Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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We are fed up with the oil price rumors! Oil falls once again and oil profits collapse – so much for diversification! Is monetary policy a "paper tiger"? Central banks inept at waging financial "revolutionary war" - you cannot create wealth without reforms and labor. We see no way out for Euro Zone deflationary pressures; this is the 1930's Part 2.

Heard it through the Grapevine – did they hear correctly?

To cite the immortal Marvin Gaye – the oil bulls "heard it through the grapevine" but they heard wrong! The rumors of a "secret surrender" by the advocates of elimination pricing - barricade in their desert redoubt – have been once again proven unfounded. Together with continuing growth concerns signaled at both the macro and micro level, this is pushing oil down and pressuring the equity markets.

We are seeing falls in emerging market currencies and stocks, and we view this trend as continuing. Monetary illusion - in the form of central bank intervention - long seen as a panacea – has not been sufficient to revive animal spirits

We quote Mao-Tse Tung – Monetary policy is a paper tiger!

We view monetary policy as a "paper tiger" – all roar and no teeth! Markets are waking up to the reality that growth counts and that there is little of it. We reiterate our view that:
- the oil price has not bottomed
- Global growth forecasts shall be once again revised downwards
- There shall be another leg down on commodities

Monetary easing and constructive abstention – which is more important?

While outright easing – in the form of rate reductions and quantitative easing – is centered on Japan and the ECB, "constructive abstention" monetary non-aggression is seen as forthcoming from the Federal Reserve. These hopes were lent impetus by declarations by the vice-chairman of the US central bank that there is no pre-set path for interest rates.

While we do not see this as a "mea culpa" by the Federal Reserve, it provides food for thought as regards global growth prospects.

Standard and Poor decrees end to "transitory" fall in commodities

With regard to the commodities space, the S+P downgrade of BHP is not a surprise. The rating is still comfortably investment grade. This does however highlight that the commodity fall is no longer seen as transitory. We are now definitively proclaiming the end of the "Ancient Regime" – to use the term used to define France before the 1789 revolution!

Commodities are not coming back to their previous heights and the BRICS phenomenon has been shown to have been largely built around a Chine fueled commodity boom.

Europe once again disappoints – is the US still the best bet?

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.

We are seeing once again pressure on European stocks, which apart from the oil price per se, earnings once again disappointing. BP has come out with a large loss and UBS has warned on profitability. In addition, European corporates are proving inept at capitalizing on the embarrassment of riches bestowed upon them. Never was so much given to the undeserving!

Euro Zone, deflation just keeps coming

Turning to the Euro Zone, we are continuing to see massive deflationary pressures. Data released yesterday showed a three per cent year on year decline in producer prices. This is further fueling buying of top rated sovereign fixed income, with investors foreseeing:
More bond buying by the ECB
and / or
Dismal results against deflation

Deflationary pressures shall smash bank balance sheets

We continue to expect that deflation shall soon be a reality and not a threat. This shall cause further havoc with regard to the ability of companies- stripped of pricing power – to repay bank loans and stress sovereign debt to GDP ratios.

Will there ever be good news in the Euro Zone?

We see as significant that EU markets are not reacting to the fall in the Euro Zone unemployment rate. The key issue shall arise as to from where the ECB shall take its cue. Shall it look at global turmoil or shall it once again divine "green shoots" inducing moderation?

The heart of the matter in the single currency area remains the extent to which the most recession wracked countries shall succeed in wresting the right to increase government spending in return for security cooperation.

Will the hapless Macedonians have to do the dirty work?

On the political risk front, we are expecting a further conflagration on the migrant front as Macedonia is cast in the role of defender of the route to Germany. Macedonia is not part of the EU and is in a frightful economic state – there shall as the British might say – be some unpleasantness.

US consumers remain hesitant to open their wallets – shall this change?

In line with our forecasts, US consumers remain hesitant to open their wallets and spend the famous "oil dividend". Spending has remained flat while incomes have advanced and savings soared.

Two ways of looking at US consumer

There are two ways of looking at this:
US consumers are "shell shocked" and savings ratio shall increase
US consumers are building a "war chest" to start spending once they have sufficiently de-leveraged.
We see the US consumer as still waiting for the increase in wages – pay packet and not low inflation – that shall signal the prospect of long term increases in purchasing power.

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.

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