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**Fig 1: US macro impact of election outcomes**

	Trump	Harris
<b>Growth</b>	↓	↑
<b>Inflation</b>	↑	↓
<b>Fiscal deficit</b>	↑	↓
<b>Dollar</b>	↑	↓
<b>Rates</b>	↑	↓

Source: UBI research

*The Presidential race will most likely come down to voters in seven competitive states*

Global markets have seen an upsurge in volatility as winning odds shifted in Trump’s favour since early October. The polls still point to a toss-up, with the contest very close in swing states (neither has enough votes to lead Electoral College, a condition to become US President). The market pricing for a Trump win was initially seen more in FX (DXY index is up almost 3% in last month) while bond markets have caught up during weekend with US 10-year yield at 4.40%, levels not seen since July-2024 even though markets stay volatile with 10bps down move seen this week. With the election date as 5th November, polling booths are likely to close by 6:30 AM IST on 6th November, when we will start closely watching for initial voting outcomes. However, for key swing states, voting outcomes likely to be released only by the end of the week.

Apart from elections, a busy week lies ahead, with the US FOMC decision due on 7th November, with markets still pricing only 25bps rate cut and not a repeat of the jumbo 50bps cut in September, despite October NFP nosediving to 12k vs 115k expected and 240k previously.

While a Harris win would imply retracing of recent spike in Dollar and US rates, Trump win may imply more market volatility, even though we firmly believe that “Economics will Trump Politics” in a volatile world. He may not stay true to all his poll promises even though they build a macro framework for slower growth, higher inflation, higher fiscal deficit and hence delayed rate cuts by the Fed. With likely rise in geopolitical tensions globally, we may also see some upside in commodity prices especially oil.

From India’s perspective, “Trump trade” may imply another leg up in USDINR and domestic rates, with the later affected by likely further shift in policy easing prospects, though we may still be one of the least affected among other emerging markets. The macro channels of impact via trade and commodity prices may still play out though inflation and growth impact via China dumping prospects would need close watch.

**Trump continued to gain ground significantly in last one month**

With two days until US election i.e. on 5th November the two Presidential candidates, their running mates have toured multiple battleground states to shore up the support. The number of early votes cast either by ballot or by email has already surpassed that of 2016 and 2012, historic data suggest that Democratic has advantage over Republic in early votes. It was just less than month ago that both the US Presidential candidates were going neck to neck it’s just recently that fortune have turned in Trumps favour as per betting markets. Although, the national polls which earlier indicated Harris lead Trump by 2ppt have changed over weekend and now have moved in Trump’s favour with only 0.3ppt lead. While prediction markets including Polymarket which currently indicate 58% probability of Trump win and Kalshi indicate 53% probability of Trump win and have further raised the probability of a Red Sweep as well. While the trend especially in swing states have been clearly in Trump’s favour since September, the magnitude is still clouded with significant uncertainty where just a small number of votes could determine which candidate gets the electoral college.

**Who is winning in swing state polls?**

While national polls are a useful guide as to how popular a candidate is across the whole country, they’re not the best way to predict the election result. That’s because the US uses an electoral college system, in which each state is given a number of votes roughly in line with the size of its population. A total of 538 electoral college votes are up for grabs, so a candidate needs to hit 270 to win. There are 50 states in the US but because most of them nearly always vote for the same party, in reality there are just a handful where both candidates stand a chance of winning. These are the places where the election will be won and lost and are known as battleground states or swing states.

Those swing states are Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin. There are 34 Senate seats and all 435 seats in the House of Representatives up for the election of which 270 electoral votes are required to win the election. The state of Pennsylvania is important as in this swing state in 2016 Trump had won by a narrow margin of 0.72%. Trump started with a wide lead on election night. However, over the next few days, Biden greatly closed the margin

*Pennsylvania remains key as once Democrats stronghold*

*Trump has gain popularity among middle class voters*

due to outstanding votes from Democratic-leaning areas, most notably Philadelphia and Pittsburgh, as well as mail-in ballots from all parts of the state which strongly favoured him. Right now, polling leads in swing states are extremely close, making it difficult to determine who is truly ahead. Polls primarily reflect public sentiment rather than predict election outcomes with precision, especially given margins of error of about three to four percentage points.

