



# International Department

## Weekly Catch-up

10 October 2024



RESERVE BANK OF AUSTRALIA

# US Elections and Implications

Discussion

10th October 2024

GENERAL

# Policy Platform - Trump

	Trump
<b>Domestic Policy</b>	<ul style="list-style-type: none"><li>• Immigration reform</li><li>• Fiscal Expansion</li><li>• De-regulation</li><li>• Greater influence over Federal Reserve policy and interest rate decisions.</li><li>• Energy Policy: Fossil &gt; Green</li></ul>
<b>Foreign/Trade Policy</b>	<ul style="list-style-type: none"><li>• Tariffs:<ul style="list-style-type: none"><li>- Up to 60% on China</li><li>- Up to 10-20% on the Rest of World.</li></ul></li><li>• Isolationist Foreign Policy</li><li>• Engineer a weaker USD</li></ul>

# Policy Platform - Harris

	Harris
<b>Domestic Policy</b>	<ul style="list-style-type: none"><li>• Modest immigration reform</li><li>• Fiscal policy (key items):<ul style="list-style-type: none"><li>- Increases taxes on highest earners.</li><li>- Enhanced benefit spending</li><li>- Raise the corporate tax rate from 21% to 28%</li></ul></li></ul>
<b>Foreign/Trade Policy</b>	<ul style="list-style-type: none"><li>• Incremental targeted and strategic tariffs on Chinese exports</li></ul>

# Election Scenarios

- **Republican Sweep**
  - Greatest implications for macro/markets/MP
- **Republican Divided**
  - Still implications but diluted
- **Democrat Sweep**
  - Status quo + some fiscal expansion
- **Democrat Divided**
  - Status quo.
- **Delayed election**
  - 3-month handover
- **Disputed election**
  - Higher US safe harbor premia?

# Democrat, Divided

- Status quo
- Gridlock in Congress
- Compromise on extending TCJA – all but >400k
- Continuation of present Biden policies
- No implications:
  - **US** economy, asset prices, monetary policy
  - **International** economy, asset prices, monetary policy.

# Democratic Sweep

- Tax reform, enhanced spending, overall increases deficit (3.5trn)
- Otherwise status quo
- Overall slightly contractionary
- Modest implications:
  - **US**: slightly lower growth, inflation
  - slightly lower equities, USD, yields
  - slightly faster path for easing
  - **International**: Mostly domestic.

# Republican Sweep/Unrestrained Trump - Economy

	High Tariffs	Strict immigration	Fiscal	De-reg	Overall
Inflation	↑↑	↑↑	↑	↑	↑↑
Growth	↓↓	↓↓	↑↑	↑	↓
Deficit	↓	↑	↑↑	↓	↑



# Republican Sweep/Restrained Trump - Economy

	Moderate Tariffs	Moderate immigration	Fiscal	De-reg	Overall
Inflation	↑	↑	↑	↑	↑
Growth	↓	↓	↑↑	↑	↑
Deficit	↓	↑	↑↑	↓	↑

