Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

December 9, 2015

Update December 9th 2015

Commodities once again "Talk of the Town" – The global economy is not cute, still about grimy factories and natural resources – We cannot live by apps alone - Hobbes an excellent guide to the commodity cycle - Federal Reserve rate rise becoming replica of passage of Halley's Comet

Focus on commodities

Thou shalt not live by apps alone!

Commodities are once again "talk of the town" as the world wakes up to the grim reality that the global economy is not all about snazzy apps and 19 year old billionaires! We are still making things – albeit not in our backyard – and that this is where a lot of the "savage accumulation" phase of capitalist development takes place. Should this nasty, unpleasant and distinctly Hobbesian construct falter – there may be some unpleasantness.

Please re-read "Rhyme of the Ancient Mariner" much wisdom to be gleamed

While this is not necessarily the albatross in the "Rhyme of the Ancient Mariner", however woe to those who insist on refusing to see that some serious damage can take place in the short run.

Having cut my teeth in commodity markets which make investment banking look like the "teddy bears'" picnic – we have barely started seeing the blood on the floor.

Anglo American in the news – Long day's journey to the end of the night

Anglo American is grabbing the headlines, with the stock nine per cent down, the five year bond trading at 77 and the CDS soaring. The market is waking up to the fact that being a member of an elite group of producers is like King Canute trying to hold back the waves should the buyers not want to dance!

We expect more waves in the commodity sector and continue to see the next step as defaults and debt restructurings. There shall likely be opportunities but this shall require the stomach of an ox.

Shall we talk of the "commodity – oil" complex?

Eisenhower spoke about the "military industrial complex". We might well speak of the commodity oil complex, with the two – regardless of the initial causes – falling together. Market observers insist of speaking of a "collapse".

Commodities not financial assets

While falls of this magnitude may be considered a collapse in the financial markets, commodities are a different kettle of fish. Financial assets have many buyers – commodities do not. From the point of economic analysis, it is a market of few major buyers and industrial demand that drives prices.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Commodity cycle has reasserted itself-terms of trade still against producers

We are not talking about assets held for liquidity purposes by central banks or pension funds. The traditional long term relationship of the terms of trade moving against the producers appears to have reasserted itself. The commodity cycle has not disappeared but – because the relevance of the producers as consumers has increased – it harbors greater risks.

Canada – no relief in sight

Linked to the commodity rout, we are seeing our view on Canada come true. The currency is beating a hasty retreat as diversification in commodities brings no solace. Negative rates and QE may well be next for our friend north of the border. However, we see the usefulness of these measures in a first world economy, whose currency and incremental growth is geared to its FX commodity exports, as limited.

We are now hearing the unthinkable, with the oil behemoths, several of which boast credit ratings which would make sovereigns envious, frantically stating that they shall not cut their dividends. We were brought up on “safe as houses” and “strong as a bank” – while not wishing to be iconoclasts, will the oil companies be next?

Focus on Federal Reserve

Federal Reserve meeting turning into the passage of Halley’s Comet

Turning to an event rapidly taking on the spectator value of the passage of Halley’s Comet – the first increase in interest rates by the Federal Reserve in nine years – concerns are once again starting to surface. Is the US economy robust enough to face the traumatic event of interest rates increasing by 0.25 per cent? The mere fact that the question is being asked is reason for worry.

Rest of world hiding under the bed! Beware of deflation booms!

The rest of the developed economies are continuing their low or zero interest rate policies. This is both an attempt to rekindle inflation – currency depreciation and importing price increases – and to spur domestic demand via consumer borrowing. The bolder are even starting to speak of “deflation booms”. Many saw such opportunities during the Great Depression – may they rest in peace.

Have we forgotten basic economics?

Depending on price decreases to increase wages, ignores that long term income gains shall be driven by capital investment and productivity gains. Companies will be hesitant to borrow today and invest in capital assets or expansion when for the first time since 1945 they are repaying debt with real money.

Bank of England - finally, some common sense

The Bank of England is warning on the impact of the rate rise on the emerging markets – massive capital outflows, with a dual focus:

Round 1 - Capital outflows and currency depreciation, higher financing costs for new funding and revaluation of debt on existing borrowing.

Round 2 - UK banking exposure to the emerging markets space, with UK bank exposure to the EM at 340 per cent – a trifling sum – of Tier 1 equity – this may be problematic

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Brian O'Sullivan
Managing Director, Trading
(646) 798-8453 Direct
bosullivan@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.