

AUSFILM: ASK THE EXPERTS

How will the US Presidential Election impact the FX market?

October 2020



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3 | Ebury at a glance



Ebury is one of Europe's fastest-growing fintech companies, providing FX liquidity, volatility risk management, international payments and trade finance to SME's.



Working with **45,000+** businesses & organisations



20 Countries, 24 Offices and over 900 staff.



Traded **\$23bn** in foreign exchange in the last 12 months



Over **30,000 transactions per month**. Capability in over **130 currencies**.



Backed by **Santander** with a £350 million investment.



Direct "SUPE" SWIFT member and the first non-bank to use SWIFT gpi.



Who is ahead in the latest opinion polls?

The US Presidential Election on 3rd November is expected to be the biggest event risk in FX between now and year-end.

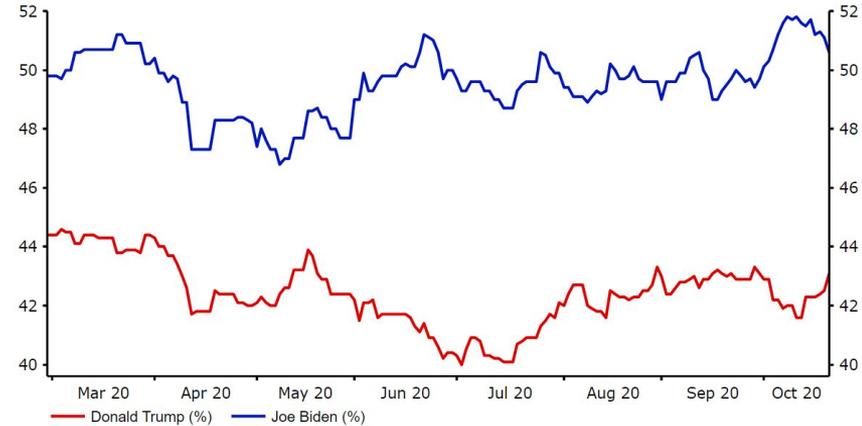
Democrat Joe Biden holds a healthy 8 point advantage over Trump in the latest poll of polls (51% to 43%):

- Up from 4 points before the pandemic in Feb.

Support for Trump has fallen since first TV debate and his positive COVID test in early-October:

- Lack of campaigning in swing states denting his chances of re-election.

Figure 1 | US 2020 Election Poll of Polls (March '20 - Oct '20)



Source: Refinitiv Datastream Date: 22/10/2020

Biden's lead larger than Clinton's in 2016

Biden's lead in the polls (8 points) has been consistently larger than Hillary Clinton's was prior to the 2016 vote - 5 points at the same stage.

Surveys in 2016 were roughly correct at the national level, but failed at the state level.

The pollsters have learnt lessons from the '16 election:

- Surveys are now weighted by education - ensures enough non-college whites are included.
- More resources allocated to state level polls.
- Lessens chances of the same errors being made as before.

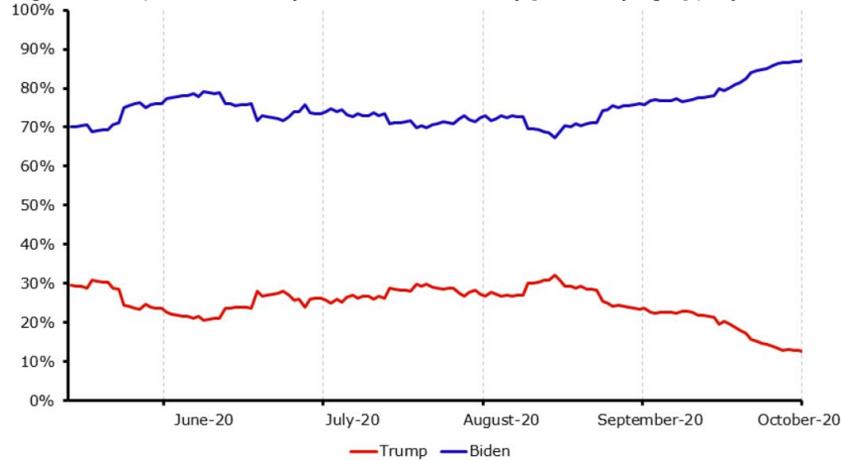
Figure 2 | Biden Lead [2020] vs. Clinton Lead [2016]