*In Arizona, Nevada, Georgia, and North Carolina, Trump currently holds a major lead, although the lead has fluctuated since August. Conversely, in Michigan and Wisconsin, where Harris had been leading, polls have tightened, and Trump has taken a narrow lead in Pennsylvania.* These two states, once Democratic strongholds, are crucial for both campaigns, particularly Pennsylvania due to its electoral vote count. When Biden dropped out, he was trailing Trump by nearly five points in the swing states, highlighting the race's shift since Harris became the nominee.

**Reasons for Trump’s Lead**

**Trump's rising odds for re-election, can be attributed to several key factors:**

- Economic Concerns:** Despite the Biden administration's success in reducing inflation to near 2%, many voters still feel financial stress, particularly regarding living costs. Trump has capitalized on this by promising to lower energy prices and taxes, appealing to middle-class voters.
- Tax Policies:** His commitment to further reduce the corporate tax rate resonates with large corporations and wealthier individuals, which bolsters his support among those groups.
- Immigration Stance:** Trump’s strong position against illegal immigration has also garnered support.
- Demographic Trends:** He is currently performing better with male voters compared to female voters, which may influence his overall support.

These factors combined have strengthened his position in the race as he aims to capture a broad base of voter support.

Scenario	Trump Win		Harris Win	
	Republican Clean Sweep	Divided Government	Democratic Clean Sweep	Divided Government
Overview	Risks of trade tensions likely to rise globally while corporate tax cuts would be eyed by businesses		Focus will remain on policy steps like corporate tax hike	status-quo likely
Trade and tariffs	Focus on trade protectionism as Trump has promised 60% import tariff on China and 10-20% universal import tariff on rest of the world		status quo likely	
Foreign Policy/ Trade policy	Greater uncertainty in relationship with China. A push towards cutting funding to Ukraine and less support to Taiwan along with Iran. Trump focus on domestic growth and jobs		Ongoing support for Ukraine and close collaboration with global allies. Middle East tensions persist, but Taiwan retains US backing	
Fiscal Policy	We may see a strong push for fiscal expansion	Corporate tax cut less likely without a legislative compromise.	Increase in the corporate tax rate and hike in maximum tax rate on capital gains to 28%.	Priority will be to extend the provisions within the expiring Tax cut and jobs act (TCJA)
Impact on the US Dollar, FED’s stance and Commodities	<p><i>This is the most bullish scenario for dollar in medium term.</i> Loose fiscal, tight monetary policy plus tariff hikes are all dollar positive and may keep the yields higher for longer.</p> <p>Stronger growth and higher inflation likely to drive the FED to keep rates higher in this scenario vis-à-vis current market expectations.</p> <p>Focus on US energy independence and pressure on OPEC+ to increase supply may see weaker oil prices in medium term. But all eyes remain how Trump deals with Iran any further sanction would lead to impact on oil prices.</p> <p>Emerging markets could be affected by trade tensions, high tariff, although India may be relatively less affected as US being strategic partner to counter China.</p>		<p>Somewhat tighter fiscal and looser monetary mix plus less aggressive trade policy is dollar negative and further retracement in yields also likely.</p> <p>A tighter fiscal environment, coupled with modestly weak growth and reduced inflation threat may see the FED more willing to run looser monetary policy.</p> <p>Lower growth prospects likely to weigh on oil prices in short term. Meanwhile, prospects of sustained Russia/Ukraine deadlock mean oil prices may see some upward pressure on geopolitical tensions.</p> <p>Any fiscal consolidation could pave the way for more rate cuts, which will support the emerging markets.</p>	

*Trump's Presidency may lead to weakness in ASEAN growth due to anticipated tariff hikes*

*Will China allow CNY to depreciate on backdrop of renminbi internationalization*

### The Senate: Advantage Republicans

The Republicans have a significant advantage in the Senate, which could hinder a potential Harris administration's ability to implement progressive policies, even if she wins the presidency. Senators serve six-year term with staggered elections, and this cycle favours Republicans, who hold 38 seats not up for election compared to 28 for Democrats. Additionally, the Republican seats that are up for election are largely in safe areas. While Democrats could still retain control, it would be a challenging prospect.

