Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update December 2nd 2015

Is this Europe in the 1930's or the start of the great deflation in the US in 1867? – Commodity prices can rise, shall make no difference, key risk for companies remains higher than expected real interest rates – Some humor from the Atlanta Federal Reserve

Euro Zone inflation disappoints once again – Is there a remedy? – Headline and core inflation convergence

And yet again Euro Zone inflation disappoints reinforcing expectations of large scale action by the European Central Bank tomorrow. With inflation running at +0.1 percent notwithstanding massive injections of liquidity and focused lending programs to banks and "no holds barred" bond buying, we reiterate our view that headline and core inflation have now converged.

Commodity super cycle kaput – any price rise offset by pre – 1914 Germany dumping out of China

We cannot speak of temporary falls in commodity prices, when the super cycle is dead and buried. In addition, any rise – driven by reduced capacity in the medium term – shall be countered by massive overcapacity financed by state banks in China.

Inflation can slowly inch up – will make no difference – corporations have lost years of pricing power increments – banks reluctant to lend against smaller operating margins

A further argument that has been put forth by the inflationist contingent is that when commodities finally start falling, the inflation rate shall stabilize. Assuming that this is the case, which we do not, the damage has been done:

Companies will still be paying a higher real rate of interest than had been baked into their forecasts;

Companies due to continuing ferocious price competition from the emerging markets, have lost pricing power;

Banks – which are already coping with increased regulatory capital constraints, shall be more reluctant to lend to companies with operating margins under pressure.

Need to become experts on factory gate inflation abroad!

We are therefore in a situation where the key inflation data we need to watch are producer prices in countries where government continue to subsidize the inefficient.

Will we hear a repeat of the" total war" speech from the ECB?

We are expecting some strong language – echoing the recent "total war" declarations by the head of the ECB. Should the response not be deemed satisfactory by the markets, we may see a slight bounce in the Euro and a weakening in Euro Zone stock markets. The question - with core and headline inflation converging – is not if, but when.

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All we are missing is the drum roll!

Turning to the US, all that is missing is a drum roll in the build up to the jobs report on December 4th. This shall be preceded by a double feature by Janet Yellen today and tomorrow.

We may have seen the opening act today with the head of the Atlanta Federal Reserve saying that the labor market is near full employment.

Some humor from the Atlanta Federal Reserve – elderly, meek and faint of heart – do not collect interest on CD – go straight to poorhouse!

He has also informed us that the Federal Reserve meeting may be “historic. We agree:

The US central bank amid stagnant wages and increasing poverty, has declared victory!

We may be emerging from a “state of emergency” during which the constitutional rights of those who have a low risk tolerance – elderly and lower income – have been trampled underfoot – do not collect interest on CD – go straight to poorhouse!

Need to separate chaff from wheat in corporate sector

We are looking forward to rising rates as we hope that this shall cause a separation of the chaff and the wheat in the global corporate sector. Low rates are said to be causing asset bubbles.

Look forward to rising rates, QE has kept alive inefficient producers

However, the real “bubbles” are caused by allowing inefficient and incompetent firms to borrow at close to the risk free rate. This has resulted in overcapacity and further – along with Chinese imports – depressed pricing power for the stronger players.

***Inventories shall stay bloated – US shoppers not giving it their best punch**!*

With regard to the data, yesterday’ manufacturing data was brushed off by investors, as an anomaly caused by bloated inventories. We see the inventories as remaining bloated for some time, with an uninspiring shopping season underway.

Today’s productivity data, with productivity increasing at a moderate pace but wages rising more than expected, may by some be seen as the clinching argument for Federal Reserve action.

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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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