Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update November 11th 2015

Long day's journey to the end of the night over - Chinese data released

The global economy remains firmly in the thrall of two forces:

The Federal Reserve which has advocated to itself the role of "petite" version of the Congress of Vienna and the recasting of the global economic order;
The Chinese economy seen as the last hope of a beleaguered developed world and an EM space rapidly running out of steam.

Global stock markets up Chinese data seen as mildly encouraging

Global stock markets are up following the release of Chinese data, which while confirming an overall slowing growth trend shows continued resilience by consumers. This has somewhat assuaged fears of a crash scenario and probably increased the likelihood of a US interest rate increase in December. With industrial production and capital investment slowing, the growth outlook remains uncertain.

We remain cautious on China – also due to a persistent disconnect between "bottom up" data and official statistics and see its mandate in the global economy as "avoid hard landing".

Commodities continue to weaken – structural shift not yet over

In the wake of the Chinese data, we are seeing weaker commodities. This is to be expected and reflects the end of the ground-up phase of the Chinese economic expansion. The surprise is not that this phase has ended but the speed of the decline, pulverizing even the most cautious assumptions as regards to growth.

We are seeing continued efforts by producers to slash capital investment but this is like trying to run after a bus. As concerns divestitures, the asset sales may provide temporary cash relief but capacity remains.

Oil continues to fall – where is the catalyst for a major bounce?

We are seeing continued weakness in oil, as US Dollar strength, Saudi production policies and the refusal of US shale producers to throw in the towel, lead to continued oversupply. The US producers have used a recent spike to over US Dollars 50 to lock in hedges, extending judgement day.

The oil price keeps being talked up, however for the time being, there is no significant catalyst for a strong upward move.

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Little light shed by Draghi

Turning to the Euro Zone, all eyes keep being focused on the ECB and its decisions in December. Draghi's speech in London has shed little light on future moves, focusing primarily on the need for closer integration between the Euro Zone countries.

Whether this means that Germany shall pay for all or a recognition that there are two European Unions:
EU light – EZ + UK
EU core - EZ
remains to be seen.

What is very clear is that with all the talk of Brexit, the "hardliners" are sending a clear message to their hosts in London: We can live without you!

UK EU debate heating up - no return to EFTA!

We are following with interest the UK – EU debate and Cameron's expressions of finality as to a victory for the exit brigade in the referendum. Whether this is recognition that the popular will shall be respected or an admonition that this is not a dress rehearsal remains unclear. What continues to surprise is that there is no assurance of a pro – EU victory. UKIP seems to want a return to the EFTA – European Free Trade Association days.

What is being left out is that the world and the global economy have moved on! Rather than break ties, countries pummeled right, left and center by economic fatigue see in trade and cooperation the only alternative to domestic stimulus programs, for which there is no money left!

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