

# Trump 2.0: Impact on markets and macros

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## Banking Research Team

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Akash Deb  
[akash510@unionbankofindia.bank](mailto:akash510@unionbankofindia.bank)

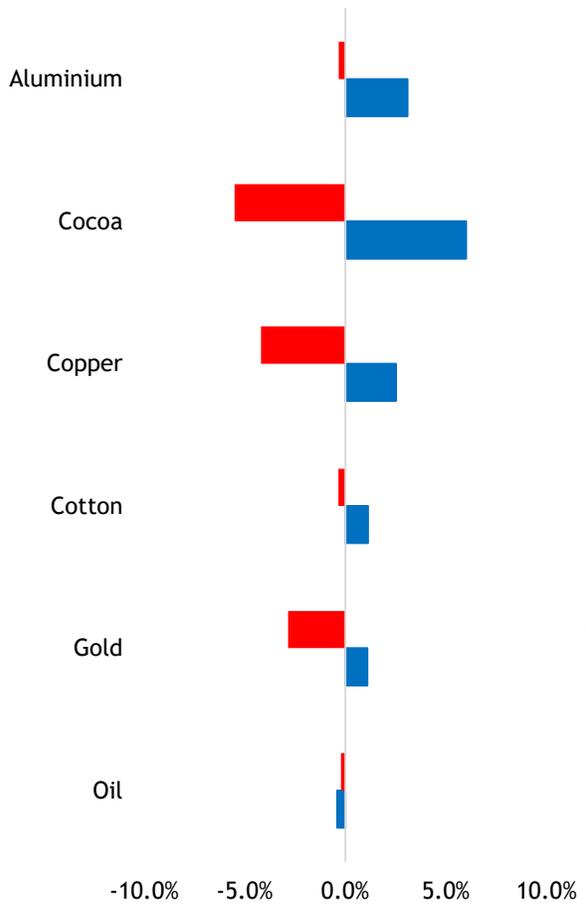
Shreyas Bidarkar  
[shreyas.bidarkar@unionbankofindia.bank](mailto:shreyas.bidarkar@unionbankofindia.bank)

S.Jaya Laxmi  
[s.jayalakshmi@unionbankofindia.bank](mailto:s.jayalakshmi@unionbankofindia.bank)

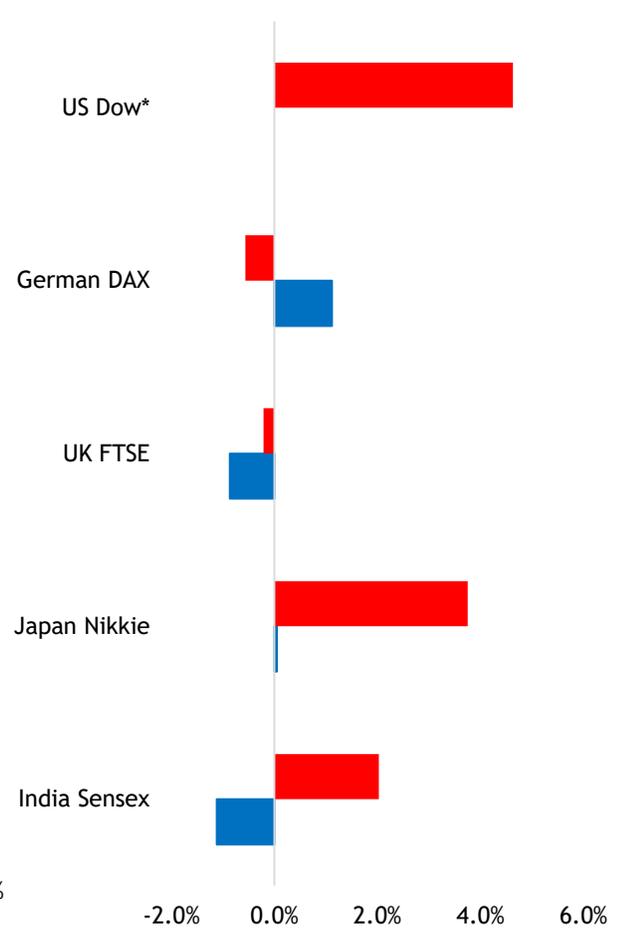
Dhiraj Kumar  
[dhirajkumar@unionbankofindia.bank](mailto:dhirajkumar@unionbankofindia.bank)

# An eventful week gone by: Volatile markets post Trump 2.0 & FOMC

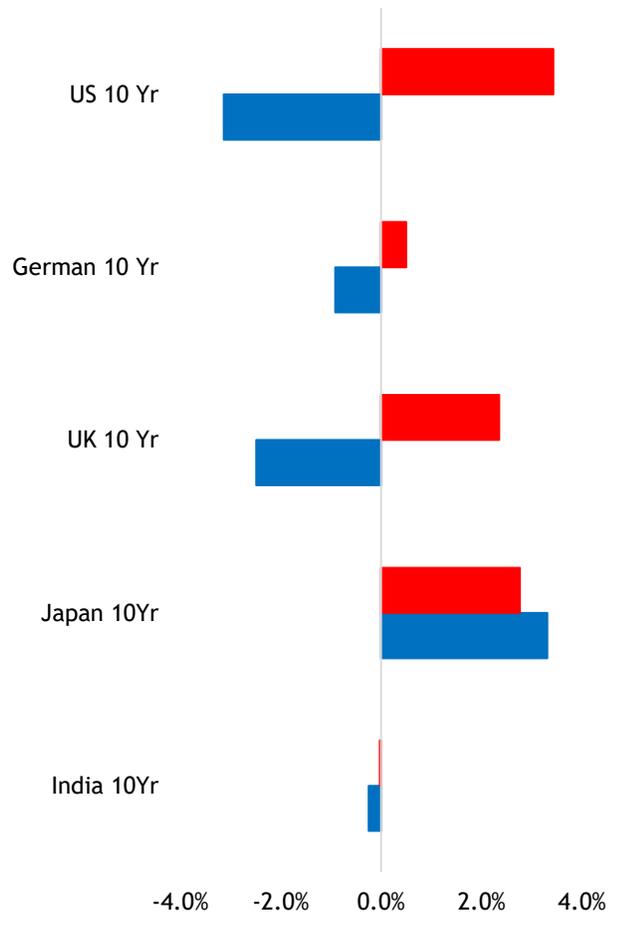
## Commodities



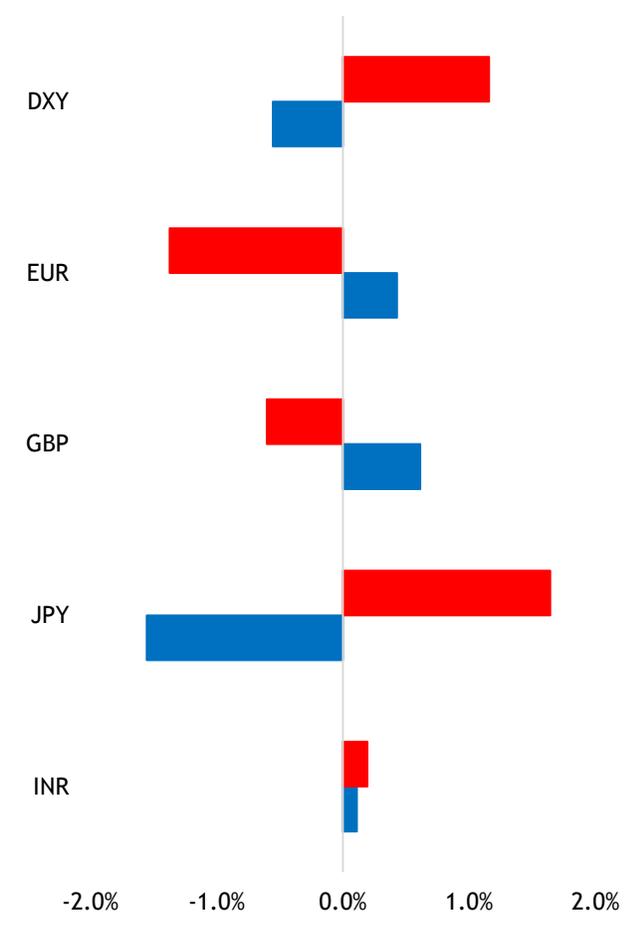
## Equities



## Bonds



## Currencies



■ % Change (Trump Win) ■ % Change (FOMC)

