Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Stocks markets weaker - oil reverses course – Europe banks down - We wonder, is it Walmart or the US economy? - Deflationary pressures in Europe alive and well! – Will Federal Reserve raise rates?

Stock markets are inching backwards – oil reverses course – US inflation tops expectations

Stock markets are inching backwards, with oil once again sliding and European banks down. We are continuing to see a move into safe havens - such as German sovereign fixed income - with investors expecting the European Central Bank to step in and take further measures to boost inflation. US inflation data has remained firm exceeding expectations – in contrast to continued producer price drops in Germany.

Economic growth prospects remain muted – central banks faced with unenviable choices

Economic growth prospects remain muted with central banks facing a choice between the bad and the worse. They can either:
Lower rates further, squeeze banking margins in the hope of rekindling growth and inflation

Or

Cannot use tactics employed in US S+L crisis - this goes well beyond increasing lending margins

Adopt a policy of recapitalizing the banks via increased profit margins and laying the basis for credit expansion. The key would be to engineer an effect similar to that in the US following the savings and loan crisis.

However, while rates were lowered, they remained firmly in positive territory. Banks reaped the gains of lower funding costs and increased margins.

We find it noteworthy that European banking stocks are down notwithstanding that the ECB has called time and granted a reprieve on further capital increases.

Oil – Last exit to WTI at 25?

Oil prices are once again falling, with a flurry of alleged agreements and "understandings" failing to have an impact on market sentiment. Abstracting from solemn declarations as to all parties seeking stability, there has been scant action. Not even the prospect of armed Saudi intervention in Syria has been sufficient to rouse the "animal spirits" in the market.

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US producers box on!

Oil prices are not being helped by the rise in US inventories to an 86 year record. This stands in sharp contrast to proclamations that the US oil industry is about to keel over.
We see no contradiction between an upcoming spate of bankruptcies and steady production by the financially stronger players.

We see the short term pressure on the oil price continuing as the surplus of 300 million barrels a year remains intact and Iran steams ahead with increasing production and 3 billion barrels are parked in tankers.

UK currency still under pressure on Brexit fears

Turning to Europe, pressure on UK sterling shows little sign of abating. Negotiations between the UK prime minister and his cohorts as to creating a special relationship between the UK and EU have yet to yield a common ground. The key issue is no longer the EU budget and the common agricultural policy but the option to curtail assistance to migrants from other EU countries.

There is an increasing unease in the UK in the increase in the immigrant population. This however has not had a negative impact on the economy, which continues to handily outperform the Euro Zone.

US CPI awakens fears of rate increases

With regard to the US inflation data, this is rekindling concerns that the Federal Reserve may increase rates sooner than expected. The catalyst being anticipation of consumer price inflation being followed by wage increases. Whether this shall happen remains open to considerable doubt, given the changes in the structure of the US labor force and the collapse of bargaining power.

Some see increased corporate pricing power underpinning the CPI data - hinting at margin expansion. However, this has not been sufficient to offset concerns stemming from the Federal Reserve proceeding on its route.

Walmart – is it the company or the economy? Where is the oil dividend?

With regard to assessing the economic "State of the Nation" markets were taken aback by Walmart's results. The key issue is whether the dismal performance reflects mainly company specific issues or is a reflection of the "real" US economy. Walmart's results are a further example of the Federal Reserve – economy disconnect.

When lower income consumers are saving on food, we need to ask whether we have an accurate pulse of the economy. We are somewhat concerned to see Walmart put forth as a defensive stock in the event of a recession. Are we at that point?

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About Jean:

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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.

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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