Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

February 17, 2016

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US macro data not all is lost on inflation front and industrial production bests forecasts. We are seeing a stronger Europe but have not been informed of an" iron law" ordaining convergence between US and Old World P/E ratios. Oil continues to hover below US Dollars 30 – Saudis brilliant negotiators!

Europe up on signs of life from the banking sector – still subject to a "full court" press

European markets are up on once again signs of life from the banking sector and continued hopes with regard to both the oil price and further central bank intervention. Markets are rising not on any form of economic optimism but on relief that the difficult predicament of the banks – subject to a "full court" press has not resulted in a full-fledged crisis.

Investors can accept economic doldrums but draw the line at systemic risk

Investors appear ready to countenance reduced earnings prospects but not systemic risk. This has been the major driver of any Euro Zone recovery since the outbreak of the financial crisis. US markets have advanced on intimations of growth - the Euro Zone's saving grace remains that it still exists. There is much talk as to the attraction of European equities on the basis that they have not risen as much as US stocks since their financial crisis lows.

We see no "iron law" that says that there must be convergence between markets and expect that European markets shall continue to trade at a lower P/E than their US peers. EU companies remain hostage to export markets and the uncertainty in the banking sector shall not vanish overnight.

Oil market – Iran wants its "place in the sun" – will they get it?

With regard to the oil price, we are seeing the Iranians clamoring for their "place in the sun". Having had to reduce output due to the economic sanctions, they are now striving to at least restore their pre-crisis output. Iran -is still a country beset by restrictions and has one "cash-crop" oil.
Iraq has also announced its intention to increase output, further enlarging the ranks of the recalcitrant.

While attention is focused on WTI and Brent, there have been sales at substantial discounts.

Saudi negotiators brilliant!

The Saudi negotiators have been brilliant at eating their cake and having it.

They have locked in a price that they can finance via extensive reserves while continuing their elimination pricing strategy. Iran in the meantime has as its sole metric cash!

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Anglo- American earns dubious distinction

We are continuing to follow the commodity odyssey of Anglo-American, the first major mining group to be downgraded to junk. The group is now focused on massive asset sales – seen as the only way to bring down debt from current high levels – 4.2 times EBITDA estimate. The downgrades put paid to hopes of an "earn out" in the mining sector.

The asset disposals are complicated by political risk, with one half of the mines scheduled for sale in South Africa. We see further storm clouds gathering, with sales likely to be concluded at "fire sale" prices.

Banker sounds like Sanders!

We read with interest the proposals by the new head of the Minneapolis Federal Reserve that:
The large banks should be broken up
The capital should be further increased

We throw financial crisis restructuring overboard

This would imply throwing overboard the whole strategy adopted during the crisis of merging institutions. We created "too big to fail" and are now trying to wiggle our way out. Whether this move was also prompted by Deutsche Bank's misadventures is an interesting point.

If banks in trouble – do not despair - Apple – new JP Morgan, could bail out US Treasury!

Apple lifted US investor spirits by announcing a massive US Dollar 12 billion multi-tranche and multi-maturity financing exercise. The issue has been considerably oversubscribed, reflecting the company's global leadership and massive cash position. Apple has sufficient cash to easily buy up whole offerings of Treasury paper!

UK Sterling wobbly on Brexit

On the political risk front, UK sterling takes a hit as nervousness as to the Brexit referendum once again takes hold. We see the situation as becoming more acute once the terms for an agreement with the EU – as per the summit this week – are published.

We see the anti-EU contingent as not for either bending or breaking! The UK has had a difficult relationship to the EU from inception of the EEC to the move towards union. Fears of loss of sovereignty have not been assuaged by the migrant crisis.

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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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