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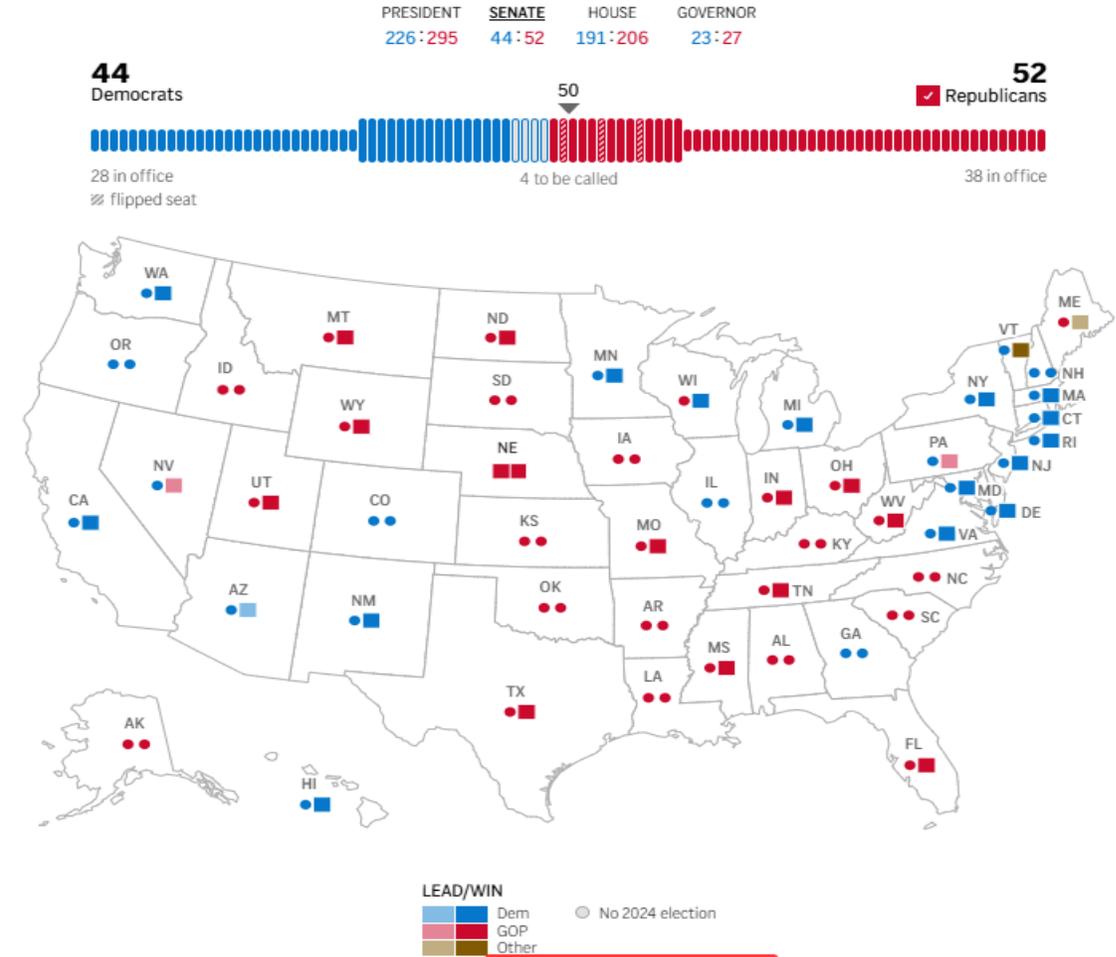
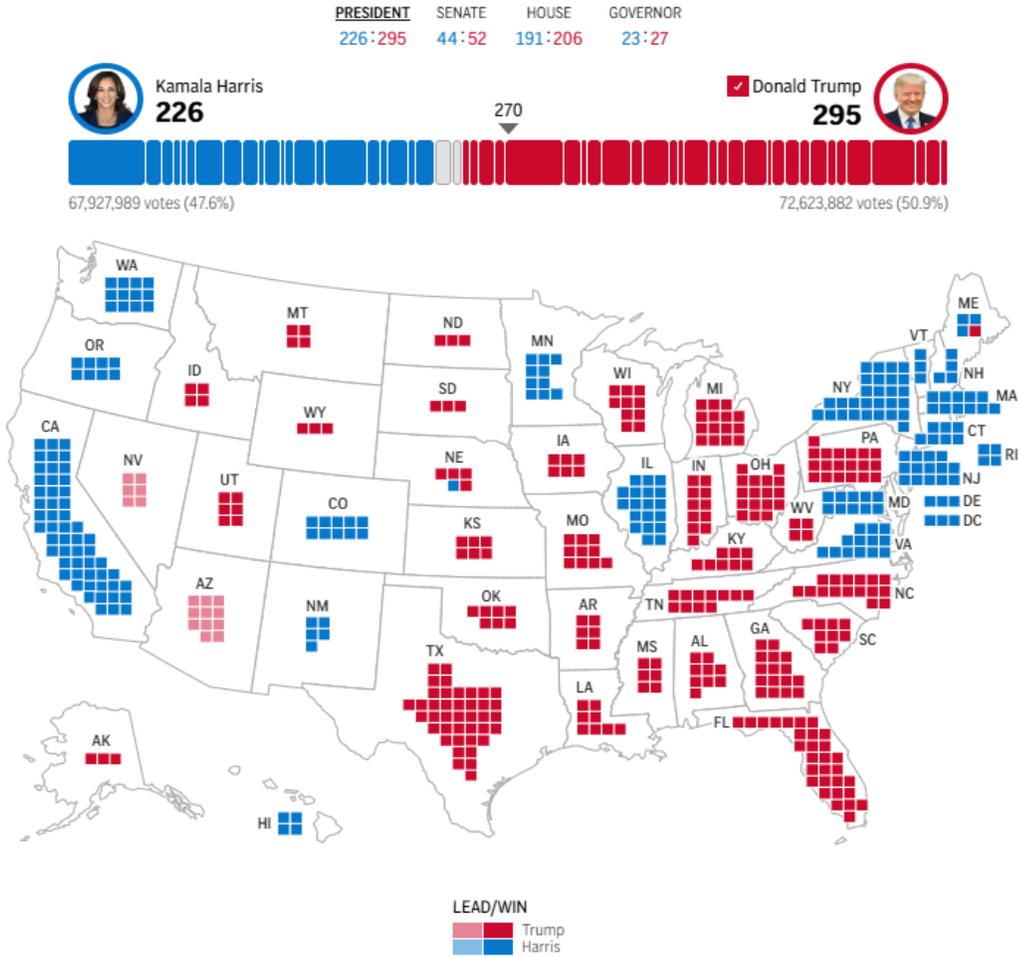
\*Dow Jones not open for 08<sup>th</sup> Nov so close of 07<sup>th</sup> Nov considered  
 % Change (Trump Win) - 06 Nov Vs 04 Nov and % Change (FOMC) - 08 Nov Vs 06 Nov (08 Nov data is as of 1530 IST)  
 Source: Bloomberg, UBI Research

| Asset class        | Impact | Risk   |
|--------------------|--------|--|
| <b>US</b>          |        |  |
| US Equities        | ●      | 1. Limited Fiscal expansion on low policy space<br>2. Trade protectionism drives de-dollarisation<br>3. Safe haven demand for treasuries drives yields lower<br>4. Trump's inflationary policies leads to hawkish FED  |
| US Treasuries      | ●      |  |
| US Dollar          | ●      |  |
| Fiscal Policy      | ●      |  |
| FED                | ●      |  |
| <b>India</b>       |        |  |
| Equities           | ●      | 1. Rupee sees more than 10% upmove similar to 2018<br>2. Sharp spike in imports from China weighs on both growth and inflation<br>3. Further delay in private capex recovery on loss in global business confidence<br>4. Sanctions on key oil exporters drives spike in prices |
| INR                | ●      |  |
| Yields             | ●      |  |
| Gold               | ●      |  |
| Crude Oil          | ●      |  |
| Emerging Market Fx | ●      |  |

# Republicans get thumping victory in US elections

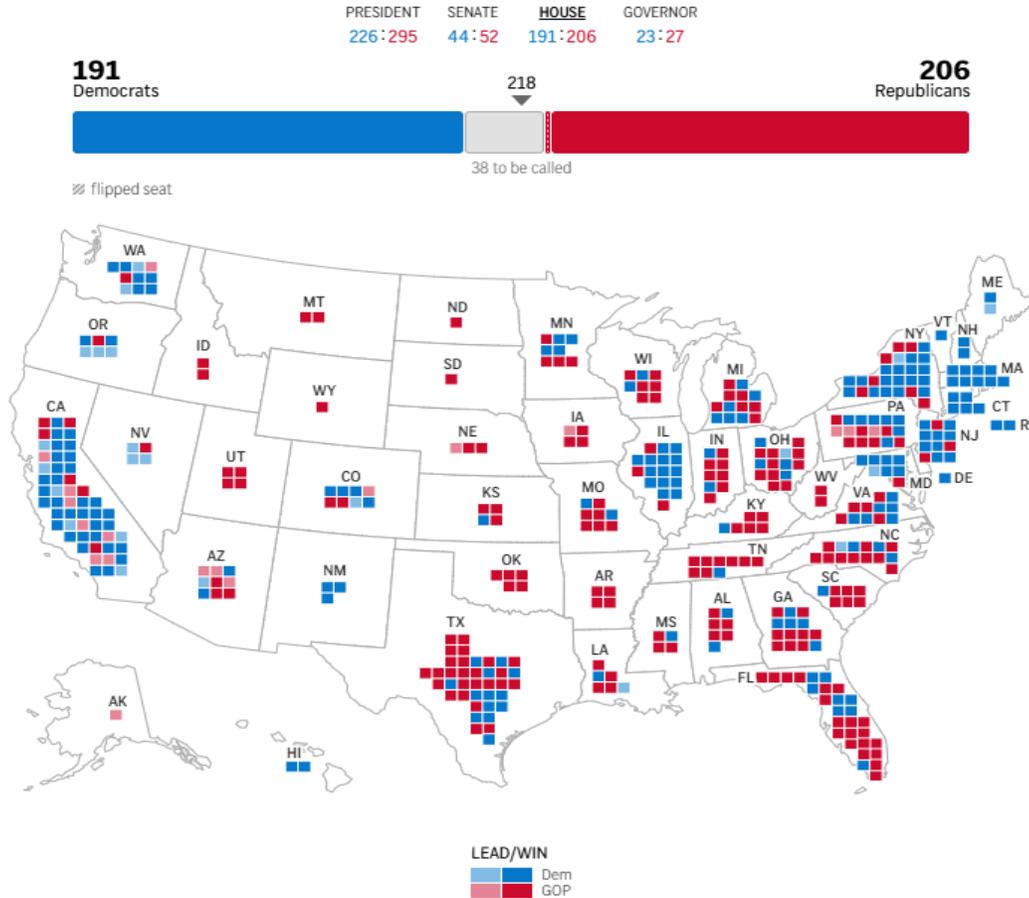
## Donald Trump wins US Presidency

## Republicans claim Senate as well



Republicans wins House too driving majority to push reforms

Key dates ahead of US elections 2024



## Key events of US elections 2024

December 11, 2024

Electors in each state will officially cast their votes for president and vice president.

December 17, 2024

Deadline for the 538 electoral college votes to arrive in Washington.