Source: Refinitiv Datasteam Date: 22/10/2020

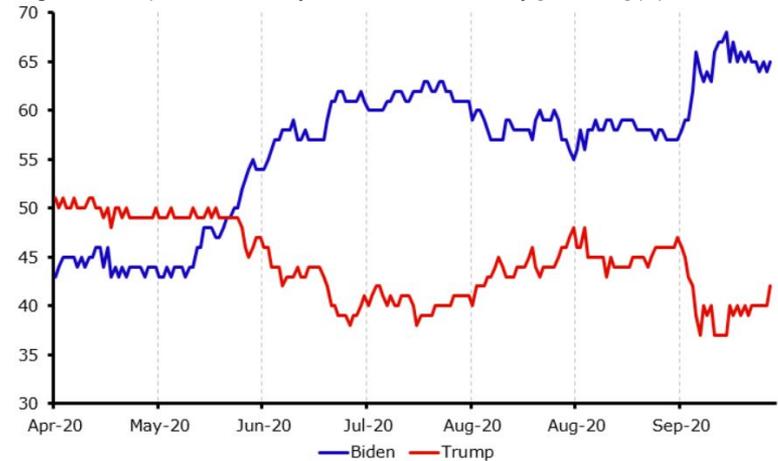
Bookmakers have Biden as clear front runner

Figure 3 | Implied Probability of US Election Victory [FiveThirtyEight] (May '20 - Oct '20)



Source: FiveThirtyEight.com Date: 19/10/2020

Figure 4 | Implied Probability of US Election Victory [PredictIt] (April '20 - Oct '20)



Source: PredictIt/Bloomberg Date: 22/10/2020

Joe Biden

1.47

Donald Trump

2.75

FiveThirtyEight now gives Biden 87% chance of winning (based on outcomes of 40,000 simulated votes). Similar measures from PredictIt (65%) and implied bookmaker odds (67%) also give Biden the clear edge.

7 | What is the Electoral College voting system?

538 formal electors cast an electoral vote.

Each state in the US is assigned a different number of electors (based on the population).

The candidate with the highest percentage of votes in each state receives all of the seats.

Winner needs **at least 270 votes** in order to be elected.

Composition of Congress will also be decided:

- All 435 seats in the House will be contested, as will 35 out of the 100 seats in the Senate.
- Democrats likely to retain House, Senate up for grabs.



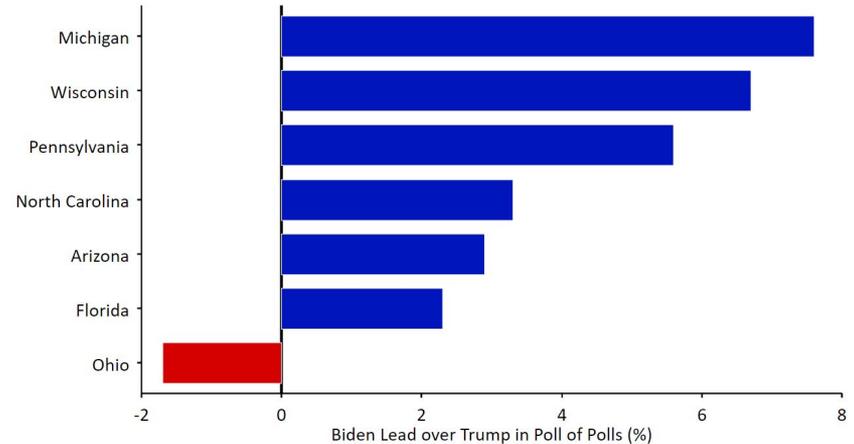
What are this year's key swing states?

Florida (29 votes), Pennsylvania (20), Ohio (18), Michigan (16), North Carolina (15), Arizona (11) and Wisconsin (10) look likely to be 2020's key swing states.

Biden is currently polling higher in **all but one of them:**

- Florida: +2.3%
- Pennsylvania: +5.6%
- Ohio: -1.7%
- Michigan: +7.6%
- North Carolina: +3.3%
- Arizona: +2.9%
- Wisconsin: +6.7%

Figure 5 | US 2020 Election Poll of Polls [Biden Lead]



