ABN·AMRO

FX Strategist

Group Economics| Financial Markets Research | 30 August 2024

What will the US elections bring for the US dollar and gold prices?

Georgette Boele | Senior FX & Gold Strategist | georgette.boele@nl.abnamro.com

- **The outcome of the US elections could have a large impact on the dollar and gold prices**
- **If there is a Democratic Victory (partial or full) the impact on the dollar and gold prices would be limited**
- **In case of a universal tariff under a Trump presidency, we would likely see a higher dollar and lower gold prices, while over the longer-term these moves would likely be reversed**

US elections

On Tuesday 5 November 2024 the US Presidential elections will be held. People in every state across the US vote for a new President and Vice-President. Next to the presidential elections, a total of 468 seats in the US Congress (33 Senate seats and all 435 House seats) are up for election on 5 November 2024. In this note we focus on what different possible outcomes mean for the US dollar based on the views of our macro economists who defined various scenarios for the election outcome and their implications for the US (see more here) and Europe (see more here).

Dollar dynamics

The US dollar has a dual character meaning it has a cyclical nature, while also being the ultimate safe haven currency. The dollar tends to rally when growth is strong and rising faster than inflation if real rates are positive and/or improving and an improving fiscal and current account balance is often also supportive. However, it times of extreme stress coupled with a liquidity crunch, the dollar switches to becoming a safe haven.

Summary of projected economic outcomes

	GDP growth					Core PCE Inflation (y/y)				
	2025	2026	2027	2028	Average	2025	2026	2027	2028	Average
Reference	2.1	2.0	2.2	2.4	2.2	2.2	2.1	2.2	2.3	2.2
Full Rep Victory	1.0	-0.6	2.6	2.5	1.4	3.0	3.7	3.2	2.6	3.1
Partial Rep Victory	1.4	0.3	1.9	2.3	1.5	2.7	2.9	2.6	2.4	2.6
Partial Dem Victory	2.0	2.0	2.2	2.3	2.1	2.2	2.1	2.2	2.2	2.2
Full Dem Victory	1.6	1.7	1.8	2.0	1.8	2.2	2.0	2.1	2.1	2.1
	Unemployment rate					**Fed rate upper bound**				
	2025	2026	2027	2028	Average	2025	2026	2027	2028	Average
Reference	4.4	4.1	4.0	4.0	4.1	4.2	3.0	3.0	3.0	3.3
Full Rep Victory	4.4	4.6	4.6	4.4	4.5	4.8	5.0	4.0	3.4	4.3
Partial Rep Victory	4.5	4.8	4.8	4.6	4.7	4.6	4.2	3.6	3.2	3.9
Partial Dem Victory	4.4	4.1	4.0	4.0	4.1	4.2	3.0	3.0	3.0	3.3
Full Dem Victory	4.3	4.0	3.9	4.0	4.0	4.2	3.0	3.0	3.0	3.3

Source: ABN AMRO Group Economics

In a Democratic Victory the impact on the dollar would be limited

If there is a Democratic Victory (partial or full) we think the implications for the dollar would be limited based on the impact of the drivers mentioned. We expect inflation to come down, but policy rates to decline faster than inflation. As

a result real rates will decline as well and this is negative for a currency. We expect growth developments to have a neutral impact if the president is a Democrat. Under the Partial Democratic Victory, we expect a slight deterioration of the fiscal balance which could weigh slightly on the dollar. Overall we think the impact would be relatively limited all else equal.

A Republican Victory would result in a stronger dollar

A Republican Victory brings more complicated dynamics. If the Republicans win the elections, it is likely that the dollar will move in an erratic manner. The volatility is mainly the result of the shifts in sentiment but ultimately, we would expect the dollar to strengthen. Under a full Republican Victory the trade balance could initially improve as result of the trade policies/trade tariffs. In addition, the US would be subject to higher inflation compared to other countries and US interest rates would rise faster than elsewhere. To illustrate, we zoom into the case of EUR/USD. Absent a European carve-out (Soft Trump), a striking feature of the full tariff (Hard Trump) scenario is that it would lead to one of the biggest and most sustained monetary policy divergences between the Fed and the ECB since the launch of the euro in 1999. With the Fed raising rates just as the ECB continues to lower rates, the widening interest rate differential is likely to weigh on the euro, most likely to below parity. Given the upward impact on inflation stemming from a significantly weaker euro, we think the ECB would be mindful of the policy divergence with the Fed and would seek to balance the need to support the economy via lower rates against the need to hedge against upside inflation risks via currency weakness. Related to this, a weaker euro would by itself do some of the easing work for the ECB, as it would (partially) offset the competitiveness hit from higher trade tariffs. This in turn lessens the need to cut rates. Given how iterative the various macro-economic, financial market, and policy interactions are, there is naturally significant uncertainty around the precise policy path central banks would adopt. A weaker euro than we posit here could mean fewer ECB rate cuts, while a more limited FX market reaction could give the ECB more room to lower rates than we describe here. These developments play out in the coming months and years. But later during the presidential term we expect the dollar to weaken and more than offset the initial strength based on developments in the macro-economic picture.

