Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

October 29, 2015

Update October 29th 2015

Markets digesting Federal Reserve – Chill wind blowing on emerging markets

Markets are digesting following the Federal Reserve meeting yesterday – with the prospect of an increase in US rates starting to appear increasingly possible. Predictably we are seeing a chilly draft blowing through the emerging markets, which have – in the absence of structural reforms – been living off the "kindness of strangers" – the developed economy central banks ***. We expect to see further weakness in the emerging markets and commodities areas.***

Germany holding the line - will the others join in?

European Union economic sentiment might have improved but this is not obvious from the equity markets. The rush from the ECB has started to taper off and growth – export considerations are once again coming to the fore. Germany remains the stand – out performer – with the lowest unemployment rates since the early 1990's. This has boosted domestic demand – offsetting some of the drag from the EM collapse.

We do not see this being replicated in France and in Italy, where reforms – to the extent that they have been enacted – are still trailing what Germany accomplished in the late 1990's.

Oil investments a vestige of the past?

There are more grim omens on the oil front, with *Shell announcing that it is discontinuing high oil price plays in Canada. This has resulted in an almost US Dollar 5 billion charge, and reflects the view that being a "quitter" is in certain circumstances acceptable. We are seeing an ever faster succession of capital investments being put to the torch.*

Whether this shall be sufficient to reach the US Dollar 60 break seen as a "minimalist" target, remains to be seen.
Saudi Arabia is still sitting on massive FX reserves and does not seem inclined to alter its policy.

Are we seeing the uninspiring end of "Monopoly Capital"?

Is "monopoly capital' finally being brought to heel by the combined effects of stricter regulation, slow growth and the legacy of a generation of miscreants sowing their "wild oats" in the financial markets? In my youth, I saw films showing university students engaged in wild pranks – such behavior was best confined to the junior common room and had no place in finance.

EU banking shall not grow its way out of its problems

Deutsche Bank's massive geographic retrenchment and planned staff reductions reflect the realization that EU banking is not going to grow its way out of its problems – as the economic tide recedes. The German behemoth's fall from grace is all the more remarkable as it heralds that the large commercial banks attempts to recast themselves as investment banking powerhouses have simply not worked.

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We see as significant that along with HSBC, Deutsche now also sees that it is no longer necessary to be everywhere. The "long run" has given way to slash and burn and prospective dividend cuts.

US GDP – US moving forward – better suited to brave the "Gathering Storm"

Last but not least, US GDP has clocked in slightly below expectations but remains – ex- inventories relatively resilient. The US economy shall not be a powerhouse but shall be able to better weather "The Gathering Storm" than the more open and trade dependent nations.

Focus on the Federal Reserve

Oracle of Delphi speaks – market tanks and rebounds – will this last?

We have seen the Federal Reserve meeting and the expected non-action on interest rates by the Federal Reserve. Notwithstanding that it stayed put - the Federal Reserve's comments on the US economy were not overly negative. Growth is seen as moderate and the labor market as "improving" – we shall hold our fire on an economy where under employment has been institutionalized.

Federal Reserve re-shifts focus to the US

We see our view that the Federal Reserve is now once again centered on the US domestic economy as confirmed. The US central bank is desperately looking for a reason to start raising rates. The question remains whether the US consumer shall oblige during the holiday season and whether we shall start seeing structural shifts in the labor market – more full time jobs and less of the "sharing economy.

We see the burden as still incumbent on consumers to show their mettle. Will Black Friday finally be a record year?

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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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