Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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We are seeing Euro weakness, slightly firmer oil prices but without much enthusiasm and emerging markets weaker. The impression is of investors continuing to be cautious and more focused on geographical re-allocation than on changing the asset class asset allocation mix.

Coming week shall be dominated, barring another terrorist attack – by macro–economic data – Great and mighty shall speak!

The coming week shall be dominated – hopefully, there shall not be further major terrorist attacks – by a lot of macro data, the ECB meeting and the OPEC conference. The US macro data shall be the clincher for the interest rate increase, the ECB meeting shall set the tone for the currency markets and the OPEC conference shall determine the trend in oil, inflation and what is left of the "oil dividend".

Remain cautious on global growth – See limited impact of QE in the Euro Zone

Notwithstanding optimism voice by some on impact of monetary easing outside of the US, we remain cautious on global growth. QE while engineering a shift in asset allocations among those with the assets to shift and the stomach for the volatility has had a minimal impact on the "real economy" in the US. With the mortgage component and stock ownership less diffuse, we see low incremental returns on these policies.

Wish to point out "Gathering storm" and threat to financial stability via insurers and pension funds

Needless to say, the quasi zero interest rates have created a time bomb for life insurers and pension funds. They are now faced with a choice between the bad and the worse. Default on your obligations now or invest in ever riskier assets and accumulate liquidity and credit risk.

Are we at the famous "zero hour" – can central banks sound the "all clear"?

Not a lot to report as we move into what many seem to think shall be the "zero hour" for the global economy, with a by now widely expected interest rate increase by the Federal Reserve placing the official "seal of approval" on the US exit from a state of economic emergency.

Uncertainty has not been dissipated

Judging from the repeated assurances given as to the likely slow rate of interest rate increases, we sense that considerable nervousness still lingers as to whether the US economy is sufficiently robust to weather a still difficult to assess spread widening.

Is everybody expecting too much from the ECB?

As regards the Old World – the expectations for action from the ECB are being ratcheted upwards by the minute. We see the ECB as now fixated on a sole objective - to avoid deflation – which shall make it even harder for already strained small and mid – size companies to pay their debts.

Wager is that the ECB shall over deliver

*The wager is that they shall go "overboard" and announce measures across a broad range of fronts. This may include extending the maturity and amount of the QE program, expanding the range of eligible assets and further lowering deposit rates. They have already poured north of a trillion in extra liquidity, bond buying and special loan programs.
We see the ECB as at best engaged in a holding action where the dominant strategy remains currency depreciation.*

Agreement mooted with Turkey on refugees – is this the start of a new round of alliances?

With regards to geopolitical risk, there is an announcement of an agreement for Turkey to help stem the massive flow of refugees. We are also informed that Turkey shall restart the negotiations to join the EU.

Economics and foreign policy remain closely linked

We are seeing a clear example of the link between trade – economic and foreign policy. In the meantime, Germany has accepted to – subject to parliamentary approval – send 1200 troops to fight the terrorists. We shall get to more troops in site by small doses.

Cratering natural resources shall constrain capital investment, no visible catalyst for commodity recovery

*We continue to see cratering natural resources as pressuring capital investment and employment across both the developed and the emerging markets. There is no apparent catalyst in sight for a significant recovery in commodity prices, with nervousness now extending from the traders to the established mining giants.
We are seeing quasi monopolists stock trading at 1999 levels, with analysts predicting that investment cuts shall not be sufficient to restore short term cash flow balance.*

EM countries shall have to significantly outperform to attract incremental fund flows

These inward looking concerns are accompanied by fears that the Federal Reserve "passing to the act" may trigger a final cathartic exit of funds from the EM space. The developing economies appear to be far more correlated to Federal Reserve policy than to their own specific macro data.

Low US interest rates more important to emerging market economies than growth

That US interest rates remain low is far more important to their well-being than wringing out an extra 0.1 per cent GDP growth. We see these economies as now having to significantly outperform the developed economies to still rise under the "weight of money".

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About Jean:

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB,SIPC) based in New York City.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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