Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

October 14, 2015

Update October 14th 2015

Deflation gusts out of China continue - equities weaker- are we on the verge of the "Final Crisis of Capitalism"?

Persistent deflationary pressures out of China as reflected in a further collapse in factory gate prices are dampening spirits in the stock markets. We are seeing firsthand the extent to which foreign capital has set its sights on China acting as the global "Central Bank of Growth" – at the slightest intimation of a slowing, equities fall! This is coming on top of abysmal trade data yesterday, reflecting a slowing economy.

We see a widening cultural gap between the Chinese government and foreign investors. China's announced intentions to transition the economy to a more consumer focus have been interpreted as meaning that

1- This shift shall occur in the short term.
2- That the Chinese government can reconcile a more open economy with the complete state control of the classical socialist model

We reiterate our view that we are going to be seeing repeated downward revisions to Chinese growth as the year plods along to its mediocre end!

Shall the ECB expand QE? What about the targeted lending programs?

With regard to Europe, attention is starting to focus on the upcoming ECB meeting, with the center point of the debate expected to be whether the European central bank shall expand its QE program. We see as key the focus on QE as opposed to the massive targeted lending programs underway – reflecting the view that these have done little to boost the real economy.

Community of interests between stuffy central bankers and buccaneering commodity traders!

The emphasis now appears to be squarely on a steady state approach to the economy – with minimal expectations as to growth and the priority on not increasing the real value of debt. QE is viewed as a means to lower interest rates and encourage Euro selling – lifting the price of imports. ***There is now a striking parallel between the leading central banks – generally known for their conservatism – and the swashbuckling commodity traders – both need a dramatic increase in commodity prices!***

Risk to commodity traders – incapacity to refinance – for central banks increase in bad loans – for sovereigns difficult to improve debt to GDP ratios

The risk to the commodity traders is short term financial squeeze - incapacity to raise further financing or divest assets. For the central banks it shall be the longer terms strains arising from a revaluation of corporate debt. This shall increase bad loans and place the banking system under pressure. With regard to sovereigns the risk shall be the quasi impossibility to inflate their way out of their debt to GDP ratios.

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US debate on monetary policy heats up – Federal Reserve focusing on systemic risk from abroad

Turning to the US, the debate on monetary policy continues to heat up, with two Federal Reserve governors sounding a cautious note. Overall, while there is much comment as to the lack of inflation, we still see the Federal Reserve looking at the systemic risks from Asia as the key factor in monetary policy. Following the latest data from China, this may dampen the ardor of the "lift-off" contingent. Notwithstanding a respite for several emerging market currencies – the overall real economy picture remains muted, to say the least.

We remain firm believers in convergence between the financial and the real economies. With growth prospects dimming by the second, we see this as implying a further adjustment in those economies most exposed to the Chinese supply chain.

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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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