Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update November 2nd 2015

Is this China Part 2? Factory production continues to contract

Is this China part 2? Data on Chinese factory production once again points to a contraction, notwithstanding the currency devaluation and the repeated monetary easing measures. This is leading to weakness in the Australian Dollar with the hopes of a strong commodity rebounding. The optimistic spin being put on the course of events is that this is a "managed stabilization", at best this presages a maintaining of the status quo – slowing of the Chinese economy.

Chinese FX reserves falling fast

A corollary to the above is the shrinking of the Chinese FX reserves from 4 trillion US Dollars prior to the August "earthquake" to a current estimated level of 3.5 trillion US Dollars. This is a drop of more than 10 per cent in a matter of months.

What part of reserves is liquid?

The liquidity of the Chinese reserves is being increasingly questioned – with some analysts estimating the liquid share at less than one half. This raises the question of the ability and willingness of the Chinese authorities to continue to draw down on this buffer.

Wide range of factory data shall be released this week

As a prelude to the US "blockbuster" employment data on November 6th, we shall be seeing a wide breadth of factory data across the US, Euro Zone and Asia. We are in two minds as to how to assess this data:

Falling production - indicating a gradual alignment of production and demand, reducing the overcapacity overhang

Increasing production - further accentuating dumping and deflation

Wishful thinking on the part of the ECB with regard to Euro Zone inflation

In the endless debate on the issue of further monetary easing in the Euro Zone – Draghi has now stated that further measures in December remain an open question. If this is a firm belief that inflation shall start to rise or a calculated ploy to force structural reforms in the Euro Zone, remains unclear.

The head of the ECB is putting considerable weight on the decreasing impact of the falling oil price on the price index. We do not agree – a further oil price fall is by no means impossible and deflationary pressures from Asia are still firmly in place.

We have seen the victory of the AKP and Erdogan in Turkey and the sharp rise in the Turkish Lira but do not see the fundamental issues impacting the Turkish economy as resolved – a persistent current account deficit and inflation which has hitherto proven refractory to increases in interest rates.

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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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