Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update September 23rd 2015

We are waking up to the creaking of the Chinese economy! Get ready for more devaluation

We are waking up not to the sound of cannons but the creaking of a Chinese economy that seems to be in a state of permanent deceleration. With one of the PMI manufacturing indexes showing a continued contraction, we remain of the view that the dominant strategy notwithstanding the government's assertions remains a further devaluation of the currency. There shall be more currency slippage and less central bank intervention, the priority is to speed up the economy and not to manage a currency decline.

China is increasingly reminiscent of some major EU economies during the European Monetary System – where repeated promises of structural reforms were immediately followed by a devaluation!

Emerging markets shall continue to be under pressure – no way out of China "undiversifiable" risk

The China effect has, predictably, caused a retreat across the emerging markets space, with both equity and currency markets being hit. We continue to see several of these markets as continuing to be under pressure. We do not see these markets as having bottomed and see no easy replacement for the "undiversifiable" China risk.

Watch Australia – very good indicator for commodities

As concerns commodities, we are again focusing on the Chinese economy. If the Australian stock market is any guide, heaven help us! The ASX is down sharply – as is the Australian Dollar and we expect the currency to continue to weaken. Interestingly, BHP Billiton – despite all of the shouting – still has a higher credit rating than some EU sovereigns. Not all is lost!

Total cutting capex – lower oil prices here to stay?

With regard to the oil price, we are taking our cue from the CEO of Total. The French group has announced massive investment cuts to manage an extended period of low oil prices. Capital expenditure reductions shall enable them to fund dividends without borrowing. What is significant is that higher profits on refining, due to lower feedstock prices, are not expected to significantly mitigate the decline in crude.

Europe up on PMI index – slowly but steadily

Moving to Europe, Euro Zone composite manufacturing and services reading fell. However, investors are focusing on the third quarter average, which is pointing to a continued recovery. This is lifting spirits and buoying stocks following a disastrous session yesterday.

Car sector no longer "stairway to paradise"

6 months ago these stocks were touted as being the "Stairway to paradise" boosted by the incipient Euro Zone recovery – scarce a mention of EM. China crisis erupts and car stocks crash! So much for the incremental traction from the single currency area! The Euro Zone remains firmly anchored as to recovery prospects in the export camp. Expect little from domestic demand!

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US – China meetings – key issue is FX!

Turning to the US, the focus is on the summit meeting between the US and Chinese leaders. While a great deal of attention is being bestowed on the cyber hacking issue, we still see the currency "time bomb" as the greater concern. Trade strategies have a slower impact – currency moves can be sudden and afford less adjustment time.

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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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