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European markets up on hopes on oil and more help from the ECB. China recognizes risks to its economy, words do not stop fall in the Chinese stock market. Do not see rapid turnaround catalyst for oil. Not surprised by Brazil downgrade – shall be a five year recovery. US durable goods bounce from a very low level. Is this sufficient to offset weakness in services?

European markets display nonchalance despite Chinese collapse

European markets are displaying a certain degree of nonchalance with regard to the collapse in the Chinese market. Investors are focusing on the lower than expected increase in US oil inventories and on hopes – following lower than expected inflation data in the Euro Zone – for yet more munificence from the ECB.

Investors can accept a contraction – terrified of systemic risk

We see this as reinforcing our view that investors are ready to countenance a cyclical contraction in the economy – as triggered by lower spending. However, remain fearful of a massive hit to the global economy, with the focus on sovereign solvency for certain producers, stemming from a continued decline in oil prices.

Chinese government aware of risks! Is awareness sufficient?

The commotion in China was unleashed by declarations from the finance ministry ahead of the G-20 conference that they are aware of the risks facing the economy. This was accompanied by bland assurances regarding the continued import of commodities – namely iron ore and oil.

We continue to see the Chinese economy as slowing, with overcapacity still abundant and tempted to employ a "more flexible" FX policy. China's principal export remains deflation, which shall place massive pressure on central banks.

We have further reduced our expectations for the G-20 conference! G-20 League of Nations!

We are reducing our already minimal expectations for the jamboree of the great and powerful at the G-20. The head of the IMF's exhortations to action – more government spending in the developed economies and a safety net for the emerging markets – shall remain unheeded.

There is little money left for governments to reflate their economy – where they are not hampered by austerity constraints and we have reached the limits of the efficacy of monetary policy.

Words of caution from oil professionals – inventories keep rising

With regard to the oil price, we are hearing more words of caution from the professionals. The outlook remains clouded, with no discernible catalyst on the horizon. Oil's outlook remains constrained by both the continued high levels of production and the massive amounts in storage.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

Last hope for bulls – expiry of oil hedges

While investor spirits may have been boosted by the smaller than expected increase in US inventories, inventories rose! This is despite manifold warnings as to the imminent collapse of the US shale sector. The next hope for the oil bulls is when the hedges – that producers bought on the spike to US Dollars 50 -run out.

"Pumping for cash" remains firmly entrenched as the dominant strategy, with producers biting the bullet to not cede market share in the face of a resurgent Iran. We see the market as once again underestimating the sector's capacity to adapt and see consolidation on the horizon.

Brazil – five year haul

Turning to the emerging markets, Moody's has downgraded Brazil firmly into non-investment grade territory. We see this move as having been widely expected and the reaction as relatively muted on both the currency and the equity front. We continue to view Brazil as a five year recovery story.

There has been a structural change in the economy, with the rise of a new middle class. The key challenge is to now complete the painful process of institutional reform.

Real separatism not Catalonia but "separated at home" in the EU

Turning to Europe, we continue to view the migrant crisis as a possible catalyst, abstracting from a Brexit success or not, for a loosening of the "bonds that tie". Incapacity to reach concrete agreement on measures prior to the expected deluge seen on its way in the spring - may provoke massive mayhem.

Some see the major separatist threat as Catalonia or Scotland – we see the key risk as married but "separated at home"!

Markets are slightly less concerned this morning as to Brexit. Sterling is trading above 1.39 on the news that the UK economy continued to grow as forecast. We see this lull as a temporary reprieve and foresee – as the date gets nearer- considerable volatility up-ahead.

The issues driving Brexit are not economic but political. Paradoxically, a strengthening economy could lessen fears as to a collapse in the event of exit and reinforce the secessionist camp.

Services – measure of the domestic economy? Disappointing US data

The key to services is that:

They are consumed domestically
They are bought by a large cross-section of the population
They should be the prime beneficiaries of an increase in disposable income – see in this regard, the oil dividend.

Recession fears re-emerge – Shall US be a runner up to the Euro Zone?

The contraction in services is certain to rekindle the debate as to whether the US economy is nearing or is already in a recession. We continue to see further downgrades to US GDP growth estimates for 2016, with some now putting 2016 expansion at 1.3 per cent – slightly below the Euro zone.

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

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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