US election round-up

The upcoming US presidential election is shaping up to be a closely contested race. Here's a look at some of our recent coverage

In this bundle

United States | Video

Watch: Political gridlock and post-election Fed cuts

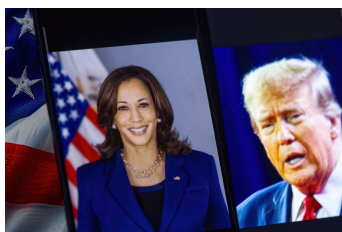Why we think the Fed's set to tread carefully at its post-election meeting

By James Knightley

FX

FX and US election cheat sheet

Sentiment is shifting in favour of Trump despite polls suggesting it's a close call. Here's what it means for FX

By Francesco Pesole, Chris Turner and Frantisek Taborsky

FX | Credit | United States

US presidential election: Three scenarios for markets

Trump v Harris: Three scenarios for the November US election

By Chris Turner, James Knightley and 10 others

Energy | United States

How the US election could impact the energy transition

Regardless of who becomes president in November, the US energy transition is unlikely to stop

By Coco Zhang and James Knightley

United States

How the US election will impact deficits, debt, and the yield curve

Failure to address fiscal sustainability issues runs the risk of more market volatility and higher borrowing costs in years to come

By James Knightley, Dmitry Dolgin and Padhraic Garvey, CFA

FX | United States

US election guide for the FX market

A deep dive into our take on what each of the major FX blocs could be expecting from the new US administration

By Chris Turner, Francesco Pesole and 4 others

China | Indonesia...

High stakes for Asia at the US elections

Asia should be more anxious ahead of the US elections in November

Article | 24 October 2024

Watch: Political gridlock and post-election Fed cuts

After a 50bp rate cut last month, market speculation surrounding the Federal Reserve's next move is ramping up – and as the looming presidential election adds yet another layer of uncertainty to the mix, we think the central bank is set to tread carefully over the next few months

Fed rate cuts: How fast and how far?

ING's James Knightley explains why he thinks the Fed may be inclined to cut interest rates at a slightly softer pace at its post-election meeting

Watch video

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Article | 22 October 2024   FX

FX and US election cheat sheet

Two weeks until 5 November, and we are observing a growing shift in sentiment across financial and betting markets in favour of Donald Trump. The polls still point to a toss-up, but the risks remain skewed towards a stronger dollar and weaker risk-sensitive currencies as Trump hedges grow into the vote. FX implied volatility is also likely to rise

Trump vs Harris. Who will win the 2024 US election?

This article is part of our US Election coverage and focuses on near-term dynamics. We discuss election scenarios and medium-term currency market implications in detail in "US election guide for the FX market".

The latest polls suggest the upcoming US election is a close call, but financial and betting markets have recently swung more in favour of a Donald Trump win. We will walk you through the numbers in key battleground states, discuss how we see market positioning in the two weeks leading to the election, and explore the potential initial reactions in FX.

The 2024 US swing states cheat sheet

*Lock or lean: D(226) – R(219)	270 to win*					*Time (ET) State/election was called by AP*		
State	Elec. votes	Polls average	Kalshi	Betting odds	2020 result (vs pre-vote polls)	2020	2016	2012
Arizona	11	Trump +1.9	69% Trump	74% Trump	Biden +0.3 (Biden +2.2) ↗	02.51 Wed	02.29 Wed	22.36 Tue
Georgia	16	Trump +1.5	68% Trump	65% Trump	Biden +0.3 (Biden +0.2) →	Friday	23.33 Wed	20.28 Tue
Michigan	15	Harris +0.2	53% Trump	51% Trump	Biden +2.8 (Biden +5.5) ↗	17.58 Wed	20 Days later	21.02 Tue
Nevada	6	Harris +0.3	57% Trump	53% Trump	Biden +2.4 (Biden +5.0) ↗	Saturday	00.20 Wed	23.45 Tue
North Carolina	16	Trump +0.8	69% Trump	67% Trump	Trump +1.3 (Biden +0.3) ↗	10 Days later	23.11 Tue	23.53 Tue
Pennsylvania	19	Trump +0.3	58% Trump	54% Trump	Biden +1.2 (Biden +3.7) ↗	Saturday	01.35 Wed	21.48 Tue
Wisconsin	10	Harris +0.3	52% Trump	52% Trump	Biden +0.6 (Biden +9.2) ↗	14.16 Wed	02.29 Wed	23.47 Tue
National	538	270 T – 268 H	61% Trump	60% Trump	Biden +4.5 (Biden +8.0) ↗	Saturday	02.29 Wed	23.38 Tue

Polls averages and simulations from FiveThirtyEight (ABC News); betting odds from Kalshi and Betfair. Other sources: CNN, Associated Press, ING calculations

