Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

February 26, 2016

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***We revert to Tennessee William's economics – Kindness of Strangers! Long cycle adjustment in goods prices shall continue – Can the attraction of opposites work in the oil market? -
Not knocked out by US GDP, we can do better!***

Some enthusiasm in Europe – waiting for central banks

We are seeing some enthusiasm in Europe, with investors encouraged by Chinese declarations that there is still room for easing and a firmer undertone to oil. An added lift is being provided by dismal inflation data in the Euro Zone, with Spain and France firmly entrenched in a "back to the future" 1930's scenario. In the meantime, the debate continues to rage as to whether the US economy is or is headed for a recession.

We reiterate our view that an economy which is "spooked" by the prospect of a ¼ per cent rise in interest rates has taken a leave of absence from any cyclical analysis.

Markets looking to the "Kindness of Strangers"

We see ourselves confirmed in our view that markets have de-coupled from earnings and are now trusting in the "Kindness of Strangers" – expecting munificence from central banks and governments. One may well wonder what more the central banks can undertake. The race to the bottom in monetary policy has failed to either lift inflation or stimulate growth significantly.

We take a "long cycle" view – adjustment to goods prices – deflation a structural and not cyclical phenomenon

When viewed in a "long cycle" historical optic, the cold deflation gusts blowing from the east reflect a market based goods repricing. The global economy was for more than 30 years sheltered from the full potential impact of massive yet hermetically sealed off labor resources.

We are still digesting the fall in labor costs – it shall be a heavy meal!

Once the dam broke, low cost labor and burgeoning economies of scale have pushed costs and goods prices down. This is not about the cost of energy but is centered on a massive downward shift in labor costs. This is not about options theory. We are regressing to absolute advantage as our key metric.

One reads with some humor calls to China to shut down excess capacity – this rings as hollow as the assurances in 1938 that the Third Reich had no further territorial ambitions.

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UK wants note from G-20 opposing Brexit!

Turning to Europe, we are not surprised to see that the UK equivalent of the US Treasury Secretary is pleading for a "stay in Europe" endorsement from the G-20. We are seeing the anxiety level rise, with what seemed "tail risk" now moving from the category remote to possible. We are starting to see nervousness in the UK economy – with capital investment falling.

We are pleased to see that the French economy has succeeded in beating the modest expectations set for fourth quarter 2015 growth but prices are falling. The Euro Zone continues to inch forward with short term deflation gains and catch – up buying. However, the deflation time bomb remains intractable.

Will the Iranians play ball?

As regards oil, markets are buoyed by the prospect of further discussions in March and an alleged Iranian willingness to talk. We remain somewhat skeptical due to the different starting blocks and financial resilience of this motley crew.

We beat a very low target – much triumphalism

Turning to the US, fourth quarter GDP revised has overshot the modest estimates, coming in at 1 per cent. This was driven largely by continued inventory accumulation, limiting the upside for first quarter 2016. We see as more significant the downward revision to personal consumption, once again begging the question as to when the "oil dividend" shall kick in!

We see the data bolstering the case for the Federal Reserve to continue in its policy of interest rate increases.

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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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