Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update January 13th 2016

Stock markets are up on China and crude oil. Both catalysts appear temporary, with the Chinese economic model remaining unchanged. We see further devaluation and overproduction on the way, with consequent pressures on developed economy inflation and company pricing power.

Stock markets in more upbeat mood - China "hard landing" risk seen as lower

Stock markets are in a more upbeat mood this morning, with two "it could have been worse" scenarios driving equity prices. China's trade data was better than expected but still not reflecting a major recovery. The focus is on a reduction in the probability of a major systemic event – a "hard landing" in China.

Factory – exports remain the basis of the world's second largest economy

Whether this means that markets are repricing for a slowing of growth remains to be seen. What is clear is that sentiment is easily swayed and remains brittle. This highlights that investors still view the driving force and ultimate support behind the Chinese economy as the factory – export driven model.

We are seeing relief at a stabilization of the Chinese currency rate. However, we see this as temporary and view devaluation and continued overproduction as key foundations of the Chinese economic model.

Investors not concerned about long run China – Worried about a large commodity implosion and fall out on sovereigns and banks

We see this not as concern for the transformation of the Chinese economy but view this as driven by external considerations. In this case, reducing the risk of systemic shocks from a further collapse in commodity prices, with all of the attendant linkages.

What started as managing the end of the super-cycle by sovereigns has trickled down to the risk of implosion by leading players in the commodity sphere.

Do not see slight upward move in minerals as a return to former heights

In this regard we are seeing a slight bounce in mineral prices. Notwithstanding, fundamentals have not changed; the companies remain under massive pressure to both boost profits in the immediate and seek to limit supply going forward.

Judging by the stock market performance of the large groups, measures hitherto undertaken are seen as attempts to remain going concerns and not as a springboard to former heights.

Glencore shares higher but CDS premiums plus

In this respect, we are seeing a slight rise in Glencore shares while at the same time CDS premiums are increasing. Strength in the sector is now interpreted as continued access to bank financing and a rating sufficient to raise debt financing.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

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Companies may face financing squeeze

We expect to see more downgrades, selling by institutional investors and the risk of a financing squeeze. Companies shall need to pay more for financing, reduce maturities and ultimately further cut prices for asset disposals.

Every oil price a psychological threshold!

The psychology of oil becomes ever more intriguing. Investors appear to see oil above US Dollars 30 as positive. These are the same experts who saw a move below US Dollars 40 as a catastrophe and saw the US shale oil sector as collectively in Chapter 11.

Marginal producers – cash or bust!

We remain cautious, with fundamentals unchanged on both the political and economic front. Saudi Arabia does not appear to be on the verge of easing its pressure on Iran. Marginal producers are still faced with the increasingly ominous prospect – cash or bust!

Oil and commodities different drivers

The key difference between the commodities and oil sector is that commodities are dominated by the private sector, while oil is a "Great Game" played largely by sovereigns. The decision drivers are different – this is not corporate finance 101!

IMF – worried about EM – with good reason!

The IMF is increasingly worried about the emerging markets- with good reason. We have not yet begun to see the mass exodus. This shall in our view be triggered by another downgrade in Brazil or an EM country hitting a balance of payments crisis.

No separation of powers and no separation of debt!

We are starting to see investors warm to our long held view that – like there is no separation of powers – there is no separation of debt between the large corporations and the sovereigns in many EM countries.

Not wild about the Euro Zone

Turning to the "Old World", industrial production in the Euro Zone declined more than expected in November 2015. We are not surprised and see the single currency area as still needing to contend with slow growth and low inflation.

Whether this shall lead to more stimuli from governments will hinge not on medium term economic prospects. The key driver shall be to maintain social cohesion as the existential premises of the EU are coming under fire.

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

About Jean:

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB,SIPC) based in New York City.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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