# US midterms: blue wave brewing

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**Even with a potential majority, major legislative change may remain difficult for Democrats.**

**Key takeaways**

- A majority would give the Democrats considerably more room to manoeuvre and set policy, but the presidential veto and Senate filibuster would continue to be significant hurdles.
- A change in leadership in key gubernatorial races could increase the risk of restrictions or moratoria on new AI data centres.
- We see little scope for a meaningful easing in US-China tensions as tariffs, technology restrictions and supply-chain diversification continue to enjoy broad bipartisan support.

US midterm results are still pouring in, but early indications point to a very favourable night for Democrats. While a blue wave looks increasingly certain, we still have a few more hours of counting to determine its scale.

The key thresholds we are watching are 230+ House seats and a clean Senate majority, which would give Democrats considerably more room to manoeuvre and set policy than the narrow congressional majorities of recent years.

However, major legislative changes will remain difficult. The Senate filibuster and presidential veto would continue to constrain Democrats, even with control of both chambers.

Instead, we expect Democrats to use fiscal deadlines and debt-ceiling negotiations to secure concessions on spending priorities such as healthcare and clean energy, with any broader fiscal agreement still requiring bipartisan support.

A Democratic Senate would also be able to block or delay key appointments across the executive branch, judiciary and independent agencies, including the Fed, placing further limits on the President's domestic agenda.

Beyond Washington, we are also watching the gubernatorial races, which are particularly important for the data centre build-out. Early voting results point to potential flips in Texas, Ohio and Georgia, which together account for around 35 per cent of planned US data centre capacity and currently have Republican governors.

A change in leadership could increase the risk of restrictions or moratoria on new projects, with state-level decisions on permitting, energy supply and investment incentives carrying important implications for AI-related infrastructure investment. Early equity market trading reflects these


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concerns, and this remains a key risk to our macro outlook.

For now, we see these risks as largely concentrated at the state rather than federal level. However, if these restrictions stall the AI build-out and associated capex, this could become a significant risk to our macro outlook.

**Executive powers remain largely intact**

Outside the congressional shift in power, President Trump would retain considerable discretion over tariffs, immigration enforcement and foreign policy. With greater resistance to his domestic agenda, the administration could lean more heavily on executive powers and shift its focus externally.

Accordingly, we continue to see upside risks to oil prices from the Iran war, while US trade policy is unlikely to change course materially. The administration is preparing Section 301 investigations into industrial overcapacity to replace tariffs struck down under the International Emergency Economic Powers Act (IEEPA), suggesting trade restrictions will remain a central policy tool even under a Democratic Congress.

**What does this mean for Asia?**

For Asia, the implications run through three main channels.

- The first is energy. Uncertainty over developments in Iran remains a potential source of oil price volatility, with any renewed supply disruptions likely to add to inflationary pressures and weaken external balances in major energy importers, particularly in South-east Asia.
- The second is technology. The outlook for US AI investment and regulation will be particularly important for Taiwan and South Korea, given their central roles in the global AI supply chain, while semiconductor export controls will have more direct implications for China. These policies remain largely within the administration's executive remit, limiting the direct impact of a shift in congressional control.
- Finally, US-China trade relations. We see little scope for a meaningful easing in tensions. Tariffs, technology restrictions and supply-chain diversification continue to enjoy broad bipartisan support, suggesting Democratic control of Congress is unlikely to materially change the direction of US policy towards China. The upcoming APEC summit could provide greater clarity on near-term trade negotiations, but the broader trajectory of US-China relations is unlikely to shift.

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