Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets starting on a muted tone – trading on oil and growth concerns. The US economy is starting to look like a Potemkin village – what is behind the façade? . US companies have cash but cannot lift productivity – output gap not guarantee of low costs.

Draghi repeats call to total war against deflation – good luck! We are wary of European banks - need to face up to bad loans.

Are we seeing another reversal on the oil front?

Are we seeing yet another reversal on the oil front? Following yesterday's burst of enthusiasm driven by an apparently morose US economy, leading to lowered rate hike expectations and a lower US dollar, supply and demand fundamentals count once again. US futures are lower and US layoffs as reported by Challenger are increasing.

US economy not firing on all cylinders – consumers not waiting in the wings

The US economy is – notwithstanding the optimism of a large part of the Federal Reserve officials – not firing on all cylinders. The ISM data on the services front confirms that the consumers and domestic businesses are not waiting in the wings and that the linkages between services and manufacturing are stronger than believed.

Oil prices not soaring despite constellation of allegedly favorable factors

We see as significant that despite a weaker US Dollar and the incessant chatter of a non-aggression pact among oil producers, prices are not moving much higher. The oil debacle has led to Conoco reducing its dividend and Statoil in Norway mooting the possibility of paying a dividend in stock.

Oil companies now replicating commodity company script

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Companies are now focused not on increasing earnings – which is seen as extremely difficult when the crude oil price is the key driver of profitability. The dominant strategy is now to conserve cash. We reiterate our view that the oil majors are now replicating with a 6 months delay the commodity sector.

The CEO of Shell sees it as unlikely that in the long run the price of oil shall remain where it is – the long run can be very long.

Turning to the Euro Zone, the head of the ECB has once again repeated the need to fight deflationary pressures in the single currency area. The recent rise in the Euro has not helped – lowering the cost of imports and amplifying the impact of lower oil prices.

Do not see commodity weakness as temporary

We do not see the commodity and oil price situation as temporary and refuse to confuse a rebound within a low range with a "bull market" in raw materials. Despite the enthusiasm exuded by the pundits, mining companies and oil groups are cutting investment.

No – the Euro Zone shall not be the next Japan!

We are shocked to read that arguments justifying low inflation / deflation on the basis of an aging population are enjoying a revival. This raises the grim prospect of whether the Euro Zone is the next Japan. Heaven help us!

Is discounting the key to market share in the Euro Zone?

With regard to the Euro- Zone, there is increasing comment on the extensive discounting at the wholesale and retail level. This constitutes a further source of deflationary pressure – forcing the ECB to take further measures.

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We continue to see the ECB as fighting a rearguard action, with Chinese dumping continuing unabated and an even slight uptick in the Euro making the task more difficult.

A tale of two banking systems - In US bank margins are under pressure – in the Euro Zone, there could be further solvency concerns

We have been following the banking situation on both sides of the Atlantic. In the US, we see the issue as profitability. In Europe, the lack of energetic action to clean up bank balance sheets of massive bad loans is now coming home to roost.

A deflationary environment, smashing company pricing power and lowering margins, is not conducive to a short term improvement.

US data – we are not flipping out!

Turning to the US macro data today, we have seen a slight increase in jobless claims which may indicate a not stellar job report tomorrow. The key indicator is the fall in productivity growth, with capital investment having collapsed during the zero interest rate recovery, US companies have accumulated cash but have sacrificed longer term operating margin improvement

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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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