### **US presidential elections, policies, priorities and the changing world order**

#### **US tariffs may hurt growth prospect of ASEAN countries over the medium term**

ASEAN economies have shown resilience, driven by exports and investment, but the outlook for 2025 heavily depends on the outcome of the upcoming US presidential election. A victory for Kamala Harris is expected to support ASEAN growth by avoiding major trade tariff escalations, allowing markets to refocus on the positive effects of potential US rate cuts. Conversely, a Trump victory could negatively impact ASEAN economies due to anticipated tariff hikes on Chinese imports, leading to decreased demand from China and reduced business confidence. This scenario would particularly hurt Vietnam's electronics exports and could hinder overall trade and investment in the region.

However, ASEAN may still benefit in the medium term from supply chain restructuring and shifts in global foreign direct investment (FDI) as companies diversify away from China. In a Trump-led environment, US imports from China in strategic sectors have already declined. Currency stability would be a concern for Indonesia and the Philippines, potentially leading to slower interest rate cuts and affecting regional monetary policy. Growth could suffer in Singapore, Malaysia, and Thailand, prompting these countries to ease monetary policy amidst currency weakness.

#### **Will China resist depreciation pressures if Trump gets elected?**

Market attention is centred on the risks associated with China, particularly regarding USD/CNY fluctuations. A potential return of aggressive tariffs and stronger U.S. growth under a Trump administration could lead to significant CNY depreciation, similar to trends seen in 2019. However, Beijing seems committed to a long-term strategy for renminbi internationalisation, supported by recent increases in renminbi use for transactions.

In contrast, Harris administration might alter the current tariff stance, potentially allowing for a CNY recovery if a new approach to China is adopted. Additionally, as investment shifts from China to other Asian countries, those nations, particularly Vietnam, South Korea, and Taiwan, have seen their trade surpluses with the U.S. increase significantly. This could lead to scrutiny over currency manipulation, especially for countries heavily reliant on semiconductor exports, raising risks for the entire electronics-driven economy in the region.

#### **Market and macro impact if Trump wins elections on Indian economy:**

While Harris would imply status quo and policy continuity and retracement in Dollar, Trump trade would drive Dollar and rates higher hence from a market perspective Trump victory would imply upward pressure on rupee, though we believe the central bank would work towards limiting market volatility.

##### **A) Short term risk aversion, hardening of bond yield and capital outflows.**

**Trade tariff hikes, spike in geopolitical tensions, deferring of rate cuts by central banks are likely to drive global risk aversion. While Indian asset classes are likely to be adversely affected yet impact may be relatively lower versus peers given relatively low sensitivity.**

##### **B) Monetary policy easing likely to be delayed in the US and rest of the world including India**

World sees at US monetary policy action to price its securities and risk. It was anticipated that Government tend to impose more control over the decision making of the Federal Reserve and tend to push more of rate cuts as a measure of populist actions. However, this cannot always be the reality now as the Governments now are more concerned with mounting inflation and financial stability.

*Rupee likely to depreciate initially but gradually will cool down*

*Fx reserves will help limit the rupee volatility*

*Shifted narrative of monetary policy, growth is the priority*

### **C) Rupee may test new lows with fresh round of FPI outflows in short term**

The trajectory of the Indian rupee will be linked to the dollar's strength, which is closely tied to global economic policies, and both Trump's and Harris's proposed policies. The outcome could lead to a knee jerk strength in the DXY. Despite global headwinds, the USD/INR pair has shown resilience on continuous dollar sales by PSU banks.

The domestic currency has already remained under pressure during the last one month on FPI outflows mostly in the equity segment \$11.2bln (highest in a month in CY25) vis-a-vis inflows of \$6.89bln a month ago. Even the debt segment clocked outflows of \$219.53mln vis-à-vis inflows of \$4.2bln from the previous month, while Fully Accessible Route (FAR) sub-segment has not seen a net outflow during this month and ended October marginally positive at \$81mln.

