US verdict lifts hopes; markets celebrate, but traders cautious



EXIM MATTERS

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Last week, Indian equity markets brought cheer ahead of Diwali, with the Sensex gaining 8.8 per cent and the Nifty 50 advancing 8.6 per cent despite a global technology sell-off. The Democratic Party's victory in the US midterm elections raised hopes of easing geopolitical and trade tensions. For exporters and importers, the test is whether political change will bring commercial relief.

Democrats will control both houses of the US Congress from January, but Donald Trump remains President until January 20, 2029. Congress can investigate his administration, scrutinise expenditure and challenge his policies. However, he retains substantial authority over diplomacy, military operations and tariffs. Expectations of an immediate change in American policy should therefore remain modest.

Pressure to end the Iran war should increase because its economic costs have become a political liability for Republicans. Freer flows of Gulf oil and gas could ease energy prices, lower production and transport costs worldwide, and support demand in importing economies. Indian businesses would benefit through more dependable supplies, lower costs and potentially stronger export orders.

However, ending hostilities would not necessarily restore shipping on pre-war terms. Iran seeks revenue connected with passage through Hormuz, while an Omani proposal envisages voluntary contributions under regional management. Any compulsory charge could leave a continuing burden, although reliable passage and lower insurance premiums could reduce total costs. Restoring normal shipping through the Red Sea would require separate progress involving Yemen's Houthis. A durable settlement in Ukraine could similarly improve Black Sea shipping and ease uncertainty over grain and fertiliser supplies. Democratic control of Congress, however, does not by itself bring a settlement closer.

On tariffs, congressional hearings and political pressure could encourage exemptions and negotiated reductions. Nevertheless, a Democratic majority cannot by itself reverse duties imposed under powers already delegated to the President. Legislation curtailing those powers could face his veto, requiring two-thirds support in each chamber to overcome it. Nor does opposition to Trump imply support for unrestricted trade. Protecting American manufacturing and strategic industries remains politically attractive. Greater consultation with allies could ease disputes, but a cooperative approach cannot be assumed. Continued barriers could divert goods towards other markets, intensifying competition and encouraging further protectionism.

For Indian traders, lower costs would be welcome, but improved competitiveness in the American market would depend on the tariff treatment of rival suppliers. A reduction in duties on Indian goods would offer little competitive advantage if competing countries secured even larger concessions. Goods redirected from the US could also intensify competition, putting pressure on domestic manufacturers' margins.

India should, therefore, pursue a commercially worthwhile bilateral trade agreement without sacrificing substance for an early signature. Ministers have reported negotiating progress. The test is whether the terms deliver durable market access, favourable tariffs relative to competitors and protection against subsequent measures eroding the concessions. Businesses need arrangements on which they can base prices, orders and investment.

The election has altered Washington's political balance, but Trump's unpredictability could still unsettle markets, disrupt contracts and delay investment. Indian traders should, therefore, prepare for abrupt policy shifts while diversifying markets and strengthening their own competitiveness.

Markets have welcomed the prospect of better days. Traders will look for those hopes to find expression in lower costs, dependable supplies and durable agreements. May this Diwali herald lasting peace and shared prosperity.

My best wishes to readers and their families.

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