

COMMODITIES UPDATE

23rd Oct. 2012



What could the US elections mean for commodities?

- **The outcome of the US Presidential election is unlikely to have a major impact on commodity markets but there may still be some fall-out if Romney wins.** Romney's plan to accelerate energy independence might depress oil prices. More aggressive policies towards Iran and China could raise geopolitical risks. Last but not least, **speculation of a premature end to QE3 also has the potential to worry the markets.**
- Some caveats first. Neither Obama nor Romney has provided a detailed manifesto explaining what they would actually do if they won on 6th November. Most of their policy statements are of the "motherhood and apple pie" variety – hard to disagree with but lacking any real substance. What's more, any commitments made during the heat of a campaign always need to be taken with a pinch of salt. And the elections for Congress may also be important (a third of Senate seats and all those in the House will be contested). The Republicans have a large majority in the House while the Democrats control the Senate. A Republican clean-sweep is possible but it is more likely that Congress will remain divided, which would limit any President's room for manoeuvre. The bigger the margin of victory for either candidate, though, the greater his authority – including in negotiating a deal to avoid the "fiscal cliff".
- Nonetheless, **Obama is still the favourite in the polls and it is reasonable to assume that his re-election ("more of the same") would have a limited impact.** As it happens, commodity prices have tended to rise and fall with the perceived chances of an Obama victory (see Chart 1, which uses odds from the betting exchange Intrade). But this surely reflects the fact that both have been driven primarily by a third factor – namely the news on the economy – rather than any market preference for Obama.
- A Romney win would potentially be more interesting. **Romney has prioritised the achievement of energy independence by 2020 "on this continent"** (implying the US, Canada and Mexico taken together). Indeed, one of his few specific commitments is the approval of the remainder of the Keystone XL pipeline between Canada and the US. **This might be expected to add to the downward pressures on oil prices and the traditional US benchmark WTI in particular.** However, Obama has only delayed rather than blocked the completion of Keystone. For most of the past year a higher Obama rating has been associated with a *widening* of the Brent-WTI spread. (See Chart 2.) There are differences in emphasis in energy policy, including on gas and coal, but these are unlikely to change the big picture.
- Romney has also touted more aggressive foreign and trade policies. However, he was noticeably more conciliatory on the Middle East in yesterday's presidential debate, while Obama has hardly been soft in the sanctions taken against Iran. Romney has said he will declare China a "currency manipulator" but it could be years before this results in any policy action. **Both candidates have attacked China extensively during the campaign and the risks of a trade war may not be that much higher under Romney.**
- Finally, Romney has been critical of the launch of QE3. There has even been some talk that he would encourage Fed Chairman Bernanke to quit before his term ends on 31st January 2014. **Speculation that a more conservative figure will take over at the Fed might undermine the prices of commodities, as well as equities and mortgage securities, while boosting the dollar.** In reality, though, it is very unlikely that Romney would want to launch his Presidency by unsettling the markets in this way. Bashing quantitative easing may be popular in opposition but the priorities in government would surely be different.

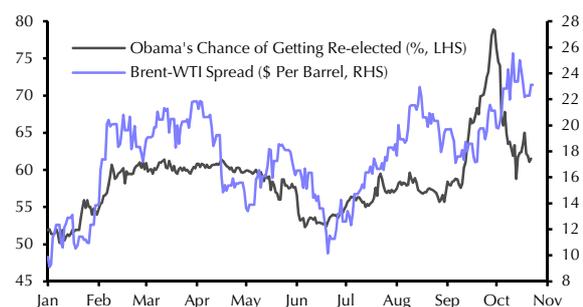
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Chart 1: US Election Odds & Commodity Prices



Sources – Intrade, Bloomberg

Chart 2: US Election Odds & Brent-WTI Spread



Sources – Intrade, Bloomberg