Battleground numbers

The table above summarises what polls and betting markets are telling us about the upcoming Presidential election for seven battlegrounds (or "swing") states and the national outlook. According to the latest poll aggregates, 226 electoral college votes are either solidly or leaning Democrat, while 219 are for the Republicans. The seven battleground states listed are closely contested, with leads within the statistical margin of error. To reach the 270 electoral college win threshold, Harris needs to secure 44 of the 73 available swing state votes; Trump needs 51 – assuming all lock/lean states don't flip.
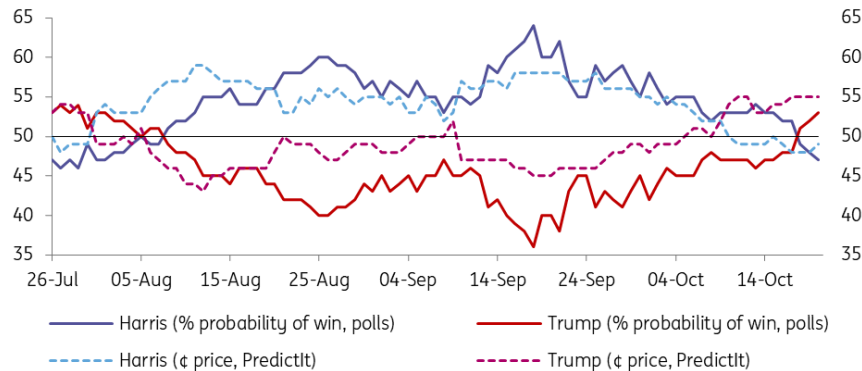
Trump is marginally ahead in the swing states

If the latest poll averages (third column) prove correct, Trump wins the election with Republican lock/lean votes (219) + Arizona (11) + Georgia (16) + North Carolina (16) + Pennsylvania (19) = 281 electoral college votes. Harris would need to win all states where she is already ahead in the polls (including Michigan, Nevada and Wisconsin) plus another 13 electoral college votes from the swing states where Trump is currently leading. That means securing Arizona (11) alone wouldn't be enough, and Harris would need to win either Georgia (16), North Carolina (16) or Pennsylvania (19), with the latter widely seen as the state that can tip the balance.

Polls versus bets

While there is no simple market measure of the Harris/Trump implied probability, betting markets are often taken as a benchmark. In the table above, we see that the traditional bookmaker (Betfair) odds highly favour Trump. We also looked at the CFTC-regulated portal Kalshi, where it is possible to buy/sell the equivalent of binary options on either candidate.

Betting markets have given Trump a better chance than the polls

Harris (% probability of win, polls) — Trump (% probability of win, polls)
Harris (¢ price, PredictIt) — Trump (¢ price, PredictIt)

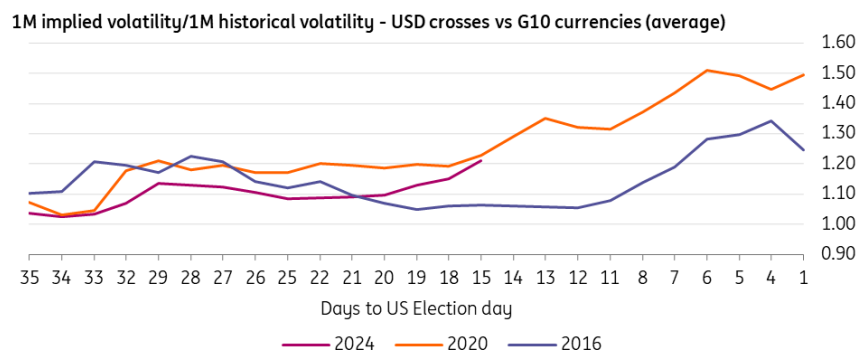Source: ING, FiveThirtyEight (ABC News), PredictIt

Kalshi's election winner market only started in October, so the chart above uses data from PredictIt, an analogue election-betting website. Both Kalshi and PredictIt implied probability of a win has generally been leaning more in favour of Trump relative to what poll-based simulations were suggesting. Remember that these portals work similarly to stock markets, where the price is determined by buying and selling volume.

The rise in bets on Trump in such markets is probably a reflection of both polls and some hedging, considering a Trump win is seen as the more impactful event for markets. Incidentally, in both 2016 and 2020, the Republicans fared markedly better than polls and betting markets had anticipated, and that can also explain why betting markets have been favouring Trump this time.

FX implied volatility to rise into the vote

In the last two US presidential elections, the cost of FX hedging increased significantly in the two weeks leading up to the vote. One way to measure this is the ratio of one-month implied volatility to one-month historical volatility. A ratio above 1.0 suggests that markets anticipate larger spot movements in the upcoming month compared to the previous 30 days.

Rise in FX implied volatility may have only just started

1M implied volatility/1M historical volatility - USD crosses vs G10 currencies (average)

Days to US Election day

— 2024 — 2020 — 2016

Source: ING, Refinitiv

As you can see above, the implied/historical volatility ratio increased markedly in the 14 days preceding the 2020 and 2016 election days for G10 dollar crosses. We expect a similar dynamic this time, especially considering the latest polls are narrowly favouring Trump, whose win can generate larger volatility across the currency market. Since that hedging demand should mostly be related to protection for a Trump-led dollar rally, we think the balance of risks remains skewed to a stronger USD into the vote.

FX liquidity can dry up close to the vote

In particular, we remain concerned that some de-risking in the FX market can lead to poorer liquidity conditions. The Norwegian krone is often a good indicator of such conditions, given it is the least liquid G10 currency. Despite good fundamentals, we suspect EUR/NOK can trade back above 12.0 before the US election.

FX market isn't fully pricing in Trump

Since mid-October, markets have gradually priced in more Trump risk, mainly through higher US rates, pressure on emerging market currencies and some USD strength. This means that a potential "relief" rally following a Harris win can now be larger and hit the dollar harder.

That said, the FX market is not fully pricing in a Trump victory. The dollar's strength is still mostly a function of stronger US data, and EUR/USD (currently at 1.082) is trading less than 1% below its short-term fair value. An undervaluation of at least 2% (the 1.5 standard deviation) would be needed to conclude there is a Trump-related risk premium embedded in the pair.

