Macro Snapshot – Chief Economist Jean Ergas

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Update October 22nd 2015

Macro still the dominant factor – signs of panic in the Euro Zone – commodities, we are skeptical – Time to reassess the Canadian Dollar?

Macro remains the key factor, more signs of global slowing

We see the macro aspect as being the key factor, with further signs of global slowing - falling Japanese imports. Commodities have continued to wobble and EM currencies are vacillating. The markets are increasingly relying on two factors:
The expectation that interest rates shall remain low across many economies
Earnings will confound the most pessimistic forecasts

Markets are focusing on "steady state" in contrast to expansion

Stock markets in Europe jump – more free money on the horizon?

Stock markets in Europe have jumped following the start of the ECB conference in Malta. The head of the ECB opened by commenting on downside risks to growth and has followed this up by announcing a revision of the QE policy at the December meeting. ECB program planned to run until September 2016 but can be extended! With the deflation tsunami from Asia gathering speed, we see low rates for an extended period of time.

There has been a change in the paradigm, which transcends conventional cyclical analysis.

This has sufficed to pull the Euro lower and create a "boomlet" in Euro Zone bonds. We see these measures as aimed at the FX rate – exports – first and, secondarily, at lending impetus to domestic demand via lower interest rates.

Although some see the Euro as trading below the upper limit of the ECB's presumed tolerance level 1.15, we need to differentiate between what can be in a worst case scenario acceptable and what is considered optimal. 1.15 is not optimal!

Euro Zone recovery continues to be uneven and sub-par – Shall Germany pick up?

The Euro Zone recovery continues to be uneven and sub-par, with Germany and its exports still being the "heavy hitters". While there has been some retrenching from panic scenarios since the summer, global growth – the life blood of the Euro Zone's largest economy remains muted.

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Foreign direct investors best leading indicator, pulling out of EM?

We still see the foreign direct investors as the best indicators for relative growth prospects. Investment in EM slowing as the myth of "eternal growth" is more critically revisited. While not expecting an increase in capital investment, we see a shifting of the investment allocation increasingly towards the developed economies, in particular, the US.

While not overwhelming, US growth is less subject to external events and not contingent on commodity performance.

Macro remains the key factor, more signs of global slowing

We see the macro aspect as being the key factor, with further signs of global slowing - falling Japanese imports. Commodities have continued to wobble and EM currencies are weaker. The markets are increasingly relying on two factors:
The expectation that interest rates shall remain low across many economies
Earnings will confound the most pessimistic forecasts

Markets are focusing on "steady state" in contrast to expansion

Commodity stocks still priced on immediate pass-through from spot prices

With regard to commodities, stock prices are still set on a spot price basis - with scant regard to the steady drumbeat of capacity closures. Will these closures and scrapping of future projects be sufficient to stop or slow the slide in the major players?

Not all rigs are created equal!

As concerns oil – while there is much gloating that US shale producers are at the limit of their strength - this cannot mask the fact that Saudi Arabia is continuing to pump full blast and that not all US rigs are created equal! The rigs operating are at the bottom of the breakeven range and can still access financing.

Canada – NAFTA – A tale of two economies

Canada currently presents an interesting example of the confluence of commodity prices and the impact of free trade agreements. While the country is reeling from the collapse in minerals and oil, the earlier boom years have masked a more insidious, longer term trend.

Is Canadian dollar trading increasingly like an EM currency?

This has been the steady shift in US supply chains to Mexico, in particular in the auto sector. The major beneficiary of US growth is now Mexico and not Canada, leaving open the question whether the Canadian economy is de- industrializing and increasingly exposed to commodity prices.

This may well be the time to reflect on the longer term prospects for both the economy and the currency.

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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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