January 6, 2025

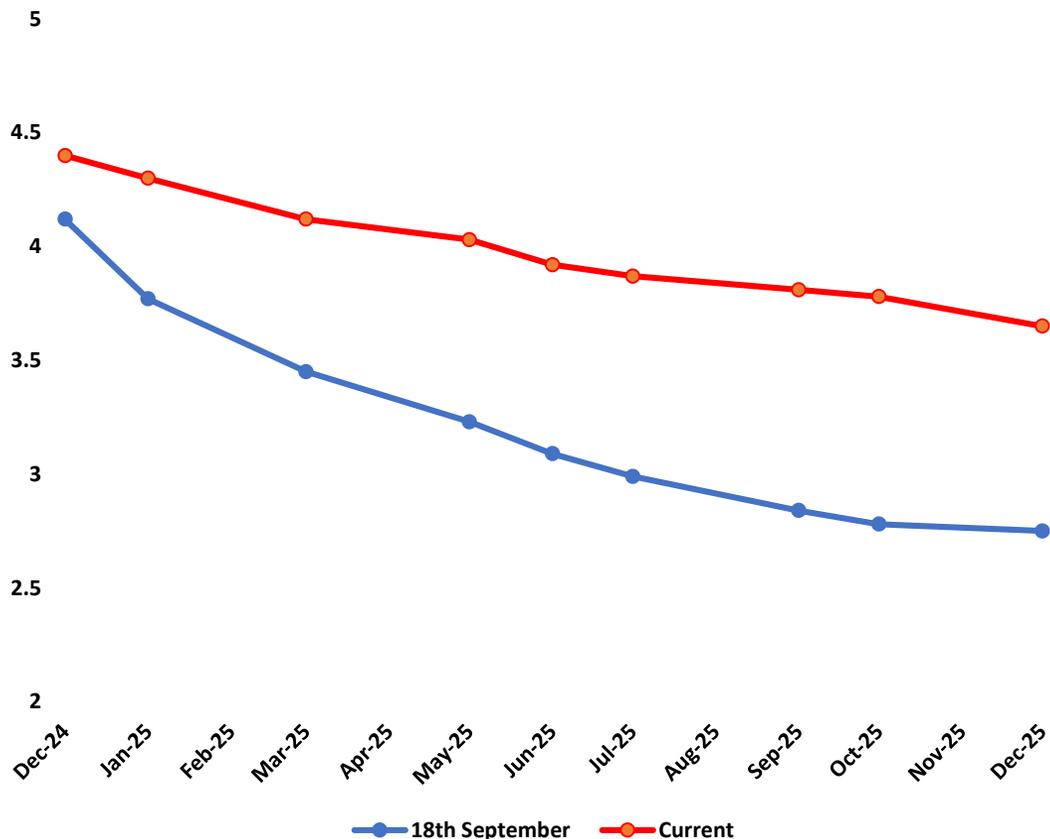
Electoral college votes will be formally counted before Congress

January 20, 2025

Elected president and vice president will be inaugurated and officially take charge

# Market pricing of rate cuts has dropped post US election results

Sep FOMC vs US election outcome has led to sharp drop in Fed rate cut pricing for next one year



Current FED Rate cut probability till end of 2025

| CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES |         |         |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| MEETING DATE  | 250-275 | 275-300 | 300-325 | 325-350 | 350-375 | 375-400 | 400-425 | 425-450 | 450-475 |
| 18/12/2024  |         |         |         | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 71.0%   | 29.0%   |
| 29/01/2025  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 30.4%   | 53.0%   | 16.6%   |
| 19/03/2025  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 20.0%   | 45.3%   | 29.0%   | 5.6%    |
| 07/05/2025  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 8.1%    | 30.3%   | 38.7%   | 19.5%   | 3.4%    |
| 18/06/2025  | 0.0%    | 0.0%    | 0.0%    | 3.9%    | 18.9%   | 34.4%   | 29.4%   | 11.7%   | 1.7%    |
| 30/07/2025  | 0.0%    | 0.0%    | 1.1%    | 8.0%    | 23.1%   | 33.0%   | 24.6%   | 9.0%    | 1.3%    |
| 17/09/2025  | 0.0%    | 0.3%    | 2.8%    | 11.7%   | 25.6%   | 30.9%   | 20.7%   | 7.1%    | 0.9%    |
| 29/10/2025  | 0.0%    | 0.6%    | 4.1%    | 13.8%   | 26.4%   | 29.4%   | 18.7%   | 6.1%    | 0.8%    |
| 10/12/2025  | 0.1%    | 1.1%    | 5.3%    | 15.3%   | 26.7%   | 28.1%   | 17.2%   | 5.5%    | 0.7%    |

In Nov 6-7 FOMC decision the central bank cut rates by 25bps as expected post the jumbo 50bps rate cut in Sep'24

## Trump's poll promises with respect to tariff hikes

- ❑ A 10% to 20% baseline tariff on all imports
- ❑ A 60% tariff on Chinese Imports
- ❑ Reciprocal tariffs on imports from countries that impose high tariff on US goods
- ❑ A 100% tariff on cars made in Mexico
- ❑ A 100% tariff on imports from countries that move away from trading in US dollar
- ❑ 50% to 200% tariffs on other Imports

## Trump has repeatedly asserted that “Leave the oil to me”

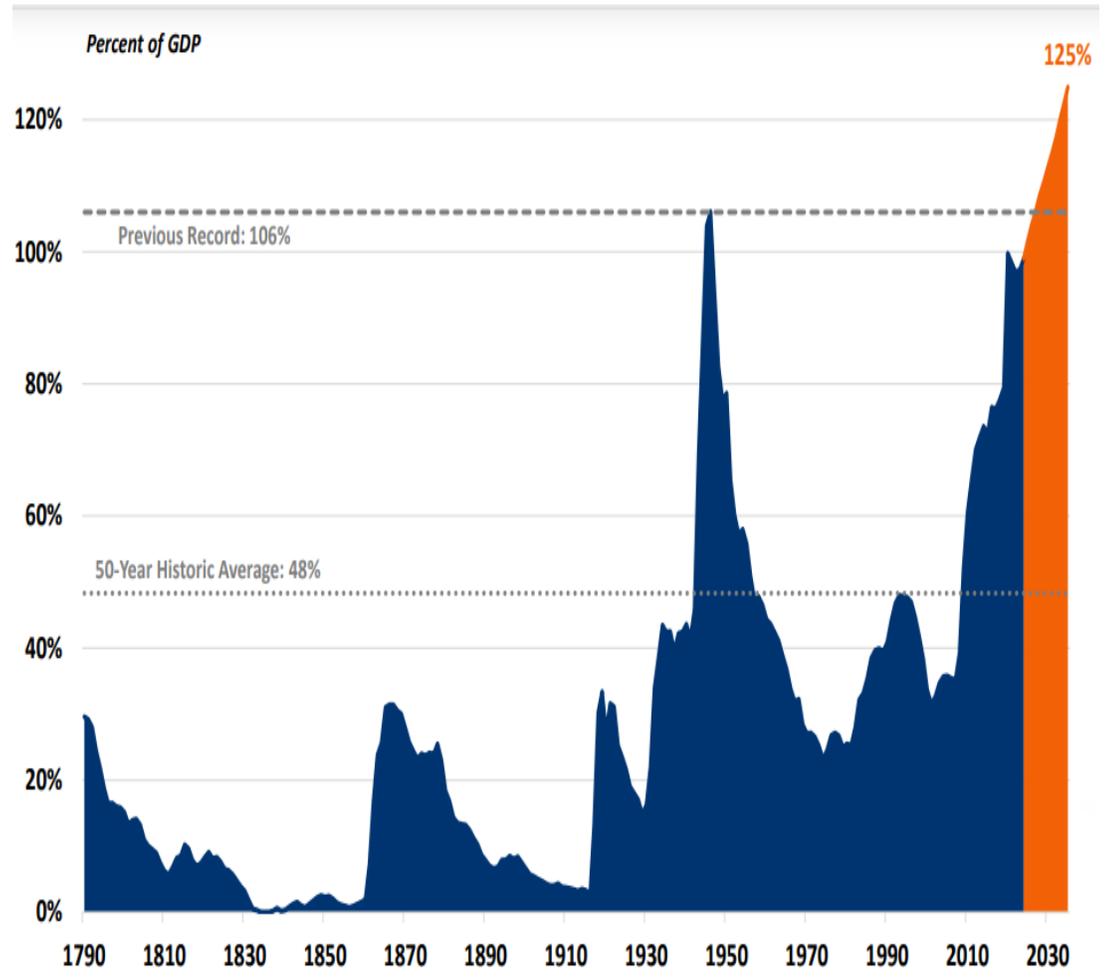
- ❑ His stance towards oil producers like Iran and Israel will be on close watch

However in our view, given the adverse macro impact of steep trade tariff hikes, “economics will likely trump politics” thereby deterring Trump from staying true to all his poll promises

