Macro Snapshot – Chief Economist Jean Ergas

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Update January 19th 2016

Stock markets up on hopes of Chinese stimulus, with mining and energy companies getting a boost. We are not surprised at China data but see it as "cut to order" and expect further currency games. Irrelevant that services now largest sector of economy, the economy pivot is still factory exports.

We remain skeptical as to oil and foresee further weakness. This shall impact risk markets and further pressure the high cost corporate and sovereign producers.

We expect little from the Euro Zone and wish them well in their struggle against inflation. The force is not with them!

Are we back to the China trade?

We have finally received the cliffhanger data from China regarding GDP and other economic data. To the surprise of absolutely no-one, the official government target was reached.
This is reminiscent of elections in the Middle East, where the government party triumphs with 99 per cent of the vote.

We need to see the cost accounting data

We are no more enlightened now following this data release than we were before. While we may have a glimmer of data from the top - line data – as per the above caveats – what we really need to see is the cost accounting data underpinning factory exports.

Commodity slowdown most manifest phenomenon of China in turmoil

The pressure stemming from lower commodity demand growth has been the most blatant manifestation of the Chinese slowdown and transition. However - we see an equally great pressure at the micro level from the erosion of pricing power for leading global corporates.

Much harder to defend yourself against deflationary pricing

While the commodity companies can attempt to stem the onslaught by cutting back investment, defending yourself against deflationary pricing which is government subsidized, is far more difficult.

New stimulus in China – so what?

The slowing of growth in industrial production and in capital investment are once again giving rise to hopes of more Chinese government stimulus. This is propelling the European markets and lifting the energy and mining stocks – we are seeing a strong advance by Glencore and the major miners.

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Remain skeptical as to the turning point

We remain skeptical as to whether:
This is the "turning point"
The Chinese - to come – government stimulus, shall be sufficient to raise prices to a level commensurate with an acceptable level of profitability or a further cutting of investment plans.

Oil at 120 US Dollars – where art thou?

With regard to the oil market - which has been the wild card of recent market action – prices have – as forecast – made another leg down. This has been driven by the expected increase of 500000 barrels a day by Iran, with the promise of more to come.
Abstracting from the added barrels from Iran – the IEA still sees an oversupplied oil market. We are now seeing the earliest "snap-back" forecasts pushed back to end 2016.

Petro bras hit by Iranian crude

We are already seeing the longer term consequences of the projected increase in Iranian production, with the shares of Petrobras coming under pressure. What is clear is that the marginal expensive producers shall continue to be under pressure regardless of any prospective Chinese stimulus. China may not be bound for a crash but the global growth picture remains meek.

We return to the staid world of central banking!

We turn to the Old World and the more humdrum and staid world of central bankers – as opposed to the swashbuckling set of oil traders, which is much more fun. The main action this week shall be the ECB monetary policy meeting. While inflation data for December was positive and higher than November, the Euro Zone does not look like it is about to break out into hyper-inflation.

Long road ahead in struggle against deflation in the Euro Zone

Markets are expecting a muted approach, repeating the "by any means necessary" assurances which have become part of the ECB's stock-in-trade. Notwithstanding the single currency central bank's valiant efforts, we see great difficulty in fending off the combined pressures from falling oil prices and
continued dumping from the emerging markets.

Have we found the "Third Man" – inflation?

In the US we shall be seeing macro-data on inflation, manufacturing and housing. In a Federal Reserve optic, we continue to prioritize the inflation data – which has hitherto been seen as the missing "Third Man" in the US central bank's deliberations.

New government in Taiwan – storm up ahead?

As regards political risk, we have seen the triumph of a determined opponent of reunification in Taiwan. Whether this shall give rise to saber rustling in Peking remains to be seen. However, this is a new possible source of tension, in addition to the usual suspects in the Middle East.

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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.

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