Trade Idea – Foreign Exchange
Trading the US elections
4th November 2016

E-mail controversy resurfaces

- The re-opening of the FBI’s investigation into Hillary Clinton’s use of a private email server has brought the risks associated with the US presidential election sharply back into focus. Prior to the controversial announcement, financial markets and political pundits were increasingly confident about a Clinton victory, which, at the time, translated into softer pricing of safe haven assets and strength in the US Dollar. Over the past four days, these trends have dramatically reversed as Clinton’s fast shrinking lead in national polls has increased the perceived tail risks linked with the election. From an investment perspective, the likely outcome of the two candidates taking office couldn’t be more different. On one hand, a Clinton victory would maintain the political status quo and would likely prompt a moderate relief rally in risk assets. On the other, a Trump win would deliver a shock to markets and could induce a period of significant financial and political turbulence. Due to the asymmetry of these outcomes, we focus on the latter and what currency pairs we see being impacted by this scenario.

Trump triumph

- In the last month, movements in the US Dollar against its developed market counterparts have increasingly been influenced by the potential election outcome (see Figure 1). The US Dollar has strengthened when Trump has fallen in the polls and in the past few days has weakened as the Clinton email scandal resurfaced. Notably, the renewed uncertainty of the election has seen the CHF and JPY strengthen sharply against the US Dollar as investors seek safe haven currencies, an effect that also led to a considerable rebound in the gold price above the $1,300 level. Given that Trump’s policies are relatively ambiguous, a large portion of the market movements expected following his victory would be driven by investor sentiment rather than fundamentals. Accordingly, we see safe havens JPY and CHF continuing to be the most likely currencies to benefit against the US Dollar from such an outcome (out of the G10 currency complex), particularly if Trump manages to secure control of both chambers of the U.S. Congress.

![Figure 1: Dollar responsive to presidential race](source: Bloomberg, ETF Securities)

Currency risk looms

- For those investors that are not US Dollar based, when utilising gold as an event hedge against the US election, currency risks are a very important consideration. While gold is almost certain to benefit from a Trump victory, the US Dollar is also almost certainly going to suffer. This dynamic does somewhat compromise the effectiveness of gold as an event hedge if inherent

*All figures quoted are sourced from Bloomberg unless stated otherwise.
currency exposure is left unmanaged. A potential means of mitigating currency risk and gaining gold exposure is through investing in currency hedged gold which is widely available through exchange traded products (ETPs). European and British investors can utilise ETFS EUR Daily Hedged Physical Gold (GBSE) and ETFS GBP Daily Hedged Physical Gold (GBSP) respectively, to gain exposure to physical gold while mitigating the impact of exchange rate fluctuations. Both products have experienced considerable growth in assets in 2016 as investors seek a means of accessing the safe haven while limiting exposure to exchange rate volatility that has increasingly characterised currency markets.

Investors wishing to express the investment views outlined above may consider using the following ETF Securities ETPs:

**Currency ETPs**

**GBP Base**
- ETFS Long CHF Short GBP (GBCH)
- ETFS Short CHF Long GBP (CHGB)
- ETFS Long JPY Short GBP (GBJP)
- ETFS Short JPY Long GBP (JPGB)

**EUR Base**
- ETFS Long CHF Short EUR (EUCH)
- ETFS Short CHF Long EUR (SCHE)
- ETFS Long JPY Short EUR (SJPS)
- ETFS Short JPY Long EUR (SJPL)

**USD Base**
- ETFS Long CHF Short USD (LCHF)
- ETFS Short CHF Long USD (SCHF)
- ETFS Long JPY Short USD (LJPY)
- ETFS Short JPY Long USD (SJPY)

**3x**
- ETFS 3x Long CHF Short EUR (ECH3)
- ETFS 3x Short CHF Long EUR (CHE3)
- ETFS 3x Long JPY Short EUR (EJP3)
- ETFS 3x Short JPY Long EUR (JEP3)
- ETFS 3x Long JPY Short GBP (JPP3)
- ETFS 3x Short JPY Long GBP (SYP3)
- ETFS 3x Long JPY Short USD (LJP3)
- ETFS 3x Short JPY Long USD (SJP3)

**5x**
- ETFS 5x Long CHF Short EUR (5CH3)
- ETFS 5x Short CHF Long EUR (5CHE)
- ETFS 5x Long JPY Short EUR (EJP5)
- ETFS 5x Short JPY Long EUR (JEP5)
- ETFS 5x Short JPY Long USD (SJP5)

**Basket**
- ETFS Bullish USD vs G10 Currency Basket Securities (LUSB)
- ETFS Bearish USD vs G10 Currency basket Securities (SUSB)

**Physical Gold**
- ETFS Physical Gold (PHAU)
- Gold Bullion Securities (GBS)
- ETFS EUR Daily Hedged Physical Gold (GBSE)
- ETFS GBP Daily Hedged Physical Gold (GBSP)

The complete ETF Securities product list can be found [here](#).
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