The record high forex reserves kitty has slipped by \$20.08bln to \$684.81bln from all-time highs of \$704.86 (\$10.67bln fall was adjusted after valuation effects), signalling that the Central Bank has taken appropriate measures to curb volatility in the local currency. The strategy to beef up its accumulation buffer its reserves, it helps to avoid any unforeseen future volatility in the domestic currency. From a macro perspective we believe, if Trump gets elected as presidential candidate, it would impact Indian economy through following channels:

#### **Global growth channel**

US economy being the largest in the world contributes to ~ 16% of world GDP, Trump policies in terms of trade tariffs imply downward pressure on growth. We see it effecting Indian economy as well through growth channel. therefore, timely recovery in US growth is a welcome step at this current fragile juncture of global growth. Goods export to USA: Maximum share of India's exports are destined to USA with 10.5% share in total export basket. Our export basket to US majorly consists of agriculture and live-stock commodities. Services trade: USA is the largest recipient of India's software service exports. Of the total software service exports, US has the highest share of 54%, of which most the services are of 'essential' in nature. This somewhat cushions the impact of tariffs on growth. US has 18% share in remittances, Trump policies imply limits to immigration which can further impact the remittance flow.

#### **Wars and other geo-political tensions to take a finer shape: Global truce vs. global unrest**

Escalation of tensions with Iran due to breaking of terms under Joint Comprehensive Plan of Action (JCPOA). This can further exuberate the on-going geo-political tensions and cause the oil price to spike high. Since India is a price taker in oil market, it can face increased import bills. Global inflation too may see upward pressure in this scenario.

#### **Commodity price channel**

India's imports from global markets include essential inputs such as crude oil, and metals which have a forward linkage with India's manufacturing industry. As per the RBI MPC September 2024, if crude oil prices fall by 10% relative to the baseline (Baseline at US\$ 80 per barrel during H2 2024-25) and assuming their full pass-through to the domestic product prices, inflation could ease by around 30 bps with a boost of 15 bps to India's real GDP growth.

#### **China's dumping to the world (including India) likely to increase many folds thereby pressuring growth and inflation**

