Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

December 23, 2015

Update December 23rd 2015

All about oil? – This is not the Goldilock's economy – A US consumer has been sighted – China back to the future – Federal Reserve desperately seeking inflation – Hope for 2016, low interest rates and reduced systemic risk supporting markets

Is it all still about oil-are we lowering our expectations?

Is it still all about oil and if so, are investors lowering their expectations? We are seeing stock markets moving higher on a rise in oil prices, to levels which would have been considered frightful two years ago.

US chugging ahead gingerly –for now – China pumps up economy – again – How long can this last?

The base line appears to be that if the US economy continues to chug ahead and a "hard landing" - however we might wish to define it – can be avoided in China, we shall muddle through. Spirits have been lifted by two fickle drivers:

The US consumer is not extinct

The Chinese government has announced that it shall do more

Markets want oil price high enough to avoid systemic collapse but low enough to avoid inflation increase and interest rate tightening

To these is added the hope that a rising oil price shall limit systemic risk stemming from the collapse, while remaining at a level where the feed through to inflation remains low. This low pass-through shall stay the US central bank's hand.

We are looking at a muted 2016, with the key boost coming from a return to a cyclical normality and perceived lower systemic risk stemming from economic factors.

China has reverted to its traditional growth model

We see China as having reverted to its traditional growth model – low cost manufacturing – infrastructure investment and a devalued currency. The developed economies strategy remains that of paying ransom in the form of accepting "tea and sympathy" but continued reluctance to tackle the dumping issue.

Is this Goldilock's 2? We have our doubts!

We remain somewhat skeptical as to the above, with the starting point being continued low global GDP expansion slowing revenue growth. Nobody has ever saved their way to greatness!

As regards the oil price, we expect that excess supply shall persist placing a damper on prices. The bankruptcies are not over among the minor producers.

With regard to commodities, we do not see the Chinese measures re-igniting another super-cycle. Success shall be measured on how fast companies can "fire sale" assets and raise cash.

We see interest rates remaining low but continuing to have a limited impact on growth. Regulatory capital requirements are limiting lending across the credit spectrum with greater risk segmentation.

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Focus on US data

Durable goods disappoint

Durable goods have disappointed ex-transportation, with appetite for big ticket purchases waning. We are continuing to see a weakness in manufacturing and a slowing in service growth.

We see the key point as being that analysis shall no longer focus on whether services shall offset manufacturing – but relative strength or weakness between the two.

Inflation remains low – will prices rise before start of new Ice Age?

US data released early yesterday with regard to incomes and expenditures, show a slight increase in income and a robust increase in consumption. The weak point remains the low inflation rates – which raises questions as to whether the Federal Reserve target shall be reached before the start of the new Ice Age.

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About Jean:

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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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