

Flash Note 19/11/2018

Alex Fusté
@AlexFusteAlex
alex.fuste@andbank.com

The Fed could pause its rate-hike cycle

- The construction activity index (NAHB housing index) has plummeted in November (falling by 8 points). I have not seen a similar fall since February 2014.
- The fall of this index has been broad-based across regions, what means that it can not be attributed to temporary factors (such as climate).
- I am afraid that the Fed has put too much effort into its role as economic guardian against the configuration of bubbles. So much so, that the rise in interest rates, combined with the significant withdrawal of liquidity in the system, would be weighing like a slab in certain key sectors of the economy.
- In summary, I would not be surprised if the Fed announces a break in its rate-hike cycle.
- The Implications of a Fed pause? This may weigh on the USD (especially in terms of emerging markets currencies). Would be favorable for emerging markets (bonds and Equities), which could see capital inflows given the lower fear now of a sharp rise in the USD, or a drop in these currencies.

Best