Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

January 15, 2016

Update January 15th 2016

Investors looking for direction – are we in the mono-causal economy?

Investors are emerging from a difficult two weeks and seeking shelter in selected sovereign fixed income and US Dollar. We are seeing increasing evidence of mono-causal economy, with market underweighting incipient strengthening in the Euro Zone and overweighting slowing in China – emerging markets.

Beware the Ides of March and commodities!

Commodities still harboring substantial "jolt" risk due to extensive linkages and we have not seen the end of the bust. Turnaround in oil not for tomorrow – we will be seeing more slashing of investment budgets. Which shall move first oil price or energy company stocks?

We have a crack at being economic historians!

They say "don't look back" we plead for a waiver!

They say you should never look back, however, after the recent "baptism of fire" of the last two weeks, we plead for a waiver!
While not wishing to go down as iconoclasts, the last 2 weeks have seen the destruction of several dearly cherished idols.

Rebalancing, sounds ominously like de-coupling

First and foremost, the myth of rebalancing in the Chinese economy has been – rightly – given the boot! While we may be seeing a transition to services, this does nothing to obviate that the Chinese economy remains industrial goods – export driven.

The central bank is not altering the FX rate to amuse itself but to maintain the competitiveness of industrial exports.

This is not 1945 – Global chessboard more complex

The second myth to receive a pink slip has been the positive impact of lower oil prices on the global economy. With the decline of oil from Olympian heights, the global economy should be booming like the mythical 1945- 1975 period in the developed economies. Paradoxically, growth forecasts are being revised downwards.

We remain of the opinion that while input prices are important – global consumers are still overleveraged, cautious and contending with low wage increases. With respect to the developed economies - we are seeing both lower real wages and less stability of income.

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Monetary policy not omnipotent

The third idol to bite the dust is the effectiveness of monetary policy – read QE and zero interest rates. This policy was predicated on lowering the interest rate component of the discount rate and making marginal projects attractive. While this makes sense in a normal cyclical environment, we are seeing a continuing capital investment "strike".

Zero interest rates reflect extreme difficulty of many economies to exit "state of emergency" and re-enter the school year.

Are we moving towards a new liquidity trap?

Overcapacity, exacerbated by Chinese dumping, and doubts as to growth are putting a brake on investment, creating a massive business liquidity trap. We argue that – looking at the proverbial long run – it shall be higher financing costs that shall eliminate the inefficient producers and restore a modicum of pricing power.

Time to rethink unfettered free trade

The fourth and last of the idols has been the unfettered worship of free trade. We are starting to see more caution on this sensitive topic. This is reflected in the EU postponing a decision on extending "market economy" status to China.

China not a market economy

We reiterate our view that an economy which is still largely state run, does not follow generally accepted standards of cost accounting and systematically prices below cost, should not be granted further favors.

Free trade - Excellent idea if social structure ready to absorb the shock

While free trade is an excellent idea in principle, resulting – hopefully – in the most efficient allocation of resources – the social impact can be considerable. We see its unconstrained application at a moment of rising social tensions and declining real wages as risky.

It has been estimated that the extending of MES might result in the loss of 3.5 million jobs in the European Union. Is this strictly necessary?

We are not in 1957 at the launch of the EEC – later the EU. The global economy was recovering from the impact of two world wars, due to the balance of atomic terror political risk was minimal and the speed of technological innovation was limited and slower.

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He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M.Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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