Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Morning after the day before, investors step back and pause. Whither oil? Where is the "coalition of the willing"? Can it float without Iran? Do not like banks cutting corners! This shall end badly!

Never too much of a good thing – Are markets still looking to dine intervention, central banks in the wings?

Never too much of a good thing, seemed to be the stock market's slogan yesterday! Stocks took off and did not look back. They were propelled by better than expected US manufacturing data, a continued upward move in the oil price and hopes that divine intervention – central bank life boat – shall soon materialize.

Investors still operating in a recession – non-recession paradigm

We see investors still operating within a cyclical – non-systemic paradigm. A less than forecast contraction in US manufacturing, has rekindled hopes that the index may soon cross over into expansion. 7 years into the recovery, we are still looking to 13 per cent of the economy to salvage the rest.

The US economy has not been able to renegotiate the "brutal friendship" which links it to the rest of the world, via the export –industrial complex. The chances of a consumer driven expansion remain limited.

Oil "coalition of the willing" seems to be widening

Oil prices are being supported by reports of a widening of the coalition of the "willing" among the major producers. The aim is not to reduce but freeze production. We need to bear in mind that with production running at peak levels, this is hardly a sacrifice to the participants. The "elephant in the room" remain the US shale producers seen as:

US shale shall not vanish

At the mercy of the put options with a US Dollar 50 strike price
Having lesser access to financing, forcing consolidation and production cutbacks
We caution against expecting the US producers to abandon production wholesale.

Today morning after the night before!

Today appears to be the morning after the night before, with investors standing back from yesterday's exuberance. The focus is on a slight decline in the oil price, with global and US oil inventories hitting record levels. We continue to see limited scope for effective price action by the major producers, with sharply differing starting block positions. This shall not be about power point presentations but about hard cash reserves.

Worrying more about incipient US protectionist turn than Brexit

While much is being – justly – made of the prospect of the UK leaving the EU, we see the principal threat to global trade and economic integration from the increasingly pervasive US anti-free trade mood. This does not bode well for the emerging markets and integrated supply chains.

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While nobody has as yet started agitating for a new Smoot-Hawley tariff, we would be well advised to not ignore repeated references to fair trade.

Wage competition – is as the British might say "not cricket"!

This is a thinly veiled attack on wage competition, which is deemed – in contrast to even the most primitive understanding of competitive advantage – as hitting below the belt. We might well ask where the global economy might be today, if we had insisted that post-war Europe pay US wages.

Europe would not have been able to leverage one of its principal strengths for longer term wealth creation and the US would not have been able to ride the cross-Atlantic boom.

Deflation hazardous for financial institutions

With regard to the Euro Zone's continued struggle with falling prices, there appears to be little respite in sight. Industrial prices keep falling fueling deflation and posing an ever greater challenge to the ECB. Deflation can be hazardous to the health of financial institutions!

Foray into negative rates – starting to look like Lewis and Clark – journey into the unknown!

Will the single currency central bank push further into negative territory? We are hearing from an ECB representative that:
Some banks are successfully navigating the low interest rate rapids;
The priority remains price stability and ultimately, growth.

Banks cutting corners – this shall end badly!

This was achieved via a combination of lower loan loss provisioning, for which the banks are now bearing the brunt, and capital gains, on government bonds, reflecting one off gains. This hardly appears to be the way forward.

ECB goes for the short term strategy

We see the ECB as having opted for a short term boost to the economy as compared to allowing the banking system to re-capitalize via increased profits as opposed to de-risking / balance sheet contraction.

The assumption which dare not speak its name is that banking rescues are the preserve of the state and not of the central banks.

US companies still hiring – are people cheaper than machines?

With regard to the US, markets are gearing up to the jobs report on March 4th. The ADP report reflects the consensus view that US companies are – despite the financial turmoil – continuing to hire. Whether this shall carry through to wages or shall be a guarantee against a slowing economy, remains to be seen.

US economy shall not take off on low paying jobs

We have long seen employment and economic growth as having parted ways. Hiring is strongest in sectors where there is limited scope for productivity increases, hampering wage growth and expansion. The US economy is not going to achieve take off on increasingly unstable employment and a "sharing economy".

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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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