Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Nothing new from Yellen notes – Taste of cash from Deutsche Bank like famous Beatles' song – "Taste of Honey" – Plight of European banking remains same – Frightening that German minister of finance needs to weigh in on Deutsche Bank

Oil price kaput! We do not want a return to mercantilism! Post war model based on income increases and not capital accumulation shattered by QE – suggest reading "Hard Times" by Dickens!

Investors see notes of Yellen testimony

The notes released before the head of the Federal Reserve's testimony shed little light on the path ahead. While recognizing the risks to growth, the assessment of the state of the US economy remains fundamentally positive. We do not see unconditional surrender by the US central bank, which is likely to in the medium term look more towards Main Street than Wall Street.

European banks – Is this the dawning of a new era?

Europe and banks up on Deutsche Bank hopes

European markets are up on a whiff of hope from Germany, following hopes that Deutsche Bank shall buy back some of its senior debt. While some see it as a way of proclaiming that cash solvency is not an issue, buying back one's debt at below issue price can be an increase of capital.

Market grasping at slightest sign of cash

What do we make of this? Not much. Deutsche has yet to proceed and the buy-back rumor – yet this market is so nervous that the slightest sign of cash sets spirits alight. The German finance minister getting into the act highlights the desperation of the situation.

The most powerful finance minister of the European Union taking the witness stand is not to be viewed lightly and is eerily reminiscent of the 2008 financial meltdown.

It is termed a European banking crisis but the key concerns are Germany and Italy

We remain concerned as to what is termed the European bank situation but which is focused on Italy and on Germany. While Italy's economic and banking predicament has been apparent for some time, the surprise has been Germany. The turmoil is stemming from a banking leader globally supported by the Euro Zone's strongest economy.

The discussion has shifted from margin pressure and restructuring of investment banking to the ability to pay interest on specific fixed income instruments. We are moving from earnings to cash.

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Impact of market turbulence on investor and business confidence

The German government is concerned that ongoing turmoil in the financial sector shall dampen investor and business confidence, leaving the economy in the fickle hands of the consumer. With regard to a more immediate time frame, the rise in CDS cover for German banks to levels associated with low investment grade – top tier junk bond issuers is not appealing.

Problems at European banks remain unsolved

The problems at the European banks remain the same – with zero interest rates and more of same to come squeezing margins, bad loans in abundance and the longer term need to meet Basel 3 capital requirements. We need to ask whether the stock market turbulence does not cast serious doubts on the ECB's supervisory capacity. Are the market and the supervisors looking at different metrics?

Banking rebound spreading to Italy - good news for Mr. Renzi!

*The banking rebound is spreading like wildfire to the other Euro Zone country deemed most at risk – Italy. We do not want to read too much in this bounce, which indicates that investors consider systemic risk to have abated**. It is a grim thought that 7 years of extraordinary monetary measures designed to halt systemic risk from the financial sector, bank stocks are trading at levels lower than in 2009!***

Discordant views traders and oil companies on oil price

With regard to the oil price, we are seeing discordant views from the oil traders and oil companies. The traders see oil prices as not supported by fundamentals and critically, see a surge in demand boosted by low prices as almost exhausted. Oil companies – such as Shell – have bet the house on higher prices – with capacity cutbacks triggering a shortage.

We remain skeptical as to the capacity reduction argument. With demand growth slowing, oil companies are running hard to stay in the same place.

European bank exposure to oil and commodities high

The European banks' exposure to oil and commodity lending – in which they have been a traditional market leader – has also come into focus. We are informed by Bank of America that this is in the order of US Dollars 27 billion – not life threatening but an added hindrance.

Negative rates being considered – will be completely useless!

No not again! Not even lower interest rates!

As if the banking crisis were not enough, we are hearing the cannon fire of a move towards negative rates in the US and the UK. This reminds us of the tourists who when not understood in their language start shouting! The "hit rate" so far has been modest at best.

QE a return to a crude mercantilism – World before Adam Smith!

We see the key results of this "walk on the wild side" policy to have been a return to an arcane form of mercantilism. For those who have not slogged through courses in the history of economic thought, this was a doctrine which believed that:

There was a fixed amount of wealth
The aim was to grab a bigger share of a "set in stone" pie
This was to be achieved by seizure of gold!

This great humanity has said enough! Stop transferring wealth and start creating income increases!

We see eerie parallels to the impact of QE!

The creation of manifold asset bubbles
The funneling of financing to totally incompetent managements and non-competitive firms
The worsening income gap reminiscent of the Nile Delta in Egypt before the 1952 Revolution, which eliminated feudalism.

We might also like to mention that these bizarre experiments have ruined millions of pensioners who did not own substantial "hard assets".

The less fortunate must be beaten into the face of the earth!

Central banks engineered a massive transfer of wealth to the wealthier strata of the population, while the incomes of many were being savaged by technology and outsourcing. We are now hearing that the globalization process was not managed correctly but shall ultimately in the long run prove beneficial.

What this has done is smash the social mobility model of the post war period based on income increases. It has replaced it with a latter day version of the "rentier" model popularized by the Balzac novels in France in the 19th century. No wonder, Bernie Sanders and Donald Trump are going strong!

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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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