Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

December 4, 2015

Update December 4th 2015

Jobs report – Federal Reserve rate increase likelier – We have squared the circle, full employment and miserable wage growth - ECB surprise, dress rehearsal for the Federal Reserve? - Commodity turmoil moving up the value chain

Jobs report out- Federal Reserve likely to increase rates

Jobs report is out, showing jobs growth above consensus forecast at 211000 and wages still advancing – albeit at a somewhat glacial pace. The previous two months have been revised upwards with an extra 35000 jobs being added.

Is this an unbiased view of the labor market?

The jobs report is seen as cementing the case for a rate rise and an end to the "Age of uncertainty".
Signaling that the US labor market is posting a concrete improvement and that wages may finally start a sustained and larger increase, boosting consumer demand – 70 per cent of US GDP and 15 per cent of the global economy

We have squared the circle – full employment and C- wage growth!

We remain indifferent to the absolute jobs number. We have achieved the paradox of a nominally full employment economy, with a large part of the workforce having simply thrown in the towel. Confusion still reigns as the Federal Reserve sees a strong economy while US consumer confidence falls and global growth prospects remain muted.

Federal Reserve policy about return to "business as usual" – not about ensuring a rising standard of living

We reiterate our view that the US central bank's saw its mandate not as raising rates on an overheating economy but returning to a "business as usual" monetary policy upon having:
Reduced the risk of a systemic collapse
Seen an incipient recovery

The Federal Reserve's mandate does not extend to ensuring a steadily rising standard of living or shielding the US economy from cyclical swings.

Are we venerating false idols?

While happy that the US economy is creating jobs, we are still perplexed by the low labor force participation rate at 62.5 per cent. This confirms our view that labor market enthusiasm is based on "false idols". The argument that this is a result of aging rings hollow and is hardly a harbinger of great things to come.

Those not in workforce are not getting in touch with their innermost selves! Does not bode well for future consumption!

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When so few of working age are not working, we cannot automatically assume that they are getting in touch with their innermost selves! This also implies that"
Average time in the workforce is falling
Time for most to increase income and accumulate capital is also decreasing
This does not bode well for consumption going forward.

We are seeing divergence between markets as Europe and Asia are still digesting the disappointment meted out by the ECB

We continue to see Asia as driven by "weight of money" interest rate driven shifts. Europe remains an FX play, with less easing than expected giving a boost to the single currency and forcing the burden on recovery on to domestic demand.

Is the ECB communication debate the dress rehearsal for the Federal Reserve meeting?

With regard to the ECB, we can only hope that the back-biting between the vice president of the ECB and the financial community is not an appetizer of the upcoming US central bank meeting. What it does show is:

That the scope for what might be politely termed "misunderstandings" is greater than believed.

Central banks show courage in not letting themselves be bullied by bank "cheat sheet" recommendations to clients!

That central banks shall not set their policy on the basis of bank recommendations to their clients for "quick money" trades.

A month for FX traders is an eternity, for central banks it is irrelevant.

Are we seeing a parting of the ways between oil and other commodities?

With regard to commodities – will we see a parting of the ways between oil and the rest? As we write the signals from the OPEC conference still hint at:
Saudi Arabia standing firm on agreement to review strategy if Russia, Iraq and Iran agree to coordinate production cuts

The three above named not willing to go along

Saudi strategy to play out over three phases

We see the Saudi Arabian elimination pricing strategy as playing out over 3 phases:
Phase 1 – Force marginal producers to cut production
Phase 2 – Lead oil majors to cut their investment budget and
reduce longer term oil flow
Phase 3 – As markets slowly recover following phase 2, policy has created substantial uncertainty and volatility leading higher cost producers to be cautious as to further investment.

Commodity turmoil moves up the value chain

Iron ore continues to collapse with the BHP generous dividend policy once again in play, with increasing buzz about the rating. We are seeing the inexorable spread of the commodity malaise from the trader "buccaneers" – who act as banks to higher risk customers and sell excess hard to place supply from the major vertically integrated producers – to the top of the food chain. This is food for thought!

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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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