Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Europe trading flat, while UK service data disappoints. Job growth no longer linear link to economic expansion – after Phillips curve another myth goes! Will the ECB square the circle? Oil bulls look at reality.

European markets trading flat – little sign of economic advance

European markets are trading flat with investors digesting a fall in the Euro Zone composite index and further deflation in producer prices, with the latter indicating continued strong discounting. The key issue is that a domestic demand mini-surge rooted in falling prices is not a solid basis for sustainable growth.

We see the Euro Zone continuing to expand at a moderate pace, with growth unevenly distributed. The German economy's resilience in the face of possible political uncertainty remains critical.

UK services disappoint – will Federal Reserve end up going it alone?

Looking outside of the Euro Zone, UK service data was disappointing. Following on poor manufacturing data and pressure on exports, this is clouding the economic outlook ahead of the UK – EU referendum. This may lead the Bank of England, already pressured by zero inflation, to once again put off raising interest rates. Will the Federal Reserve be the last to contemplate "normalization"?

No linear relationship between employment growth and economic expansion

As concerns the US jobs report tomorrow, investors are seeking clues as to indications of strength in the US economy - working on the assumption that there is a linear relationship between employment growth and economic expansion. We see this correlation as having long ago become null and void, with a fundamental shift in job creation skewed towards lower paying jobs. It is not a coincidence that the minimum wage debate has become a point of contention.

Will the ECB succeed in squaring the circle?

On the monetary front, attention is shifting to the ECB meeting next week, with many expecting the single currency zone central bank to square the circle. This shall require lowering interest rates, while not further prejudicing the banking system's capacity to recapitalize via earnings and not via de-risking.

Will we be seeing a "tiered" deposit rate at the ECB, where banks flush with cash from another endless round of QE can park their cash? These efforts have now run their course and the need for reforms long deemed politically incorrect – has become urgent!

Thank heavens not all think like Donald Tusk!

With regard the migrant crisis, we are seeing a hardening of attitudes with Donald Tusk - European Council President - proclaiming that economic migrants are not welcome in the EU. We may well wonder what would have happened in the US and post-war Europe if these attitudes had gained the upper hand.

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

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Once again US shale producers seen on the verge of utter collapse

With regard to the oil price, which has been supporting stock markets, the initial boost of enthusiasm seems to be fading out. We have not heard further assurances as to the "coalition of willing", with producers girding for a return of Iranian crude. The "crude" truth remains that despite the cheer-leading prices remain at levels deemed unconscionable scarcely 18 months ago.

There appears no proclivity for non-US production cuts, with hopes increasingly pinned on the imminent collapse of the US shale producers. We may well ask, where the increase in inventories came from if the US oil sector was on the verge of shutting down?

Not wild about EM

We have been seeing a bounce in the emerging markets. This is being driven by the hope of accommodating monetary policy globally and, in particular, further measures in China. We remain skeptical and view the incremental impact of further measures as limited. It is an irony of history that the former bulwarks of global capitalism are now in the thrall of the monetary and foreign exchange policy of a nominally communist country.

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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