Macro Snapshot – Chief Economist Jean Ergas

March 4, 2016

March 4th 2016

US jobs report – unique combination of labor shortages and falling wages! Americans need to review "New Math" – what base are we using? Still, count your blessings - we are apparently not in a recession!

Mexican central bank takes position on the US economy – we would do well to listen! EU – Turkey migrant agreement apparently near final lap – will this appease the opponents of any further inflows? Cameron stepping up fight for UK in the EU

In Brazil, police are detaining the former president in a corruption scandal – is this the "turning point"?

We read with interest that Brazilian police are detaining the former president in a no-holds barred corruption investigation. The news has been greeted with jubilation by the financial markets, who are already seeing the resignation or impeachment of the current head of state as a done deal.

We stick to a fundamental medium term view on Brazil

While the news is indeed sensational, we prefer to continue to focus on some fundamental facts:
Brazil has been one of the most spectacular economic growth stories of the last 25 years;

Brazil has always been cyclical and always shall be
Brazil remains an economy with tremendous strengths, there are few economies in the world where private sector companies are able to generate profits with positive real interest rates.

Be grateful for small mercies! We are not in a recession right now!

Yesterday, US stock market investors turned slightly more optimistic in late trading, buoyed by data which continues to point to slow growth but not an outright recession. The service sector – which is meant to pick up the baton from manufacturing – continued to expand. Hopes of further central bank intervention, be this active or via benign neglect, helped to support sentiment.

We see as the take-away that investors have lowered their expectations. The "we are not in a recession" scenario is rapidly mutating into the first best outcome!

US jobs report, reflects changes in the structure of the labor market

The US jobs report has now been released and reflects our view as to the changing structure of the US labor market. In a market with what appears to be a newly minted "unlimited supply of labor" wages and employment growth have parted ways.

Many still on the sidelines- are Americans now retiring or – giving up – at 25?

Jobs creation beat the forecast, while the unemployment rate remained constant. The labor force participation rate at 62.9 per cent remains disappointing. It is getting progressively more difficult to explain this away with demographics.

Markets shall not be enthused as to the prospects for a strong advance in consumption. However - the wage data – indicating scant wage push inflation, shall lessen pressure to raise interest rates.

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

Want to know where the US economy is headed? Ask Mexico!

The Mexican central bank is not waiting for the jobs data to cast its vote on the performance of the US economy, with a robust revision to the 2016 growth forecast. In 2016, GDP shall expand by between 2 – 3 per cent (2 ½ to 3 ½). This is predicated on a continued slowing of US manufacturing, dealing a hammer blow to Mexican supply chains.

While manufacturing is often downplayed due to the massive preponderance of the service sector, it remains the powerful "swing vote". Should the Mexican central bank be right – some may be disappointed.

Europe in the mood!

With regard to foreign markets, we are seeing a further upward move in Europe. The key drivers are the perception that the US, while not advancing at a blockbuster pace, is not in or shortly about to enter, a recession. The second is that China shall announce new stimulus measures.

Europe self-image as an exporter to distant shores

The key message is that European investors are still placing scant reliance on internal Euro Zone and EU demand providing a boost. A stronger US economy and a lease on life for the Asian supply chain remain critical to any stabilization. European investors are now awaiting next week's ECB meeting and hoping for further measures.

Deflation equals re-leveraging of Euro Zone balance sheets

We remain skeptical as to the efficacy of further measures having any impact beyond lowering the cost of financing for the "happy few" in the short term. Longer term, continuing deflationary pressures shall re-leverage a wide swathe of sovereign, corporate and consumer borrowers.

The ECB challenge is not growth but to prevent a re-leveraging of corporates and consumers, dealing a further body blow to a leaking banking system.

EU claims migrant agreement with Turkey is near, appears limited

On the political risk front, an agreement appears to be in sight with Turkey on the repatriation of some of the migrants flocking to Europe. While this shall alleviate some of the strain, it shall not solve the problem of those qualifying for the status of political refugees.

Opponents of inflows are not differentiating between political and economic migrants

The issue is not whether the migrants are economic or political – opposition to further inflows is so deeply entrenched that this distinction is irrelevant. We expect further pressures to emerge in the summer, as the warmer climate encourages the desperate to try their chance.

There shall be more waves in the UK!

With regard to the ongoing Brexit saga, as if Cameron did not have enough on his plate, the head of the British Chambers of Commerce came out in favor of the "leave the EU" camp. Current chances of an exit are now estimated at 40 per cent.

This is staggering given that the UK government until recently saw the referendum as a formality, confirming the status quo.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC
Research: (646) 780-8880 research@tigressfp.com
500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC

Research: (646) 780-8880 research@tigressfp.com

500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com