

FX Daily: Timing is everything in an election

Markets approach election day in a rather upbeat mood and the focus will be on Florida, North Carolina and Arizona. If Joe Biden manages to secure one of those three states then the chances for Donald Trump are likely to fall dramatically



Voters line-up to cast their ballots during early voting at the South Regional Broward Branch Library, Florida

Source: Shutterstock

📌 USD: All eyes on Florida

Markets approach election day in a rather upbeat mood - risk assets started off the week on the right foot despite more pessimistic news on the global pandemic situation.

In the next 24 hours, we will be able to see the first market reactions as projections and partial results start shaping expectations around the final winner, although there is a significant chance no winner will be announced by major media outlets before tomorrow or even later in the week. Still, tonight's results from a few states that start counting early voting in advance may be enough to form some reasonable projections.

The focus will be on Florida, North Carolina and Arizona - the first of which should already start reporting results by 19:30 EST (00:30 GMT), and that's when we may see the first significant market

reaction. Should Biden manage to secure one of those three states (especially Florida or North Carolina) then the chances for Donald Trump would fall dramatically. In other words, while there is a high risk of a delay in the result, there is also a material chance that Joe Biden may have virtually secured a win by 03:00 EST (08:00 GMT) if results show he's clearly ahead in those states.

Looking at the FX implications, we expect any early signs that the election is leaning in favour of Biden to put pressure on the dollar and see AUD and NOK as the potential biggest beneficiaries. More details in our [US election G10 FX scorecard](#).

[US presidential election G10 FX scorecard](#)

EUR: Not the biggest winner in a “blue wave” scenario

EUR/USD is set to be solely driven by the early US election results (i.e. by the impact on the USD), especially considering there is no relevant data point in the eurozone calendar today. In our scorecard, we see EUR lagging the pro-cyclical bloc in a “blue wave” scenario, but it could still rise to/above the 1.1800 area.

GBP: Eyes on the US before the Bank of England meets

Like the EUR, GBP should lag other G10 currencies in the case of a market-friendly outcome from the election due to its lower correlation with global risk appetite.

Incidentally, GBP is the currency that could see more idiosyncratic drivers this week as the Bank of England meets on Thursday and it's set to increasing quantitative easing.

AUD: Short-lived impact of RBA's new stimulus pack

The Reserve Bank of Australia cut the cash rate and its 3-year yield control target by 15bp to 0.10%, and announced AUD100bn of bond purchases over the next six months in the 5-10-year range.

Our view against a rate cut was largely out-of-consensus and as markets had already fully priced in the move (and also considering the vicinity to the US elections) AUD/USD faced only a minor slip. We think further rate cuts are unlikely, and Governor Lowe also stressed the low appetite for negative rates as he acknowledged the positive impact of such policy would be simply limited to AUD depreciation.

We think that the rate announcement has not dented the ability of AUD to outperform most of its G10 peers in a “blue wave” scenario and if investor concerns around the second-wave in Europe rise further, we could also see AUD outperform NOK in the coming days, due to the latter's exposure to eurozone-related downside risks.

Potential early signs of a Biden clear advantage today may already push AUD/USD to the 0.7200 mark and above.

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