Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

December 10, 2015

Update December 10th 2015

US import prices down – will dampen inflation pressures – Federal Reserve shall not be deterred – sees "strong labor market" – Are we at the turning point on commodities? Is Anglo – American restructuring defining moment? - US attention shifts from grasp for yield to grasp for liquidity

Focus on commodities

Europe down as market trades with oil – Are we at "The turn" on the supply – balance in minerals?

European markets are down as the oil price fall continues to take its toll, with investors concerned about the impact of lower natural resource prices on capital investment, inflation and purchasing power within major producers. On the micro-front, some are seeing the announcements by giants Anglo-American and Freeport – McMoran as signals that this is "The turn" – the giants are throwing in the towel.

Analogies to the global banking sector - where banks are re-capitalizing via de-risking – are not completely misplaced.

We think that there shall be a series of defining moments at both the macro and micro level.

Reflecting the "touch and go" attitude of investors, Glencore is up on an announcement that they shall be doing more to further cut debt levels. The key point remains that this is a sector which shall be bought on the basis of a massive contraction in supply and a re-establishment of balance sheet equilibrium.

Where is the "development block" or even "Kondratieff cycle"?

As regards non-oil commodities, we continue – in the absence of a "Kondratieff cycle" shift – to see little impetus for a major move sufficient to justify overweighting this asset class.

Commodities now for trading and not for investing

Commodities have moved from being a – long haul "hold to maturity type asset" – to a trading focus. We see the re-balancing of several of the major markets as a multi-year process. This shall be made more difficult by the lack of transparency in the Chinese economy.

With regard to the micro level, we are firmly convinced that there are players with severely underwater positions. They shall face the uncomfortable choice between selling at fire sale prices or default. Control - as opposed to formal ownership – is shifting to bank lenders.

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Focus on oil

Inventory declines in oil have little impact

Despite declines in inventory levels yesterday - oil prices fell once again. The decline was written off as a seasonal inventory adjustment and there is no land in sight for a reduction in supply. We continue to see the market in disarray and expect further pressure on crude.

OPEC still placing its hopes in reductions by non – OPEC producers

OPEC is still pumping away furiously while placing its hopes in a reduction in 2016 of production by the non-OPEC producers. We continue to see these hopes as somewhat misplaced, and see US shale producers – widely differentiated in terms of both break-even levels and access to financing – as still waiting for the other side to blink.

The more talk there is that the market is about to bottom, the more capital shall either be retained in the sector or attracted to it.

Focus on Federal Reserve meeting

Financial strategy shifting from grasp for yield to grasp for liquidity

The upcoming US Federal Reserve meeting has now mutated into a composite version of the world cup final, Bretton Woods 2 and the passage of Halley's Comet! Concerns as to whether the US central bank may be on the right track are getting louder, with the focus of the large investment management groups shifting from a grasp for yield to a grasp for liquidity.

Short term imbalances now seen as more important than "The long run" – when we shall all be dead!

We are seeing attention migrating from: Erosion of asset values - where interest rates shall be in the medium term

To: Collapse of asset values - The short term imbalances potentially triggered by the inception of a new monetary policy

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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.

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