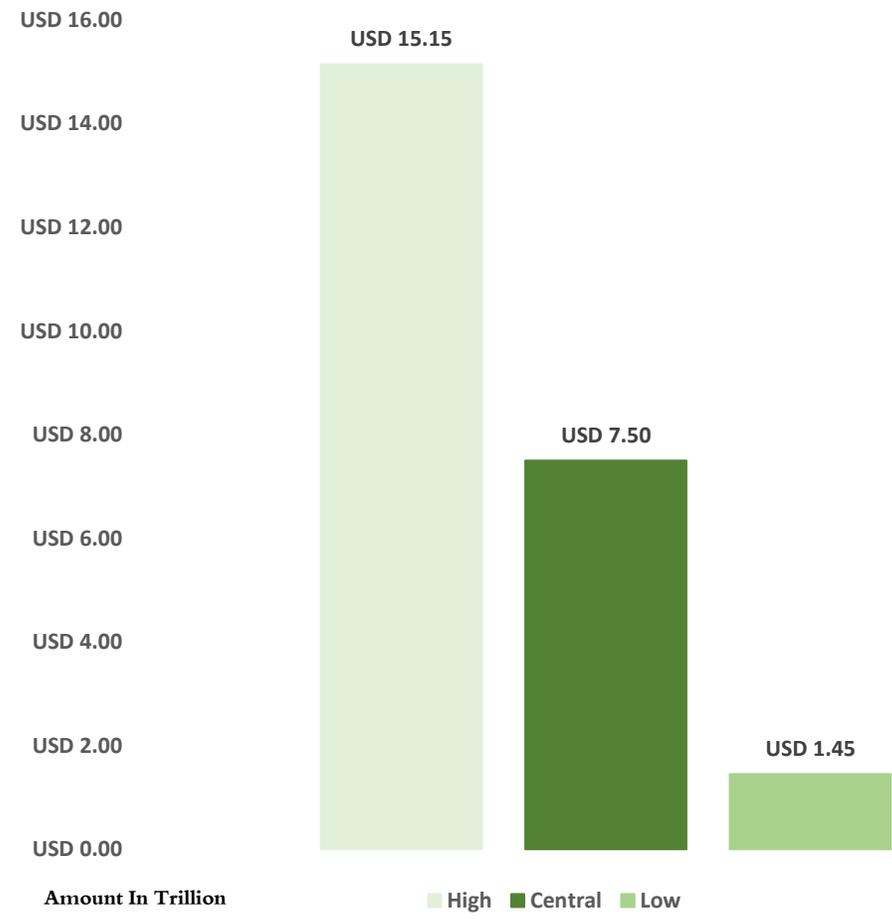
## The Trump Plan (billions, 2026-2035)

| Policy Proposals   | Low             | Central          | High             |
|--|-----------------|------------------|------------------|
| Extend and Modify the Tax Cuts & Jobs Act (TCJA)                   | -\$4,600        | -\$5,350         | -\$5,950         |
| Exempt Overtime Income from Taxes                                  | -\$500          | -\$2,000         | -\$3,000         |
| End Taxation of Social Security Benefits                           | -\$1,200        | -\$1,300         | -\$1,450         |
| Exempt Tip Income from Taxes                                       | -\$100          | -\$300           | -\$550           |
| Lower Corporate Tax Rate to 15% for Domestic Manufacturers         | -\$150          | -\$200           | -\$600           |
| Enact or Expand Other Individual and Small Business Tax Breaks     | -\$150          | -\$200           | -\$350           |
| Strengthen and Modernize the Military                              | -\$100          | -\$400           | -\$2,450         |
| Secure the Border and Deport Unauthorized Immigrants               | \$0             | -\$350           | -\$1,000         |
| Enact Housing Reforms, Including Credits for First-Time Homebuyers | -\$100          | -\$150           | -\$350           |
| Boost Support for Health Care, Long-Term Care, and Caregiving      | -\$50           | -\$150           | -\$300           |
| <b>Subtotal, Tax Cuts and Spending Increases</b>                   | <b>-\$6,950</b> | <b>-\$10,400</b> | <b>-\$16,000</b> |
| Establish a Universal Baseline Tariff and Additional Tariffs       | \$4,300         | \$2,700          | \$2,000          |
| Reverse Current Energy/Environment Policies and Expand Production  | \$750           | \$700            | \$550            |
| Reduce Waste, Fraud, and Abuse                                     | \$250           | \$100            | \$0              |
| End the Department of Education and Support School Choice          | \$200           | \$200            | \$0              |
| <b>Subtotal, Revenue Increases and Spending Reductions</b>         | <b>\$5,500</b>  | <b>\$3,700</b>   | <b>\$2,550</b>   |
| <b>Net Interest</b>  | <b>-\$200</b>   | <b>-\$1,050</b>  | <b>-\$2,100</b>  |
| <b>Total, Net Deficit Impact</b>                                   | <b>-\$1,650</b> | <b>-\$7,750</b>  | <b>-\$15,550</b> |