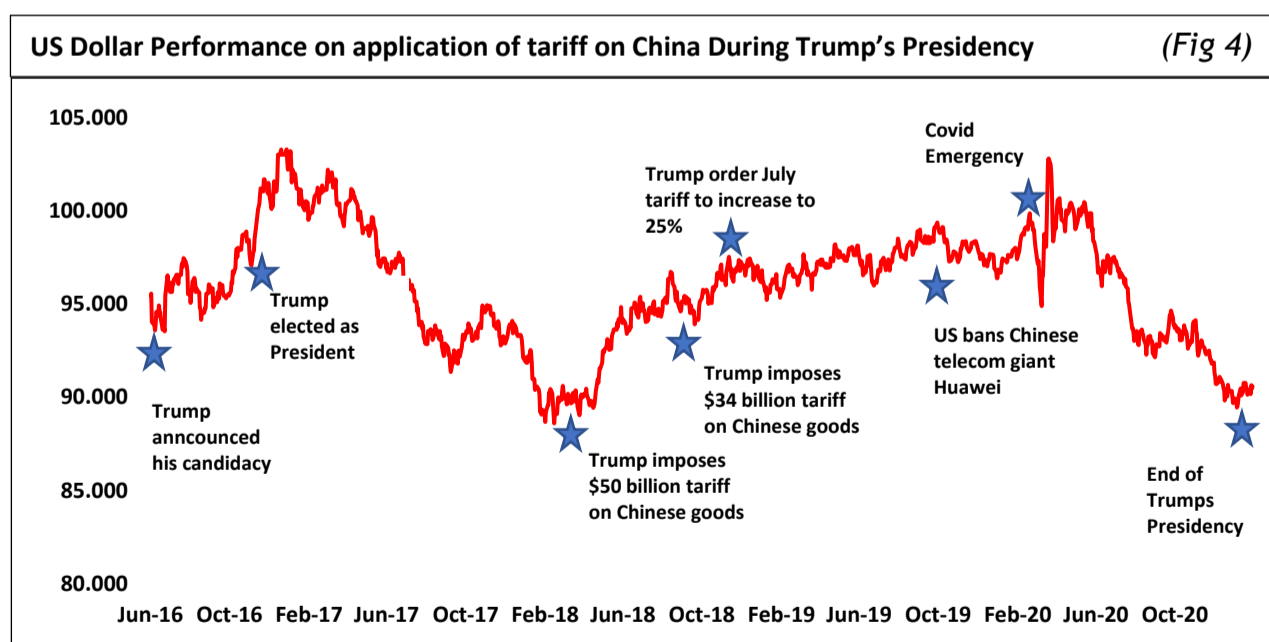
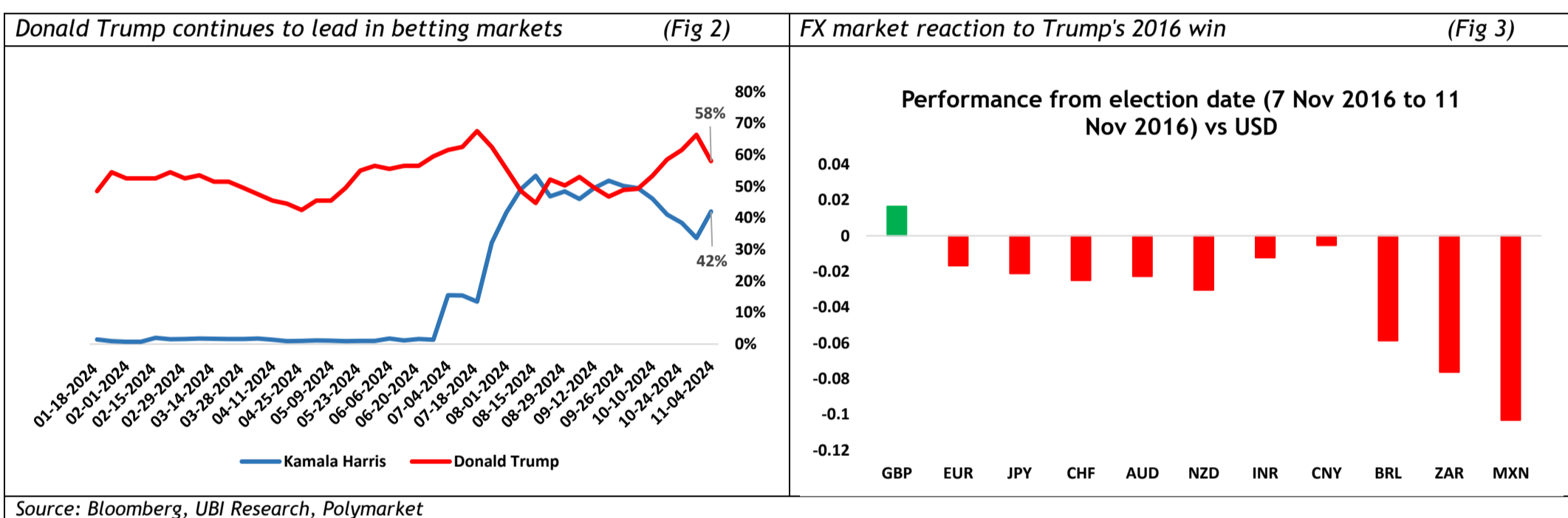
Trump vowed a 60% trade tariff hike on China in his political manifesto. While he may not always stay true to his words due to wider macro-economic repercussion of these measures, his protectionist policies can still make China significantly raise manufacturing good exports to other economies including India. In specific, rise in dumping pressure from China can be felt in following sectors:

