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The US Election

What could the most divisive election in decades mean for the US dollar?

The US 2020 presidential election holds special importance for global financial communities and those who are exposed to FX markets such as fund managers, institutional investors, and of course businesses and individuals.

With conflicting opinions on how well the US government handled the containment of Covid-19, the US has been placed under a microscope by foreign leaders. Since the onset of the pandemic, the economic outlook has been pretty dismal; current-dollar GDP decreased 34.3% in the second quarter of 2020 to a level of $19.41 trillion. With high unemployment, plus trade wars with China, we may not see the spotlight being lifted anytime soon, with or without a new president.

Global markets have rallied after a close and nail biting presidential election. All states have not yet released their results as they are still counting votes, therefore Joe Biden's win remains a projection, and Donald Trump has yet to concede.

Contents

Overview: The USD & the economy

Over the past three months, the tech-heavy NASDAQ has endured high volatility, which connotes a market affected heavily by consumer confidence.

Investors have sought higher returns amid low-interest-rate environments, as well as an incipient resumption of global economic activity that was already underway. The tech sector has been hurt relatively less by the current Covid-19 crisis in comparison to consumer sectors such as airlines and energy. Against this backdrop, where the risk-on sentiment prevailed, the Dollar Index recorded its two- year low (Fig. 1).

However, the domestic and international economic environment has been turned upside down in a relatively short time. The economic aid package for those affected by the Covid-19 pandemic ended abruptly in mid-August. Since then, the White House and Democrats have only just been able to reach an agreement on a new fiscal stimulus, albeit still requiring Senate approval.

The American economy witnessed a growing rate of claims for unemployment benefits and a deterioration in economic activity due to the paralysis of the international trade market. At the same time, Europe was impacted by a second wave of Covid-19 forcing France, the United Kingdom, Germany, Spain, the Czech Republic and

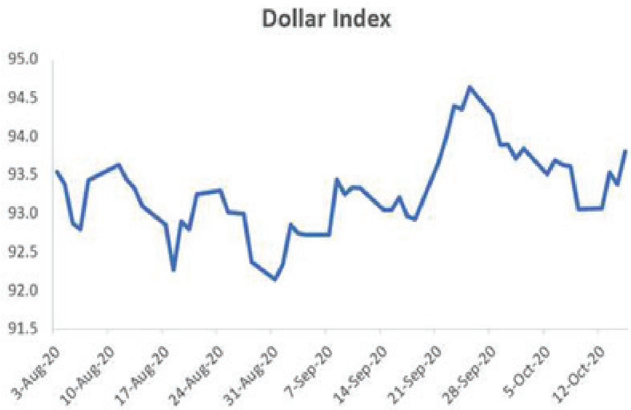

Figure 1. Dollar Index[1]
Source: Bloomberg

many others to adopt new lockdown measures to contain the spread of the virus.

The perception of a global economic recovery faded as investors started to move towards safe assets that have a safe-haven status, such as Japanese yen, Swiss franc and the US dollar. In this risk-averse environment, the dollar became the main refuge asset for market participants strengthening against a broad basket of major currencies.

[1] The US Dollar index measures the value of the U.S. dollar relative to a basket of major 6 currencies: EUR, JPY, GBP, CHF, CAD and SEK

The dollar's behaviour

The US Dollar Index has steadily declined (Fig. 2) this year, obviously not just because of the election.

That being said we are seeing USD movements as investors turn to polls for trade fodder. The "debate" heard around the world sent anxiety shockwaves through the markets as Biden and Trump took off the gloves rather than addressing the nation's major challenges. Traders sold off the dollar for other traditional safe-haven currencies immediately after the debate and we saw JPY and CHF bump up higher.

After Trump's 2016 victory, the US dollar rallied by over 6% in a space months, and if he had won. we could have seen it rally once more. Historically the US dollar tends rises after every election, but the greenback has been struggling with all this uncertainty surrounding the election result.

Trump contesting the outcome of the election seems to have little momentum as many investors believe this to be a lost cause. The risk to the US dollar is that Trump will follow a scorched earth strategy to make life difficult for his successor, and thus the US dollar. Uniting a divided US together could prove tricky for Biden, as could the Republican dominated Senate, and could set the tone for the dollar in the months and quarters to come.

