Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update January 20th 2016

Markets falling along with oil and weakening commodities. We are seeing the founding myths of the current economy starting to come unstuck. Deflationary pressures remain vibrant and shall increase, with scant counter measures possible by central banks.

Is this the end of the beginning or the beginning of the end?

Stock markets, emerging market assets and currencies seem to be caught up in a storm of selling, with investors running for the exits. We are seeing considerable downward pressure on the European equity markets. This is being driven by the continued collapse in oil prices – stoking fears that the problem is not only supply driven – and the absence of any announcement as to concrete measures to accelerate the economy in China.

We also see investors coming to terms with the fact that China is slowing and that the rebalancing towards services shall not provide a one – to – one offset to foreign suppliers. GDP is not fungible!

Shell profit collapse is not helping

Stock market sentiment has not been helped by the collapse in Shell's profits, which have come in substantially below estimates. We are not surprised and consider that the disappointing results highlight the limited buffer provided by refining operations.

Largest groups being assessed on a spot market basis

It is significant that the investment markets are now assessing even the largest and most sophisticated groups on the same basis as a "cash and carry" commodity trader.

We are awaiting the data on US oil supplies, which market observers expect shall show a robust increase. Markets are increasingly looking for a V shaped recovery. As Margaret Thatcher would have said – TINA – there is no alternative!

Some realism as to commodities

Turning to commodities, we are seeing both the metals and the mining companies coming under renewed pressure. We are seeing investors coming to a key conclusion, that mining and economic growth are closely correlated and that rebalancing of supply and demand at lower production levels is not a recipe for massive profits.

We reiterate our view that the key objective for the companies is to remain a going concern and - if possible – maintain an investment grade rating. It is not certain that all shall succeed.

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We continue to see a major systemic risk via the commodity complex. This stems from the banking system's exposure, the close link for several countries between commodity prices and solvency and the critical role played by commodity traders in acting as a credit intermediary between producers and weak credits.

Send the Explorer's club to look for US inflation

With regard to US monetary policy, we shall be seeing CPI data today. We continue to see massive deflationary pressures building with commodity price falls and dumping continuing unabated. The Federal Reserve may be placed in the difficult position of having to choose between lowering interesting rates and igniting asset bubbles or raising rates and ushering in the "Great Deflation"

Bank of England – discretion better part of valor

With regard to the developed economies, we were not surprised by the head of the Bank of England's declarations that times were not ripe for a rate increase in the UK. This is putting it mildly! The economy is being driven by one – off – deflation gains and rising housing prices. In the UK property does not fall in price, it crashes.

After seeing the havoc unleashed in the markets by their US cohorts, the Old Lady of Threadneedle street may decide that discretion is the better part of valor.

Curious to hear from Davos

Last but not least, the Davos conference is starting. We generally put little stock in these rites of self-congratulation. However, we are interested to hear their views on the basic issues of a global economy attempting to move forward without training wheels.

Will we hear a balanced view from Davos?

We have hitherto heard tones of the type – situation is desperate but not serious! However, today's market action and investors not blithely subscribing to the founding myths of the moment:
The Chinese economy is in splendid shape
The oil problem has nothing to do with demand
May focus participants minds!

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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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