### EUR/USD is not embedding a Trump risk premium

Over the recent period, EM currencies have sold off on the strong dollar but have not – yet – substantially underperformed G10 currencies. This may change. Most vulnerable could be CEE currencies, which have double exposure through EUR crosses and large export openness, translating into sensitivity to potential changes in global trade in the case of a Trump victory.

At the moment, HUF seems the most exposed within the region where the central bank does not have many options to defend the currency and the market has already outpriced any rate cuts over the last two weeks. On the other hand, the CZK and PLN seem more defensive and may also benefit from a possible relief in case of a Harris victory.

Elsewhere, things could have been worse for the Latin and Asian currencies were it not for recent Chinese stimulus measures. Yet both blocs still look vulnerable to further losses under a full Trump 2.0.

FX market reaction to Trump's 2016 win

Performance from election day (7 Nov 2016) to following Friday (11 Nov) vs USD
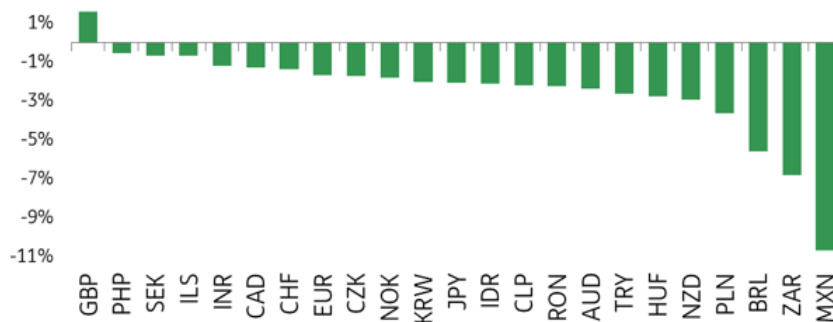
Source: ING, Refinitiv

# Gauging the initial FX impact

The 2020 Presidential election was somewhat unique, and results were significantly delayed due to the very high number of mail-in ballots and the Republicans contesting the count in some states. In the table at the top of this article, we summarised the point at which the key swing states were called by the Associated Press in the past three elections. It's worth noting that Biden's win was not officially called until the Saturday after the vote (so four days after).

There is probably a greater risk of a delay in the count and official results for this election compared to any other election before 2020, and news agencies may well be more careful in calling a state or the Presidency than in previous instances. Most swing states are on the East Coast, where polls close between 7PM and 8PM ET, but the high volume of mail-in ballots can cause delays. The preliminary results in Pennsylvania can have one of the deepest market impacts as this is seen as a must-win state for Harris, but local regulation allows mail-in votes to be counted only on Election Day, which can lead to a lengthy count.

Anyway, there is a good possibility the FX market will "call" the winner already on the night between 5 November and 6 November. We expect the initial reaction to mostly entail protectionism-related trades. This means the wider swings can be seen in AUD and NZD in the G10 space; in EM, Asian currencies and MXN will be particularly sensitive.

Which currencies are most exposed to Trump tariffs?

Z-scores based on median values of 23 countries covered

■ Exports to US (% GDP) ■ Exports to China (% of GDP)
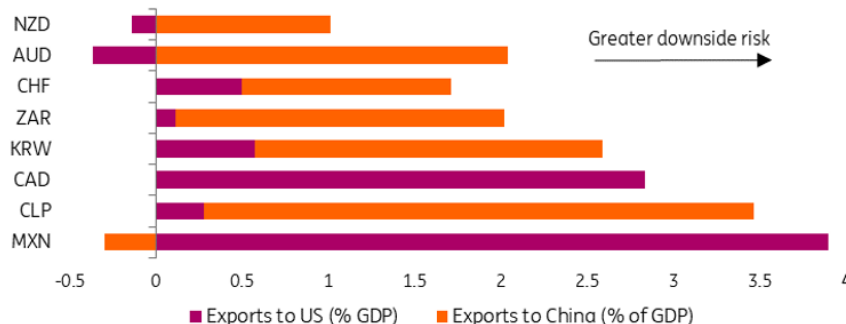
Source: ING, IMF, Macrobond

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US presidential election: Three scenarios for markets

The next president of the United States and the parties that will control Congress will have a major say in where financial markets head over the coming years. So, just what might happen to FX, Rates, Commodities, and Credit Markets whoever wins? Welcome to our scenarios

US Election: Three scenarios for markets

No one can predict what's going to happen on 5 November when Americans go to the polls to elect either Donald Trump or Kamala Harris. However, we have tried to look at various scenarios which could affect asset classes via domestic, foreign and trade policy. We'll be writing extensively on this over the coming weeks. So think of this as an introduction. Our emphasis is very much on the factors that could shape the future, rather than the point forecasts themselves.