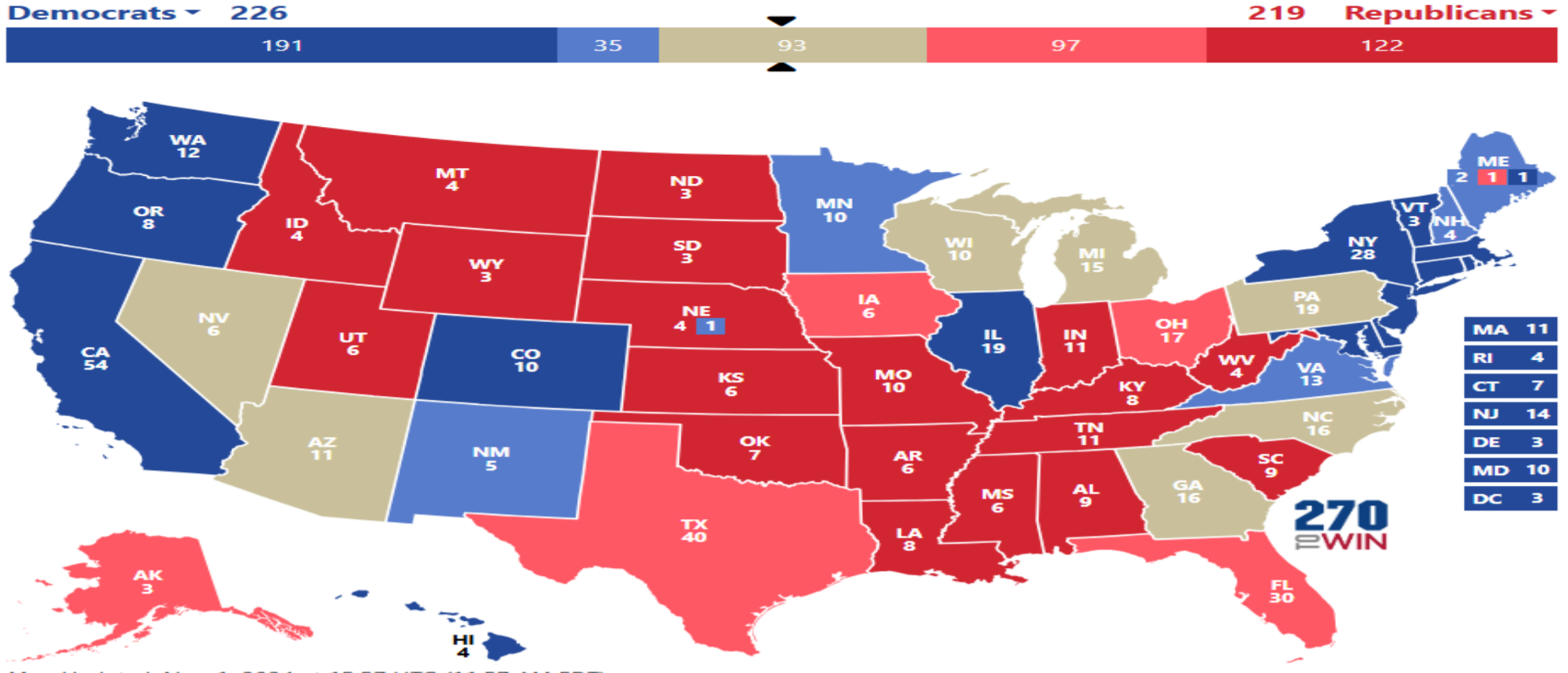
- **Semi-conductor:** While India is taking mega steps to build its chip industry from scratch, China, which has a huge chip-making capacity built over more than a decade, is struggling to defend it from restrictions by the US and its allies.

Recovery in private capex may however suffer, capital flows to remain partially hurt

Impact on trade, remittances and migration is anticipated to be low

- **Steel sector:** Given the sharp rise in imports from China, the government imposed anti-dumping duties in this sector recently to protect indigenous production.
- **Solar:** Chinese factories shipped \$2.1 billion of solar panels to India in the six months through March 2024, making it China's top export destination of solar panels to the world.
- **Electronics:** While China plus one strategy has benefited Indian economy the most in electronics especially mobiles sub-segment, the imports from this segment in India still remain significant with a potential to spike if global demand slows for Chinese goods.
- **Pharma:** Though India's pharmaceuticals industry is the third largest in the world, India has to import heavy quantities of raw materials, Active Pharmaceutical Ingredients (APIs) and key starting materials (KSMs), also called bulk drugs, which go into producing medicines.
- **Rare earth minerals for strategic use:** China's dominance over a large number of product categories creates a risk of economic coercion, where the government restrains access to crucial inputs for political leverage.



