Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US retail disappoints - Europe lower as Euro Zone GDP growth disappoints – Good news is that France comes back to life, creating greater balance in the equation – oil outlook continues difficult - Are we at the top of the credit cycle in China? – Draghi hints at easing have scant effect

US retail disappoints–waiting for Black Friday?

With real wages at best stagnant and future prospects hammered by advancing technology and a shift to service labor, consumers are not spending the "oil dividend". Having never counted on it, are disappointment is limited.

We are simply fed up with the following equation: Oil falls – consumer spends – US economy booms – and are firmly convinced that it should be consigned to the rubbish heap of history. The hapless US consumer is for the first time since the Great Depression needing to contend with structural change as opposed to cyclical fluctuations.

Wholesale prices fall – this shall continue

We have also seen continued weakness in wholesale prices. This shall continue apace and act as a drag on the Federal Reserve's inflation target. Whether inflation is 2 per cent or 1 ½ per cent is utterly irrelevant- what is key is that pricing power has been crushed for most of the economy. There is no free riding on the back of a rising price level – leveraged beware!

Europe lower – France rising like the Phoenix?

European markets are lower on somewhat disappointing Euro Zone GDP data – which at + 0.3 per cent for the third quarter is below the O.4 per cent forecast. The performance of the three largest economies differs – with France emerging from the no growth doldrums with 0.3 per cent and Germany and Italy slowing.

While part of the German slowdown is being attributed to the China – emerging markets situation, we see still high unemployment as capping domestic demand in France and Italy.

Labor market remains key for Euro Zone recovery – structural obstacles remain

We see the labor market as key in the Euro Zone equation for two reasons:
Labor market reforms shall initially reduce the demand for labor as companies shed staff deemed redundant
Technological advance shall be limiting labor demand in higher wage sectors – further expanding the low paid service area.

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Oil outlook still weak

Oil and commodities continue to be major concerns following the recent slide in prices. The IEA is adding to the cheer by announcing that the oil glut shall continue, as production increases all round. We agree and see absolutely no inclination on the part of Saudi Arabia to reduce its production. ***We may add that Iran is waiting in the wings to turn the tap on to full capacity, with buyers already being actively sought.***

Do not believe that US shale producers at end of their tether

However, we are less hopeful with regard to 2016 – which once again sees a better balance driven by a reduction in US shale oil output. The US shale producers have continued to surprise by their resilience. We see this as driven by adroit use of volatility for short term trading profits and with regard to longer term strategy, using spikes in price to hedge future production.

Grim forebodings as to US shale as starting to sound like Herbert Hoover's prediction that "prosperity was around the corner"-it was a long street!

China credit expansion – are we at the top of the credit cycle?

With regard to China – data on credit expansion is showing scan reaction to measures relating to both interest rates and reserve requirements. The key point is whether we are starting to see a phenomenon akin to that in Brazil, where consumer debt is starting to weigh on household finances. Is the next bubble to burst in China consumer debt and if so what shall be the consequences?

We shall raise rates but still some doubts on the US economy

Markets are also still digesting the Federal Reserve speeches yesterday. While Janet Yellen offered little, her co-workers expressed the view that the US economy was moving in the right direction – with the notable exception of inflation. A rate rise this year is still on the cards, with the nuance that increases shall be gradual. The gradual approach signaling that the US economy is not yet completely out of the woods.

We are being proffered the worst of both worlds – interest rate increase, stronger US Dollar and slowing global growth.

As regards Europe, Draghi's easing bias was not enough to ignite enthusiasm. We see the interest expense reduction card as tapped out for the "happy few". There is a limit to how much a company shall borrow in the absence of a profitable outlet for the funds.

This was confirmed today by the disappointing Euro Zone growth data. While we are seeing some selective improvement in domestic demand – capital investment, the key driver of long term growth remains low.
The US Dollar has weakened slightly from below 1.07 to the Euro – with the parity story taking it on the snout but we continue to expect a firmer US Dollar. The US is the odd one out on monetary policy and is still – for the time being - growing.

We are interested to read that luxury homes in London have lost 11 per cent in a short time. Is this the start of the great popping of the UK and London property bubble?

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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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