How the US election could affect the Forex markets

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The US election on November 5 could have a major impact on the Forex markets and the strength of the US dollar. The broker Alpari has put together a guide that describes how the election has affected the dollar in previous years, as well as predicting the effect of Harris or Trump winning could have on the markets. Under each presidential candidate, everything from the new policies they introduce to the way the economy changes under their leadership could lead to different exchange rates between the dollar and other major - or minor - currencies.

Alexey Efimov, Market Analyst at Alpari, comments:

“The US election and the induction of the new President is a highly significant time for the US economy, and therefore for the US dollar, too. We can’t predict who will win, with an extremely close race between the candidates in many states. It’s worth bearing in mind that the election may also affect other markets, from commodities to crypto.”

The US dollar under Biden

Academic research has indicated that the US dollar tends to strengthen under a Democrat president compared to Republican presidencies. Under President Biden, the dollar has been stronger thanks to the government’s fiscal stimulus package, particularly the American Rescue Plan Act of 2021. Fiscal stimulus increased US inflation, which caused the Federal Reserve to raise interest rates to a 23-year high. The result has been an increase in demand for the US dollar, which rose by as much as 28.7% between 2021 and 2022.

Under President Biden, the US dollar posted its largest annual gains (up 8.2% in 2022, and 6.4% in 2021) since 2015 - when another Democratic President was in the White House, Barack Obama.

The US dollar under Trump

Donald Trump has declared that he wants to weaken the dollar if he becomes President, as he perceives the strong dollar environment as placing a ‘tremendous burden’ on US companies attempting to export products.

In 2019, Trump called China a ‘currency manipulator’ and placed controversial import tariffs on the country - Trump still maintains an aggressive stance and has indicated he might introduce further tariffs if elected. Trump has also pledged a 10% blanket import tax on goods from Europe, meaning the US dollar might increase in value against the Euro. From 2018-2020, the Euro and US dollar pairing (EURUSD) dropped by as much as 15.3% in response to trade wars instigated by Trump.

The US dollar post election

After the attempted assassination of Trump in July, the US dollar initially rose in value in a ‘flight-to-safety’ move, but it has since lost the gains it made. It also does not seem to have boosted Trump in the polls as much as some had speculated. Polls have become closer since Kamala Harris was announced as the new Democratic presidential candidate.

Harris is predicted to make similar policy decisions as her predecessor Biden if she wins, investing in infrastructure and welfare.

In fact, so far in Q3 2024, the US dollar has wiped out all of its year-to-date gains, as markets anticipated that the Federal Reserve would begin cutting interest rates. The Fed duly lowered its benchmark rates by 50 basis points on September 18th, 2024 - its first rate cut in 4 years.

Still, the upcoming elections could lend itself to a stronger US dollar - investors might flock to the ‘safe haven’ asset, as they often do during times of uncertainty. There could also be a higher level of volatility in the FX markets. Alpari concludes that traders would be sensible to diversify their portfolio of currencies in order to reduce any risk of losses.

-Ends-

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