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Positioning for divergent USDCNY paths after the US election

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With Election Day upon us, investors should remember that the election outcome is binary in nature and its impact on the USDCNY could be highly divergent. We think a Trump win could send the pair climbing to 7.4, while a Harris win might see it fall to 6.8. In our view, the appropriate measures for investors depend on whether they have CNY assets or liabilities, and their risk thresholds. More broadly, we still think the USD is likely to weaken against key G10 counterparts over the coming 12 months as economic fundamentals assert themselves. Gold remains a key portfolio hedge against event risks.

The impact of the US presidential election on the USDCNY can be understandably difficult to prepare for. The election itself is still too close to call, the implementation of Trump's tariff threats remains unclear, and China's response function is also uncertain. Amid these uncertainties, many investors may be overly reassured by the USDCNY's stability around 7.1 over the last two weeks.

However, the trajectory of the USDCNY from here is likely to hinge heavily on the election outcome. Given that this election outcome is ultimately going to be binary in nature, the prospective trajectories for the USDCNY are also sharply divergent. We delineate below how the election impact might play out, and how investors might want to position in anticipation. We would also note that a partial adjustment might also be useful in helping to contain volatility portfolios.

USDCNY uptick after a Trump win. We expect that the USDCNY could see a rise towards 7.4 in a Trump win as markets brace for potential trade tariffs next year. Although the PBoC is likely to anchor the official USDCNY fixing in order to

mitigate the short-term spike, a medium-term drift higher in the USDCNY will likely be driven by a structural change in the fundamentals. Going by the 2018-19 experience, the USDCNY is likely to rise in a stepwise fashion as tariffs on China's exports are levied in a staggered manner. While this might mean that episodes of USDCNY calm might prove transitory, the staggered movement will also afford investors time to adjust their exposures.

USDCNY downside after a Harris win. We see the pair falling towards 6.8 in this scenario amid relief-buying of CNY and CNY-denominated assets. The main driver here would be a reduction in medium-term uncertainty. However, the risk here might be an overshoot below 6.8, which we think would be unsustainable ahead—or in the absence—of a narrowing in US-China yield differentials.

Where you start determines what you need to do. For USD-based investors with CNY exposure (either via CNY cash holdings or CNY-denominated assets), the US election outcome poses two-way risks for the USDCNY. Volatility is the main issue, and investors who do not have the stomach for such divergent outcomes should look to keep their CNY exposure hedged. For investors who have used CNY as a funding currency (for USD-denominated assets), we encourage them to review this exposure and reconsider the magnitude of FX exposure to the election outcome. The approach that minimizes FX risk would be to match funding currencies with those of the respective assets acquired (like using USD loans for the USD assets), at least till a clear outcome on the US election emerges.

More broadly, after an initial USD bounce in the event of a Trump win, we expect that macroeconomic fundamentals will reassert themselves in the medium term and weaken the USD in 2025. Ultimately though, the reaction function of the Federal Reserve remains the most important, and we expect another 125bps of rate cuts by September 2025. This is likely to reduce the USD carry premium over the EUR, GBP, and AUD, and we expect all three to gain against the USD through September 2025. Additionally, we would remind investors that for diversified USD-denominated portfolios, it remains prudent to retain a 5% allocation in gold as a hedge against event risks.

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