Click here to download the following graphics as a PDF slidepack

US Election: Three scenarios for financial markets

	Policy drivers and macro impact				Market impact			
	Domestic policy	Foreign policy	Trade policy	Fed policy impact	EUR/USD	US 10Y	Credit spreads	Oil - Brent
① **Trump clean sweep** Trump Presidency Republican House Republican Senate	Enlarging the 2017 tax cuts the priority. New immigration controls. No meaningful fiscal consolidation	Less support for Ukraine and Taiwan. Trump focus on domestic growth and jobs	Tariffs, with China particularly exposed. Implementation may be delayed as initial focus on domestic policy	Loose fiscal policy likely to be accompanied by tighter monetary policy if Fed is serious about hitting 2% inflation	4Q24 **1.02** 2Q25 **1.00** 4Q25 **0.95**	4Q24 **3.90** 2Q25 **4.20** 4Q25 **5.20**	4Q24 **120bp** 2Q25 **115bp** 4Q25 **120bp**	4Q24 **87** 2Q25 **81** 4Q25 **74**
② **Trump constrained** Trump Presidency Republican House Democrat Senate	Trump may be able to extend 2017 tax cuts, but further reductions and spending priorities may be blocked by Democrats	Domestic agenda is constrained so a more likely emphasis on foreign policy as he seeks a deal with Russia over Ukraine	Trade protectionism is quicker and harder as Trump seeks to pull levers that he believes will boost the US economy	Lingering inflation fears from tariffs & tax cut extensions may make the Fed wary of cutting rates too much in 2025	4Q24 **1.06** 2Q25 **0.98** 4Q25 **1.03**	4Q24 **3.80** 2Q25 **4.10** 4Q25 **4.90**	4Q24 **130bp** 2Q25 **125bp** 4Q25 **120bp**	4Q24 **85** 2Q25 **77** 4Q25 **70**
③ **President Harris** Harris Presidency Republican House Democrat Senate	Tax increases for corporates & wealthy, but tax credits and spending elsewhere see modest fiscal consolidation	Ongoing support for Ukraine, but funding restricted by Rep. opposition. Middle East tensions persist, Taiwan retains US backing	A more 'carrot' approach of reshoring incentives rather than the 'stick' of Trump tariffs	Fed feels more onus on them to bolster US economy given less fiscal support	4Q24 **1.12** 2Q25 **1.15** 4Q25 **1.18**	4Q24 **3.60** 2Q25 **3.90** 4Q25 **4.60**	4Q24 **140bp** 2Q25 **145bp** 4Q25 **150bp**	4Q24 **83** 2Q25 **79** 4Q25 **78**

*USD IG Corp Cash Index (current and 3Q target 135bp)   *USD/bbl

Source: ING

Scenario 1: Trump clean sweep

Donald Trump wins the Presidency and Republicans win control in Congress

Key policy drivers

Domestic: Extension and enlargement of tax cuts the early focus. Spending is re-prioritised rather than restrained. Debt sustainability worries mount

Foreign: Secondary to domestic issues. Ukraine receives less support. Peace deal takes longer. Global tensions linger, with occasional flare ups

Trade: Not the immediate priority, but tariffs will still be implemented, more likely in 2026 rather than 2025

Timings: Tax cuts and securing a strong growth story the priority, followed by migration controls with trade and foreign policy lagging behind

Macro impact

Growth: Confirmation of tax cuts may give growth an earlier lift while encouragement of reshoring keeps the momentum strong. Tariffs come in later, meaning less immediate pressure on Eurozone

Inflation: Tax cuts support domestic demand and immigration controls lift wages marginally, which keep inflation more elevated. Eventual tariffs further lift inflationary pressures

Central banks: Stronger growth and higher inflation likely mean Fed keeps interest highest in this scenario. Moreover, ongoing loose fiscal policy is likely to result in tighter monetary policy in general

Market impact

FX

A Republican clean sweep is the most bullish scenario for the dollar medium term. Loose fiscal, tight monetary policy plus tariffs are all positive. Dollar strong, then stronger is our call.

EUR/USD at **1.02** by end of 2024

Rates

A risk-on theme, whether justified or not, will reduce the bid for bonds, pushing yields up. A gung-ho attitude to the ballooning fiscal deficit adds to issuance, pressuring rates higher.

A 5% + handle for the US 10yr

Credit

Strong performance of USD credit back towards the bottom end of trading range, perhaps reaching tights in 2Q25 but ending next year at 120bp. USD outperforms EUR, but no major weakness in EUR.

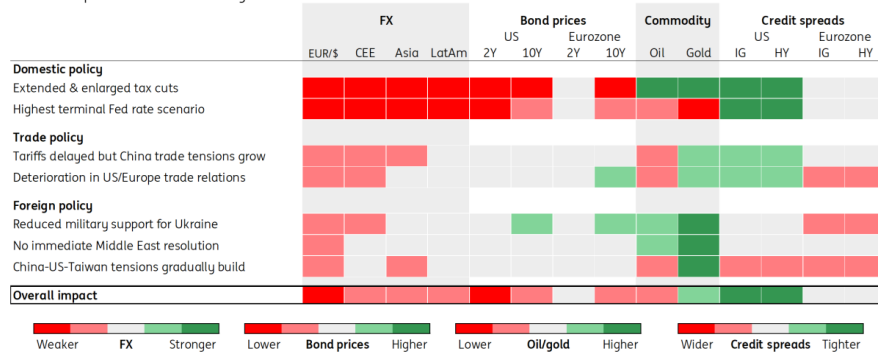Strong spread tightening

Commodities

Tax cuts support oil prices in short term. Focus on US energy independence and pressure on OPEC+ to increase supply sees weaker prices longer term. Key upside risk is stricter sanction enforcement against Iran.

Oil at **$87/bbl** by end of 2024

Source: ING

Scenario 1: The winners and losers in financial markets

Relative impact on asset markets by the end of 2025

	FX				Bond prices				Commodity		Credit spreads			
					US		Eurozone				US		Eurozone	
	EUR/$	CEE	Asia	LatAm	2Y	10Y	2Y	10Y	Oil	Gold	IG	HY	IG	HY
Domestic policy														
Extended & enlarged tax cuts														
Highest terminal Fed rate scenario														
Trade policy														
Tariffs delayed but China trade tensions grow														
Deterioration in US/Europe trade relations														
Foreign policy														
Reduced military support for Ukraine														
No immediate Middle East resolution														
China-US-Taiwan tensions gradually build														
Overall impact														

Legend: Weaker — FX — Stronger | Lower — Bond prices — Higher | Lower — Oil/gold — Higher | Wider — Credit spreads — Tighter

Source: ING

Scenario 2: Trump constrained

Donald Trump wins the Presidency, but Congress split (Democrats win Senate, Republicans win House)

Key policy drivers

Domestic: 2017 tax cuts extended but Democrats delay wider changes for corporates and wealthier individuals. Deficits remain substantial

Trade: 60% tariffs on China and 10% on all goods globally in 2025. Plans to phase out Chinese imports of key goods.

