Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

September 11, 2015

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.

Update September 11th 2015

Ready, Steady - Freeze! Edward Albee asked in a famous play – "Who is afraid of Virginia Woolf"? We ask – Who is afraid of the Federal Reserve? We say – everybody!

Despite the endless cheer leading, investors are hunkering down and playing defense as the day of reckoning looms and punishment for the miscreants beckons! Should one have been needed, this is the final confirmation that stock markets are being held up by a monetary policy that dare not speak its name – rewarding the improvident and paving the way for more asset bubbles, as the once "stable" developed economies enter an era of commodity exporter volatility.

We have nothing to fear but deflation as – ironically – the "final crisis of capitalism" is unleashed by an economy run by a Communist Party.

We see the key lacking of the financial wizards as spending far too much time on micro balance sheet a la credit course analysis – and far too little on the new macro economy. The global economy's growth has migrated to countries where the economy is government run – this is not about the current ratio or EBITDA! This is 20 year planning + elimination pricing versus quarterly earnings. The new metric for economic pressure is:

Global share of cheap labor and manufacturing + FX rate management.

We are concerned that the collapse in import prices yesterday was not only due to the lower fuel prices but also to lower prices for goods – the great fire sale has begun, as decades of distorted capital allocation and overcapacity start to play out. This shall be a very long meal!

What appears to us to be a crisis of overproduction and is causing havoc in our financial markets, for China is simply – using a completely different time metric – a short term adjustment.

We are now seeing more interest shifting towards the emerging market space – not as a source of growth but as a disruptive element. The Brazil downgrade shall be followed by others, raising financing costs for scores of countries coping with slowing economies and massive FX mismatching. We are amused to see that basic common sense is now making a timid appearance – demographics and the timid rise of a middle class, in the absence of the rule of law, are meaningless.

One finds it difficult to invest in countries whose elites are adamant that their children shall live elsewhere!

With regard to the US, producer price did not collapse, providing a further support for the Federal Reserve next week. Still, the desired inflation level remains a mirage. With sentiment on oil prices once again turning pessimistic for the short term, we see the struggle for inflation as getting tougher by the minute.

The ECB is increasingly desperate and is shifting its bond buying policy from risk free reference rate bonds to quasi corporates and other countries are keeping rates at zero to stave off the ultimate nightmare – an increase in the real value of debt. We see this as the major threat to countries attempts to reduce debt to GDP – they shall have to do a tremendous amount of running to stay in the same place.

Emerging markets focus

Focus shifts to the emerging markets, storm clouds gathering – is the tempest about to break? Is EM solvency once again in question? What will be the impact on long term foreign direct investment?

Are we entering a new phase in the emerging markets space – migrating from financial market turbulence to an increase in default risk?

With the developed economies in the thrall of the Federal Reserve, attention is shifting to the emerging markets. Brazil's downgrade to junk by S&P is rekindling fears of an acceleration in asset and currency depreciation as investors exit the asset class. We see pressure as building abstracting from the Federal Reserve's meeting next week.

Which EM shall be next? We find it scary that Brazil's president felt the need to reassure investors that Brazil would honor its obligations!

Further confirmation of EM role as growth component in global groups' revenue forecasts

The weight of EM in global groups' revenue forecasts was highlighted by massive price falls in French supermarket chain Casino and in Banco Santander. This is sending not only a worrying signal as to the state of the Brazilian economy but more specifically as to the staying power and financial health of the "new middle class".

Will Brazil's new middle class be able to weather the storm?

Brazil's major achievement in the last 12 years, along with the attainment of investment grade status, was the rise of this new, thirty million strong middle class. Was the rise of this group of consumers linked to a structural shift in the economy or was it driven by a "one off"– commodity boom.

Pressure is mounting on currency mismatched Brazilian corporations

We are also seeing increasing pressure on Brazilian corporations which are being hit simultaneously by two intertwined forces:

The recession in Brazil – squeezing local currency revenue;

the collapse in the currency. It is emblematic that in the case of the GOL airline group, these two factors are outweighing any positive spillovers from the drop in fuel prices.

We remain of the view that to allay panic, the Brazilian government may need to step in should any major companies be unable to respect their obligations. The lower the sovereign rating the closer the link between corporate and sovereign risk.

A blast from the past – capital controls!

The issue of capital controls is once again being raised, with the cash burn rate of EM FX reserves moving at the speed of light. We see a potential storm up ahead in Turkey, where a collapsing currency and investors increasingly remiss to finance EM current account deficits may trigger the imposition of capital controls.

Capital controls are seen as an admission of disaster and would further crush overall risk appetite for EM assets. We see the probability of a massive "run" on EM debt – owned by open ended – redeem at will mutual funds – as increasing.

Contacts

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

Ivan Feinseth
Chief Investment Officer
(212) 430-8730 Direct
ifeinseth@tigressfp.com

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

Brian O'Sullivan
Managing Director, Trading
(646) 798-8453 Direct
bosullivan@tigressfp.com

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

Chris DeCarolis
Research Associate
(646) 402-6695 Direct
cdecarolis@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.