Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

January 29, 2016

Update January 29th 2016

US GDP fourth quarter 2015 comes in at 0.7 per cent – not breathtaking but at least world's largest economy not in recession. Japan throws in towel and moves towards negative interest rates fueling stocks, top rated sovereign fixed income and oil. We remain cautious on global growth and see the Japanese step as regressive and indicating that we are back to square one.

US economy continues to inch forward – no need to fasten seat belts

US GDP confirms our view of a US economy which continues to inch forward but is showing few signs of enthusiasm. GDP growth came in slightly below the consensus forecast, with capital investment weak and consumers moving cautiously. US consumers despite low gas costs and low inflation appear to be waiting for a substantial recovery in wages to cast their vote with their wallets.

Bank of Japan throws in the towel – like Draghi declares "total war" against deflation

Stocks are up this morning globally on the surprise news out of Japan, with the Bank of Japan entering the negative interest rates club. The avowed intention is to lower borrowing costs, spurring consumption and investment. While not adepts of "hidden agendas", we view this more prosaically as another step in the competitive devaluation fever gripping the global economy.

We are back to square one – central bank easing and a "state of exception"

The Japanese move has also lent a strong boost to the sovereign fixed income markets, who are now foreseeing further regression into an era:
We had all hoped forgotten
Associated with the "state of exception" of financial crisis
It is a sad comment 8 years on from the explosion of the financial crisis that interest rates cannot be "normalized".

There are structural impediments to growth in Japan

The Japanese government is attempting to wrest water from a stone. Domestic demand in Japan is being hobbled by negative demographics and structurally high savings ratios. Interest rate strategies have succeeded in lifting asset prices, increasing nominal wealth and doing little for consumption.

We have heard from the CEO of Xerox today, with the accent on a disappointing performance by the emerging markets. Growth, should it materialize, shall once again need to be driven by the developed economies.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Apple is not alone – Samsung also feeling the pressure

As regards the global growth picture, we continue to remain cautious on any "Great Leap Forward" in the absence of progress on the EM front. The US may still be advancing but offers scant scope for margin expansion for leading corporates. We were interested to read that Apple is not alone in its woes, Samsung is also feeling the pressure.

Hope springs eternal – like the sun, oil also rises

We are following the oil saga with keen interest- with prices holding notwithstanding the lack of any confirmation of "peace" negotiations between the hard line OPEC members and Russia. We remain skeptical due to the asymmetric starting blocks of the respective sides.

Boxing opponents get ready to square off

In one corner, we have Russia, which must "pump for cash". In the other, Saudi Arabia and its Gulf allies, whose reserves coffers, while weakened, are still generously filled. Oil prices are a weapon in a political war which has not yet seen its end!

We expect the Saudis to win on points. Do not see oil price at current levels as sparking US inflation

As concerns the US, markets do not yet see the relative firmness in the oil price as lifting the inflation rate and forcing the Federal Reserve to raise rates. Lack of corporate pricing power and continued wage weakness shall be likely sufficient to offset any sudden inflationary surge.

Euro Zone needs to deal with deflation scenario – what weapons do they have left?

Turning to the Euro Zone, we are once again confronted with the ECB's "statistic from hell" – the single currency area's inflation rate. While overall edging up:
It is still well below the two percent threshold
In Spain deflation appears well entrenched

We continue to see the Euro Zone recovery as a cyclical upswing "short cycle" in a rather dismal long cycle.

Deflation and low inflation pushing up debt ratios – austerity cannot be the solution

This is causing a revaluation of debt across consumers, companies and sovereigns, making the de-leveraging process ever more difficult. The dominant strategy for sovereigns has historically been to borrow now and repay with worthless money later. This calculus does not appear to be working.

Italy debt to GDP ratio higher now than in 2009 – a lot of suffering for nothing

Italy's debt to GDP ratio is higher now than it was in 2009 at the height of the crisis and after 8 years of austerity. More austerity does not seem like a viable option and Renzi has realized it.

We cannot return to the benighted economic policies of Chancellor Bruning in Germany in 1932 – paved the way for Hitler.

Yes, bank stocks can collapse even outside of a systemic crisis

The resolution of sorts of the Italian banks "bad debts" ballast has not met with the rapturous applause many had predicted. Italian and European banks are once again flirting with 2009 lows, in the absence of a palpable systemic crisis. Markets saw the banking collapse as the result of both a liquidity squeeze and exposure to a specific US asset class. We have been disabused of this notion.

We are seeing the European banks being assailed on multiple fronts. Short term incipient recovery is doing little for loan deterioration, while longer term, increased regulatory constraints shall crimp the extension of credit.

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

About Jean:

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB,SIPC) based in New York City.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women's Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.