Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

November 5, 2015

Update November 5th 2015

24 hours from jobs futures are in fine mettle – are we stabilizing? – Germany factory orders drop, weak Euro not panacea for all ills – US economy advancing according to Federal Reserve head

24 hours from "The number" - US futures are well disposed – Rest of World not in a hurry to raise rates

Where are we at 24 hours from "the number"? US stock futures are up with investors apparently not too concerned as to the impact of a first potential increase in US rates next month. We see this as due to the continuing reticence of their cohorts in the other major developed economies to follow suit and to tentative signs – gleamed from yesterday's service sector data – that US consumers may finally be starting to spend a bit more.

We remain cautious on the sustainability of US consumption in the absence of solid wage increases, which have hitherto been running well below the level commonly associated with a recovery.

Are we actually stabilizing or is this the lull before the storm?

The macro – backdrop is supported by apparent stabilization from the systemic risk point of view in the emerging markets. There is less concern that a US rate increase could trigger short term massive capital outflows and a financial squeeze at both the sovereign and corporate level.

We remain cautious overall on the emerging markets and see – abstracting from any further considerations – the rising US Dollar as pressuring the currency mismatched corporate borrowing.

Passing score for jobs set a C-level!

The bar for the jobs data tomorrow – with regard to the minimum "passing score" for a rate increase, has been set by several analysts at around 180000. In academic terms this would be equivalent to a C – with the admonition – do not take any of my courses again!

"Mais que nada" – Hiring concentrated in low wage areas

Still, as they say in Brazil "Mais que nada" better than nothing – with global growth slowing and US company profits a sorry picture, the wherewithal to engage in massive hiring appears muted. What hiring there is appears to be in the service sector – where an unlimited supply of labor appears to be dampening wage growth.

With manufacturing – traditionally a high wage segment - waning in employment terms, US wages are set to stay low for some time to come.

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German factory orders drop – a weak Euro cannot work miracles if demand slows

Turning to the Euro Zone, we saw a substantial drop in German factory orders in October. This is being attributed to a fall in demand from outside of the Euro Zone – confirming that a weaker Euro while a necessary is not a sufficient condition to rekindle growth.

Euro Zone needs much stronger domestic demand – shall improve but remains muted

Further progress in the single currency area, shall be increasingly contingent on a revival of domestic demand. While this appears to be gradually improving – GDP growth is still seen as 1.6 per cent in 2015 and 1.8 per cent in 2016 – still not sufficient to substantially reduce unemployment.

Focus on the US

Good news on the US economy and US stocks fall – the other 99 per cent start spending and services boom

Yesterday we had good news on the US economy and stocks slipped as concerns that the day of reckoning draws nigh! US services and sales were much stronger than expected – confirming our view of the rapid pass through effect of increased disposable income from the oil windfall. The impact of a small absolute amount multiplied by a large and ever growing population whose consumption at the margin is high can be large!

Yellen says that December rate increase still on the radar screen

This was accompanied by Yellen's optimistic assessment of the US economy buttressed by a less pessimistic view of systemic risk abroad. We are advancing and the rest of the world is not about to implode. Labor conditions – assuming the new paradigm – are seen as improving, with the labor slack slowly being mopped up. The labor market is moving into equilibrium at a for many subsistence level, with wage pressures only in selected areas.

Can US stock market migrate to a more domestically driven economy? Equity market heavily tilted towards global economy.

Along with the end of the "carry trade" – the US Dollar's rise following the Federal Reserve's head's declarations - has once again raised fears of slower US exports. Will the service sector be able to take over from manufacturing as the driver of the economy?

To what extent is US consumption durable or subject to the whims of the revocable by the Saudi's oil dividend?

The focus has shifted once again to monetary policy – with US earnings performance not stellar, investors need to look forward to moderation on the interest rate front.

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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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