Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

February 3, 2016

February 3rd 2016

This is not the sock hop but cheer leading continues, which is starting to sound like "strategic withdrawal" – code word for military debacle. Desperate attempt at humor by Federal Reserve officials – keep your jokes for the talent show! US labor market as representative of condition of American workers as democracy in Britain in 1830! We foresee heavy action on the mining front – fasten your seat belts!

Who has got it right - Investors or the Kansas City Federal Reserve? We are not amused!

Who has got it right - The market or the head of the Federal Reserve Bank of Kansas City? Investors yesterday were running out the door, spurred on by a slew of concerns, while Ms. George informed us that the US economy is in a good spot! We do not know whether to be shocked or amused.

A sudden coming together of different vectors unleashes a storm

The latest market rout has been driven by continuing concerns as to global growth, with a cratering oil price, downgrades of mining companies and almost crash conditions in financial stocks. We are starting to see points of tangency emerge between sectors which seemed to be moving to their own dynamic.

Oil and commodities now viewed together

As we have often mentioned, oil – with the demand element playing a larger role – is now increasingly viewed as part of the commodity complex. The sacred icons of mining – held for their generous dividend policies are no longer immune from rating downgrades.

When the dividend reductions and cuts start to kick in in earnest, the Australian and Canadian stock markets may be hazardous to your health. We expect further bouts of nerves in this sector and are not subscribing to the "bull market" scenario envisaged by some.

Today's markets

A word to the cheerleaders – grow up! US labor market starting to look like electoral franchise in Britain in the 1830's!

We have seen the US ADP number which at 205000 is slightly above the consensus forecast. This data is being accompanied by the usual eight grade sock hop chorus that the US economy is nearing full employment. We see this as similar to the expression of the "popular will" in democracies where only property owners were allowed to vote!

We are seeing a bargaining power in today's US economy comparable to that described in the excellent work by the great French historian Marc Bloch in "Feudal Society"! Desperate attempts at marketing deflation as a wage increase are simply insulting.

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.

Real job and wage performance miserable!

The US job statistics we are interested in are the share of the population that is working and whether wages are rising. The US economy has struck out on both counts and we are starting to be concerned that this may be a permanent state of affairs.

Emerging markets increasing number on paychecks – we are regressing - reminds me of three job economy Southern Europe in the 1960's!

We are in the presence of a labor market that is moving in the opposite direction of the emerging markets – labor informality is rising! The "sharing" economy is for many a brute necessity and not a choice. The author of these lines saw the "sharing economy" from a very safe and comfortable distance in his youth – it was not a pleasant sight.

European markets hesitant – oil roaring at US Dollars 30!

We are seeing a hesitant European market as investors remain disconcerted by the oil price's recalcitrance to break convincingly above US Dollars 30. While this is seen positively by some on a relative strength basis, it is well below where most of the non-Gulf based industry can break even.

As went mining stocks so now go the oil giants

The oil rout has caused widespread butchery among the leading oil companies, with BP – the UK behemoth- falling double digits. We are seeing the oil companies now receiving the same treatment meted out earlier to the mining groups and expect that we may be seeing dividend cuts.

US oil producers are not quitters!

US inventory build-up and production continues at a robust pace, defying calls for its imminent demise and adding to sentiment. Investors are starting to grasp that global growth is weakening and that it is not as simple as recession – non recession. The question is not the probability of a contraction but the impact of a lack of pricing power and lower growth.

We continue to see companies struggling to raise prices and dependent on low financing costs to maintain margins.

Banks are under siege!

Banks are under siege from a grim triptych:
Global turmoil shall delay further US interest rate increases, placing pressure on bank lending margins
Collapsing oil prices shall lead to a further deterioration in the quality of the energy loan book
Lower investor trading activity – as market participants hunker down – does not bode well for the "flow business"

We need to add that banks must simultaneously both contend with the above and meet ever more stringent regulatory requirements.

Emerging markets, still not cheap enough!

As concerns the emerging markets, we recently saw another retreat by the currencies and the asset markets – which in the EM sphere are closely intertwined. We expect the situation to become more acute, with investors still not seeing EM shares as a tenable value proposition. A P/E ratio of 10 is not the stuff of which value stocks are made.

Fasten your seat belt for another Chinese devaluation

With regard to the US, the risk of deflation looms larger the greater the rush towards competitive devaluation in the EM space. We expect China to allow its currency to weaken as it realizes that the transition to a consumption driven economy is not self-sustaining.

Stop the nonsense about the service sector in China!

We are not impressed by the modest strength in the Chinese services sector, the Chinese economy is still centered on the industry – export model, which adds to reserves and generates massive linkages across the economy.

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.