Flash Note:
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Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

The Fed's move. A quick Assessment in just 5 points.

1. In a move underappreciated by the market (investors just focused on the 25bp rate cut), the Fed also decided to halt the shrinking of its balance sheet. What do this means? So far, the Fed was not rolling over some US$35bn of its maturing holdings of debt, and was going to keep this until end of September. Its decision (to keep unchanged the size of its balance sheet, and start reinvesting its maturing holdings) means US$70bn of new liquidity and demand for Treasuries relative to earlier expectations.
2. **Official reasoning behind the Fed's move:** Powell offered two reasons behind its decision to end QT. 1) Provide protection against downside risks, and 2) Encourage a pick-up in inflation.
3. **What do I actually think?** Inflation is already running at or near the Fed's 2% target (see the chart below), what turns the second reason (encourage inflation) into something bogus. I can only think of a situation in which one must invent an additional argument to make a decision. That in which the official argument cannot be justified. Which leads me to think that Powell is not providing protection against downside risks. In other words. The Fed sees no downside risks.
4. **Outlook:** If what I am saying is true, and I suspect that it may be so, what we have just seen is a "mid cycle adjustment" which could result in an economic acceleration, causing that investors will have to start lowering their projections of new interest rate cuts. This explains why the USD rose following the Fed's decision and the short-end of the yield curve also rose..
5. **The implications:**
    a. Equities: Liquidity environment will be more benign for 3Q-4Q 2019, and this reinforces a bullish view of equity markets based on improving liquidity.
    b. Bonds: It may seem that US$70bn of new demand will put downward pressure on yields, but having approached the debt ceiling, the Treasury has allowed its cash holdings to fall short of its traditional target by some US$150bn, and with the constraint of the debt ceiling now lifted, the US Treasury will quickly issue additional debt (by some US$15bn) meaning that, at the margin, there should be upward pressure on yields. We stick with our view to wait before start buying Treasuries or corporate bonds aggressively.
    c. USD. As soon as not everyone has lowered its projection for additional rate cuts the USD should benefit from this. To this argument it should be added that global investors hold

positions in the USD that represents only a 0.09 Standar Deviation (in 3-year Z-score), which means that there is a huge space for building new long positions in the USD without this meaning a stressful situation. We remain positive in the USD

Best