US Debt has already spiked to record high levels

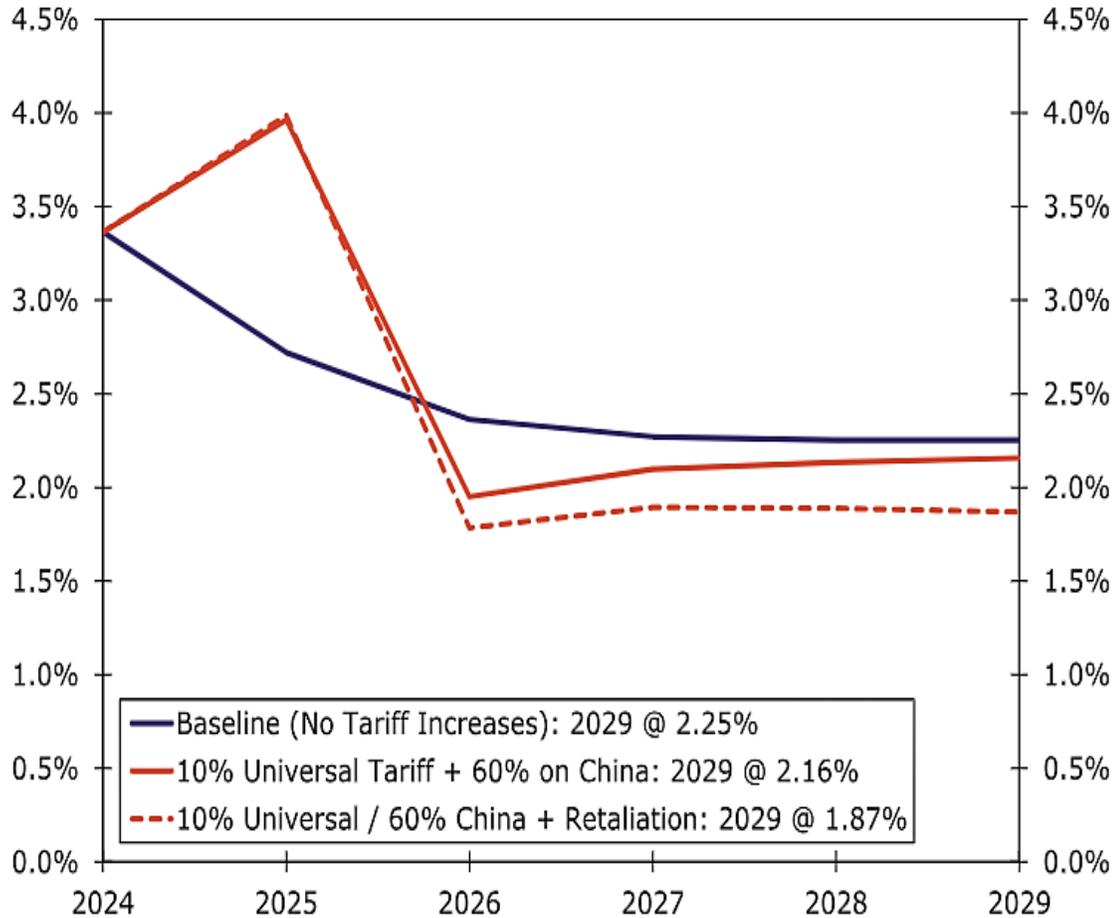


How much Trump's policies may add to fiscal deficit during FY26 to FY35

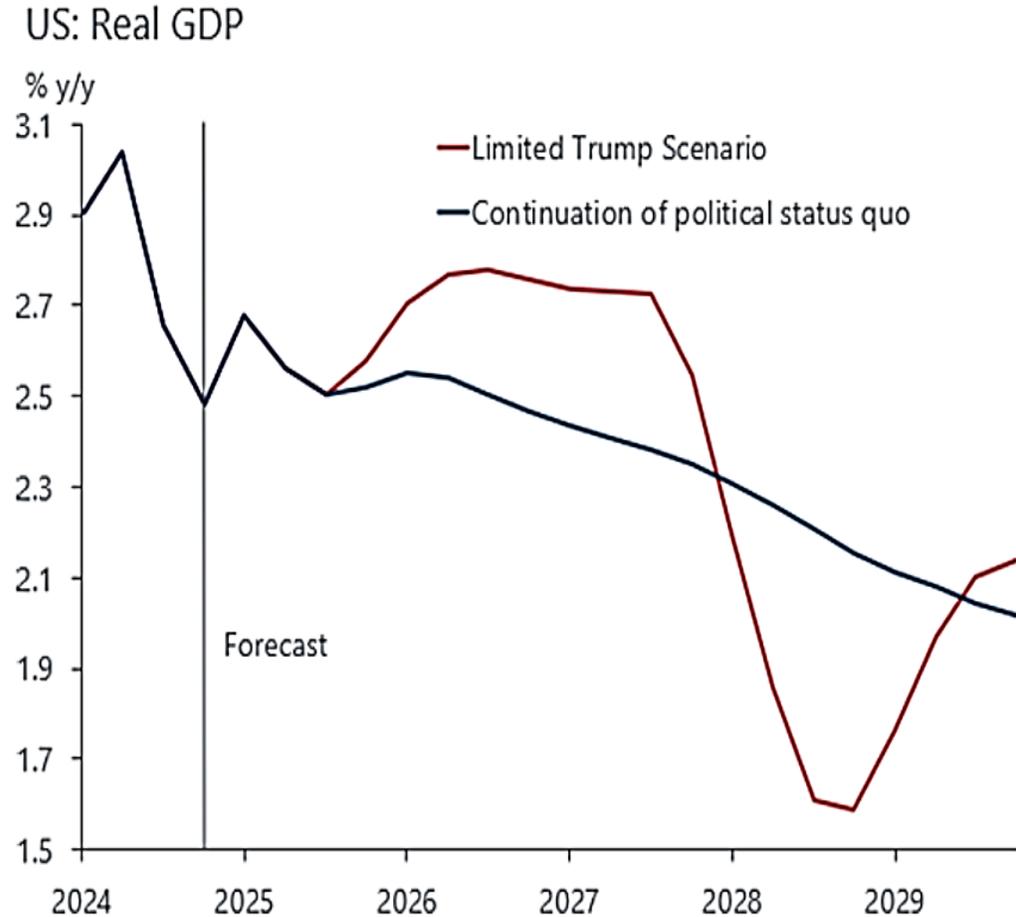


# Trade tariff hikes likely to have an adverse macro impact

Core Consumer Price Index YoY % Change, which may shoot up to 4.2% in 2025



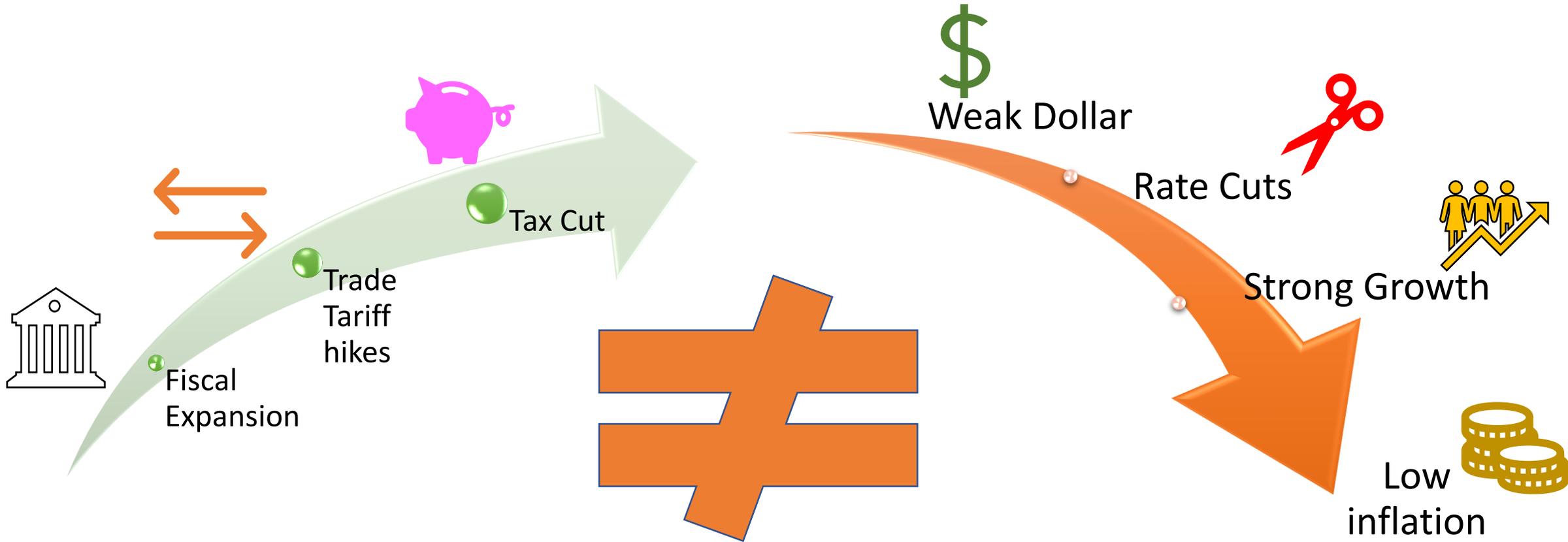
US Real GDP growth may be 0.3ppts higher in 2026 due to change in fiscal, trade and immigration policy



# Lack of synergy in Trump's poll promises may drive "economics to trump politics" eventually

Trump's key poll promises

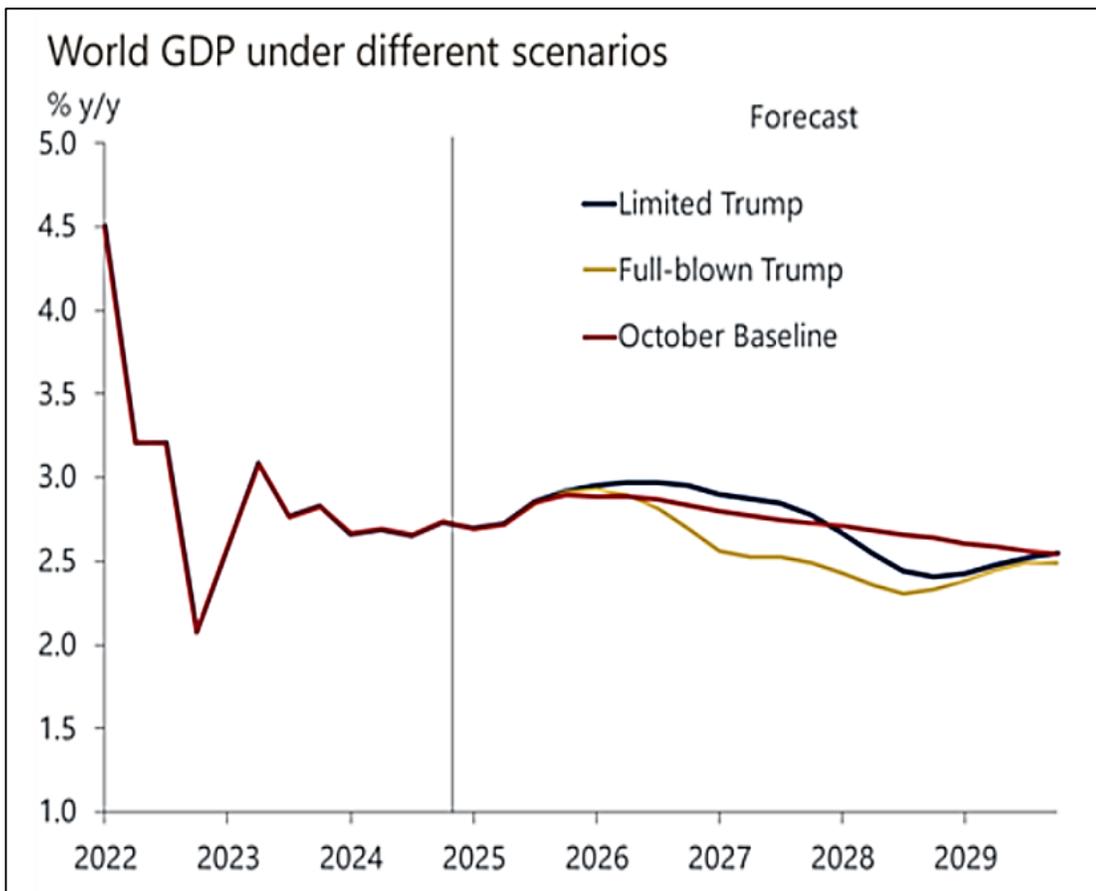
Economically contrarian poll promises



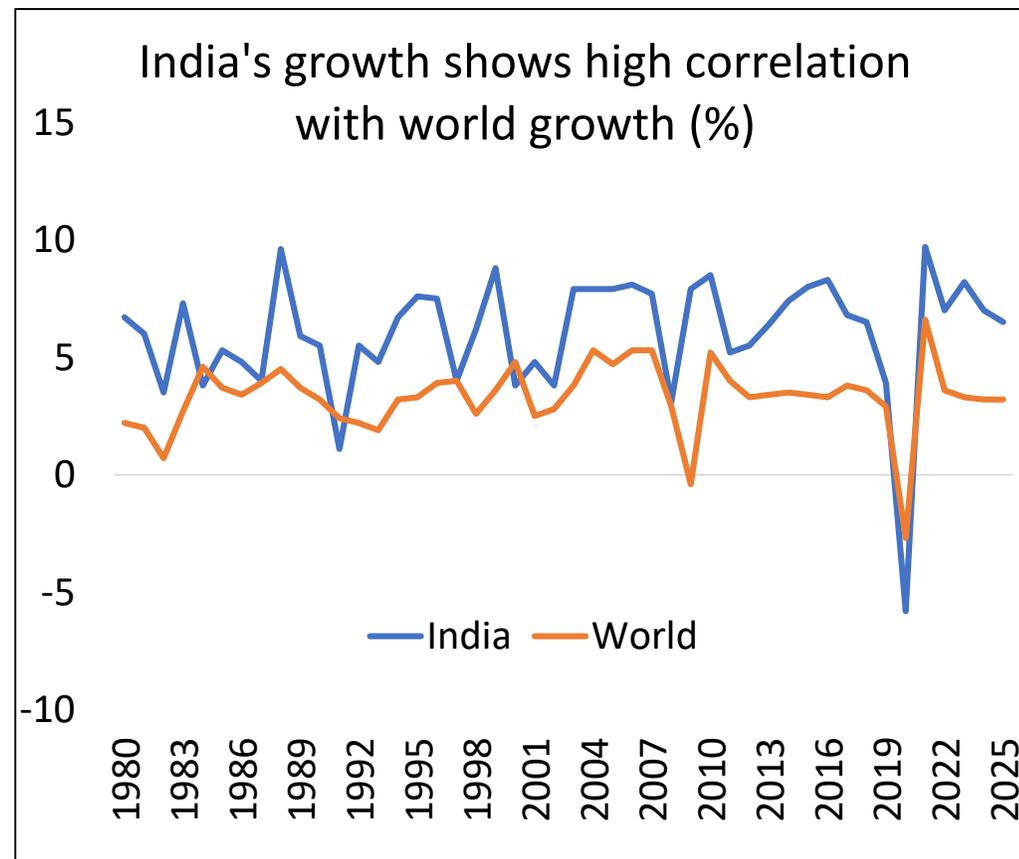
## Trump 2.0 : Impact on Indian markets and macros

|                                     | Annual growth impact | Annual inflation impact |
|-------------------------------------|----------------------|-------------------------|
| Global growth slows down by 100 bps | (-) 30 bps           | (-)15 bps               |
| Oil prices move down by 10%         | (+) 15 bps           | (-) 30 bps              |
| Rupee depreciates 5%                | (+) 25 bps           | (+) 35 bps              |

