Macro Snapshot – Chief Economist Jean Ergas

November 17, 2015

Update November 17th 2015

Investors appear confident economic damage from Paris attacks shall be limited – German investor confidence up – US Dollar has strong tailwinds – US inflation still relatively muted

Equity markets up on belief that economic fallout from attacks shall be limited

Equity markets across the globe are up as conviction builds among investors that the economic fallout from the Paris terrorist attacks shall be limited and absorbable. This does not mean that these attacks shall leave the economy unscathed – with the risk that consumption shall be adversely impacted should consumer confidence decline markedly.

With the slowing in the emerging markets crimping EU growth – maintaining domestic demand remains paramount.

Paris attacks – is this Europe's "Year Zero"?

We do not see these attacks as Europe's "Year Zero". However, we remain cognizant of the fact that - to paraphrase Chancellor Metternich's comment on Italy during the Congress of Vienna in 1815 - Europe with its many disputes is proving to be more of a geographical expression than an effective political unit.

The global economy does not need further external shocks – these attacks could be one of them.

Debate in Europe shifts from economic sustainability of migrant flow to security issues

We see the major impact as increasing difficulty in forging a consensus within the European Union on the thorny issue of the migrants and the security issues linked to porous borders. This has shifted the debate from economic sustainability of absorbing the migrant flow to existential questions as to the internal stability of the member states.

US attempts to contain ISIS have failed – what next?

We reiterate our view that the attempt to "contain" ISIS has failed and that the next step shall – to be left to the next US administration - be major troop deployments. This shall take place in the cadre of a de-facto alliance, in the form of a non-aggression pact – with the Assad regime.

There is comment that this will not work in the long – run – however, as the great economist Keynes said – in the long run we are all dead. The immediate aim is to now stem the terrorist onslaught.

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US Dollar strength continues

As regards the currency markets, we are seeing continued US Dollar strength. This is being boosted by both the absence of a violent reaction to the Paris events and by the belief that the ECB shall redouble its efforts to mitigate any negative impact from the attacks.

We therefore continue to see the US currency as well underpinned even in the absence of a move by the Federal Reserve. The US also offers the added attraction of being a relatively closed economy, able to better withstand external shocks.

German investor confidence up – is Germany an economic oasis within the Euro Zone?

European markets have also been given a lift by a marked improvement in German investor confidence, which bodes well for consumption. While Germany continues to improve the overall data for the Euro Zone, its success has not proven contagious. Euro Zone growth shall likely continue to be revised downwards.
Economic reforms in France – the second largest Euro Zone economy – being overridden by security considerations.

US CPI in line with expectations

US CPI data this morning points to US inflation in line with expectations but still not at the “trigger” level set by the Federal Reserve. We need to bear in mind that deflationary pressures are far from banished.

A strong US Dollar - further lowering import prices - and continued dumping stemming from chronic overcapacity in the EM space – shall continue to mitigate any price increases.

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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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