Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Delay in rate increases not enough – markets are tanking – European bank problem shall not go away – Investors running for shelter – Swedish central bank voice of desperation – oil kaput again!

Yellen yesterday stuck to script – admits this is not Mustang America!

Yesterday, the head of the US central bank stuck by her basic script of watchful eye on foreign affairs but relatively satisfied with progress of the US economy – speak for yourself! The disappointment for investors was initially muted by the recognition that the US economy was not in roaring form, with the added risk of financial market volatility leading to lower spending and investment.

We are at square one – German finance minister not enough!

Today, we are back to square one. Oil is tanking and the European banks continue to flounder amid uncertainty as to both short term earnings – in some cases, cash solvency – and the longer term challenges raised by regulatory constraints. Deutsche Bank, the bellwether for systemic risk, is down once again. We are in a situation where assurances by the German minister of finance are not enough to restore confidence.

Nothing has changed for the European banks

The European stock markets succeeded in staging a recovery after the sharp losses yesterday as the banking panic – focused on the possibility of a systemic event – started to recede. While some saw the danger as past, we saw nothing in the sector fundamentals to inspire long term confidence in the sector. Bad loans have taken on Everest proportions and the leeway to establish "bad banks" is now severely curtailed.

The EU will have to decide whether it wants no state subsidies and a demolished banking system or a return to civil society for the financial sector.

Capital increases remain the key priority – banks will recapitalize by shrinking balance sheets

Increasing capital remains the key priority and with the rock-bottom stock prices appealing to the markets would be senseless. We see banks as implementing the re-capitalization by shrinking their balance sheets. This would further reduce the flow of credit, slowing an already halting recovery.

Overall European picture muted at best

*The European stock markets are sharply down on disappointing earnings from the financial sector and commodities. We continue to see the overall growth picture in Europe as muted at best. Our doubts that purchasing power gains from deflation or an oil dividend can cause a course reversal persist**. We see further weakness in the equity markets and expect further downward revisions to growth.***

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Investors terrified running for shelter

As concerns the fixed income sector, the UK 10 year government bond is hitting a record low – with investors scurrying for cover in an inhospitable world. For good measure, the Swedish central bank has pushed further into negative interest rates. Whether this shall lead to any result – apart from scaring the wits out of investors is unclear.

Those who wanted to stay outside of the Euro but stay in the EU are now confronted with the fact that they shall bear the downside with no voice in policy.

Oil refuses to stand up and fight!

Oil is down once again as investors realize that "pumping for cash" shall remain the dominant strategy for both sides – those who want to practice elimination pricing and those at the receiving end. The first can still afford it – the latter need to pay their bills.

When shall we see cross-over in the oil market from slowing demand growth to lower demand?

On the oil front, prices keep falling as market participants start to grasp the supply excesses are being aggravated by a slowing in demand growth. It shall be difficult to foresee when we shall see "crossover" where slowing in growth shall mutate into outright lower consumption.

The global economy is slowing, there is an abundance of non-conventional oil sources and the last support is the Chinese strategic oil reserve. Are the Saudis trying to make hay while the sun still shines?

RTZ reviews dividend policy – who is next?

The mining companies are once again taking it on the snout following the decision by RTZ to review its dividend policy. This is tantamount to a dividend cut by Exxon in the oil sector and signals that no short term rebound is expected. The mining companies are now increasingly resorting to "streaming" deals to raise financing – a technique often used when banks are reluctant to extend financing.

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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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