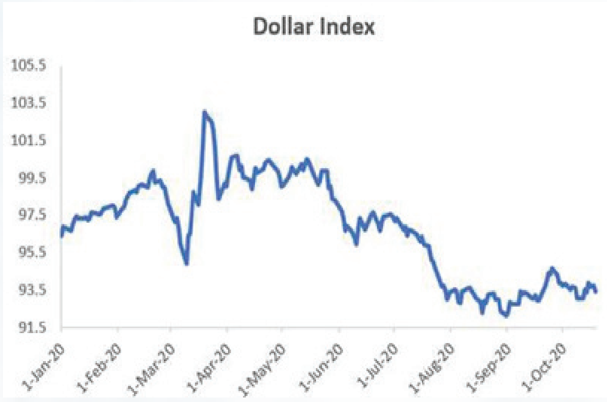

Figure 2. Dollar Index has declined over 2020

Source: Bloomberg

Biden will have a more balanced approach to international relations; his lack of an overall majority in Congress will constrain any temptation to increase corporate taxes and whip the big tech firms into line; a decrease in domestic tensions will improve the commercial environment; a more serious effort to control the tragic Covid-19 pandemic could bring positive economic results.

Biden's foreign policies may not help the US dollar as it may risk the allegiances Trump formed. Biden offering Brazil 20bn to stop the "destruction" of the Amazon rainforest was quickly declined by Bolsanaro, and it is well known he is not a fan of Brexit, saying a future trade deal with the UK would be contingent upon respecting the Good Friday Agreement.

The 2020 election

The result of the US election may have several new implications on US fiscal stimulus, taxation, public investment & regulation.

Therefore, any change in the direction of these policies will have an effect on major pairs such as GBP, EUR, Biden's third attempt to become President appears right now to have been successful, albeit not as strongly as the polls had predicted. A self-titled progressive and in others' words, a moderate Democrat, Biden has declared he stands for two things, workers who "built this country", and the values that can bridge divisions - much needed after this bitterly fought election.

He wants to rejoin the global climate accord, raise the minimum wage and reform criminal justice, moving from his 1990s tough on crime stance. Biden also pitched "Buy American", with plans to call the federal government to invest in $300bn in US made materials, services, research and technology.

However, Trump contesting the result is causing uncertainty and confusion, and long term could lead to a lack in confidence in the region (for example GBP slumped following the announcement of a Hung Parliament in 2017). The close vote was, and is, the worst-case scenario as prolonged uncertainty will mean a delay in action, something a fragile Covid-19 affected economy could certainly do without.

The project result means Trump becomes the first one-term president since the 1990's, with Biden already pressing forward, having launched a website for the transition with Vice-President-elect Kamala Harris. Focusing on the economy, tackling racism, and climate change, in his first speech since the projected outcome, as President-elect, Biden said it was time for the US to heal, vowing to unify the country.

While Biden won the popular vote by more than 4m votes, his performance in Wisconsin, Michigan and his home state of Pennsylvania, were all key to him winning. All three voted for Trump back in 2016, but Biden managed to turn red votes into blue in the cities and suburbs of these states. Of the 436 large metropolitan counties, 71% saw increased support for Biden in this election compared to 2016, according to The Guardian. Results from the rust belt showed Biden has managed to secure a high number of black voters in key states such as Wisconsin as well. Coupled with more young Americans voting, and voting for Biden, gave him the slim edge to take the presidency.


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Biden's next steps

As mentioned, Biden has already been working on the transition of power. According to the US media, Biden will rejoin the Paris climate agreement, which the US only just left. Therefore, Biden taking office could have a positive impact on the euro, as the Democrats are willing to support initiatives such as the UN climate backed Paris Agreement. As a result, investors may start to look outside of the US for opportunities and move out of their USD positions.

He is also, again according to press reports, planning to reverse the decision to withdraw from the World Health Organisation. Biden is planning a task force to tackle Covid-19, which has been increasingly politicized in the US. He also wants to make mandatory mask wearing the law. If the US can turn around its incredibly high rate of coronavirus, it could start to positively impact the economy as the country becomes more steady in its dealing of the pandemic.

