Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

November 10, 2015

Update November 10th 2015

Chickens coming home to roost – US rate rise looms nearer

And so the chickens are coming home to roost, with investors scurrying for the door and re- positioning their portfolios as a December rate hike is seen as increasingly probable. The prospect of higher US interest rates is underpinning the US Dollar, raising concerns as to the impact of a currency appreciation on remitted profits and exports.

We still see the key issue as a worsening growth environment

We however still see the day's major driver as being the downgrading of growth prospects by the OECD – with hopes of revenue growth – "The Third Man" of the US equity puzzle - fading fast. US companies are facing a situation where:

Higher interest rates shall make stock buybacks less attractive and dampen upward EPS potential.

Lower global growth shall taper expectations for real EPS – ex –buybacks increases

We remain cautious as to the constant trumpeting that 2016 shall be the year when earnings roar back. Growth in the emerging markets space shall contract and Europe still faces an uphill struggle.

Today - stock markets are continuing to play from backfield – what is the difference between an economic slowdown and a crash?

Stock markets are continuing to err on the side of caution as rate increase expectations in the US remain firm notwithstanding downward growth revisions, supported by weak economic data. The issue currently vexing investors is the fine line between an economic slowdown and a crash.

Camel's back looking shaky – what shall break it?

What can break the camel's back? Will it be persistent weakness in non-oil commodities coming off of multi-year drinking binge or shall it be a creaking global banking structure – with banks short 1.1 trillion US dollars short in capital to prevent another debacle?

Sobering that these scenarios are being invoked – ignore commodities at your own peril!

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We shall not opine as to the likelihood of these scenarios. However, find it sobering that they are being raised and continue to view a further commodity collapse as having greater consequences than currently envisaged.

We paraphrase Mark Twain – rumors as to the death of oil have been greatly exaggerated

The good news is that rumors as to the death of oil are unfounded, according to the IEA. The bad news for the marginal producers is that the rise from the Mariana's trench shall be at best gradual, with prices at 80 US Dollars by 2020. This shall barely justify Shell's mammoth BG transaction. We will see a separation of the chaff from the wheat - To the rich shall be given!

The pendulum appears to be swinging back to those with the cheap reserves as history coming full circle as the sector returns to its post 1945 stomping ground in the Gulf.

China continues to export deflation - The global financial construct built on inflation needs to be reviewed

Turning to macro-economic data, Chinese prices once again disappoint with consumer inflation barely breathing and producer prices continuing to crater. This serves as an omen of yet more deflationary pressures for the developed economies, rendering the elusive search for two percent inflation ever harder.

US focus monetary normalization – at what speed? Comparisons with 1990's futile – FOMC shall recast global economic order!

The focus in the US is now on the likely speed of the interest rate normalization. We are hearing that the US central bank shall proceed more gradually than in the 1990's or 2000's. With regard to the 1990's, we are looking at a completely different "Ausgangslage" in German – starting point / exit point.

1990's not coming out of total economic collapse – Recession was not the result of banks kaput – All kaput!

We were not coming out of a total collapse and were not contending with multiple crises. Deflation appeared to have become the preserve of boffins in economic history departments and the property market could tolerate 10 per cent mortgages.

The US Federal Reserve in attempting to normalize interest rates is doing nothing less than recasting the global monetary and economic paradigm – this is Bretton Woods via the FOMC.

Focus on political risk – are we witnessing the breaking up of Europe? Greece – can we move on?

Political risk reappears – Catalonia, last step to secession?

Turning to the Euro Zone, we are seeing a recrudescence of political risk in the Iberian Peninsula - with the Spanish region of Catalonia proclaiming its independence. While not completely unexpected and unlikely to lead to secession from Spain, it reflects:

A growing discontent

The risk of separatism forcing a lower centralization of tax receipts from the richer regions. This would entail a weakening of sovereign Spanish finances.

Portugal – will the left succeed in taking power?

In Portugal, the left is coalescing to overthrow the current government and install an executive inimical to austerity policies. ***We need to bear in mind that Portugal was one of the "successful" experiments in deflation economics – however, the human and social cost has been formidable. Catalan "secession" and Portuguese power shifts may embolden similar movements elsewhere in Europe.***

Greek risk re-emerges

Last but not least, the situation in Greece was once again in the spotlight, with the risk of a payment from the rescue package being delayed. This highlights the dichotomy of the newly found investor optimism – situation frightful but less frightful than believed – and the hard facts on the ground.

We are also following the EU referendum debate in the UK – with the government making it clear that the country shall not stay in the EU at any price. The anti – EU forces are rapidly gaining ground, prompting pro – EU comments from other EU leaders.

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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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