Summary of projected economic outcomes

Description	Trade policy continues largely as it is, with only marginal tariff changes that do not have meaningful macro-economic consequences	EU fails to secure an exemption, leading to the 10% tariff applying to all US imports	A 10% universal tariff is imposed on all US imports, with the EU negotiating an exemption based on 1) commitments to buy more US goods (the carrot), and 2) the threat of retaliatory tariffs on politically sensitve US products (the stick).
US	The economy initially continues its steady slowdown before picking up again as interest rates approach neutral. Inflation continues on its path to 2%.	The universal tariff has an immediate impact on prices of imported goods and leads to an inflation increase of up to 1.7pp. The increase in inflation forces the fed Fed to respond and growth suffers on the back of more restrictive Fed policy and weaker demand, with a mild recession in the first half of 2026. Cumulative growth is 3.5pp lower.	Due to the non-universal nature of tariffs parts of import is rerouted through Europe. The tariffs on the remaining imports put inflationary pressure of up to 0.7pp. The Fed will ease more slowly and growth suffers, with a cumulative growth hit of 2.2pp.
Eurozone	Recovery continues and gradually gains momentum, helped by the tailwinds of rising real incomes and falling interest rates. Reduced uncertainty after the election may give a short-term lift to investment.	Growth slows sharply due to the hit to exports from higher tariffs, with a cumulative growth hit of c1.5pp by 2028, and the bulk of this weakness occuring in 2026. Inflation is c0.8pp lower (at trough) due to weaker economic activity and lower oil prices.	Economy still sees initial hit from fall in global trade, but EU exemption to tariffs mean trade is diverted from tariff-hit countries to tariff-exempt countries, ultimately leaving the economy 0.5pp bigger by 2028 than in baseline. Inflation is initially lower on falling energy prices; then rebounds to >2% as the stronger economy lifts core inflation with a lag.
Fed	Rate cuts follow base case, with a 25bp cut at each meeting from September onwards until the upper bound of the fed funds rate reaches 3% in Q4 2025	Rate cuts follow base case until mid-2025 on the back of the weakening labor market, ending at 4%. After Trump implements tariffs, and inflationary pressures build, the Fed raises rates by 25bp in projection meetings, reaching 4.5% by end-2025. The Fed subsequently eases gradually in 2027 to arrive at neutral by end-2028.	Rate cuts follow base case until mid-2025 on the back of the weakening labor market, ending at 4%. After Trump implements the tariffs, and inflationairy pressures begin, the Fed keeps rates at that level over 2025 before they are slowly eased starting in the second half of 2026. Rates reach neutral by end of 2027.
ECB	Rate cuts follow base case, with a 25bp cut at each meeting from September onwards until the deposit rate reaches 1.5% in Q3 2025.	Rate cuts continue beyond our base case to counter the sharp slowdown in growth, with the deposit rate falling to 0.25% by 2027.	ECB initially lowers rates by more than in the baseline, to 1% in 2026. Then raises rates back to 1.5% in 2028 due to stronger activity and inflation.

Source: ABN AMRO Group Economics

Not only could the dollar be supported by the pricing in of initial positive dynamics the dollar could also strengthen on safe haven demand (for its liquidity) if markets were to turn risk averse or even panic. While if sentiment calms down the non-favourable policies will start to weigh on the dollar again.

What will happen to gold prices

Next to our analysis on the US dollar, we also assess the implications for gold prices. The evolution of the gold market from merely a safe haven and jewellery market to a market where investment decisions play a more crucial role is important. Indeed, since the introduction of gold ETFs (March 2003) gold has developed more into a speculative asset and behaved less as a safe haven asset. As a result, developments in the US dollar, monetary policy and real yields have become dominant drivers over time. Of course, there are still investors buying physical gold for safe haven purpose but the flows into non-physical gold have often been dominant.

What do we expect for gold prices under the different scenarios? If there is a Democratic Victory (partial or full) we think the gold prices could be very modestly supported because we expect a modest decline in or a neutral dollar and some lower real yields. We expect gold prices to stay around USD 2,500 per ounce.

A Republican Victory brings more complicated dynamics as indicated for our dollar view. In the scenario of a full tariff implementation, we expect in the first years of the of the presidential term inflation to increase, the Fed to hike and the dollar to rally because monetary policy divergence and weakness elsewhere. As a result, gold prices will suffer, and gold prices could decline below the 200-day moving average and move towards USD 2,000 per ounce. Afterwards we expect the dollar to weaken and real rates to come down. This will give room for gold prices to rally again and move beyond the highs set earlier in 2024.

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed, or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts, and assumptions contained in the document or on its completeness, accuracy, or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2024 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO)