Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

October 6, 2015

Update October 6th 2015

German factory orders declining, markets more cautious

Markets are more cautious with declining German factory orders highlighting the link between Europe's largest economy and the emerging markets, in particular China. We see the German economy as the Euro Zone's "window" outside of the single currency area. Exports have a higher value added component and due to the focus on growth markets have permitted greater pricing power.

Euro Zone integration now a hindrance for trade

The Germany – China link has allowed the Euro Zone to post a mildly positive growth rate while the other countries re-structured and re-positioned. We need to bear in mind that the weak Euro lends a boost for exports outside of the Euro Zone. With trade between Euro Zone members still the lion's share of external commerce, the pitfalls of economic integration are clear.

Commodities shall once again come under pressure - supply and demand still works!

Attention is once again turning to the commodity complex, with a slew of seers forecasting further declines across a broad range of commodities. We are amused to see that while we may have to consign to the flames eternal the Philipps curve – link between employment and inflation – the relationship between supply and demand remains extant!

What about the unlisted commodity traders?

While slowing global growth may for some be viewed as the "Goldilocks economy" there is no silver lining for the commodity producers. Lo and behold, as goes copper so goes Glencore. We have not heard the last of the commodity saga and wonder whether Glencore is simply the tip of a very large iceberg.
Commodity traders are mostly unlisted and have limited disclosure requirements – what exposures do the others have?

Lower exports shall impact US GDP

Turning to the US, the trade deficit came in roughly in line with expectations. However, a decline in exports shall feed through to GDP forecasts. While some see an increase in imports as reflecting domestic consumer strength – we have hitherto been blissfully unaware of this and hope that the beleaguered US wage earner shall soon get a well – deserved break!

Monetary policy - Rest of world still easing monetary policy

The ECB following frightful inflation data is expected to take additional monetary measures. With regard to the pound the Bank of England shall be remiss to raise rates as the inherent structural weakness of an economy supported by rising house prices and an overdraft become increasingly evident. As concerns the yen – the almost complete failure of QE shall be met with yet more QE! ***We continue to see the rest of the world in easing mode and view the US as the best of a bad lot.***

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.

Emerging markets - a boost from expected Federal Reserve non-action

Emerging markets are getting a slight lift, however there is no sign of any change in the macro-economic fundamentals. The boost is the result of a respite from the risk of the Federal Reserve increasing rates. We are starting to see a slowing in EM debt issuance, reflecting a re-direction of risk appetite for long term debt by investors. ***Incremental flows into EM shall likely be into equity boosted by the "long run" perspective.***

Focus on Transpacific Partnership

After much negotiation success hopefully at hand

After much negotiation and political debate an agreement in principal has been reached on the Transpacific trade agreement. This agreement shall bring together 12 countries, with other already showing a keen interest in joining. The deal is however far from done and shall require approval in each of the member countries.

For the US TPP key at a dual level – economic and political

We see the deal as reflecting:

At the economic level – the Obama administrations wish to latch on to what growth remains to be reaped in the emerging markets sphere. We need to bear in mind that the emerging market prospects have been revised downwards since the Transpacific Partnership was first discussed

At the political level – while possibly not as strident in its tone as previously, we can still discern a when not ABC – Anybody but China – thrust, the aim to create a bulwark versus Chinese attempts to coalesce around itself both supply chains and financial and investment flows.

Doubts about China and Chinese "currency adjustment" a powerful wake – up call!

We see the recent "August earthquake" triggered by China allowing its currency to adjust downwards, as having been a powerful wake – up call for the conclusion of an agreement.
China's role as "The central bank of global growth" appears to have waned, with some estimates placing Chinese growth as low as 3 per cent. There is an urgent need to diversify away from the China growth story and latch on to the gradual US recovery.

Commodity super-cycle is over, need for a new model

The Transpacific Partnership's ripple effects are expected to extend to Latin America – with three of the four Pacific Alliance members in the prospective union. Colombia, the current outsider is also assessing joining. The shift is also being pushed by the need to develop other trading relationships distinct from the hitherto dominant China commodity trade.

Benefit shall be lower prices, not jobs

What are the prospective benefits? For the US this is expected to be in the 0.4 per cent incremental GDP range and globally 0.3 per cent. The key benefit shall not be in job creation but in lower prices and consequent increases in disposable income, this might alleviate some of the impact from stagnant wages and increasing income inequality.

The "flip side" is that Asia is exporting deflation wholesale, limiting the ability of the US and other central banks to normalize monetary policy. We shall be absorbing Asian overcapacity.

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.