

FX Investors Brace for the U.S. Presidential Election Outcome

October 29, 2020

In the buildup to the U.S. presidential election, Coalition Greenwich canvassed global FX market participants to see how they expect the election to impact FX markets. We asked how each potential election outcome would affect the value of specific currency groups versus the U.S. dollar, and whether they intended to hedge against these outcomes.

We expected an array of predictions, but instead, global market participants at both corporations and financial institutions congregated around specific opinions. Here are the results:

How Each U.S. Presidential Election Outcome is Expected to Impact Value of Currency Buckets (vs. USD)

| | G10 (ex. USD) | | EM-LatAm | | EM-CEEMEA | | EM-Asia | |
|-------------------|---------------|-------|----------|-------|-----------|-------|---------|-------|
| | Biden | Trump | Biden | Trump | Biden | Trump | Biden | Trump |
| Weaken | 15% | 58% | 25% | 47% | 25% | 34% | 21% | 55% |
| Strengthen | 76% | 21% | 53% | 22% | 44% | 22% | 61% | 27% |
| Unchanged | 9% | 21% | 22% | 31% | 31% | 44% | 18% | 18% |

Source: CRISIL Coalition Greenwich 2020 U.S. Election FX Flash Study

If Biden Wins

As you can see, across the board and most notably with G10 Currencies, FX traders expect a Biden win to strengthen global currencies versus the U.S. dollar. Conversely, a Trump reelection is predicted to strengthen the USD.

When considering these opinions, several influencing factors stand out. First, if elected, Biden will push for another large stimulus package, which would flood the market with USD, thus devaluing it against other currencies. A U.S. stock market decline is also expected if Biden is elected, which would decrease the demand of USD for global FX market participants, causing a devaluation.

Why FX Market Participants Aren't Hedging

Given these strong predictions, we then asked market participants whether they have hedged or plan to

hedge according to these election outcomes. Surprisingly, approximately 80% say they have not or do not plan to hedge. With the uncertainty of the election outcome (given the 2016 polls did not predict a Trump win), participants likely believe hedging would be too difficult or too expensive. Instead, they plan to wait and see how the market reacts.

Delayed or Contested Election

Finally, with the possibility of a delayed or contested election result, we asked how the FX market would react. While opinions were more mixed on the value of the USD, a majority of respondents do expect increased volatility and turbulence in the market. This will depend on the initial count and likely election outcome, however.

Historically, in uncertain and volatile markets, investors flock to safe-haven currencies (USD, CHF, JPY). This seems to be the case again, with expected strengthening of the USD if there is a delay in the election result. Conversely, EM currencies could expect to see a devaluation.

In what many believe will be the most important election in U.S. history, the result is anticipated to have wide-reaching consequences in the financial markets and add another eventful chapter to the year 2020.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Coalition Greenwich as on the date of the Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.