Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

November 20, 2015

Update November 20th 2015

Federal Reserve scared to death of emerging market risk, seeks to reassure – No tiger in crude oil's tank! – Germany in the grip of deflation – US gearing up for Black Friday - Deflation risk, end of finance as we know it?

Is the Federal Reserve talking up the emerging markets?

US futures are up on further reassurance from Federal Reserve officials as to the pace of interest rate increases. The Federal Reserve Vice Chairman was at pains yesterday to stress that the Federal Reserve has done all that is possible to allay fears stemming from a prospective rate increase.

Emerging markets still seen as major potential source of risk

These comments were focused on the emerging markets seen as the principal potential de-stabilizing factor in the financial markets. Emerging markets are the intersection of interest rate, foreign exchange and commodity risk.

"Weight of money" might swing in wrong direction

The fact that Fischer felt the need to reassure, points to the continued perceived risk of a "run on the bank". Seeking to avoid a "weight of money" implosion and forecasting strong growth are not synonymous.

EM markets remain largely in the thrall of the Federal Reserve. With many investors having endured massive FX losses, we see eagerness to plunge in as limited.

We are getting close to Black Friday and assessment of robustness of US consumer – 15 percent of global GDP

We see the next big hurdle as the Black Friday sales next week, which despite the increasing popularity of on-line shopping, still represent a barometer of US consumer demand. The shortened work week shall induce caution in position taking and we expect position squaring across major markets.

Oil price has not bottomed and snap back shall not be as fast as hoped

We see the oil price as still not having bottomed and also believe that the snap-back from the lower level shall not be as quick as commonly assumed. Oversupply shall in the short term continue and we are starting to hear doubts as to whether China shall match developed economy oil consumption to GDP ratios. Developing economies tend to use fuel inefficiently – this can change as efficiency improves.

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Fight against ISIS outside of Islamic State has just begun

With regard to the terrorist front, we read that the mastermind of the horrific Paris attacks has been killed. This shall not on its own alter the fact that we are up against a formidable opponent, whose vision is not de-stabilization of existing structures - as it was in the 1970's and 1980's – but the construction of de-facto states.

We are this morning following the attacks in Mali, which is from the defense point of view, a de-facto French protectorate. The risk of further attacks in Europe in the short term – to coincide with the coming holiday season – remains high.

Germany - deflation in producer prices

Turning to Europe, German producer price inflation fell by a hefty 2.3 per cent, showing the continued strength of deflationary pressures in the Euro Zone. It is therefore no coincidence that the head of the ECB today reiterated the Euro Zone's central bank intention to raise inflation.

The strategy, rather than engineer domestic booms, remains weakening the currency and importing inflation. With the fall in commodity prices ongoing and overcapacity massive – the auspices seem bleak.

We read "The End of history" - is the end of inflation, the "End of finance" as we know it? Who shall want to borrow if the debt shall be worth more next year?

Many years ago Francis Fukuyama wrote a famous book "The End of History" – where the collapse of communism was seen as the seminal event in a "before and after" analysis. The end of inflation in the developed economies may well prove to be a similar watershed.

Leverage justified by inflation – "hard assets" seen as stores of value

Since the oil shocks in the 1970's financial strategy by consumers, companies and sovereigns has been predicated on the view – that like night follows day – prices will rise. This justified high leverage and reliance on "hard assets as stores of value.

This construct is now coming unstuck, with potentially massive consequences as disappointing wealth accretion acts as a brake on consumption.

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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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