Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

January 11, 2016

Update January 11th 2016

Key US data – retail sales - can the US economy advance on car sales alone?

With regard to macro data, we shall be seeing US retail sales. Once again, the focus shall be on the extent to which consumer demand shall offset weakening manufacturing. Can the US economy continue to advance on the strength of car sales?

And so once more unto the breach!

And so once more unto the breach! Another week starts with all eyes focused on the usual suspects – the Chinese financial markets and the oil price, both of which are still heading south with no immediate prospect of the much invoked "snap-back".

Professor Stiglitz – we do not agree!

With regard to the Chinese financial markets, we beg to differ with the views expressed by the illustrious economist Stiglitz that China is not facing a major crisis. If chronic overcapacity, a massive debt burden and a "transition" which is starting to look increasingly like waiting for Godot does not spell crisis – than heaven help us when the real crisis starts.

Chinese stock market did not crash because of the circuit breakers

To continue to blame the circuit breakers for the fall in the Chinese stock market is simply not tenable. These investors are not fools. With the institutions well represented in the market, they were reacting to basic economic macro-data.

Chinese currency still has space to drop

As an indication of the potential further "slippage" of the Chinese currency – the Yuan has depreciated by 10 per cent versus the US Dollar as compared to up to 50 per cent of some of its supply chain partners.

Attention is once again focusing on the Chinese FX reserve position. We see the cash burn rate as unabated. The Chinese government shall be forced to weigh the extent to which a boost to exports shall compensate further capital flight.

Chinese deflationary pressures going strong

As concerns the ever vexing issue of Chinese deflation, producer prices have continued to fall and consumer prices have barely budged. We see the prospects for change as quasi-non-existent.

Pincer move on export prices

The Chinese government shall increase deflationary pressures by a dual "pincer" move – or in US football "wishbone" offense.

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

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Letting the currency crater; not reducing overcapacity.

We are still seeing expectations as set too high for Chinese growth

With regard to the currency markets we are seeing the commodity currencies getting trounced – as the Chinese situation appears ever more opaque and wobbly. China is not about absolute growth but about expectations. These continue to be set too high by many global groups.

Chinese crisis impacting on EM and commodities – we are not yet at "the shoot-out at the OK Corral"!

We are seeing the Chinese crisis impact on the commodities and on emerging markets currencies and financial assets – which in the EM space are synonymous. The South African rand is continuing to take it on the snout along with its cohorts, in particular the Russian ruble.

We may well see the ruble "break its banks" in the event that the oil price should fall further - which is highly probable. Beware of a chill blast from the steppes!

We still wait for the Convulsive moment

We see the pressure as continuing to build in EM and have not yet seen the convulsive selling that shall mark an acceptable entry point for those still obeying the dictates of reason. EM stocks are not cheap and are disproportionately geared to the Chinese economy.

EM strategy failed attempt at receivables backed financing!

In addition, there has been over-investment and excessive borrowing – which even in a slightly more positive scenario would present obstacles to improvement. What we are seeing in a large part of the EM sphere is a failed attempt at leveraging prospective cash flows to reap massive returns. The chickens have now come home to roost.

Oil – fasten your seat belt!

As regards oil, we are continuing to see its descent as the grim reality of the supply excess – now coupled with the realization of slowing growth, becomes more apparent. We see no quick turn-around in the Saudi position and see Iran as resolved to pursue its "flat-out" production strategy.

ECB deflationary struggle has just begun!

Turning to the Old World, we see the ECB confronted by ever greater deflationary pressures as the oil price falls and Chinese "dumping" is set to receive a good conduct certificate. Free trade may be efficient but it is not always pleasant! The granting of market – economy status to China may result in the loss of 3.5 million jobs in the Euro Zone. This is not about the "long run" when we shall have all moved on to the better life!

Political risk - pressure on Iran increasing

With regard to political risk, the pressure on Iran has been ratcheted up by a conference of Arab foreign ministers in Cairo.

We see the conflict – whose roots are historic and go back to the Sunni- Shiite split – as for the moment still being fought out by proxy.

Merkel under siege on refugee – migrant controversy

In Europe, as we commented, the focus has shifted from the movement of capital and economic growth to the movement of people. The disgraceful attacks in Cologne and other German cities and involvement of migrants have triggered massive shock- waves.

This has led Angela Merkel to cancel her participation at the Davos conference – this is extremely serious.

Will we see a smaller "rump" EU?

The UK prime minister's announcement that he hopes to close the negotiations with the EU soon has once again rekindled anxieties as to the EU's future status. Together with faltering global growth and minimal inflation, this is likely to dissuade the Bank of England from raising rates.

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.