Source: Refinitiv Datastream Date: 21/10/2020

Trump set to lose key battleground states

Figure 6 | US 2016 Presidential Election Voting Map

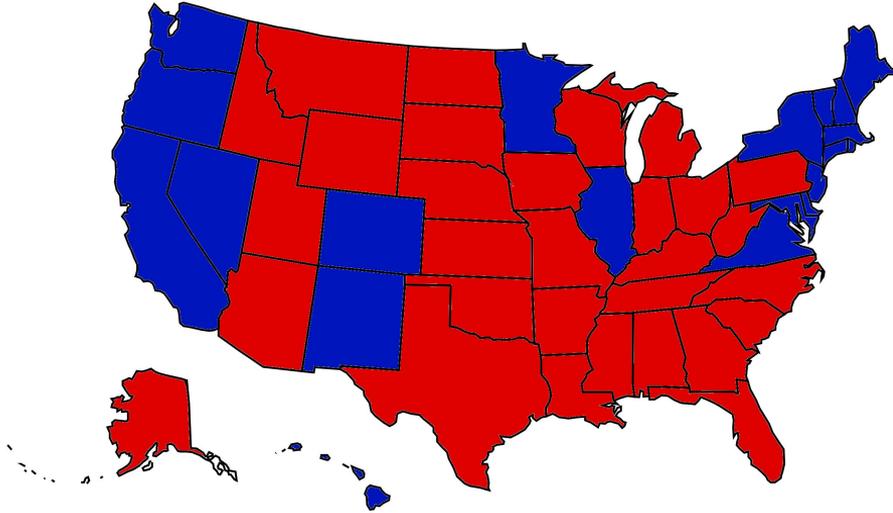
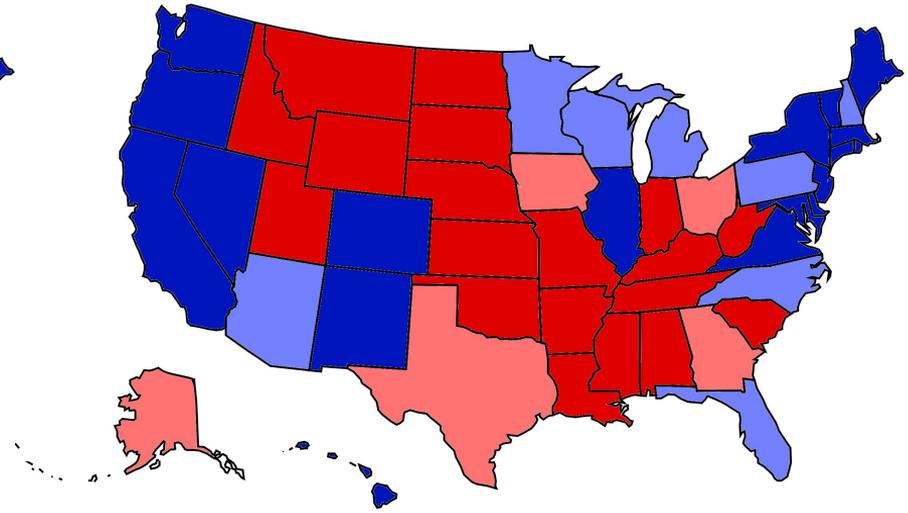


Figure 7 | US 2020 Presidential Election Voting Map (based on polls)

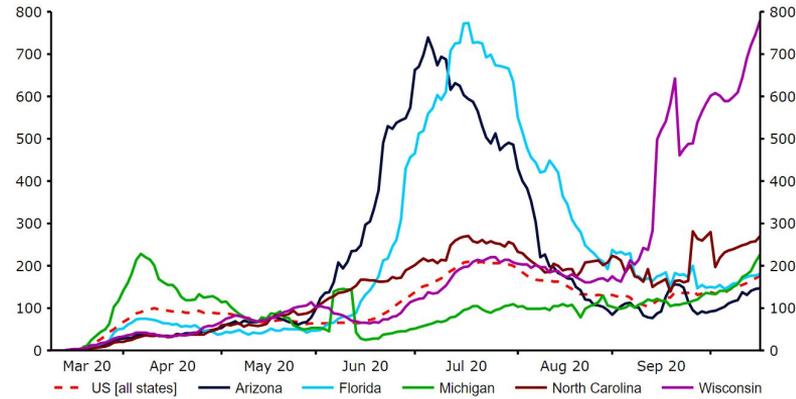


Source: Ebury/PredictIt Date: 22/10/2020

Trump expected to lose swing states Florida, Arizona, North Carolina, Pennsylvania and Michigan that helped him win the election in 2016.

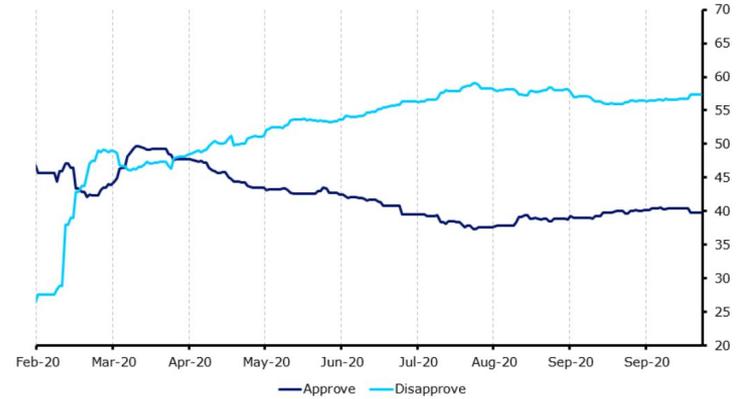
Will the COVID-19 pandemic favour Biden?

