Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets up on faith that US central bank shall not move

Markets are up on increasing faith that the Federal Reserve shall not raise rates any time before the (1) Age of Aquarius – for those old enough to remember the musical "Hair or (2) The next Ice Age – whichever comes first. This confidence in a tacit non-aggression pact between the US central bank and the markets was given a powerful boost by a spate of economic data indicating that the US consumer is still slumbering peacefully!

We still see the markets being driven by monetary policy, with investors apparently willing to put aside common sense concerns as to economic growth in favor of continuing the carry trade.

What has changed in the emerging markets?

The emerging markets have also gotten a lift, with currencies rising from the Marianna's trench and attempting to break surface. While the basics have remained unchanged, the hope is that this shall postpone the day of reckoning. We are however left with a Chinese economy which is slowing and few havens of growth to compensate. The emerging market economies are still burdened with substantial amounts of corporate debt, with the currency mismatching factor an additional constraint.

The key point is that even if the US Dollar does not surge some corporates may still have to meet their liabilities with weaker than expected cash flow.

ECB sounds alarm ono inflation front – what action can still be taken?

Turning to the Euro Zone, an ECB official has once again sounded the alarm on the inflation front. This is being interpreted as a call to arms. The issue is now which shall be the weapons of choice. QE seems to have done little on the inflation front – while arguably more effective with regard to the FX rate. We can only guess that the dominant strategy shall be to prioritize further Euro weakness over an increase in transactions driven by money supply increases.

We shall see a "new wave" of deflationary pressures

On the subject of inflation, we shall be soon seeing the US consumer price index. Prices are expected to stay stubbornly low. We are not in the least surprised and are expecting a "new wave" of deflationary pressures from Asia. We are contending with state backed companies groaning under a massive overcapacity seeking to sell by any means necessary, simply to recoup variable costs. Shaking out these excesses shall take many years.

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Focus on the US

US consumers playing hard to get – China a "Damocles Sword" over the world economy

US stocks are beating retreat with retail investors playing hard to get, a timid performance by the beige book, disappointing inflation data and last but not least – the "Damocles sword" of China hanging over our heads.

Investors shall re-position towards companies with pricing power – ever fewer as deflation and slack growth lead to commoditization

The growth - or lack of it – in the global economy coupled to deflationary winds looks poised to wield the dual blow of: Falling unit sales x lower prices. We see investors as about to set off on a treasure hunt for companies who can actually raise prices over the medium term. While asset allocations may not be changed – we expect to see substantial re-positioning within share portfolios.

US buyers waiting for higher wages – we recommend bringing a book!

As concerns the US, retail sales bear witness to the continued skittishness of the US consumer. Consumers are re-directing their spending towards "one-off" durable goods. Cars are "catch-up" spending with buyers taking advantage of low interest rates – those who cannot buy houses shall buy autos! US consumers shall move when wages rise, with wage increases increasingly resembling "waiting for Godot" – who never showed up.
As we have often commented, labor market slack in an economy increasingly geared to the day laborer model, is self-reproducing.

Price weakness in services a concern

We are not surprised by US inflation at the producer price level, indicating not only a fall in input prices but industrial overcapacity. That said, we are more concerned with regard to price weakness in the services sector, where the majority of the population works. Falling service prices translate into lower real wages further constraining consumption.

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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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