Trump victory is likely to boost global growth initially though medium term effect may not be favourable



India's GDP growth is correlated with global growth yet sensitivity is low at 0.3



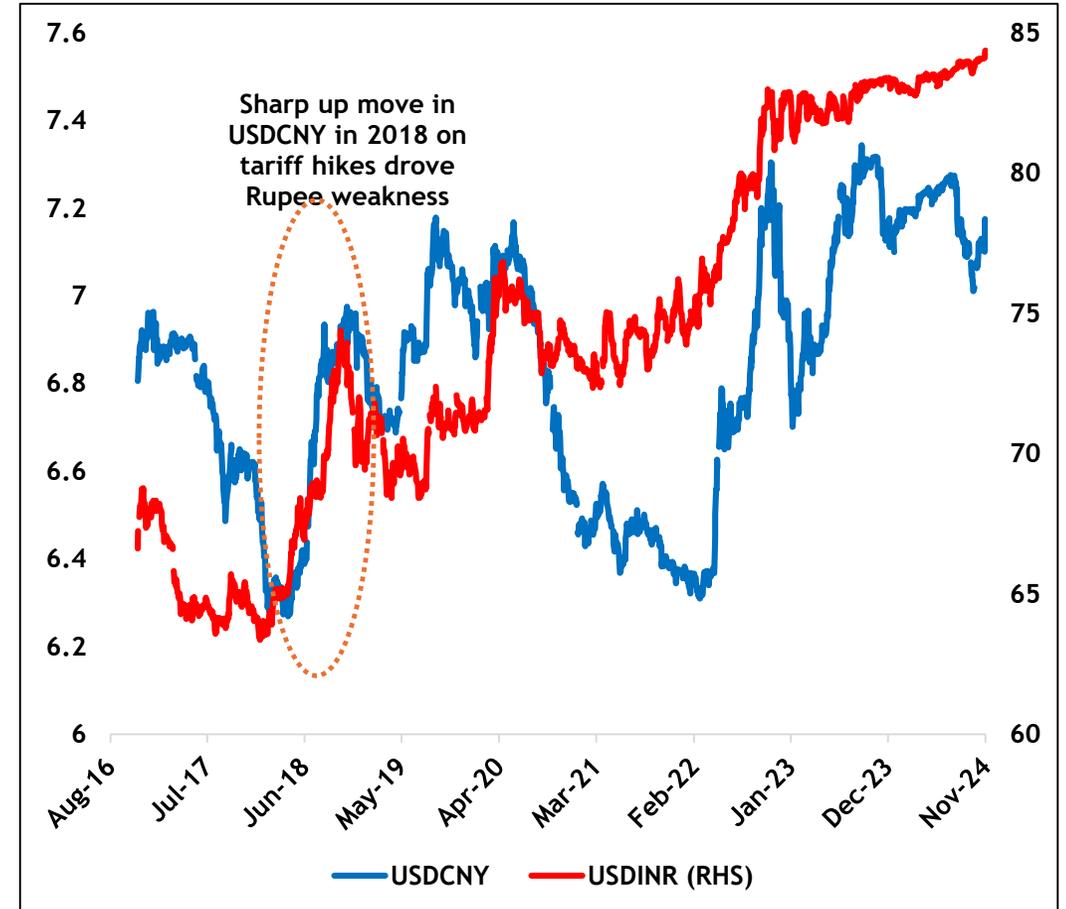
Business confidence may also take a hit in a full blown trump scenario, thereby raising risk of further delay in private capex recovery

# We need to guard against sharp spike of imports from China

Key sectors have seen a spike in China's share in imports post covid

| % share of China in India total imports in these sectors |            |            |
|--|------------|------------|
| Sectors  | FY 2018-19 | FY 2023-24 |
| Electronics Components                                   | 36.9       | 39.62      |
| Computer Hardware, Peripherals                           | 44.6       | 49.93      |
| Iron And Steel   | 11.3       | 16.2       |
| Organic Chemicals  | 25.2       | 30         |
| Plastic Raw Materials                                    | 11.8       | 22.4       |
| Electric Machinery And Equipments                        | 26.7       | 30.98      |
| Auto Components/Parts                                    | 22.8       | 25.45      |

Hence, the extent of Rupee move vis-à-vis CNY needs close watch

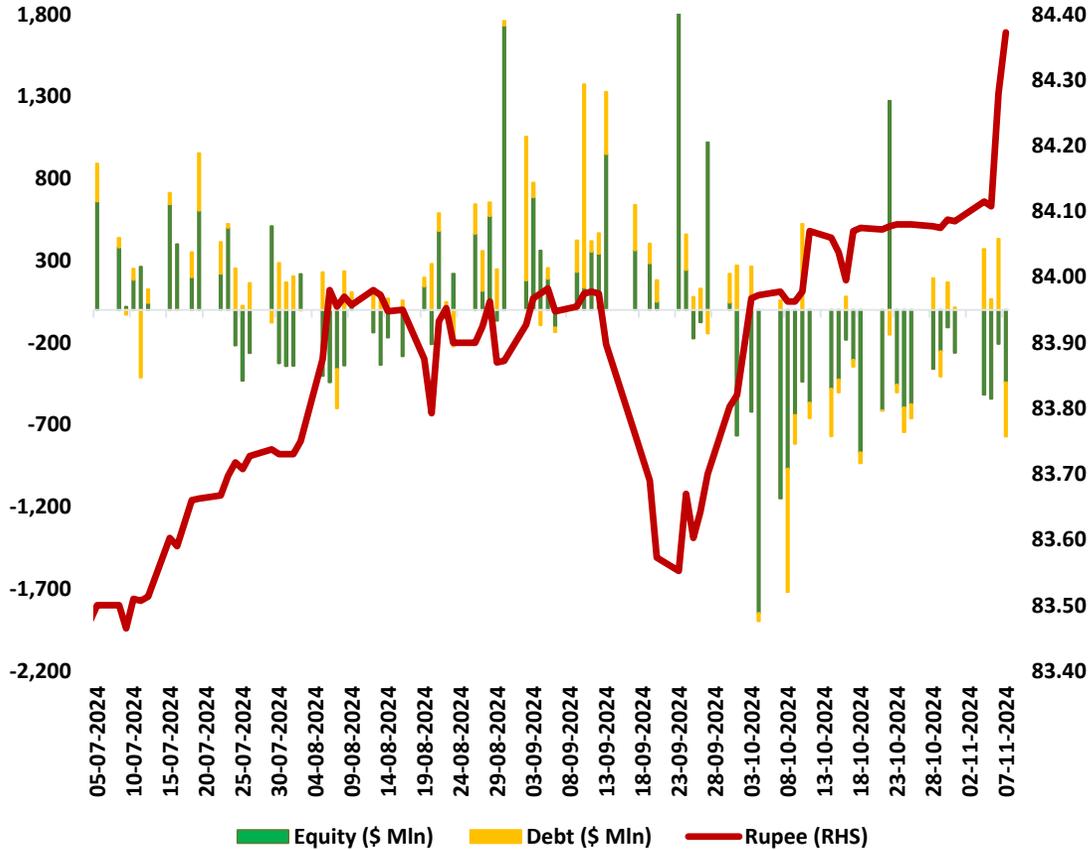


# Rupee clocked fresh record lows, though volatility remains capped

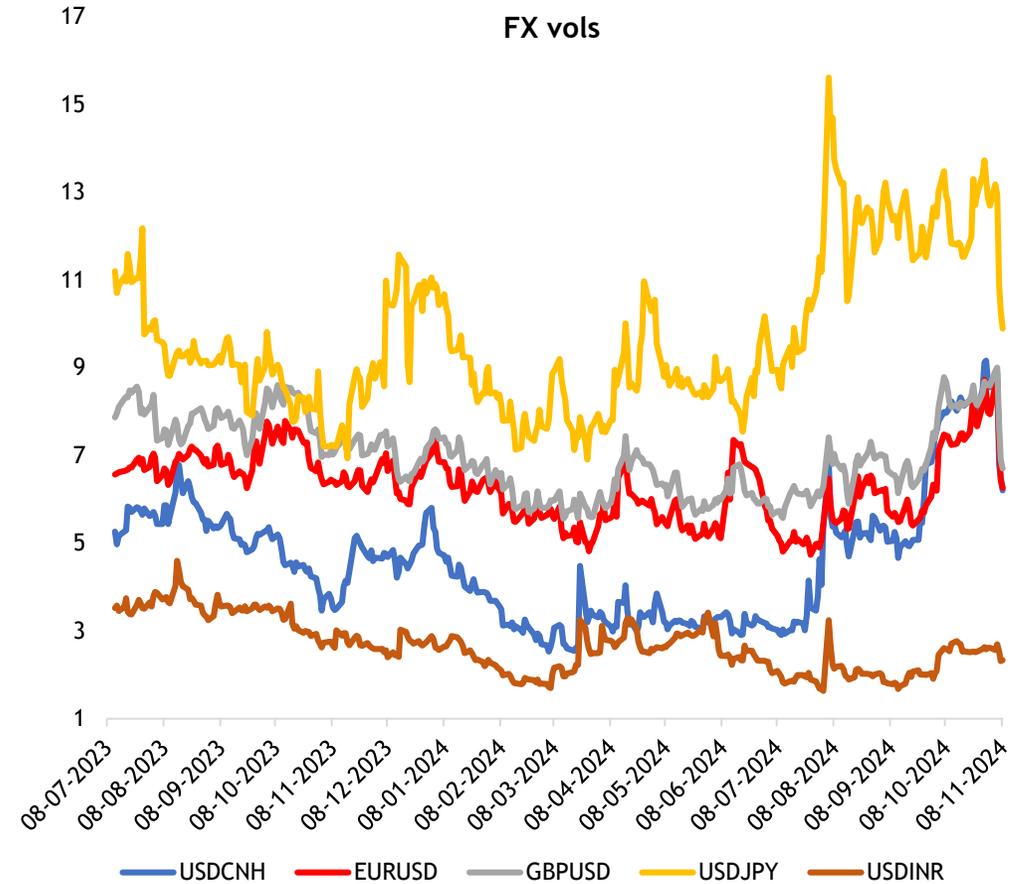
*Rupee weakens on rise in Trump's winning odds*

