Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update October 1st 2015

Russia in Syria and oil is not erupting – enthusiasm is king at start of new quarter – Commodities, it is not over – Euro Zone manufacturing slows, we are not surprised – sharing economy means very rich get their share first! – Three cheers for the IMF – have figured out slowing global growth

A burst of enthusiasm – China contracts less than expected

New quarter and new hope as investors rush in to load up on stocks, which are now termed "risk assets", as if bonds trading at levels last seen in the Napoleonic wars are not risky! This is a burst of enthusiasm which we see as fueled by a momentary "all clear" with regard to a systemic event fueled by "excesses" in the commodity sector and some cautious rebalancing by asset managers. An added factor for enthusiasm is a less severe than expected contraction in Chinese manufacturing.

Commodities - fasten your seat belt!

With regard to the commodities situation, we remain of the opinion that the markets are continuing to underestimate the sensitivity of the major traders to commodity prices. Many are no longer strictly traders but also have invested heavily in in assets. These tend to fall in value at a multiple of changes in the commodity concerned. We are seeing coal mines being sold for a fraction of their purchase price a few years ago and with global growth prospects weak, copper at even these low levels is far from a one way bet.

Glencore – we have not seen the last of it

With regard to the Glencore saga, we still see the situation as volatile. Despite assertions of sufficient liquidity, bonds due in a year are trading at junk levels. There is no cheer forthcoming from the CDS market which is assigning a more than 50- 50 chance of their going bust within five years.

On the subject of oil, we are not surprised by the increase in US production. A lot of production has been hedged and investment in technology has helped to reduce production costs.

We see as significant that the heating up of the Syrian conflict, has not ignited oil.

You cannot live by buy-backs alone

As concerns the non-systemic aspect, global growth shows no sign of accelerating. We remain of the view that you cannot live by stock buy-backs alone and that the top line is not irrelevant!
Euro Zone manufacturing PMI was disappointing and the only meager consolation was that Chinese manufacturing contracted less than expected.

We continue to see a slowing of global growth with investor hopes still fueled by hopes of an accommodating monetary policy; we are at square one where the game is low interest rates!

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Equities pushed by re-balancing

With regard to the equity sector, we see the re-balancing as resting on a strategy of asset allocation rather than reflecting a blind belief in an imminent vertiginous rise in stock indexes. Yesterday's concerns as to economic fundamentals on a "stand alone" basis have not budged an inch. Together with the non-existent top line growth, we are concerned by unremitting deflationary pressures, which are making mince-meat out of pricing power for the less fortunate corporates.

We see pricing power now the almost exclusive preserve of companies with "brand" power and extensive global diversification. Flat prices are not a common assumption in corporate planning.

Well done IMF – global economy slowing!

We were "intrigued" by the IMF's perspicacity and vision as reflected in its head's warning about slowing global growth! We agree with them as concerns the EM debt bomb and the "cosmetic" improvement in debt to GDP ratios. The corporate debt shall need to be added to the sovereign debt. As in these enlightened latitudes there is scant sign of the separation of powers, the large corporates are often closely seen as state + 1 degree of separation entities.

Should any of the flagship groups default, the rating agencies shall not be remiss to downgrade the sovereign. We stand by our view that the exodus out of the EM space has barely begun!

We are eagerly awaiting the jobs data – start re-reading "Death of a Salesman"

Turning to home shores, the US markets are gearing up for the jobs number tomorrow. We put little stock in a jobs number and unemployment rate which do not reflect a disastrous labor force participation and the steady "pauperization" of a large part of the population.

"Sharing economy" – very rich get their share first!

The "sharing economy" means that the very rich get their share before the others! While waiting for the jobs data we shall have the chance to peruse the progress of the US economy via jobless claims and manufacturing data. We still see the US as one of the best prospects in a fairly dismal line up.

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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.

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