

Macro Hive Pro: Dom's Quick Take - Fitch Ratings Downgrade Is Unlikely to Have Lasting Market Impact

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Following in the footsteps of S&P in 2010, [Fitch has downgraded the US](#) to AA+ stable outlook from previously AAA. The two reasons Fitch cited were the increased government leverage and dysfunctional fiscal policy making. Basically, Fitch has had enough of debt ceiling standoffs and last-minute resolution.

I do not expect any lasting market reaction to this news as:

- By contrast with S&P's 2010 downgrade, this time around the economy and markets are in good health. In 2010, S&P's announcement generated a fair amount of market volatility as the US was still in the throes of the GFC. The volatility, however, did not last.
- The USD remains the dominant global currency due to the relative quality of its economic institutions, the relative depth and liquidity of its fixed income market, the US's unequalled military power, strong network effects, and a lack of alternatives (Charts 1 and 2). The Euro cannot offer an alternative due to the dysfunctions of a single currency zone involving multiple sovereign entities; Japan does not offer yields, and the UK, Australia, and Canada are too small.

Following yesterday's move, there are only two countries not under review with a AAA rating from Fitch: Denmark and Luxembourg. All other AAA countries are under review (Australia, Germany, Netherlands, Sweden, Norway, and Singapore). Luxembourg is the only country in the world rated AAA with no reservations by the big three (Moody's, S&P, and Fitch).

Chart 1: US Dollar Remains the World Reserve Currency

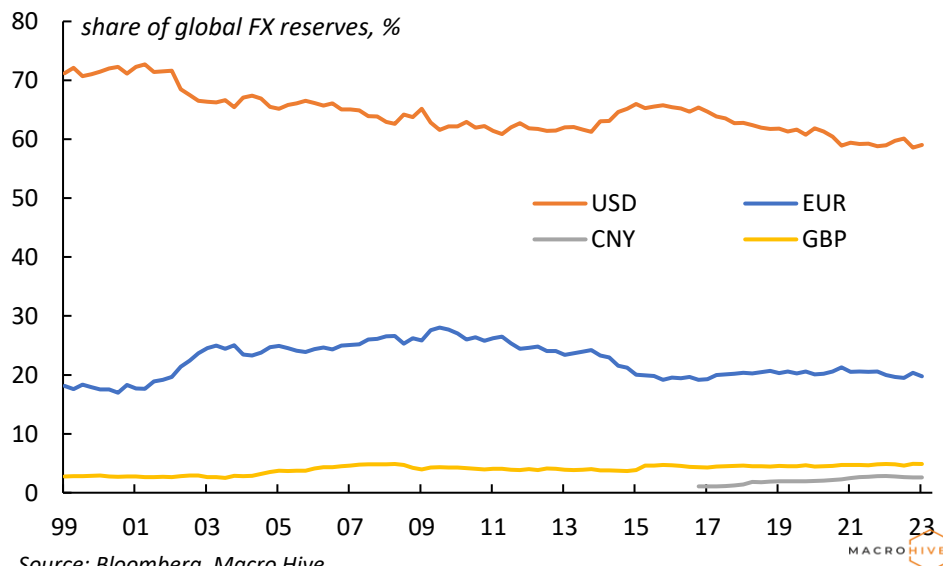
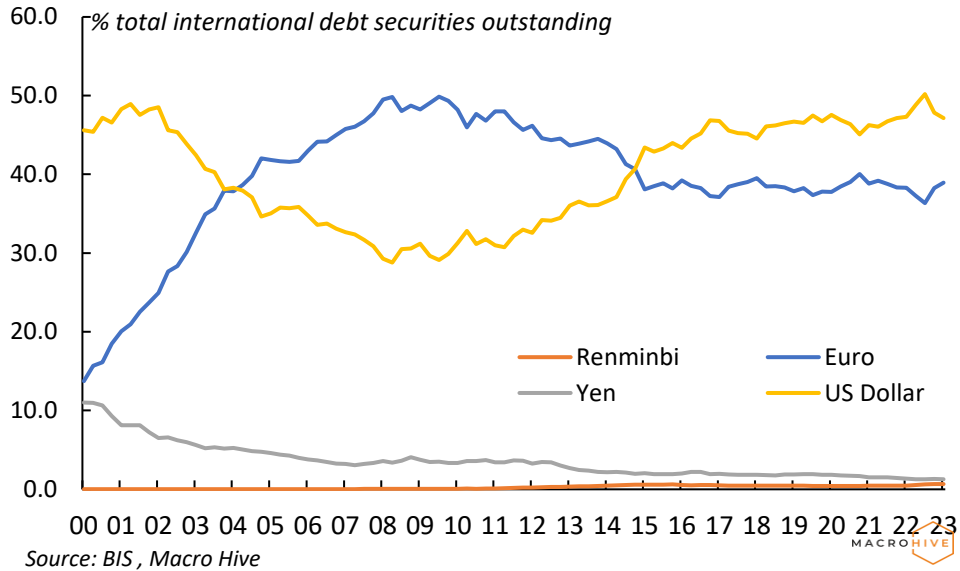


Chart 2: US Dollar Remains the Preferred Currency of Global Debt Issuance



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