*Rupee volatility is lowest among all its global peers*

Rupee movement tracking \$ flows

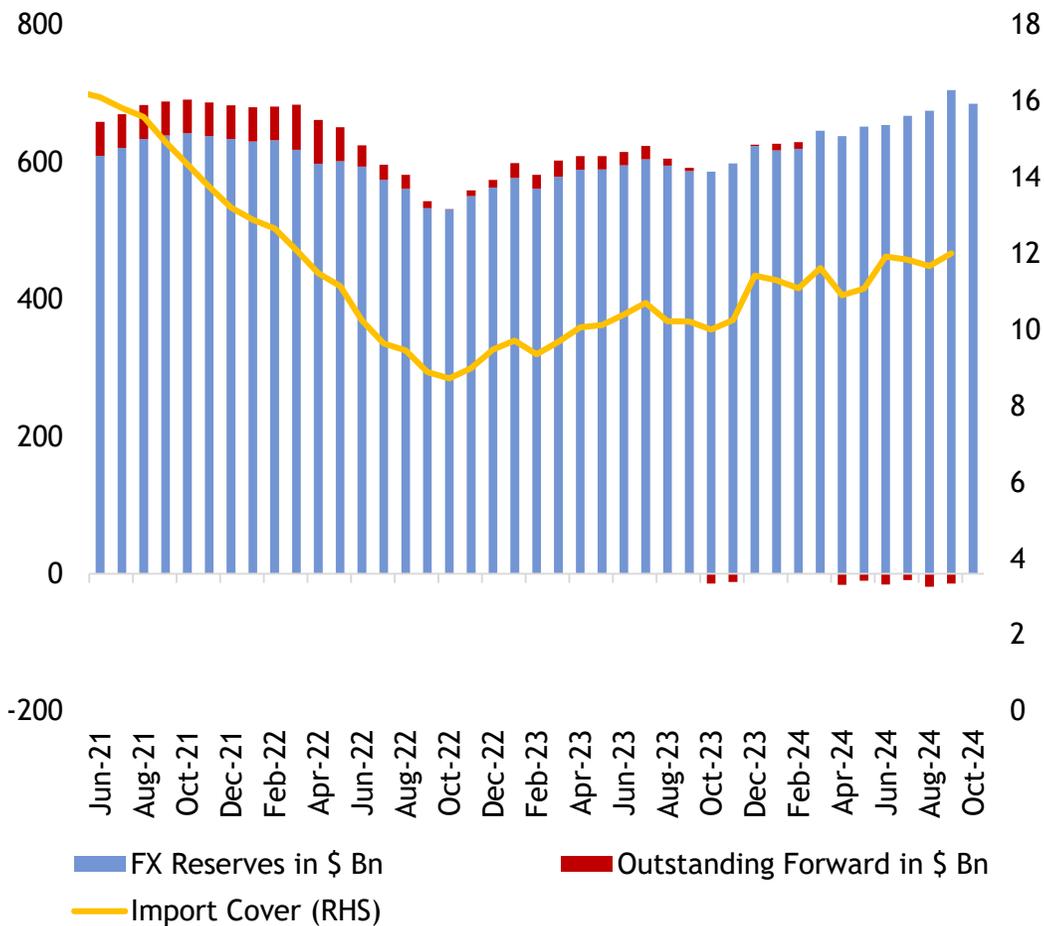


FX vols

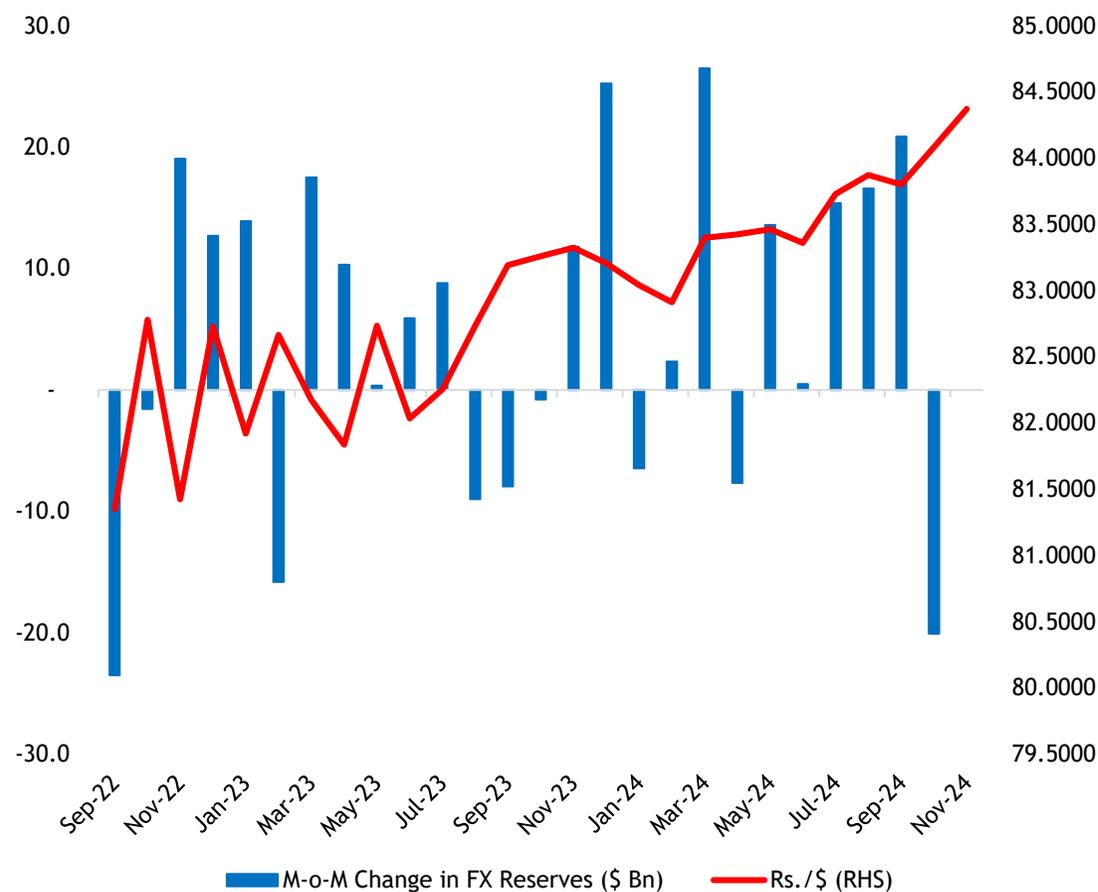


# RBI has ample FX reserves to contain FX volatility

Ample FX reserves add to provide cushion in a volatile world



FX Reserves buffer helping defend Rupee Volatility



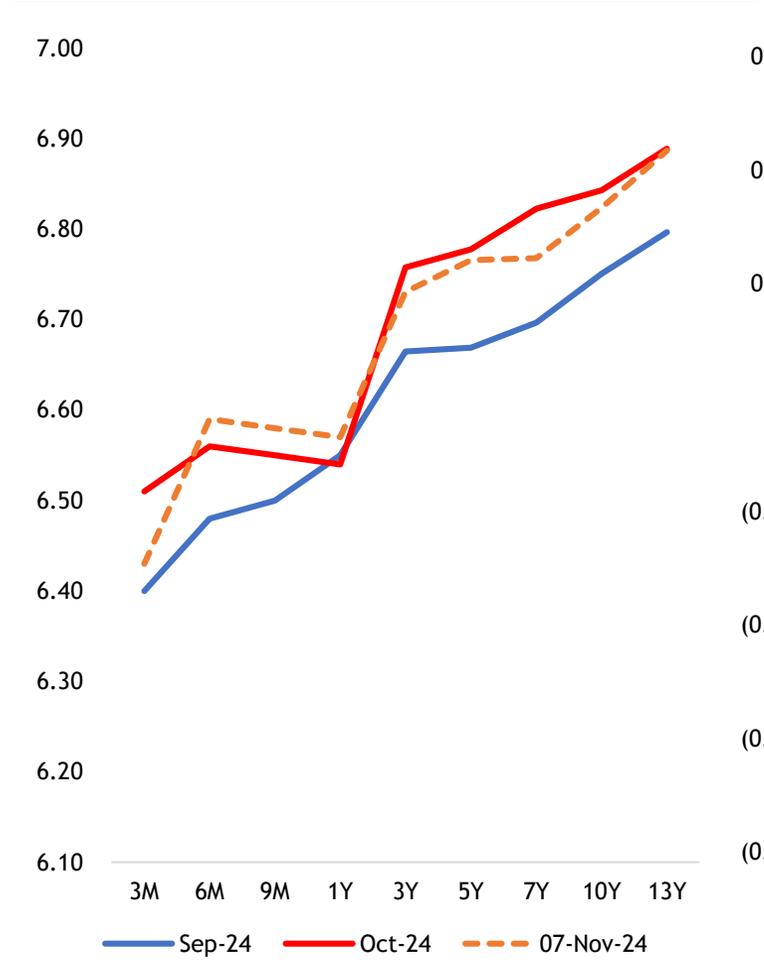
Source: CEIC, RBI and UBI research

# Strong fundamentals cushioned impact of global bond selloff on domestic yields

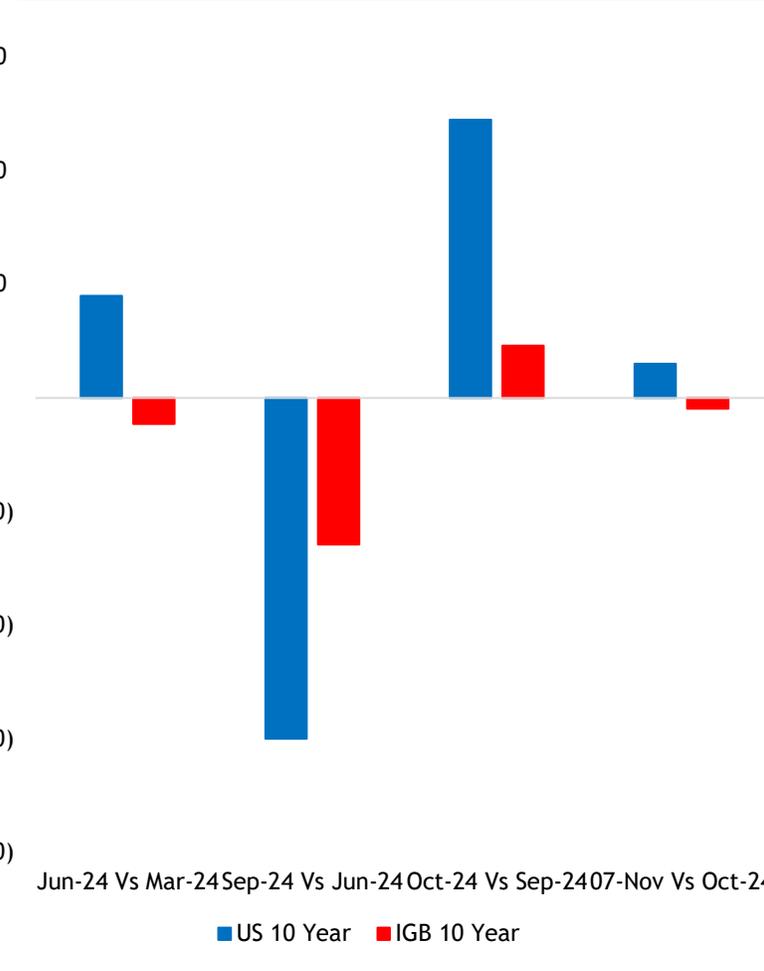
### US Yield Curve



### India Yield Curve

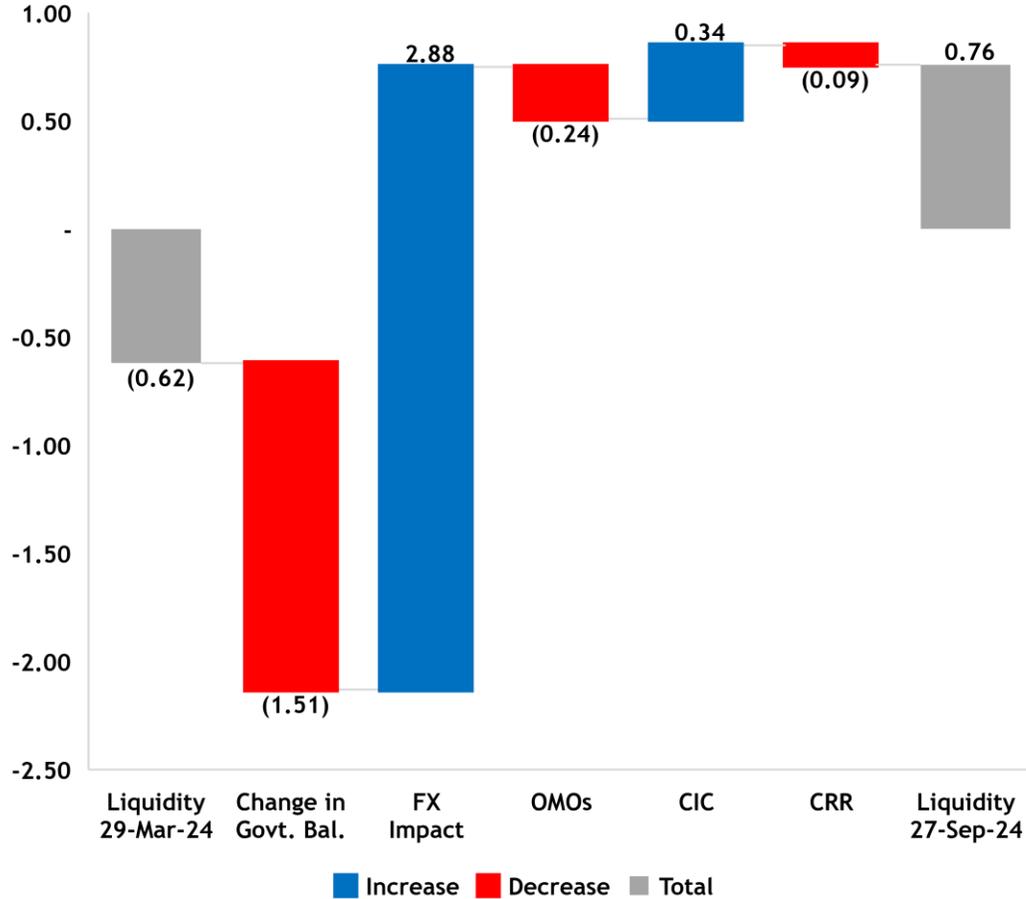


### US 10Y Vs India 10Y movement

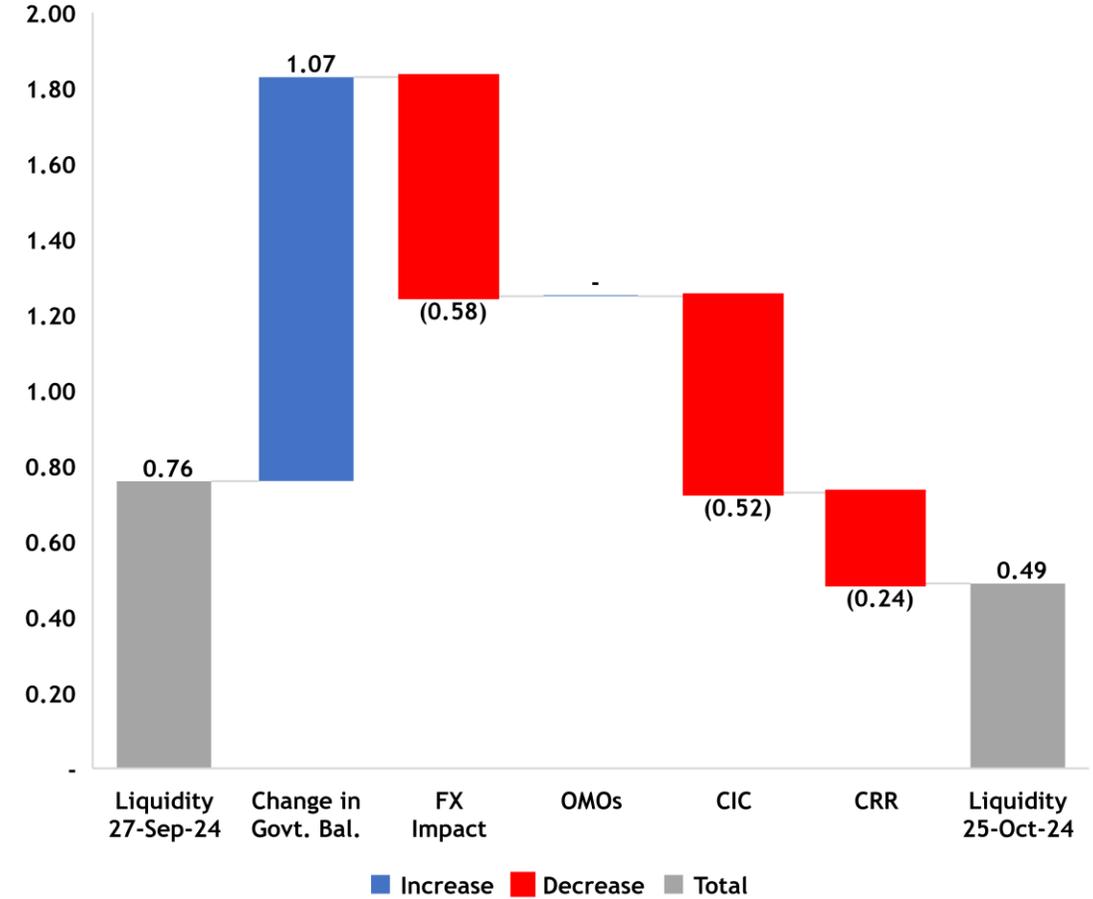


# Liquidity is likely to remain surplus unless FX plays spoilsport

Liquidity drivers from Mar-24 to Sep-24



Liquidity drivers from Sep-24 to Oct-24



# We remain positive on long duration bonds on favourable demand-supply dynamics

*Fiscal deficit and borrowing Nos falling on absolute basis*

| Parameter                             | FY15-20 | FY21 | FY22 | FY23 | FY 24 Prov. | FY25 (I) BE | FY25 BE |
|---------------------------------------|---------|------|------|------|-------------|-------------|---------|
| FD (% of GDP)                         | 3.8     | 9.2  | 6.8  | 6.4  | 5.6         | 5.1         | 4.9     |
| FD (Rs. Lakh Crore)                   | 6.3     | 18.2 | 15.8 | 17.4 | 16.5        | 16.9        | 16.2    |
| of which                              |         |      |      |      |             |             |         |
| Net Market Borrowing (Rs. Lakh Crore) | 4.4     | 10.3 | 7.0  | 11.1 | 11.8        | 11.8        | 11.6    |

# Thank You !

## RESEARCH TEAM

KANIKA PASRICHA

SUNEESH K

R GUNASEELAN

NIDHI ARORA

RAJESH RANJAN

AMIT SRIVASTAVA

JOVANA LUKE GEORGE



DHIRAJ KUMAR

AKASH DEB

ROHIT YARMAL

SHREYAS BIDARKAR

S. JAYALAXMI