Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US economy chugging along, can the consumers replace exports and capital investment?

The final revision of the third quarter US GDP has confirmed: The picture of modest to moderate growth

Falling unemployment with hiring concentrated in low productivity and low wage services increasing the disconnect between employment, growth and inflation.

We are seeing a US economy with a slowing potential long term growth rate, insignificant wage increases – negative when you factor in reduced employee benefits - and increasing social tensions.

The developed economies for years enjoyed the protective cocoon of the "protective tariff" of communist regimes impeding the free flow of labor resources, and preventing wages from reaching their real equilibrium level. Technology has done the rest.

European markets trailing downwards – Chinese stimulus plans and oil firming having little impact

Notwithstanding noise out of China regarding future stimuli, European markets, with the exception of the UK, are once again trending down. This is following yesterday's dual blow of the Spanish elections and continued weakness in the oil price.

Euro firming on lower oil prices – lower prospective inflation moderating Federal Reserve tightening strategy

We see a slight firming of the Euro weighing on stocks as lower oil prices feed through to prospective inflation. This reduces the scope for sustained interest rate increases in the US and reduces the short term interest rate divergence trade.

European anti-austerity front is firming – Italian Prime Minister sends appropriate message about endless austerity

With regard to the Spanish situation, we are starting to see a firming of the anti-austerity front in the Euro Zone. The Italian prime minister has warned of the perils of austerity without growth, with Italy still advancing erratically struggling with deflation, pressure on exports from the emerging markets slowdown and a hollowed out industrial sector.

The extent to which the Euro Zone debacle can be laid entirely at the door of austerity and is not primarily a result of a longer term "globalization" undertow can be disputed.

However, with the ISIS struggle now transplanted to Europe, any measures which increase unemployment, income inequality and lead to the further alienation of a large part of the population will get frosty reception!

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Soothing words from China – what do they mean? Show us the plan for reducing overcapacity!

Markets were initially boosted by declarations from China as to the need for a more flexible monetary policy and promises to start reducing overcapacity. We see all this as meant to soothe the anxious. However, we see little ways to quantify this or – for the sake of those who are being crushed by a mass exercise in dumping – how this can be monitored.

We see Chinese overproduction as continuing and placing pressure on developed economy companies pricing power.

Chinese metals support meaningless in broader historical view

Turning to commodities, the Chinese declarations have provided a slight boost to the oil price with some support also being mentioned for metals. We see this as completely irrelevant to the broader picture. Even if metals prices should stabilize, this shall simply allow the major producers more time to rationalize their businesses – sell assets and cut production. There is still massive pressure on margins and cash flow.

A somewhat unlikely stabilization shall not change the brutal fact that the companies grossly overestimated demand increases and massively overinvested. We have not heard the end of mining restructuring.

The key to commodity strength was a once in a hundred year event, the European and American industrial revolution compressed into one country in 20 years. This is now over!

Oil – more on the way

Oil supply, with the restrictions on Iran prospectively being lifted in the first quarter of 2016, no change in Saudi Arabia's strategy and increased production by the non-OPEC wild card, is going in one direction – up.

We are expecting both lower prices and higher volatility – with the latter allowing the more efficient producers to hedge future production, thus ensuring a continued stream.

We are starting to see more "lower for longer" forecasts, with some seeing the Shell – BG "blockbuster" acquisition as possibly in doubt should prices fall much more from here.

Gulf countries still have a lot of firepower

We read with interest of Saudi Arabia, UAE and Kuwait raising interest rates to defend against pressure on their currencies. The Saudi and UAE currencies are pegged to the US Dollar while the Kuwait currency is pegged to a basket of currencies.

We still see the gulf producers as having considerable "firepower" and do not see a short term abandonment of the "elimination pricing" oil policy.

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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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