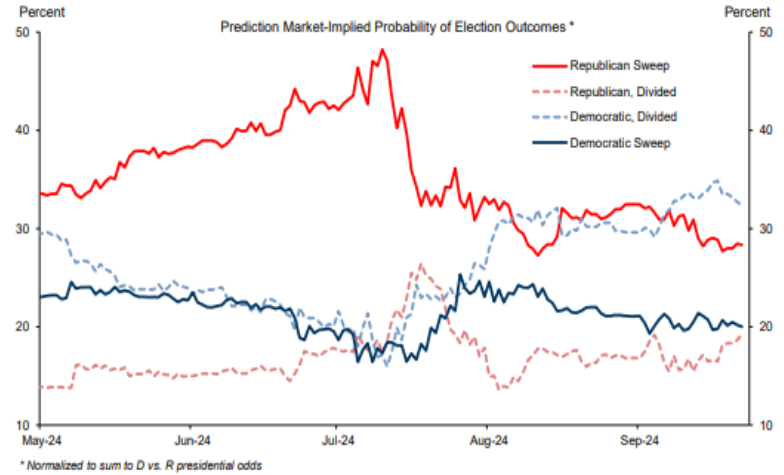
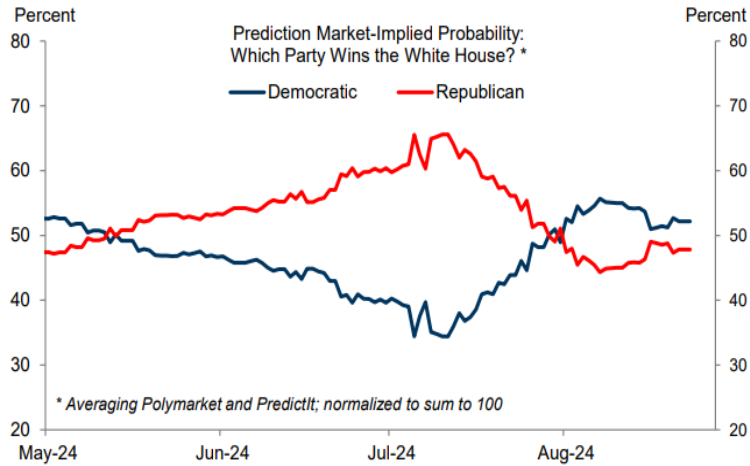
# Republican Sweep – Asset Prices and MP

	Unrestrained Trump	Restrained Trump
US Equities	↓	↑
US rates	?	↑
USD	↑	↑
US monetary policy	?	↑
EU/CN/AU growth	↓	?
EU/CN/AU monetary policy	↓	?

# Republican, Divided

- Diluted tariff proposals
- Modestly tighter immigration
- Compromise on extending TCJA – all but >400k
- Modest de-reg agenda, no roll-back of IRA
- Modest implications:
  - **US**: slightly lower growth, slightly higher inflation
  - equities ? yields ? USD ↑
  - slower path for easing, wait and see
  - **International**: China still hit; EU/AU more modest
  - Slightly lower asset prices and easier monetary policy.

# Betting Odds



# Final Thoughts

- Who do you think will win and why?
- Will Trump go all in, or should we expect more compromise and therefore be less concerned about macro risks?
- Do you agree that most outcomes mean similar or slower growth outcomes for Australia?

**US ELECTION: WHAT DOES IT MEAN FOR MARKETS AND MONETARY POLICY**

### Implications of a Republican sweep for financial conditions in Australia

Australian exports to the US account for a very small portion of overall GDP, so tariffs imposed under either the extreme or moderate scenario are unlikely to significantly impact growth through this channel. However, weaker Chinese growth will have relatively strong negative implications for Australia given the strength of export trade links. In the extreme scenario, weaker export demand, and slower growth would be disinflationary, putting downward pressure on policy rate expectations, government bond yields and the Australian dollar. Equity prices would likely decline as earnings expectations are revised down. In the moderate scenario, there will be a tension between the better global growth outcomes versus proximity to the still adverse outcomes for China. Overall, we judge that this will still be slightly negative for domestic growth with some modest downward pressure on policy rate expectations and the Australian dollar, but equities and yields could be higher via spillover from the US.

Table 5: Direction of asset prices and monetary policy (China)

	Extreme Scenario	Moderate Scenario
<b>CN Monetary Policy</b>	↓↓	↓
<b>China Yields</b>	↓↓	↓
<b>Renminbi</b>	↓↓	↓
<b>China Equities</b>	↓↓	↓

Table 6: Direction of asset prices and monetary policy (Australia)

	Extreme Scenario	Moderate Scenario
<b>AU Monetary Policy</b>	↓	--
<b>AU Yields</b>	↓	↑
<b>AUD</b>	↓↓	↓
<b>AU Equities</b>	↓	↑