Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

February 24, 2016

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Oil calling the shots. Sterling keeps falling – where is the bottom? Will the EU survive in its present form? Euro being pressured by cross channel gusts! Federal Reserve remains optimistic.

Oil calling the tune – a grim dance

Markets are once again in the thrall of the oil price, which is down sharply on no-go with regard to an agreement to support oil prices. Sterling continues to weaken, with Brexit anxiety rising and unease spreading to the Euro. We may soon see a safe haven Euro Zone – Germany – and the rest. For good measure, a leading Federal Reserve official is not excluding a March rate increase.

We reiterate our view of continued volatility. Markets remain concerned with regard to the oil price as a signal of both global growth and a leading indicator of massive asset liquidations by sovereign wealth funds.

Stock markets discouraged today

Stock markets seem discouraged today as "The Great Illusion" of a concrete agreement on oil once again floundered. The final blow came from Saudi Arabia's energy minister who stated that Saudi Arabia was not going to reduce production.

Hard words from Saudi energy minister

For good measure the Saudi energy minister warned high cost producers to either "shape up" or go bankrupt! This is no longer shadow boxing. Meanwhile, we are informed that Iran has described Saudi proposals as ridiculous. We continue to see pressure on oil and do not rule out a further descent below US Dollars 30.

Want to force a re-balancing

The strategy is now to force a re-balancing and new equilibrium by means of elimination pricing. We need to ask whether this is not also creating a new segmentation in the industry, with long term oriented low cost sovereign producers pitted against the private sector and the marginal sovereigns.

Sterling keeps getting pounded – Pound below 1.40 road to 1.35 wide open! Some see 1.15!

Meanwhile sterling keeps getting pounded, as Brexit is now given a 30-40 per chance of success. While initially the impact was centered on the UK currency and cost of hedging it, it is now spreading to the Euro. Markets are finally waking up to the risk that once the UK is granted "outs" from onerous EU policies, other countries will clamor for the same.

Others also want exemptions in the EU

Malta is already asking for exemptions regarding welfare payments. The key issue is the risk that Brexit or not, the EU project and consequently the monetary union are at risk. The situation is not helped by continuing disappointing data from the single currency zone.

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Italian industrial production is stuck in park, casting doubts as to the efficacy of the raft of reforms launched by the Renzi government.

Dreams of firmly establishing the Euro as the reserve currency alternative to the US Dollar are fast fading. The Euro is starting to feel the heat from the sterling slide, with the single currency both weakening across the board and option volatility rising.

We are cheered to hear from Esther George, Kansas City Federal Reserve president, that the US recovery – whose sighting has been reported by the "happy few" – remains on track. The "word of order" remains imperative and categorical for all – keep raising rates. For those seeking some solace, negative rates are not on the agenda for now.

The vice- Chairman of the US central bank stated that there is no pre-determined course. We see the chances of the Federal Reserve writing checks to Wall Street as decreasing.

Renewed slide in commodities – BHP under fire! Who is next?

We are seeing a renewed slide in commodities and commodity shares. Mining equities are acting as a powerful drag on stock markets, with investors starting to take their cue from BHP's dividend cut and multiple ratings downgrades. With Noble group being downgraded further into junk, storm clouds shall not dissipate anytime soon.

We remain cautious on the commodity complex and expect renewed jolts! Demand signals from China remain weak and there is no back-up buyer.

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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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