



Implications of the US elections for food and agribusiness in Australia and New Zealand

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Summary

Global markets are crucial to Australia and New Zealand's economies, as both countries are highly dependent on exports to market their agricultural production. This exposes the local agricultural industries to overseas risks, such as political swings, trade policies, and currency volatility.

The US election's outcome may cause shifts in US internal and external policies, regardless of the winner. Any changes in the US government's agenda reverberate in global trade due to the US' large role in the global economy, its heavy footprint as a food importer and exporter, and its role as a key geopolitical player.

Whether the Australian and New Zealand agribusiness sectors thrive or not following the potential shifts in the macro scenario will depend on how good they are in preparing their business strategies for the myriad of possible outcomes ahead.

The president does not have a magic wand

The upcoming US presidential election is an important geopolitical event, whatever the outcome. But how do we determine what the impact on the Australian and New Zealand agricultural industries will be of a Democratic party victory or a Republican one?

The campaign rhetoric should be taken with a grain of salt because, despite the promises, not everything is directly under the president's control. Most of the game-changing policies require a majority approval from both chambers of the US Congress to pass and therefore are not directly actionable by the president. Also, protectionism has been in place for a long time across the globe, so Trump's proposal to introduce tariffs on most imports, for example, may be shocking but is not new to geopolitics. Therefore, changes in the global economy and geopolitics as a result of the election will likely come in the form of a gradual tide and not as a disruptive wave that shatters trade and busts prices. Still, as seen in the past with US soybeans, or in Australia with barley and wine, trade frictions can certainly impact the prices of certain products quickly and with limited notice.

What if Kamala Harris is the winner?

A continuation of the Democratic grip on power might be seen as a business-as-usual agenda, following on from Biden's administration. This means that public spending on the energy transition, such as the Inflation Reduction Act, is likely to remain in place, supporting the demand for biofuels for instance. The continuation of the current biofuels policies is important for reducing the downward price pressure from increasing global stocks of corn and soybeans, which are key commodities in setting the general price trend in the soft commodities realm. On the other hand, high biofuel production also brings with it the byproduct of animal feed, increasing the US export potential of soybean meal and supporting US animal protein exports.

In addition to the ongoing agenda, a Harris presidency would also see new government positions. At the macroeconomic level, robust public investment generally tends to devalue a country's currency at the same time that it boosts economic growth, at the expense of national debt. One could argue that this has been the trend during the Biden administration. Thus, financial markets have already priced it into the cash rate yield curve. On the other hand, a potential increase in public investment by a Harris term could pressure the US Federal Reserve (Fed) even further to maintain the cash rate at an elevated level for longer to balance inflation throughout the economy. The latter scenario may trigger a global hawkish cash rate race among central banks and maintain the balance of the US dollar relative to other currencies. For many countries, one of the most powerful tools to stabilise currency is to keep the local interest rate above the Fed rate. Thus, such a race would impair overall economic growth and reinforce the stagflation condition.

What if Donald Trump is the winner?

If Trump makes his way back to Washington DC and becomes president again, a weaker US dollar, at least in the first part of his term, is the likely scenario. This voluntary devaluation is part of a wider carrot-and-stick strategy. A softer currency would be the carrot to bring industries back to the US, a key element of Trump's campaign. To close the 'near/friend-shoring loop' – in other words, bring jobs back – Trump's proposal of a 10% to 20% import levy across the board would be the stick. The endgame might also be inflationary for the US economy, potentially even greater than Harris' spending proposal. This would undermine the relationship between the Fed and the White House, which has been mentioned in the campaign. In this scenario, inflation would increase the cost of living as imported goods become more costly, and an increase in tariffs usually leads to retaliations by trading partners. In the long run, this carrot-and-stick strategy may prove to be a double-edged sword, as the Fed might be prompted to keep the cash rate elevated to temper inflation and as its independence is sheltered by current regulations.

Another impact of an oscillating US dollar under a Trump presidency is a theoretical reduction in the country's overall imports – giving more room to local manufacturing and demand – and increasing exports. This is a big watchpoint for Australian and New Zealand grain and oilseed (G&O) and beef exports, as the US' competitiveness in supplying global markets would increase. On the G&O front, the US is one of Australia's significant competitors in the Asian wheat market and a top global exporter and importer of beef.

How would Australian and New Zealand trading partners be impacted?

The impacts of the US election results on the economies of Asian countries could also be significant. Overall import demand from countries such as Indonesia, Vietnam, South Korea, Japan, and China could be negatively affected. These countries run large trade surpluses with the US, a key element of their economies and buying capacity and something Donald Trump wants to

revert. For instance, the ASEAN¹ trade surplus with the US was USD 200bn in 2022² and Australia's wheat exports to ASEAN countries added up to 12.5m tonnes for the 2022/23 crop year, or 45% of exports.³ On this front, Australia and New Zealand are likely to be forced to 'side with the US' – as the three countries have a long history of geopolitical cooperation, from World War I to the AUKUS nuclear submarine deal – and that could jeopardize their exports to China.

Other decisions made by the next US administration are expected to reverberate in the domestic agricultural industries, as they affect topics such as immigration and labour availability. Kamala Harris' campaign has immigrants as a stronger part of its support base, while Donald Trump pushes an anti-immigration agenda. If Trump is able to implement his policies, we can expect a reduction in labour availability and an increase in costs. This is not the most critical element for the G&O sector, but it could pose a risk for abattoirs and the horticulture sector, for example.

In terms of foreign policy, a shift from a Democratic to a Republican government could increase friction in the Middle East, based on Trump's record of aggressiveness and position against Iran and its allies. A boiling geopolitical environment does not help energy prices to decline, which would indicate costly farm inputs and shipping fees ahead. Other changes in foreign policy may force NATO members to boost their defence spending and could include a potential weakening of the funding for Ukraine in the war against Russia.

What can the agribusiness sector do to get ready?

There is still a lot that can happen in the US presidential race, and any scenario is possible. However, regardless of which political side finishes victorious, Australian and New Zealand food and agribusiness sectors must maintain their focus on profitability drivers, optimisation, and diversification of overseas products and markets. In this, information is a key asset to support the decision-making process and to reduce the exposure to overseas economic and geopolitical ebb and flow.

¹ Association of Southeast Asian Nations (ASEAN) comprises Brunei Darussalam, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

² Office of the United States Trade Representative

³ Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

Imprint

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