Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

January 8, 2016

Update January 8th 2016

Next week we shall be seeing more pressure on the emerging markets

We see the current situation as the primacy of political and systemic risk over conventional macro drivers. The turmoil is not over and we expect further massive pressure across the whole spectrum of emerging market and commodity assets in particular.

Peering through the fog?

Be it industrial supply chains or commodity exports business partners are trying to peer through the fog and assess prospective demand.

Strong US jobs report - Markets no longer in free fall – oil stabilizing at low levels - Chinese government chooses "volunteers" to buy stocks – this is command capitalism – Euro Zone, three steps forward and two steps back – Will the German machine keep on chugging?

US jobs report "blockbuster", for who? Where is the wage growth?

We have seen the US jobs report and are not amused! While we cheer the number of jobs created, wage growth was non-existent and the labor force participation rate has barely budged. The key issue remains whether this reflects a cyclical upswing which has been once again delayed or a structural shift.

Is this as good as it gets? Scary thought!

Are we seeing a permanent skewing of both wealth distribution and income gain or will the majority of US workers get a crack at bat? A massive shift to services, with less scope for productivity driven wage increases is acting as a cap on income gains.

We see the US economy as no longer moving in lock-step with employment, with income gains for the majority subject to the whims of the oil price. Saudi Arabia is carrying the load for US employers – how long shall this last?

Financial markets a bit calmer – Chinese government selects "volunteers" to step up to the plate

We are seeing some calm descend on financial markets this morning, with the Chinese stock market attempting a temporary stabilization. Whether this is the result of removing the circuit breakers or the government having selected "volunteers" to prime the buying pump remains unclear.

Still, we reiterate our view that the Chinese authorities shall not hesitate to muster "support" among the large institutions. So much for the market economy!

What does "basically stable" mean? In the eye of the beholder

Sentiment is also buoyed by stabilization in the FX rate. The official "spiel" as they say in New York – is to keep the currency "basically" stable. This hinges on the definition of stable. In the case of controlled and non - or - partially convertible currencies stability is not comparable to traded currencies. These are capable of gradual adjustments and not subject to step function moves.

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We see the economic fundamentals of a slowing Chinese economy as unchanged. The challenge for the Chinese government shall be to sell slowing as transition.

Industrial production slows in Germany in November – Emerging market impact?

With regard to the Euro Zone – industrial production in Germany slowed in November. This has revived concerns as to the impact of the emerging market slowdown, in particular, weakness in sale of machinery – capital assets to China.

German has a unique growth driver – capital assets

We see the German case as important, as the "special relationship" to the emerging markets based on capital assets, represents a growth driver which the other Euro Zone economies lack.

The latter are now increasingly dependent on domestic demand boosted by "catch-up" buying and an expansion of consumer credit. Capital investment - the major driver of long term growth – remains weak.

We are reading with interest declarations by Saudi Arabia as to the possibility of a partial privatization of Aramco. Should this come to fruition, this shall provide more firepower to persevere with its "elimination pricing strategy."

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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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