Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update October 2nd 2015

Markets up on perceived reduction of systemic risk and hopes for a solid jobs number

Markets are up in Europe this morning on both a reduction of perceived systemic risk stemming from the commodity complex and from hopes that the job data will be reasonably strong in the US. Strong jobs creation shall be seen as synonymous of a more robust US economy, helping to offset the weakness in other regions of the global economy.

We see the markets as wishing for a "de-coupling" of the US from the rest of the world, whether they shall get it and / or whether this shall have staying power, is another matter.

A further boost was provided by the head of the ECB's reassurances as to growth prospects in Europe. This rings somewhat in contradiction to continued deflationary pressures and slower than expected growth in manufacturing. We see the recovery in the Euro Zone as ongoing but still somewhat fragile, with unemployment still anchored at high levels dampening any strong recovery in domestic demand.

With regard to the jobs report and prospective Federal Reserve action, we still see a US central bank which is somewhat terrified of the risk of unleashing chaos in already volatile markets. The market reaction to the Glencore concerns highlight how little "wiggle room" there actually is.

We see systemic risk concerns trumping macro short term

Investors are rightly or wrongly focused on the jobs data. We deem it largely irrelevant and still see the attention focused on a short term recrudescence of systemic risk overshadowing the basic macro.

We have crossed the threshold where falling commodity prices are a macro event to where falling commodity prices can trigger bankruptcies and cause havoc across supply chains.

Retail and institutional investors running to exit in EM – is this a contrarian signal?

Emerging markets are continuing to flounder, with massive outflows seemingly unstoppable and at higher levels than in 2008 – 2009. Both retail and institutional investors are making for the exits – with a long run perspective drowned out by the risk of short term currency losses.

US manufacturing 15 per cent of the economy but a large share of the growth

US manufacturing was quasi-flat straddling between expansion and contraction as slack domestic capital investment and weak foreign expansion slow "big ticket" sales. While manufacturing accounts for 15 per cent of the US economy, it has been the workhorse of the recovery, stepping up to the plate for a largely somnolent consumer.

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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Skeptical as to Glencore explanations

With regard to Glencore, we are not fully comfortable with the explanations as to the financial position. A commodity trader's balance sheet is a movable feast susceptible to violent fluctuations throughout the day and as solid as the last trade.

We are shifting to a "break – up" scenario

In this context, we are concerned that investor focus has shifted from cash flow from operations – a going concern metric – to the "liquidity" of inventory – a measure generally viewed in connection with a break - up last resort scenario.

China today is not Japan in 1990!

With regard to the future of the US stock market, we are reading that while China's economic position is extremely difficult to assess – Japan collapsed at the end of the 1980's without this impacting the US market. We see this comparison as misplaced:

1990 world was in far better shape and growth not centered on a handful of economies

The global economy was in a far stronger position to cut interest rates and provide further stimulus;
Growth across the economic spectrum was not centered on a narrow range of economies;
There were no deflationary pressures;

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC
Research: (646) 780-8880 research@tigressfp.com
500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

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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