Figure 8 | New COVID-19 Cases per 1M people [US] (March '19 - Oct '20)



Source: Refinitiv Datasteam Date: 22/10/2020

Figure 9 | Trump COVID-19 Response Approval Poll (Feb '20 - Oct '20)



Source: FiveThirtyEight.com Date: 22/10/2020

Swing states such as Florida (33 cases per 1,000 people), Arizona (30) and more recently Wisconsin (30) have been badly affected by the virus.

Trump's overall handling of the pandemic has also been criticised, which may favour Biden. Only 40% of those surveyed now approve of his virus response.

How markets reacted to Trump's win in 2016

Figure 10 | Percentage change 6M after election (Nov '16 - May '17)

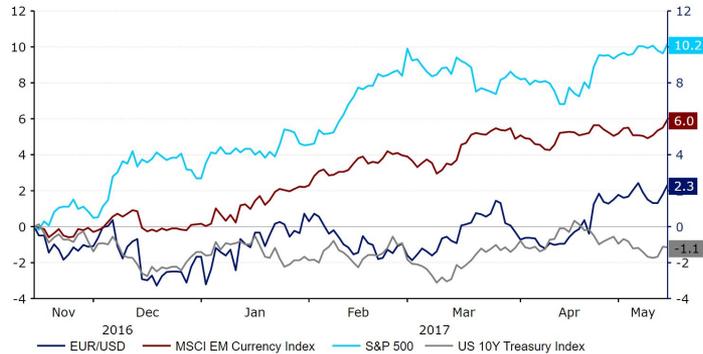


Figure 11 | AUD/USD post US Election (Nov '16 - Nov'17)



Source: TradingView Datasteam Date: 22/10/2020

Financial markets were quiet prior to the 2016 election and volatile after it:

- The US dollar sold-off on election night after investors caught wrong-footed.
- USD then rallied on hopes for corporate tax cuts.

During Trump's presidency, equity has risen sharply, USD and bond yields have fallen:

- S&P 500 has experienced one of the larger % gains during Presidential first terms.
- AUD/USD has rallied around 8%.

How FX market has reacted so far in 2020

Figure 12 | USD/JPY 1 Month Implied Volatility (July '20 - Oct '20)



Activity in financial markets has begun to increase as we approach polling day:

- AUD/USD has rallied on growing Biden lead & hopes of US stimulus.
- S&P 500 up 6% since late-Sept.
- 1M implied vol. in USD/JPY has jumped, although only to August highs.

We expect volatility to ramp up in the coming days:

- Heightened risk aversion should polls narrow and contested vote look possible.
- Weaker dollar, greater risk appetite should polls widen and contested vote look unlikely.

What would a contested vote mean for FX?

One of the big risks to investors going into the vote is whether or not we see a contested outcome.

Looks likely that Trump will refuse to accept defeat:

- Mail in ballots expected to rise to 40% from 20% in 2016.
- Increases chances of no election result on polling day.
- Trump has stated that the Supreme Court could be involved.

We think that this would be an initial **dollar positive in the short-term** as investors flock to safe-haven assets. We do, however, view this as a **dollar negative in the long-term**, as institutional quality concerns are raised.



How election could impact FX market

President	Congress	Policy Outcome	FX Reaction	Ebury Probability
Biden	House: Democrat	More fiscal expansion, lower trade uncertainty	Lower dollar, higher risk appetite	45%
	Senate: Democrat	Higher corporate taxes		
Biden	H: Democrat	Modest fiscal loosening, lower trade uncertainty	Dollar modestly lower, risk assets modestly higher	35%
	S: Republican	Corporate tax hike unlikely		
Trump	H: Democrat	Status quo fiscal policy, higher trade uncertainty	No change in dollar or risk assets	18%
	S: Republican	No corporate tax hike		
Trump	H: Republican	Possible modest fiscal expansion targeted at corporations, higher trade uncertainty	Higher dollar, modestly lower risk assets	2%
	S: Republican	No corporate tax hike		

AUD rallies on hopes of US stimulus package

The AUD has been steady leading up to the vote:

- Maintaining the 0.7000 handle
- Hopes for US stimulus package has supported risk assets.
- Markets largely overlooking the Victorian lockdown.