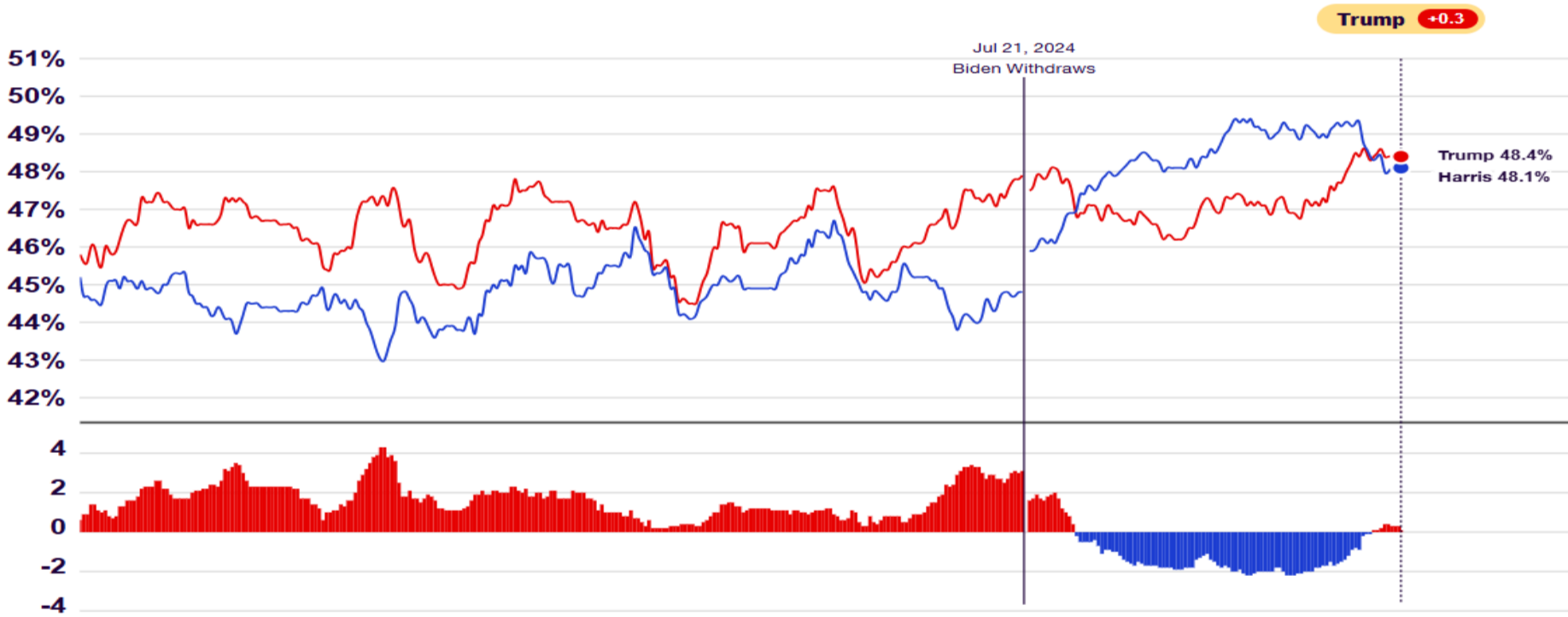


Source: <https://www.270towin.com>

(Fig 5)

# Trump vs. Harris

(Trump vs. Biden Before July 21, 2024)



Source: <https://www.realclearpolling.com/polls/president/general/2024/trump-vs-harris>

(Fig 6)

RCP AVERAGE	DATE	TRUMP (R)	HARRIS (D)	SPREAD
<b>Top Battlegrounds</b>	<b>11/3</b>	<b>48.5</b>	<b>47.7</b>	<b>Trump +0.8</b>
Arizona	November 3rd	48.9	46.3	Trump +2.6
Nevada	November 3rd	48.5	47.5	Trump +1.0
Wisconsin	November 3rd	48.2	48.5	Harris +0.3
Michigan	November 3rd	47.7	48.6	Harris +0.9
Pennsylvania	November 3rd	48.3	48.0	Trump +0.3
North Carolina	November 3rd	48.8	47.3	Trump +1.5
Georgia	November 3rd	49.3	47.4	Trump +1.9

Source: <https://www.realclearpolling.com/elections/president/2024/battleground-states>

(Fig 7)

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