Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Butchery continues – China tweaks and world screams – oil and commodities kaput, this is not over - Europe, will it get up on the count of nine? – European exporters need to trade in line with busted EM price- earnings ratios?

Boxing rules of Marquess of Queensberry not being followed!

The rules of the Marquess of Queensberry state that you cannot hit your opponents when they are down – this has not helped commodities, emerging market currencies and assets and all those with a vested interest in the age of eternal growth.

China tweaks – world markets scream – Burning reserves at speed of a second string US shale player

Chinese stock traders were sent home after 29 minutes after the Chinese central bank once again "tweaked" the FX rate and the rest of the world writhed in pain. We are continuing to see China burn through its cash reserves at the speed of a second tier US shale producer amid a growing reluctance to throw good money after the bad.

We have doubts as to real Chinese "firepower"

Reserves are now down to US Dollar 3.3 trillion – with a drop of US Dollars 100 billion in the month of December. We continue to be concerned as to the real "firepower" of the Chinese central bank. We see Saudi Arabia with a population of 30 million and reserves of US Dollars 600 billion as a much better "stand alone" risk.

Are these reserves all liquid?

What part of the Chinese reserves is liquid? What is the impact of this New Year jollity on the value of the allegedly substantial part of the piggy bank invested in illiquid assets?

This was a great fad among sovereign wealth funds. They diversified into "sophisticated" investments such as real estate under construction and private equity funds.

We remain skeptical of the resale value of these assets in a stressed situation – when you are losing money every minute feels like a year on a stair master.

Only way out – more dumping and threats – this is Munich 1938

We may safely say – with the exception of UK efforts to defend sterling in 1992 – never was so much spent by so few to no effect. The ultimate solution shall be to continue dumping and threatening other economies with retaliation should they attempt to put up a feeble defense.

This is starting to look ominously like an economic Munich in 1938. The developed economies have been told to surrender unconditionally and they are obeying. The developed economies need a Churchill. Sadly, this was another generation.

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Commodity complex- we shall see more blood on the floor

Not surprisingly, we are seeing continued butchery across the commodity complex. Anglo-American is down 10 per cent and Glencore is not far behind. We see investors as following the age old maxim – you do not get a second chance to make a first impression and the big players have made a mess of the interview.

75 per cent drops not enough to attract bargain hunters? Are commodities the new hula hoop?

The measures announced – asset disposals and capital investment cuts have been insufficient to create any semblance of value for "bottom fishing" buyers. 75 per cent drops are still not enough. As copper goes so goes the metals world – we have not seen the end of the fun and games.

Commodity currencies – more selling on the way

We are seeing the commodity currencies come under pressure along with their cohorts in the emerging markets. This is hardly a surprise as managing a commodity decline is not the same as managing a commodity collapse. Many countries are also countenancing a currency war with China – their client and competitor.

Emerging markets being slammed by lesser liquidity - this is not over

Nervousness is being further fueled by lower liquidity as banks cut back their market making activities and investors run for the door – dumping stocks, bonds and exiting the currency. There is little asset re-allocation in the EM sphere. When the bonds and stocks are sold – investors sell the currency.

We see the shake out as not yet over and expect to soon start seeing substantial hits to sovereign debt – abstracting from prospective downgrades.

European markets falling fast - exporters getting pulverized

The European markets – who are in the front line of the China story, are taking it on the snout. The exporters – such as cars and luxury goods – are falling faster than the ball at Times Square on New Year's Eve.

Watch car producers!

We view this in a dual optic:
Cars reflect income growth and rise of the middle class
Car production has massive economic linkages
Luxury goods are corruption and wealth driven - with less flow back to the domestic economy

We see the car indicator as the key, shedding light on expected medium term growth.

Good news in Euro Zone does nothing for Euro Zone stocks

It is interesting that positive news from the Euro Zone, which until recently was about as frequent as Halley's Comet - has been able to inject a note of optimism. The key for the Europeans – despite a "catch up" uptick in domestic demand, remains the fading of growth prospects. After 7 years of recovery, the French CAC is trading at the same level as 1998. T

What are we fighting for? Jobs number not where it is "at" today

Turning to the US, we may well ask whether – in this "Helzapoppin" market tomorrow's jobs report is relevant. We are moving rapidly back to a systemic risk environment and see the commodity complex as a possible detonator. Copper is falling to levels substantially below the price deemed acceptable for cash break even.

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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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