We remain bullish on AUD in the long-run, but think short-term losses possible:

- Overall improvement in Risk Sentiment
- Uncertainty will weigh on the AUD leading up to Nov. 3 if polls narrow

Figure 13 | AUD/USD (Oct '19 - Oct '20)



Source: Refinitiv Datastream Date: 22/10/2020

How could the election impact CNY?

This year's election could also have significant implications for China.

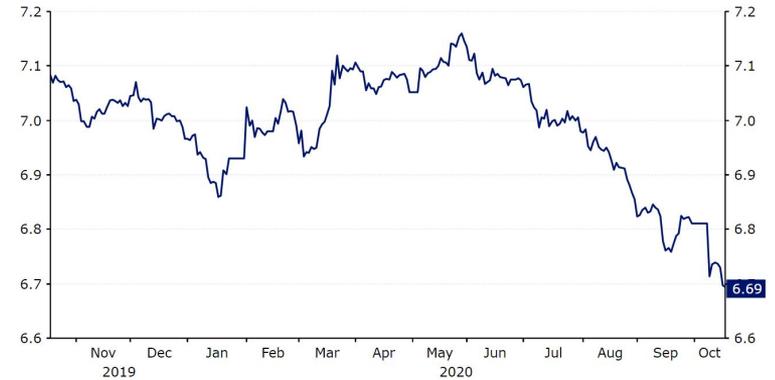
Trump has introduced a host of protectionist policies since his election:

- Tariffs on more than \$550bn Chinese goods.
- China retaliated with tariffs on \$185bn US goods.
- Presents a significant downside risk to Asia's largest economy.

Trump win: More tariffs, greater trade uncertainty, *weaker* CNY.

Biden win: Less protectionism, more multilateralism, *stronger* CNY.

Figure 16 | USD/CNY (Oct '19 - Oct '20)



Source: Refinitiv Datastream Date: 22/10/2020

Key Takeaways

- 1) Biden well clear in the polls and likely to win White House race barring a dramatic eleventh hour turnaround:
 - Pollsters have learnt lessons from last election.
 - Biden's lead much larger than Clintons in '16.
- 2) In our view, Biden win good for risk assets, bad for US dollar. Trump win good for US dollar, bad for risk assets.
- 3) A contested vote looking less likely, but still a risk. Would fuel safe-havens flows in the short-term.



FX Risk Management

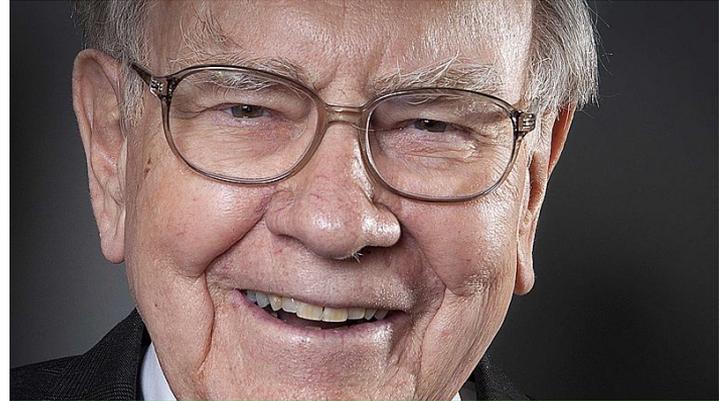
What is Risk Management?

A risk management strategy can be implemented by any company that deals internationally in an attempt to mitigate the impact of exchange rate movement on the costs of their business.

To mitigate risk you first need to identify where the risk is.

“You only find out who is swimming naked when the tide goes out.”

Ebury helps businesses to identify FX risk and efficiently manage that risk



It's only when the tide goes out
that you learn who's been
swimming naked.

Warren Buffett

Hedging Strategy

Every business should have a clear and well thought out strategy that is transparent internally and to its execution counterparties (Ebury).

Reasons to develop a hedging strategy

Protect your business (cashflows or balance sheet)

Hedging provides insurance against margin erosion or even a move into negative territory. Over recent years we've seen Australian imports have a rise in costs of past 10%

Stability and predictability of margins and repayments

Optimal hedging means that underlying business margins are less distorted by FX movements, allowing optimal and intelligent business decisions to be made

Certainty over production budgets

A clear currency strategy/policy mitigates any adverse movements in the exchange rate to negatively impact production budgets.

Efficiency

A clear strategy means less time/stress spent on market timing/approvals/research

Questions?

