	R
Kansas	R_15	6	R	R	South Dakota	R+26	3	R	R
Kentucky	R+26	8	R	R	Tennessee	R+23	11	R	R
Louisiana	R+19	8	R	R	Texas	R+6	40	R	R
Maine	D+9	4	3D/1R	1D/1R	Utah	R+20	6	R	R
Maryland	D+33	10	D	D	Vermont	D+35	3	D	D
Massachusetts	D+33	11	D	D	Virginia	D+10	13	D	D
Michigan	D+33	15	D		Washington	D+19	12	D	D
Minnesota	D+7	10	D	D	West Virginia	R+39	4	R	R
Mississippi	R+17	6	R	R	Wisconsin	D+1	10	D	R
Source: Bloomberg. Last Accessed at 6.39PM SGT					Wyoming	R+43	3	R	R

Senate Elections:

Republicans lead 51-42

State	2018 Winner	Incumbent	Candidates			Called
			Independent	Democrat	Republican	
Arizona	D	Krysten Sinema		Ruben Gallego	Kari Lake	
California	D	Laphonza Butler		Adam Schiff	Steve Garvey	D
Connecticut	D	Chris Murphy		Chris Murphy	Matthew Corey	D
Delaware	D	Tom Carper		Lisa Blunt Rochester	Eric Hansen	D
Florida	R	Rick Scott		Debbie Mucarsel-Powell	Rick Scott	R
Hawaii	D	Mazie Hirono		Mazie Hirono	Bob McDermott	D
Indiana	R	Mike Braun		Jim Banks	Valerie McCray	R
Maine	I	Angus King	Angus King	David Costello	Demitroula Kouzounas	
Maryland	D	Ben Cardin		Angela Alsobrooks	Larry Hogan	D
Massachusetts	D	Elizabeth Warren		Elizabeth Warren	John Deaton	D
Michigan	D	Debbie Stabenow		Elissa Slotkin	Mike Rogers	
Minnesota	D	Amy Klobuchar		Amy Klobuchar	Royce White	D
Mississippi	R	Riger Wicker		Ty Pinkins	Roger Wicker	R
Missouri	R	Josh Hawley		Lucas Kunce	Josh Hawley	R
Montana	D	Jon Tester		Jon Tester	Tim Sheehy	
Nebraska	R	Deb Fischer	Dan Osborn		Deb Fischer	R
Nebraska	R	Pete Ricketts		Preston Love Jr.	Pete Ricketts	R
Nevada	D	Jacky Rosen		Jacky Rosen	Sam Brown	
New Jersey	D	George Helmy		Andy Kim	Curtis Bashaw	D
New Mexico	D	Martin Heinrich		Martin Heinrich	Nella Domenici	D
New York	D	Kirsten Gillibrand		Kirsten Gillibrand	Mike Sapraicone	D
North Dakota	R	Kevin Cramer		Katrina Christiansen	Kevin Cramer	R
Ohio	D	Sherrod Brown		Sherrod Brown	Bernie Moreno	R
Pennsylvania	D	Bob Casey Jr		Bob Casey Jr	David McCormick	
Rhode Island	D	Sheldon Whitehouse		Sheldon Whitehouse	Patricia Morgan	D
Tennessee	R	Marsha Blackburn		Gloria Johnson	Marsha Blackburn	R
Texas	R	Ted Cruz		Collin Allred	Ted Cruz	R
Utah	R	Mitt Romney		Caroline Gleich	John Curtis	R
Vermont	I	Bernie Sanders	Bernie Sanders		Gerald Malloy	I
Virginia	D	Tim Kaine		Tim Kaine	Hung Cao	D
Washington	D	Maria Cantwell		Maria Cantwell	Raul Garcia	D
West Virginia	D	Joe Manchin		Glen Elliott	Jim Justice	R
Wisconsin	D	Tammy Baldwin		Tammy Baldwin	Eric Hovde	
Wyoming	R	John Barrasso		Scott Morrow	John Barrasso	R

Source: Bloomberg. Last Accessed at 6.39PM SGT

House Elections:
Republicans lead 196-176

State	2022 Elections		Called		State	2022 Elections		Called	
	D	R	D	R		D	R	D	R
Alabama	1	6	2	5	Montana	0	2	0	1
Alaska	1	0	0	0	Nebraska	0	3	0	2
Arizona	3	6	2	1	Nevada	3	1	0	1
Arkansas	0	4	0	4	New Hampshire	2	0	2	0
California	40	12	27	5	New Jersey	9	3	8	3
Colorado	5	3	4	1	New Mexico	3	0	3	0
Connecticut	5	0	5	0	New York	16	10	18	7
Delaware	1	0	1	0	North Carolina	7	7	3	10
Florida	8	20	8	20	North Dakota	0	1	0	1
Georgia	5	9	5	9	Ohio	5	10	3	10
Hawaii	2	0	2	0	Oklahoma	0	5	0	5
Idaho	0	2	0	2	Oregon	4	2	2	1
Illinois	14	3	13	3	Pennsylvania	9	8	7	7
Indiana	2	7	2	7	Rhode Island	2	0	2	0
Iowa	0	4	0	3	South Carolina	1	6	1	6
Kansas	1	3	1	3	South Dakota	0	1	0	1
Kentucky	1	5	1	5	Tennessee	1	8	1	8
Louisiana	1	5	1	4	Texas	13	25	12	25
Maine	2	0	1	0	Utah	0	4	0	4
Maryland	7	1	6	1	Vermont	1	0	1	0
Massachusetts	9	0	9	0	Virginia	6	5	5	4
Michigan	7	6	5	6	Washington	8	2	4	0
Minnesota	4	4	4	4	West Virginia	0	2	0	2
Mississippi	1	3	1	3	Wisconsin	2	6	2	5
Missouri	2	6	2	6	Wyoming	0	1	0	1

Source: Bloomberg. Last Accessed at 6.39PM SGT

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