Given the Democrats' promise to safeguard current trade partnerships, this could resolve US trade tensions. The US dollar could weaken because of Biden's proposal to increase corporate taxes to 28%. Although increasing government revenue and improving the deficits, this may lead to stunted economic regrowth. Higher taxes will drive foreign investment and manufacturing out of the US, which will cause the US dollar to weaken.

Biden is also reported as planning to end the travel ban on citizens from seven, mostly Muslim countries, and reinstate an Obama-era policy of granting immigration status to undocumentated migrants who entered the US as children. Biden's immigration policies could, in the short term, increase unemployment rates. However, in the long term, granting legal status to undocumented immigrants will increase the total labour supply, tax revenue, and GDP. Currently experienced by Japan, an ageing population can result in a decreasing labour market and overall economic decline.

How can businesses protect themselves

Movements in the currency market can have a significant impact on your bottom line. In a rapidly changing world, it can be difficult to keep up to date with market movements. That's why we work closely with our clients to ensure they have the latest insights and guidance on the range of tools available to businesses.

In partnership with our clients we create a bespoke FX strategy that helps to mitigate the risk of currency transactions. Our expert team is always on hand to help you make the most of overseas revenue and minimise FX costs. Offering invaluable expertise, manage your FX transactions with the following 3 steps:

Managing currency risk

1

STEP ONE: UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your balance sheet and consider what fraction of overall incoming and outgoing funds is held in currency, because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70% but the issue isn't quite that simple. Of course, a company with higher currency exposure bears more risk due to currency fluctuations, but you may want to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking and where the future opportunities lie. In trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

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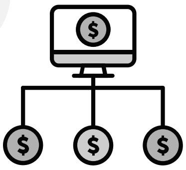

STEP TWO: UNDERSTAND THE CHOICES AVAILABLE

There are a number of currency tools which can help you make the most of your company's resources and still expand into further overseas markets. A forward contract allows you to lock in a prevailing rate of exchange for a set period of time. This can help with forward planning and provide some certainty but it carries its own risk. Currency can go up as well as down, and it depends on what is going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline and this isn't always possible when developing a presence in new geographic markets. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market.

Both forward contracts and market orders are longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and help protect against too severe losses.

3

STEP THREE: SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market but also works closely with clients in the manufacturing industry. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.


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Controlling currency and international payment costs

Fluctuations in the exchange rate have an impact on the cost of international payments, but it isn't the only factor.

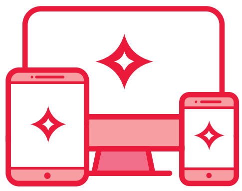
Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference. In addition, if you're working with multiple partners, exchange fees can soon add up and can further erode the profit margin. If you're working across multiple markets around the world, then it may be time consuming to set up and deliver the broad range of currency transactions required and to keep track of cash flow when working in multiple currencies.

Managing international payments

Working in partnership with a currency specialist like moneycorp can improve the process of managing international markets and partnerships.

As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with a 24/7 secure online platform for managing international payments. An online multi-currency account allows you to manage funds and currency transfers for 33 major currencies through a convenient and secure online platform. You can make and track payments, view live exchange rates, make use of currency tools such as forward contracts and set alerts for your preferred exchange rate and market updates. You can also manage users and approval workflows and run real-time reports.

Our platform includes a suite of APIs for seamless integration, facilities for bulk payments and functionality to reduce administration time and resource by simplifying the process.



Currency support for the global manufacturing industry

For many organisations, a global approach can help to offset some of the challenges of shrinking domestic markets, political changes such as Brexit and changing consumer tastes and priorities. Wherever the market is expanding, the cost of international transfers and the risk of currency exposure are likely to be a key factor in whether your plans succeed – after all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. The corporate foreign exchange service from moneycorp helps companies to manage their foreign exchange risk. Our expert team works directly with the manufacturing industry and provides guidance on the foreign exchange market and insight into currency tools and market developments and how they might impact individual businesses.

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Contact us

If you want to review your FX strategy or plan to make use of currency tools to address FX market volatility, our expert team are happy to help.

Get in touch with your account manager or request a free, no-obligation consultation. Quote the reference **"US election"** and call or email us on:

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