Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update December 18th 2015

Oil refuses to live its defining moment – Federal Reserve means business – options expiration does not change economic fundamentals - Commodities, we see further weakness – Spanish elections – we cite the great poet Garcia Lorca – At five in the afternoon!

Oil resurgence once again postponed – Domani market continues

European markets are lower as oil refuses to live its "defining" moment, sentiment on mining remains morose and investors gradually wake up to the fact that the Federal Reserve means business. Much is being made of the options expiration. While this may contribute to volatility it is not altering the fundamental outlook.

The global economy remains subdued, with GDP downward revisions continuing apace in several key economies. We continue to frame the problem as operating margins versus top line growth and wonder how much wiggle room companies have.

Snap back theorists face powerful obstacles

The oil price's fall is continuing despite massive cuts in capital expenditure and warnings that when a supply squeeze comes, oil shall snap back. We see it as having to snap back from a yet lower level and it shall have to face a stronger US Dollar, global growth which shall be simultaneously slowing and shifting towards less energy intensive activities and higher financing costs.

Copper QE meaningless - tectonic shift over – continents have moved

Commodities continue to struggle along with oil. This is despite further rumors of support for copper by the Chinese government. We continue to see these programs as meaningless. The commodity "super cycle" sparked by China is over. Large producers continue to be under siege and cannot dump assets fast enough – cost cutting and shrinking – in an eerie parallel to the financial sector – have replaced growth.

Moody's has cut Glencore to one rating above non-investment grade and we see further downgrades throughout the sector. The emphasis has shifted from earnings per share to cash – of which there can never be enough!

Emerging markets bullied by Federal Reserve

We are interested to see that both Mexico and Chile have both raised interest rates – albeit with different contexts. Mexico - despite no inflation concerns – has raised rates to mitigate the risk of massive capital outflows and funding disruptions.

Choice between slower growth or funding crisis

Chile is attempting to grapple with inflation and does not want to make matters worse by importing it! These economies are not choosing between the good and the bad – but between the bad and the worse. The bad is slower growth – the worse is inability to roll over short term debt regardless of the underlying economic fundamentals.

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Inflation expectations – In the eye of the beholder

As concerns the Federal Reserve, we see the devil in the detail, with the measurement of inflation expectations – as opposed to inflation – open to considerable interpretation. We see the vagueness of the Fed speak as sowing the ground for considerable further volatility in the fixed income sector in a sector where liquidity has fallen.

There is likely to be a tightening cycle – a three month delay is meaningless – Central bankers think in terms of continents and decades not in terms of quarterly earnings

We cite Garcia Lorca - A las cinco dela tarde – at five in the afternoon – Are the Spanish elections the final showdown in the bullfighting arena?

Turning to Europe, the major political event shall be the Spanish general election this week-end. With populist, separatist and anti- austerity sentiment increasing, there are legitimate fears that the only viable solution shall be a messy coalition.

Spanish government shall need to take anti-austerity sentiment into account

We see any future government as having to take into account the anti-austerity sentiment and seeking further modifications to deficit rules. This is already being echoed in the widening of 10 year bond spreads between Spain – wunderkind of the peripheral economies – and Italy. With the Euro Zone already missing lofty expectations – shall this dampen investor enthusiasm for the "catch-up" story?

With respect to Euro Zone inflation we are seeing core debt trade higher as falling oil prices take the wind out of the ECB sails. We expect further flirting with deflation and falling pricing power for many companies.

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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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