Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

September 14, 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

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Update September 14th 2015

Chinese investors – better safe than sorry – Chinese government facing a "Hobson's" choice

Chinese stock market is down once again as investors follow the time tested maxim of "better safe than sorry"! Chinese economic data has once again disappointed and there appears to be little immediate benefit from government intervention at the macro level. The Chinese government is faced with a stark choice between increasing the rot in the banking system via more bad loans or incurring the wrath of the nations by letting their currency collapse. We believe that they shall choose the path of least resistance and of possibly quicker impact and shall let the currency slide.

Key risk for Euro Zone not Federal Reserve but deflation

We are seeing hesitant markets in Europe as investors continue to fret over the likelihood of a Federal Reserve move later this week. We see the key risk for the single currency area as not a Federal Reserve rate increase but continuing to import deflation. The downward pressure on prices shall likely increase as a result of longer term technology innovations pushing down production costs and competitive devaluations in the East and Chinese dumping.

Dominant strategy for Euro Zone remains weak Euro

While the industrial production data for July has been revised upwards, this was before the debacle in China. We reiterate our view of moderate Euro Zone growth and a persistent struggle to raise / create inflation. With debt playing a wider role in corporate financing, inflation/ deflation leverage is much higher than in the US. While the ECB easing and credit infusion aims at both reducing the cost of financing and increasing its availability to the small and mid-size companies, we see this as being a far smaller benefit than a weak Euro.

This is not 1987 – where was China?

We are hearing increasing warnings about both financial market distortions and impending economic weakness – with the key point being that the two are now being linked. The idea that we can have an asset price collapse and continue chugging along, as happened in 1987, seem to be vanishing. 1987 had not been preceded by an epochal financial crisis, the global economy was a closed club not having to contend with pre – 1914 dumping from China and consumer credit and global debt leverage were lower, with a lesser correlation between interest rates and global asset prices.

We want to know how fast rates shall rise – credit spreads are critical

Turning to the US, the build up to the Federal Reserve meeting is hitting fever pitch with the outcome in terms of rate increase yes – no still unclear. We are not primarily concerned with whether the US central bank raises rates per se, the focus needs to be on the speed of any further tightening and the evolution of risk spreads.

The Federal Reserve decision shall be preceded by data on industrial output and retail sales, allowing us some insight into whether US industry is holding up in the face of slower expected global growth and if the US consumers are spending more.

One – two punch for lower rated borrowers?

Will lower rated borrowers be slammed by a one –two punch of rising rates and falling inflation? Plus cash outflow and lesser pricing power? We are also concerned by second round effects, with investors receiving more interest for acceptable risk, will this spend an end to easy financing for the weaker credits? Shall this force them to reduce maturities increasing pressure on cash flow?

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.

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