Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets shifting paradigm, G 20 disappoints – migrant crisis rages in Europe, and all pretense at concerted action collapses – deflationary pressures in Euro Zone pick up steam. Next step?

Markets shifting paradigm – now focused on likelihood of global recession

Investors last week shifted their focus from a "systemic" scenario to estimating the robustness of the global economy, in the midst of repeated downgrades to global growth. With the OECD and the IMF expressing concern on a continued lack of demand – with emerging markets and Europe the major concerns – investors are increasingly concerned with the prospects for the US economy.

While not looking to the US as a potential "locomotive" investors are focused on the potential for divergence between economic performance and monetary policy. Will we see a "nightmare scenario" with interest rate increases despite lackluster growth?

US macro-data shall dominate action

With growth - albeit still modest, coming in above forecasts, markets shall be focused on further signs as to the strength of the US economy. Data on manufacturing, which has a marked export component, shall be closely scrutinized. However, the focus shall be the employment numbers, which together with inflation remain the center point of the Federal Reserve's metrics.

We have heard from a plethora of US central bank officials, highlighting a different weighting of internal versus external factors in the determination of monetary policy.

Markets shall have to cope with lack of concerted measures by G 20 – G 20 League of Nations – Meeting was a replay of Munich 1938

Our skepticism as to the G-20 conference has been amply confirmed, with the conference evidencing a shift from the prospect of concerted action to "stand alone" policies. This has been accompanied by the recognition that monetary policy may need to be supplemented by demand creation policies.

While not heralding a return to unbridled spending, it may mark a loosening of the stricture of austerity policies, which have hitherto yielded scant results.

A glimmer of hope – negative interest rates not the dominant strategy

We see the one positive emerging from the G-20 the stand taken regarding negative interest rate policies by the Bank of England. This may stem from the massive weight of the financial sector within the UK economy and concerns as to sparking further, potentially de-stabilizing, asset bubbles.

Oil prices stage a recovery but remain low

With regard to the vicissitudes of the oil price, prices have staged a recovery from almost unconscionably low levels. This advance was triggered by recurrent reports as to a widening of the coalition of the willing. This has not been confirmed as to either the participants or what they are ready to commit to.

We continue to see the oil crisis as a fundamentally political issue. Without a political solution any market equilibrium shall remain fragile.

Action today!

Investors had pinned their hopes on the G-20 meeting, which has ended without any agreement as to action. Initiatives have now been devolved to the national level. Differing economic frameworks are likely to result in uneven efforts to rekindle.

Low and negative interest rates remain the "daily special"

Markets are digesting the lack of action from the G-20 conference, with the prospects for a concerted push by the leading economies fading fast. For now, we shall be saddled with more of the same. A dreary combination of low or negative interest rates chasing their tail and attempts at deficit reductions shall continue to be the "daily special".

Markets not impressed by Chinese reserve rate cut

The limits of incremental monetary policy were highlighted by a very moderate reaction to a reduction in Chinese reserve requirements. Previously, this would have been seen as fueling credit expansion and boosting activity. Investors now realize that this is akin to flogging the proverbial dead horse. This shall lead to more overproduction, more bad debts and a grim dumping replay of Europe before the First World War.

Euro Zone inflation disappoints once again

Turning to the Old World, Euro Zone inflation data disappoints once again. The single currency area on a non-core basis is deflation. If we throw out energy, prices have climbed a timid 0.7 per cent. Corporates are rapidly losing pricing power and cash flow to debt repayment schedules are under siege. This has added fuel to expectations of further ECB action at its upcoming meeting next week.

ECB – playing from backfield!

It should now be perfectly evident to even the most refractory to reason that the ECB has abandoned all pretense at lending impetus to the economy. It has two objectives:
Short term – preventing a further scare in the banking sector
Long term – pushing up prices to avoid more loan defaults and pressure on the banking system

Migrant crisis putting pressure on Merkel – we have seen this before

The European situation is being impacted on the political front by continued divergences on the migrant crisis. Merkel is insisting on open borders, while several of the other members appear fiercely intent to close theirs. This is grimly reminiscent of the tragic scenes seen in pre-war Europe with regard to those attempting to flee Nazism.

Roman history shall be our guide!

Upcoming meetings, aimed at securing Turkey's cooperation, highlight how this "apple of discord" is forcing EU members to seek to block the migrants – seen by some as "Barbarians at the Gate" - at the empire's borders. We might well advise re-reading Gibbons Decline and Fall of the Roman Empire.

Not betting on a rapid demise of the US shale producers

With regard to oil, the lack of action by the G-20 has been offset by hopes that prices shall be lifted via a "pincer" movement:
US shale producers shall finally throw in the towel – we see this as not a sure bet!
There shall be an agreement to freeze production by several leading producers – inside and outside of OPEC.
This shall result in lower production and rising prices.
Despite all of the commotion, oil prices have barely budged this morning.

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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.

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