FX Daily: Markets call a Republican clean sweep

Trump trades have boosted the dollar across the board as consensus rapidly grows around a Trump win. Markets are pricing in – even if potentially not in full – that the Republicans will also control Congress, but the House race remains very close. The call on the House will likely determine how far the dollar rally can go today

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USD: Trump trades boost the dollar

Trump trades are in full swing as the counting of US ballots continues. Georgia and North Carolina have been called for US presidential candidate Donald Trump, and he is leading in all other swing states at the moment. The New York Times estimates Trump's chances of victory are above 95% and now also sees the balance for the popular vote having tilted in favour of the Republicans. That has implications for the House maths, and with the Senate already been called for the Republicans, the base case for financial markets is currently a red clean sweep. Still, the House race remains a very close one, and the Congress split is likely to have deep implications for risk sentiment and the dollar.

The reaction so far in the FX market has been, as expected, a strong dollar across the board. There is no huge divergence across G10 currencies performance, where daily losses amount to around

1.0-1.7% except for the Canadian dollar, which is down by less than 1%. That mirrors a view that a Republican clean sweep is positive for the US economy and, by extension, Canadian exporters, as well as the fact that CAD will be less exposed to tariffs on China and geopolitical developments under a new Trump presidency.

The bear steepening and widespread selloff across the Treasury yield curve mirrors widespread expectations for an inflationary mix of domestic (fiscal and migration) and external (tariffs) policies from Trump. We are also observing some action in the short-term USD swap rates linked to a hawkish repricing in Fed rate expectations. In line with our expectations and consensus, markets are holding on to expectations for a 25bp FOMC cut to 4.75% tomorrow, but the OIS curve has recorded some 10bp+ repricing across 2025 tenors. That embeds a policy rate close to 4.0% in June 2025, almost 100bp higher than mid-September pricing.

We will wait for the election to be called by major US networks before updating our FX forecasts. But if the growing consensus for a Republican clean sweep ends up materialising, we expect a prolonged period of dollar outperformance.

Francesco Pesole

EUR: Europe braces itself for Trump 2.0

European politicians will be waking up to face their fears this Wednesday morning. As it now seems likely now that Trump will take the presidency with a strong popular mandate, his trade agenda of levelling the playing field will weigh heavily on the open economy of continental Europe.

The euro has so far proved the weakest of the G10 currencies overnight and you can see why. The expectation is that Donald Trump extends his trade war from just China in his first term more broadly in his second term. This at a time of stagnant eurozone growth and self-reflection – especially in Germany – as to its future business model. Plans to export its way out of stagnation are no longer an option for the eurozone.

While a Trump win is an absolute negative for EUR/USD, it is still a close call whether a red sweep can be secured with a House win. Should the Republicans fail to win the House, we believe this would be the worst scenario for EUR/USD – faced with renewed trade wars yet without the support to global growth that extended US tax cuts could deliver. Under such a scenario, EUR/USD could be sub parity in late 2025. This would be a scenario where the European Central Bank would have to cut rates deep into accommodative territory.

For the short term, EUR/USD would probably have fallen harder today if markets had not started to price a Trump win in October. But the direction of travel over coming days looks to be towards the 1.0550/0600 area, with EUR/USD struggling to sustain gains over 1.0800/0850 now.

Given the UK economy's smaller exposure to trade than the eurozone and some recently announced fiscal stimulus in the UK, EUR/GBP looks likely to press support at 0.8300 and looks biased to 0.8200 now. Elsewhere in Europe, the Swedish krona depreciation today is in line with G10 peers, and given EUR/SEK hasn't moved higher, we stick with our call that the Riksbank will cut by 50bp this week.

Chris Turner

JPY: House vote will be key

USD/JPY is just over 1% higher today as it reacts to the rise in US yields. The yen also acts as a liquid proxy to Asian currencies about to be hit with another trade war. The Bank of Japan will not like another big run up in USD/JPY, although FX intervention looks unlikely amidst broad dollar gains.

We think the yen can outperform on the crosses especially were the Republicans not to gain the House. Under this scenario, US equity markets (particularly bank stocks) could hand back some of their recent gains. For the time being, however, expect broad dollar strength to dominate and 155 to prove the direction of travel.

Chris Turner

EM: Key battle grounds

USD/CNH is up around 1% as markets price in renewed trade wars. In our pre-election scenario analysis, we felt something like 7.30 would be the best case for the onshore USD/CNY under a Trump win scenario where local Chinese authorities would not allow further depreciation. We take the view that they would not devalue the renminbi – as they did in summer 2019 – and instead are playing the long game of keeping the renminbi as a store of value to compete on the world stage. However, the renminbi will of course remain under pressure.

In Europe, much attention is on the Hungarian forint. It looks like the National Bank of Hungary will have to abandon its easing cycle to concentrate on supporting the forint, where EUR/HUF is moving through 410. Look out for action at National Bank of Hungary open market operations – e.g., leaving the market short of liquidity in an attempt to tighten overnight rates and support the forint. Hungarian forward points look to stay under widening pressure.

In Latam, the Mexican peso has been hit hard (off 3%). 2025 could be a rough year for the peso were presumed president Trump to opine about not renewing the USMCA at its review in 2026. High volatility is also undermining the carry trade and it's hard to rule out a move to 22.00 over coming weeks. Both BRL and CLP had a poor Trump 1.0. Both will be under pressure again but a 50bp rate hike from Brazil today should offer some reprieve.

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