Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets out on quiet note – We see more plodding, do not hold your breath! - Emphasis shall shift from the economic to the political - Will the UK be in the EU this time next year? – EU facing an identity crisis – are we reverting to the Europe of exasperated nationalism?

European markets lower – we are not interested in alchemy but shall focus on fundamentals!

Markets in Europe are lower – reflecting the combined effect of a recalcitrant oil price and low volumes. The US futures appear to be following suit, hopefully not setting the tone for 2016.
There are many arguing that it is rare for a flat year to not be followed by a very strong sequel the next. Rather than focus on arguments wrought from desperation and bordering on alchemy, we prefer to remain rational and assess the fundamentals.

The issue is not whether commodities are "bottoming" – at these levels we shall see brutal friendships, restructurings and bankruptcies

We continue to hear familiar chimes with regard to "bottoming" of oil and commodities in 2016. While this may create a statistical upward blip in inflation, it shall do little to drive higher energy or commodity profits and capital investment.

It seems to have been conveniently forgotten that at current prices, a large part of activity is loss- making. We expect to see major restructurings and unraveling across the oil and commodities sector next year.

Growth shall be slow-going – get ready for a "dead man's shuffle"

With regard to growth, as timid glimmers of reason start to pierce through the cheerleading, we see slow going in both the developed and the emerging markets. In the developed markets, we expect the US economy to grow but see the development process, centered on a robust and vibrant middle class as defunct.

With an ever larger part of the population being torn asunder from cyclical upswings and pushed into a subsistence existence, the pressure to consume shall be increasingly concentrated in fewer people. Never shall so many depend on so few!

Focus in Europe shifting from economics to politics of identity and assimilation

Turning to the Old World, we see a gradual revival taking hold but see the focus shifting from the economic to the political sphere. The debate has shifted from concerns as to the viability of the Euro to existential doubts as the future of the EU.

We are starting to see some of the unforeseen consequences of the EU enlargement process with the admission of several countries in Eastern Europe. Several are still grappling with minority issues and define nation and Europe in a fashion reminiscent of Europe between the two world wars.

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We have moved from the movement of capital to the movement of people

We therefore see the conundrum as whether the ECB and EU major economy governments can engineer a more convincing recovery before the summer. We are no longer focused on the movement of capital but have shifted our optic to the movement of people – with the warmer weather the migrants issue shall increase.

ECB shall struggle to raise the inflation rate

As concerns the Euro Zone economy, we continue to see the ECB struggling to raise the inflation rate. The combination of commodities and oil still in the "bottoming" process and discounting necessary to elicit purchases shall make this a tough task.

Emerging markets – get ready for a long march

We see emerging markets as at the beginning of a lengthy restructuring process – with much work still to be done. In this context, we see a narrowing of the gap between sovereign and corporate credit risk. The Petrobras case is in this sense emblematic, with an increasing amount of analysis centered on implicit sovereign support to stave off default.

US shall continue to raise rates

What of monetary policy? We see the Federal Reserve as not easily deflected from its rate raising intentions. On the surface this is premised on a blind faith that inflation is around the corner. We see the concern as limiting asset bubbles seen as threatening the hard found stability of the US banking system.

Others shall lag – UK, will they be next?

Abroad, we see the central banks of the major developed economies as holding their fire. The most likely to follow the US being the UK, however, no inflation and slack wage growth shall act as a deterrent.

We may also add that despite the scorn heaped by many on the EU, the Euro Zone is still the destination for 40 per cent of UK exports. An appreciation of the pound versus the Euro is not on.

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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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