Foreign: Deal with Russia over Ukraine conflict sees large areas of Ukraine fall under permanent Russian control. Middle East tensions reduced.

Timings: Democrat-held Senate forces Trump to make concessions on fiscal/immigration. Focus on trade policy comes early in the presidency.

Macro impact

Growth: Negligible impact on 2025 US growth given policy constraints but 2026/27 higher on tax cuts/reshoring. Eurozone growth impact slightly negative

Inflation: Tax cuts plus tariffs & tighter labour supply (lower immigration) offer modest boost in 2026

Central banks: Higher inflation limits Federal Reserve rate cuts. Weaker growth doesn't accelerate ECB rate cuts given slightly higher inflation.

Market impact

FX
Early Trump focus on foreign policy can see USD stronger mid-25 than under a clean sweep. Net-net, a Trump administration is USD +ve. But if US growth falters, weak USD policy is a risk

EUR/USD at 1.06 by end of 2024

Rates
The biggest hit to bonds here comes from the tariff war's effect on inflation. This is partially cushioned by the added tax revenue that can be deployed to help reduce the fiscal deficit.

Bonds get hit from inflation risk

Credit
Decent USD performance but less considerable, and more of a slower tightening over the year to also end at 120bp. Expect more outperformance over EUR as EUR credit could see some weakness.
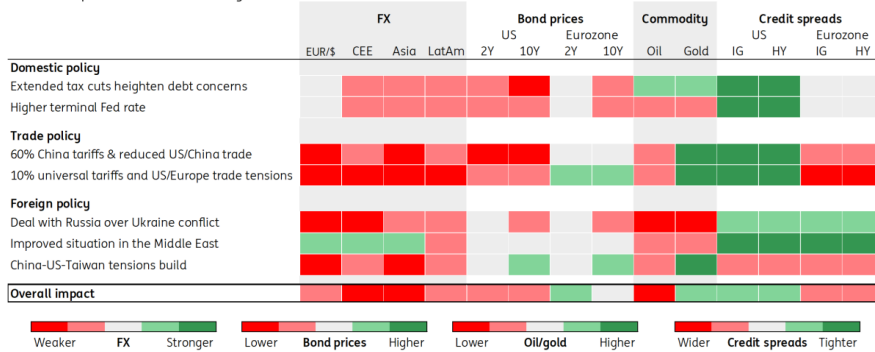
USD outperformance over EUR

Commodities
Early focus on foreign policy sees easing tension in the Middle East weigh on oil prices. Pressure on Russia/Ukraine to come to a deal puts further downward pressure on prices through 2025.

Oil at $85/bbl by end of 2024

Source: ING

Scenario 2: The winners and losers in financial markets

Relative impact on asset markets by the end of 2025

	FX				Bond prices				Commodity		Credit spreads			
					US		Eurozone				US		Eurozone	
	EUR/$	CEE	Asia	LatAm	2Y	10Y	2Y	10Y	Oil	Gold	IG	HY	IG	HY
Domestic policy														
Extended tax cuts heighten debt concerns														
Higher terminal Fed rate														
Trade policy														
60% China tariffs & reduced US/China trade														
10% universal tariffs and US/Europe trade tensions														
Foreign policy														
Deal with Russia over Ukraine conflict														
Improved situation in the Middle East														
China-US-Taiwan tensions build														
Overall impact														

Weaker **FX** Stronger   Lower **Bond prices** Higher   Lower **Oil/gold** Higher   Wider **Credit spreads** Tighter

Source: ING

Scenario 3: President Harris

Kamala Harris wins the Presidency, but Congress is split (Democrats win Senate, Republicans win House)

Key policy drivers

Domestic: Sunsetting of Trump tax cuts and more taxes for corporates and wealthy coupled with some extra spending will see some fiscal restraint

Foreign: Ongoing support for Ukraine and close collaboration with global allies. Middle East tensions persist, but Taiwan retains US backing

Trade: Carrot of financial incentives to reshore production to the US rather than the "big stick" of tariffs under Trump

Timings: Tax cuts to sunset end 2025 with tax rises from 2026. Better fiscal numbers materialise relatively swiftly, but fiscal sustainability worries persist

Macro impact

Growth: Somewhat tighter fiscal policy will be a headwind to growth, but a more certain trade and economic backdrop may mitigate this, particularly if the Fed feels content with a lower inflation profile

Inflation: Some fiscal restraint will help dampen price pressures relative to Trump. Limited migration & trade impact should also lesson inflation fears over the medium term

Central banks: A tighter fiscal environment, coupled with modestly weaker growth and reduced inflation threat may see the Fed be more willing to run looser monetary policy relative to the Trump scenarios

Market impact

FX
Somewhat tighter fiscal and looser monetary mix – plus less aggressive trade policy – is a USD negative. Dollar can weaken into year-end and further into 2025 if Fed takes rates down to 3.50%

EUR/USD at **1.12** by end of 2024

Rates
Rates are lower because of tighter fiscal response, which facilitates lower rates along the yield curve. A moderately weaker activity backdrop pushes in the same direction.

