Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Too much of a good thing? – Global trade, a concern -

Commodities - do not hold your breath! – Will Federal Reserve re-start QE? – Not wild about US housing

Markets brimming over with enthusiasm – an excess of riches!

Markets are brimming over with enthusiasm, with the major driver being the ECB conference yesterday viewed as a harbinger of further monetary easing in the Euro Zone. We are seeing "financial economy" optimism sweeping up all and sundry.

All are joining in!

The beneficiaries include stocks, bonds and commodities – with commodities getting a boost from further easing in China, where the central bank is pulling out all of the stops to boost growth.

Two-fold optic on recent events – carry trade and global economy worse than believed

We can see these events under a two-fold optic:
The 'carry trade" continues, fueled by low interest rates with the expectation that we have not seen the bottom – as central banks flirt with even deeper forays into negative territory
Or
The global economy is slowing faster than expected and central banks are desperately trying to hit a moving target
Given the hitherto scant impact of QE on the Euro Zone "real economy" we are at somewhat at a loss to see what all of the cheering is about.

Euro Zone PMI composite data for October highlights a lower order flow, reflecting the end of the "Great Illusion" of two digit growth in the emerging markets.

Global trade slowing – Maersk cautious – Container sector emphasis shifting from oversupply to lower demand

We see as worrying that Maersk – the shipping behemoth – has lowered its profit forecasts on falling global trade. What is significant is that the container sector is now replicating the shift witnessed in the commodities sector. What was previously viewed as a problem of oversupply is now seen as a result of contracting demand. Container shipping is an excellent leading indicator of growth in the developed markets.

Euro Zone government bond yields marching into negative territory – not a good omen for the "human condition"!

Turning to the sharp drop in yields in the Euro Zone, we are seeing negative yields breaching the five year hurdle and extending to the six year German government debt. Italy and Spain are also joining in the fun – with two year yields also crashing. Two considerations come to mind:
Will this boost capital investment which has been a conspicuous laggard?

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Will ever lower interest rates – which reflect a not cheerful prognosis for the "human condition" – act as an incentive to further delay reforms, as the nominal costs of government refinancing fall?
Euro slides – careful of impact on non-Euro European economies

On the currency front, the Euro – as if on cue – has tumbled and shall hopefully serve to coax some incremental demand from industrial buyers. We need to also bear in mind the impact of a Euro fall on the non- Euro European economies. What shall be the impact on the UK and niche industry countries, such as Sweden?

Will Stockholm see interest rates at the same level as the imminent winter cold? What risks and bubbles are lurking in the shadows as central banks play "beggar thy neighbor" via monetary policy? Will the lower Euro limit UK exports to the Euro Zone and force the Bank of England to not raise rates – stoking further domestic bubbles – so as to not boost the pound?

Chinese monetary measures shall not recreate Industrial Revolution scenario for commodities

On the commodity front, we do not see the Chinese action as providing a strong boost – at best a stabilization. Commodities have experienced one of their periodic "development block" boosts-which lifted them out of their secular decline which started in the 18th century. We do not see a new"hegemon"on the horizon.

Will the Federal Reserve restart QE?

Last but not least, Draghi's determination in the face of collapsing prices, has reignited optimism that the Federal Reserve: Desist further from raising rates

May eat its words and launch further QE
Should the US central bank stave off further rate increases, this shall not be a positive signal for the US and global economy. ***Stocks are trading like bonds, with interest rates driving prices and not earnings.***

Remain skeptical as to linkages US housing – broader economy

With regard to the US, further signs of strength in the housing markets are rekindling hopes for US growth. We remain skeptical as to the propulsive – linkage strength of the US housing sector.

Housing today not housing 2005!

Housing has mutated into a largely cash market, reducing the number of new entrants and privileging exchanges between house owners. In addition, tightening of credit terms limits the ability of homeowners to liquefy the unrealized capital gain for consumption.

To put it simply, housing may have reverted to being a store of wealth but it is no longer a piggy bank!

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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.

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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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