Trade Idea – Foreign Exchange
Markets contained following Trump upset
10\textsuperscript{th} November 2016

**Against the odds**

- In a similar set up to the EU referendum, Donald Trump has managed to defy poll-based forecasts and betting odds to become the 45\textsuperscript{th} president of the US. After capturing key electoral votes in swing states Florida and Ohio, Trump managed to secure victory in the early hours of Wednesday morning, shocking financial markets and sending risk assets tumbling. However in contrast to the aftermath of the EU referendum, the market moves that followed this shock result have been fairly muted (see Figure 1). Sharp rallies in safe havens assets during Asian trading hours were significantly tempered as a humble victory speech by Trump went some way to assuage market concerns and foster hopes of a more moderate President-elect. In the medium term, we do not expect the calm that has currently descended on markets to last, as elevated political uncertainty in the US and Europe sees risk-off sentiment dominate trading. This environment should continue to support the price of gold and keep safe haven currencies such as the JPY and CHF well bid against the US Dollar.

![Figure 1: Reaction muted](https://example.com/figure1.png)

**Policies unknown**

- The hope for many has always been that Trump’s controversial pledges made during his presidential campaign were merely aimed at garnering public support and were not a true reflection of his underlying political goals. His victory speech went some way towards this idea and assured investors of his intentions to pursue a more mainstream line as US president. However, the issue remains that aside from infrastructure spending, a considerable portion of his policies remain somewhat ambiguous. Should Trump emerge committed to protectionist policies and discriminatory immigration screening (ideas touted during his campaign), we would likely see an adverse market reaction as both policies would likely inhibit domestic and global growth.

- Trump has also been a vocal critic of US Federal Reserve (Fed) chair, Janet Yellen, claiming that low interest rates have only been kept in place for as long as they have due to political influences. Should he promote a more hawkish approach to monetary policy in combination with his planned fiscal expansion, then in longer term the US Dollar is likely to receive support as long term US yields climb. However, for the moment this remains uncertain.

*All figures quoted are sourced from Bloomberg unless stated otherwise.
Populist contagion

- Following Trump’s surprise victory it was reported that Marine Le Pen, leader of France’s far-right Front National party, was one of the first to congratulate the Republican candidate on his success. While this has no significance in isolation, it is an anecdotal reminder that Trump’s victory was another win for the anti-establishment that also prevailed during the EU referendum. The wider concern is that momentum mounts for nationalist parties in mainland Europe ahead of key elections scheduled in the next year. Should we see the likes of the Front National, Alternative for Germany and Five Star party gain in the polls in Europe then we may see some weakness surface for the common currency.

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- ETFS 3x Short JPY Long GBP (SYP3)
- ETFS 3x Long JPY Short USD (LJP3)
- ETFS 3x Short JPY Long USD (SJP3)

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