Rise in yields more muted

Credit
Some weakness in USD spreads as taxation on corporates adds pressure. Spreads slowly leak wider through the year. EUR credit may see some outperformance over USD credit.

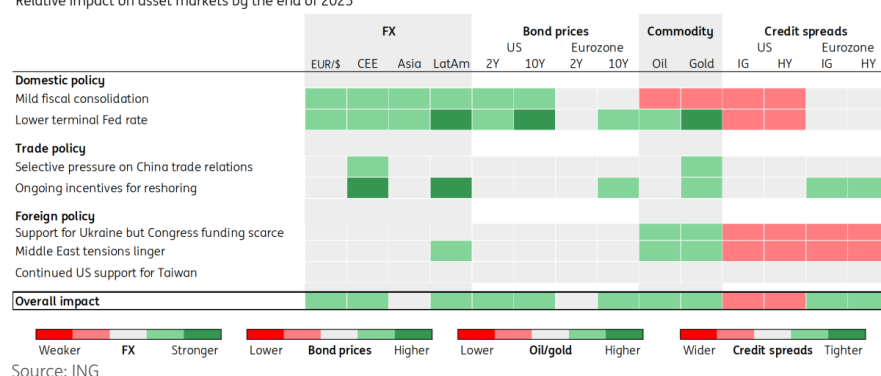EUR outperformance over USD

Commodities
Lower growth prospects weigh on oil, short term. Middle East tension persists. No Russia/Ukraine deal means oil ends 2025 higher versus other scenarios. Looser monetary policy supports prices in 2025.

Oil at **$83/bbl** by end of 2024

Source: ING

Scenario 3: The winners and losers in financial markets

Relative impact on asset markets by the end of 2025

	FX				Bond prices US		Eurozone		Commodity		Credit spreads US		Eurozone	
	EUR/$	CEE	Asia	LatAm	2Y	10Y	2Y	10Y	Oil	Gold	IG	HY	IG	HY
Domestic policy														
Mild fiscal consolidation														
Lower terminal Fed rate														
Trade policy														
Selective pressure on China trade relations														
Ongoing incentives for reshoring														
Foreign policy														
Support for Ukraine but Congress funding scarce														
Middle East tensions linger														
Continued US support for Taiwan														
Overall impact														

Legend:
- Weaker — **FX** — Stronger
- Lower — **Bond prices** — Higher
- Lower — **Oil/gold** — Higher
- Wider — **Credit spreads** — Tighter

Source: ING

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Article | 10 September 2024

Energy | United States

How the US election could impact the energy transition

No matter who becomes president, the US energy transition is expected to continue. The Inflation Reduction Act will drive clean energy development and technology onshoring will weigh more on energy and climate policymaking. Still, companies need to watch out for regulation and incentive rollbacks

There will be differences in how Harris and Trump handle energy policymaking

Be prepared for policy disruption

The US has long been subject to material policy inconsistency through presidential election cycles. Most recently, the Biden administration reversed a series of Trump-era energy and climate policies, signed into law the landmark Inflation Reduction Act (IRA), which has spurred $200bn of investment in clean energy manufacturing, strengthened regulations on several dirty economic activities, and is undergoing efforts to mandate climate data reporting.

Now, with the 2024 elections approaching and the recent confirmation of Kamala Harris as the presidential candidate for the Democrat Party, the US clean energy market is again subject to policy disruption.

As corporates and investors seek future resiliency for their business and investment decisions, it is

important to understand what sections of the US clean energy policy may substantially change with the elections, and which may stay intact.

Regardless of who becomes president, the IRA is unlikely to be repealed and will continue to be a key piece of legislation facilitating the development of clean energy in the US. Meanwhile, onshoring key technologies and strengthening critical mineral supply chains will be a priority for both candidates. Streamlining permitting processes for energy projects will also have bipartisan support.

But there will still be differences in how Harris and Trump handle energy policymaking. We will unpack the policy differences in the four possible scenarios. In a nutshell, incentives for electric vehicles (EVs) and various clean energy loan programmes are at high risk of being scaled back under a Trump presidency, while incentives for technologies such as hydrogen and carbon capture and storage (CCS) would be less impacted. Renewable energy can get continued tax credits, though efforts toward grid modernisation would be weakened with Trump in the White House.

US elections: how supportive will policies energy and climate policies become?

Note: + +: Supportive; +: Moderately supportive; o: Neutral; -: Moderately unsupportive; - -: Unsupportive. Source: ING research

With most parts of the economy deploying clean technology right now, the US is undergoing a structural change where it is difficult to "cancel" the energy transition. But the big question is how much election cycles will affect the speed of the transition. Understanding the policy dynamics and underlying divers can help companies future-proof their businesses.

How to contextualise the energy transition under fiscal deficit concerns and weak investment in the US

The fiscal deficit is set to exceed 6% again this year despite the economy recording robust growth with low unemployment. Neither candidate appears to be proposing policies that will return government borrowing to a more sustainable position quickly, so net interest costs look set to soar in an environment of higher interest rates. Should debt sustainability concerns come to the fore and spending cuts are required, major projects will be vulnerable.

The IRA is no doubt having and will continue to have a profound impact on the energy, infrastructure, and manufacturing sectors, among others. However, the size of the IRA is not large enough to have had a meaningful impact on the general investment environment. It might take longer for the positive impact to be reflected on a larger scale.

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Article | 5 September 2024   **United States**

How the US election will impact deficits, debt, and the yield curve

Government borrowing and the national debt are barely getting a mention in the US election campaign, yet a failure to change trajectory risks further debt downgrades, more market volatility and higher borrowing costs

Trump vs Harris. Whoever wins the election will have to get to grips with the national debt issue

This year's election is set against a backdrop where the government is borrowing the equivalent of 6% of GDP and the national debt totals $35tr.This poor fiscal position risks being exacerbated by structural factors, such as an ageing population, and cyclical factors, such as cooling economic growth. Failure to get to grips with the issue runs the risk of more debt downgrades, more market volatility, higher borrowing costs and slower potential economic growth.

Long-term challenges of the US budget

Huge fiscal expenditure during the pandemic under both the Trump and Biden presidencies has been the major factor responsible for the deterioration in government finances. That has abated,

but even if the candidates were seriously motivated to shrink the deficit, there are major structural issues that make it difficult to get a real grip on expenditures.

Mandatory spending, or spending mandated by existing laws, represents nearly two-thirds of expenditure. It is predominantly healthcare and social security spending, largely determined by the number of recipients and has been growing by 0.1-0.2pps as a share of GDP per year historically, driven by demographic trends. In the past, the growing mandatory outlays were offset by shrinking discretionary spending (voted on in the annual appropriations process). However, this component, of which defence constitutes half, is already close to historical lows in real terms, suggesting limited scope to generate significant spending cuts. The third and smallest component of government spending is interest expense. Having spiked by 0.5pps in 2023 due to higher interest rates, this reached 2.4% of GDP last year.

Given these constraints, the non-partisan Congressional Budget Office's June projections suggest an average annual deficit of 6.3% of GDP between 2024-34 with public debt projected to increase from 99% to 122% of GDP. The assumptions included Trump's 2017 Tax Cuts and Jobs Act (TCJA) expiring and a solid economy maintaining an average growth rate of 1.8%YoY, employment rising nine million over the period and incomes growing solidly. A more detailed analysis of the budget trends can be found [here](#).

Trump versus Harris: fiscal decisions

In terms of direct fiscal decisions, a Harris administration is expected to let Trump's TCJA income tax cuts expire. There would be additional tax increases for businesses (7pp hike of the corporate tax rate), and wealthy individuals, but this would be more than offset by tax credits for families and lower-income households plus subsidies for first-time home buyers. Spending activities will be focused on improving access and lowering costs related to healthcare, childcare, housing and education.

This policy mix could amount to a higher deficit to the tune of $1-1.5tr over a decade relative to the CBO baseline, but it would be even larger if the additional tax hikes don't get passed by Congress.

A Trump administration will focus on a "second phase" of tax cuts in addition to an extension of the 2017 TCJA. This will involve sizeable tax cuts for corporates paid for by spending cuts/efficiency savings and tariffs placed on imported goods. The second major Trump initiative is the imposition of 10% tariffs on all goods imports with 60% levies on Chinese-made products together with a four-year plan for phasing out Chinese imports of electronics, steel, and pharmaceuticals.

Extending the 2017 tax cuts ($4tr alone), plus additional tax cuts offset by revenues raised from tariffs are, we believe, set to result in deficits increasing by perhaps $5.5tr relative to the CBO's baseline – nearly triple that of Harris' proposals.

Economic Impact

We sense that Trump's policy proposals could help to support domestic demand via lower taxes, but there are upside risks for inflation relative to Harris' proposals. Tariffs and trade barriers will push up business costs, while intensified immigration controls may limit labour supply growth. This environment is likely to mean monetary policy needs to be kept tighter than would otherwise be under Harris, where tax hikes could weigh on activity. Our longer-term projections with a more

inflationary environment under a Trump presidency could lead to a 50-75bp higher neutral Fed funds rate (3.25-3.5% versus the Fed's 2.8% assumption) over the long run. Under Harris, it may remain closer to 3%.

The CBO analysis suggests that the variation in the interest rate environment has potentially the biggest impact on the budget deficit scenarios. Each 10bp of deviation from the baseline results in around 0.1pps of GDP p.a. increase in the expected fiscal deficit over a 10-year period, due to higher expenses on debt servicing.

Under both presidential candidates, the deficit will remain uncomfortably wide, with debt levels continuing to rise rapidly. However, the combination of direct decisions on tax policy and the macro conditions plus higher borrowing costs suggests that a Trump administration could lead to up to 1.2-1.3% GDP wider annual deficits starting in 2027 compared to a Harris administration. We have a stronger GDP growth profile with Trump in our long-term growth forecasts, which helps improve the appearance of the fiscal ratios, but even so, we are likely to see the deficit average nearly 7% of GDP under Trump while vs. slightly below 6% under Harris.

Implications for US Treasuries and markets

The US Treasury market is currently not particularly bothered by the extra issuance supply resulting from the higher deficit.

There are three reasons for this. Firstly, we're on the eve of a Fed rate-cutting process and this is dominating market direction with markets expecting 200bp+ of Fed rate cuts over the next 18 months.

Second, the Treasury has managed to curb the effect of the extra issuance by morphing the more significant increases towards shorter maturities.

Third, there is a risk-on market theme out there with equities at record highs, implying the market believes there is little to worry about.

Going forward, a lack of market concern about the size of the deficit can easily pivot to it being top of the list of worries. The transmission mechanism here is a few poor bond auctions that become a trend, requiring the build of a material new issue concession that gets built into structurally higher absolute yields. That could happen slowly, or it could be more abrupt. Our base is for a slow creep. But it's an impactful one. We see the 10-year yield heading for 5% as a base case in 2026.

In fact, a 5% 10-year yield call is a conservative one all things considered. It's just a 150bp curve to a Fed funds rate that's been cut to 3.5%. While the fiscal deficit difference between the two candidates favours a Harris policy mix (lower than a Trump deficit), it's not big enough to be materially impactful. We have a baseline view for a 5% 10-year yield and a 150bp curve from the funds rate out, which we feel is fair given the size of the deficit, and broadly agnostic to the election outcome. If it's a Trump administration, yields are likely to be higher and the curve steeper, but probably on a delta of no more than 50bp for the 10-year yield and the curve.

Market pressure to eventually refocus politicians' minds

In the current environment, where markets are calm, politicians see little threat from the current trajectory of the US's fiscal position. But that will quickly change if ratings agencies and markets start to see it as an issue.

If markets become dysfunctional, it will force governments to take more rapid and painful action. That may not happen in the next four years – but as a minimum, the higher, steeper yield curve we expect will put up costs for households and businesses and prove a headwind for the economy more broadly.

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US election guide for the FX market

This election guide is a companion to our article 'US presidential election: Three scenarios for markets' published in August. In this piece, we drill down into what new policies could mean for each of the major FX blocs. We also offer three brief articles looking at the threats of US debt sustainability, weak dollar policy and de-dollarisation

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High stakes for Asia at the US elections

Asian markets seem relatively relaxed ahead of the US elections on 6 November. But here are some reasons why they should be more anxious

The world will watch to see who emerges as the next American president and in Asia, the interest will be as great as anywhere.

Non-China Asia's gains could become next year's problems

While it may be a US election, the world will watch to see who emerges as the next American president on November 6. And in Asia, the interest will be as great as anywhere.

The Biden administration's approach to this region has differed from that of the Trump administration, yet Trump-era tariffs remain in place, with some additional tariffs recently introduced.

Asian economies, excluding China, have had to navigate the impact of a weaker Chinese economy on exports and growth, and these additional sanctions and tariffs won't have helped the region as a whole. But some economies will have picked up market share in areas where China has lost ground.

And depending on who wins the next election, this could cause problems...

Tariffs may be broader than they were in 2017

If we look back at trade data from 2017, when Donald Trump started his presidency, the US had an annual bilateral deficit with China of US$336bn – more than 60% of the entire US trade deficit that

year. The combination of trade wars, tariffs, and other sanctions plus reshoring and friend-shoring / de-risking and re-location by Chinese companies has shifted this balance.

The bilateral deficit with China has fallen, and the latest fourth-quarter sum is about $87bn lower than it was for the whole of 2017. But the deficits with other Asian economies have risen even more (about $150bn is the latest fourth-quarter sum compared to 2017).

It will not be surprising to learn that Vietnam, the poster child for the China-plus one story, has seen the biggest swing in the bilateral deficit with the US. But there have also been gains for South Korea and Taiwan, and some of the SouthEast Asian economies.

This raises a question. If an incoming president wants to tackle trade imbalances, is the focus this time likely to be broader than just China? And if so, could there be a wider set of tariffs which will capture more of Asia directly than during 2017-21? It's worth considering.

US bilateral deficits with Asia (US$m 4Q sum)
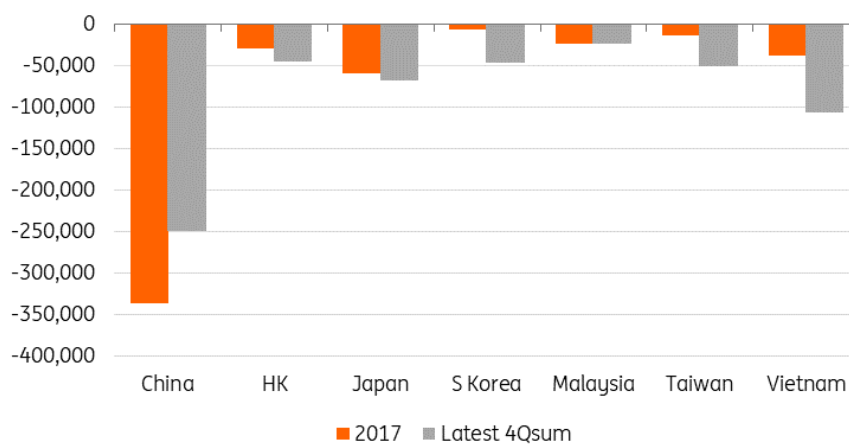
Source: CEIC

Asia dominates the US currency manipulator monitoring list

The timeline for any such action is highly contestable. The previous Trump administration took some time to build up to the full-scale trade wars with China, starting with some tariffs on fridges and solar panels before scaling things up over subsequent years. At that time, a split Congress meant that Trade policy was one of the few avenues available to Trump to enact policy, which may help explain why this became such a focus.

For non-China Asia, a similarly split Congress might be a more worrying outcome than a clean sweep for the Republican Party. The latter might suggest more of a domestic focus on policy, at least initially.

As well as tariffs, the tag of "currency manipulator" may be a first red flag for an Asian economy. In 2024, the US Treasury found that none of its major trading partners appeared to be manipulating their currency – a charge which could start the process of investigation and possible sanctions including tariffs. There are three criteria for meeting this list, none of which make a huge amount of sense, and in addition are open to change and interpretation, but large surpluses with the US are the main trigger point.

Asian economies dominate the current "monitoring list", and alongside China is Japan (newly added), Vietnam, Taiwan, Malaysia and Singapore. So to conclude, Asian markets seem relatively calm at the moment. But with this election too close to call, a little more trepidation may be appropriate.

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