Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update September 25th 2015

Some markets cheering Yellen – Phillips curve does not live here anymore! – Emerging currencies get stomped – QE in Euro Zone not QE in the US

Optimism after Yellen speech – We are still "data dependent"

EU stock markets and futures are up today following the speech yesterday by the head of the US central bank – indicating that the Federal Reserve was still geared towards raising interest rates later this year. While this is "data dependent" this was viewed as a timid vote of confidence in the US economy and its capacity to withstand the cold gusts blowing from the emerging markets. This was not, was not a reappraisal of global economic prospects, which are still viewed as somewhat brittle.

We can happily throw our macroeconomics books in the fire!

We were delighted to see that we can now happily make a bonfire of our undergraduate macroeconomics textbooks. Janet Yellen's speech debunked the Phillips curve and the relationship between employment and inflation, which we all dutifully learned.

Phillips lived in a far simpler world

Phillips operated within a world economy which was:
Destroyed by war
De-globalized - with the reserve army of low cost labor off the map
Relatively low level of technological innovation

Global labor market now resembling plantation economies in the 1930's

We are now in a global economy with an unlimited supply of labor in the emerging markets and a day laborer labor market arising in the developed world. To add insult to injury, the global economy is veering increasingly towards services – creating low productivity jobs and further stifling real wage increases.

US seen as a "safe haven"

Turning to the currency front, we are seeing the US Dollar firm across the board. Prospects for the US economy as a relative "safe haven" are seen to be improving. This shift is buttressed by the view that there is little hope in sight of other major economies even hinting at interest rate increases.

US can take the hit!

We see as significant in this context that the Federal Reserve believes that the US economy can withstand the pressures from a stronger dollar, an act of implicit faith in the domestic economy.

The US central bank is no longer focusing on growth per se, the focus is now shifting to increasing income as opposed to a narrow based wealth creation and support to consumption via quantitative easing.

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.

Euro Zone – US rate hike music to their ears!

With regard to the Euro Zone economies, the prospect of a US rate hike is music to their ears! With growth forecasts for Germany, the largest Euro Zone economy, being revised as the VW scandal unfolds, a weaker Euro may boost exports across the area. We see an export as the key benefit – with inflation gains tempered by continuing deflationary pressures from China.

QE in Euro Zone not QE in the US

As concerns the fixed income market, we are seeing a rise in the German government 10 year. This is driven by Yellen's speech and by the ECB expressing caution as to further QE moves. We still see the monetary policy as having had a lesser impact than in the US. The US has a far wider base of risk – asset holders – benefiting from the migration into stocks – and higher leverage in the housing sector, allowing for a cash flow boost from refinancing and an increase in asset values.

Scenario is playing out in emerging markets

With regard to the emerging markets currencies, we are seeing our scenario play out. In Brazil, central bank intervention via swaps has proven ineffectual. This has prompted the head of the central bank to come out with his own version of Draghi's "anything it takes". In the Euro Zone this was massive supply of liquidity to the banking system, in Brazil selling of FX reserves.

Considering the collapse in commodity prices, this is a bold move indeed! Stopping the rout is now more important than maintaining reserves to bolster your already precarious rating position.

Canadian Dollar gets hammered - again!

The Canadian dollar yesterday took another beating. This was triggered by the interest rate cut in Norway and concern that the Canadian central bank shall soon follow. Canada is dealing not only with a commodity bust but with a non – oil slowdown, prospects for the currency remain bleak. Should the US raise rates, this shall knock the currency flat.

Caterpillar issues gloomy forecasts – global growth expectations hammered

Caterpillar's announcement regarding another massive round of job reductions and large downward revisions to revenue, highlighted expected continuing weakness in the growth markets. This is being driven by cuts in mining and oil, which show no signs of abating. We see a rough 3 years as the major commodity linked companies restructure and realize that we are going back to an end 1990's situation.

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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