Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update January 21st 2016

We are seeing some slight recovery in Europe. Big money investors are keeping a low profile with scarce traces of bargain hunting. Russian ruble continues its collapse – are we seeing echoes of the late 1990's? The ECB meeting is the European focus but we do not see this as moving markets centered on systemic risk stemming from commodities and emerging markets.

Seeing some signs of life in Europe – was yesterday capitulation?

We are seeing a timid early gain in European stock markets today, driven by Wall Street closing off its lows yesterday, with some observers seeing the seeds of capitulation triggered by margin calls. While this would be desirable, we see economic fundamentals as unchanged and believe that the asset re-allocation process has not yet run its course.

Where are the "big money" investors?

We see as a concern that the "big money" investors, formerly ready to snap up stocks in these situations are not much in evidence. Investors are no longer discussing earnings but the possible systemic implications of a combined debacle across emerging assets and currencies, commodities and the lower echelons of the fixed income markets.

We expect further pressure in the emerging markets

With regard to the emerging markets, we are not seeing a let-up in the selling, with some EM currencies hitting new lows. This both prompts further selling by offshore investors, who do not wish to incur massive FX losses and also raises the cost of repaying currency mismatched foreign borrowing. Prospectively, this also closes financing channels to corporates, forcing the government to act as intermediary.

Russia – shall history repeat itself?

We are watching with baited breath, the collapse of the Russian ruble, driven by the fall in the energy markets. Whether history shall repeat itself and the oil price crash shall act as the trigger for another Russian default as in the late 1990's is not certain. However, the continuation of restrictions on raising financing and the collapse of its principal sources of revenue
do not bode well.

Auto link to the US not helping the Mexican peso

With regard to the Mexican peso, we are seeing that the pivot towards US manufacturing and away from oil has been proven meaningless, once a certain oil

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price threshold has been breached. Massive increases in US car sales – largely *assembled in Mexico – have not been sufficient to offset the drop in crude prices.*

Emerging markets shall be disproportionately impacted by " weight of money" shifts

We remain very cautious on the EM space, which shall be disproportionately impacted by "weight of money" moves. While the absolute exposure of an EM fund may – in a global context- appear small, it may represent a large part of the foreign investor exposure to that country.

Do not see strong support for oil prices

The oil price has staged a slight rebound from yesterday's lows, which it is however finding hard to hold. The market continues to wrestle with the increase in Iranian production. The situation was not helped by the strong increase in US inventories, with the US shale producers despite low prices and defaults refusing to pack it in.

Production continues unabated in the Middle East, with Saudi Arabia resolved to crush any Iranian onslaught. Focus on the ECB – increase in deflationary pressures from oil and commodity collapse

Turning to Europe, the focus today shall be on the ECB monetary policy meeting. The ECB is now faced with the challenge of a "temporary" drop in oil prices, which looks like extending for some time. This shall add to deflationary pressures, which is the last thing the central bank wants at a time of high bad banking loans.

We expect to hear further "total war" declarations!

The consensus is that they will not announce any concrete new measures today. However, that they will reiterate their " total war" readiness if necessary. We were amused to read statements of self-congratulation from ECB representatives! Tell that to the millions of unemployed and those who have seen collapse in their real incomes!

Italian banking crisis is gathering steam

The banking crisis in Italy is gathering steam, with the eternal Italian problem bank - Monte dei Paschi – losing 50 per cent of its value since the start of the year. The Italian government – making excellent use of British understatement – has said that it is "concerned".

We expect that this shall lead to further forced mergers and losses for subordinated bondholders. Monte dei Paschi subordinated debt is trading at 52 per cent – not a good omen.

We do not see the ECB meeting as being a game changer for the markets. The emphasis has shifted from cyclical analysis to evaluating the chances of systemic risk.

Davos – gathering place of the global elite

Last but not least, we are following the Davos World Economic Forum. Rather than being a World Economic Forum – this is a forum of the wealthy global elites, who seem completely out of touch with the other 99.9999 per cent.

We see a large focus on Europe, with the migrant crisis and the EU's existential issues coming to the fore. With a likely Brexit referendum later this year this is not a laughing matter.

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