Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Are we at the end of the tunnel? Has commodity day of reckoning been postponed?

Are we at the end of the tunnel? Equity markets appear to be slightly more optimistic this morning, with US futures up following yesterday's debacle. Euro Zone business confidence is up and – according to some – the day of reckoning for the commodity and mining companies is not yet at hand. Glencore shares are up and we read of positive sentiment towards the company – which is rapidly becoming the "barometer" for the sector.

We do not see any fundamental macro changes since yesterday and will not confuse speculations as to undervalued assets with indications of a turn in the global economy.

China and growth concerns entering a new and dangerous phase, moving from macro to single company level – we are talking credit risk!

We see the China – commodity crisis as having entered a new and more dangerous phase. Attention is now shifting from a purely macro vision – GDP and metal prices – to the repercussions on single companies. Counterparty risk is once again a major issue. as investors increasingly and anxiously query the capacity of the large companies to purchase from suppliers and the credit risk of their customers.

Reminiscences of my youth, commodity trader fine at 10 a.m. and dead by tea-time!

Drawing on the experience of my youth in the commodities business, traders can be in excellent constitution at 10 a.m and be dead by 3 p.m. The acceleration effect can be devastating, should market rumors start to circulate. Nobody wants to be the last to not be able to seize product sold!

Need to start reviewing analytical methods used when 29 in the German oil products markets!

It is my guess that we shall be moving from macro-analysis to speculation as to break –up value of some of the traders. Who are their clients and what is the commercial banking sector's exposure to commodities?

A bit of sunshine in the cold water – Euro Zone confidence

Turning to the Euro Zone, an increase in economic confidence is welcome and may start to point to a firming of domestic demand. This shall be seen as an offset to a slowing of exports towards the emerging markets, which we continue to see as under pressure.

Lack of capital investment continues to slow single currency area

We continue to see the lack of capital investment to be the weak link in the Euro Zone recovery and – in the light of continuing overcapacity – do not see an imminent trend change on the horizon. While a great deal of attention has been bestowed on special ECB funding for small and mid-size companies, they are taking their cue from the large groups of which they form part of the supply chain.

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Long struggle ahead against deflation

With Spanish prices still falling, we still see a long struggle ahead against deflation in the single currency area. We have seen little impact from the ECB's measures and do not have high expectations for further easing –if and when it should occur – with limited impact on the "real economy".

ECB more focused on reducing sovereign financing costs than getting economy moving

The ECB actions seem to be more geared towards reducing the cost of financing for Euro Zone sovereigns via compression of bond yields than on getting the economy moving. Despite all of the triumphalism, debt to GDP levels in some Euro Zone countries remain very high – with deflation – low inflation leading to a revaluation of the real cost of debt.

There is no plan B – to avoid a longer term rout, inflation must increase – for the first time since the Great Depression governments are paying bond holders with real money.

EM adjustment not yet complete

We continue to see the EM re-adjustment as not yet complete and expect further pressure on the currencies regardless of Federal Reserve interest rate decisions. The debate about China is now rapidly shifting from whether the Chinese economy is slowing to the extent of the slowing.

See limits to currency intervention

We expect to see more negative surprises and half-hearted attempts at currency intervention across the board. We consider that these shall be unable to stem the avalanche of money leaving these markets, with sovereigns increasingly loath to use sovereign wealth funds - conceived to provide an annuity income to the population – to bolster their currencies.

EM transformer economies shall remain under pressure

We are already starting to see the revisions to the revisions and expect these to continue. With regard to the commodity producers a sharp move to the upside is unlikely and as regards the industrial supply chain "transformer" economies, the first stage of the mass industrialization development block is over.

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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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