Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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European markets hesitating before ECB meeting. Will the European central bank deliver as expected, with investors expecting QE + further interest rate cuts. China continues to reassure, will it be enough? Turbulence in Europe migrant crisis continues, will the EU succeed in reaching a comprehensive agreement?

Will this be the shoo-out at the OK Corral? Is this the start of a "pincer" movement?

Are we seeing the beginning of a "pincer" movement apt to trigger a major crisis? Will the weight of corporate debt – rapidly being assimilated with sovereign implicit guarantees in the emerging markets – together with the brittle constitution of some of the European banks, set the stage for a showdown?

Where is the linkage between inflation and growth?

With regard to monetary policy, the Bank for International Settlements – often seen as the central banks central bank – has sounded a warning as to the damage to bank profitability due to negative rates. We see this as an admonition in view of the upcoming ECB meeting this week.

Will the Euro Zone central bank's measures succeed in stopping ever stronger deflationary pressures? If so, will this succeed in re-establishing a linkage between inflation and growth?

This week!

Investors appear to be keeping their cool

On the eve of the ECB meeting and scant two weeks from the deliberations of the US central bank, investors appear to be maintaining their composure. China has felt it necessary to reassure a jittery audience as to the liquidity of their reserves, seeking to: dispel concerns stemming from investments in real estate and private equity funds reassure as to capacity to intervene in the currency markets

Two-pronged Chinese approach to markets

We are therefore seeing a two-pronged Chinese approach towards the markets: Allaying macro cyclical concerns via confirmation of growth targets and seeking to reduce anxiety with regard to a repeat of the "Guns of August"

Investors focusing on oil, better than expected US data and hopes of central bank intervention

Stock markets have continued to rally on stabilization of oil prices, US economic data mitigating recession concerns – however not indicating an acceleration of growth – and hopes of accommodating central bank policy. Systemic risk in the banking sector is seen as abating – helping to shift investor focus towards a cyclical analysis.

Is this a relief rally or expectation of a change in fundamentals?

This week, market participants shall be called upon to decide whether the first best outcome remains stabilization or if there is still scope for positive news on either the earnings or macro data front. With stocks by most standards not inexpensive, shall investors be bailed out by "the weight of money" and expansion of earnings multiples?

Will China fulfill investor hopes? What is the effective firepower?

Sentiment is now increasingly steered by hopes that China shall not devalue its currency and provide further stimulus to its economy. We see a combination of dwindling FX reserves and slowing global growth and an erratic internal economic transition allowing China little leeway as regards the above.

ECB fighting a two-front war, growing realism as to deflation

While China is being asked to grow, the ECB's dominant strategy is to avoid backsliding as concerns both inflation and growth.
Data on both fronts has been disappointing. It is becoming increasingly clear that deflation is not only imported but is also stemming from weak internal demand.

Brexit "Gathering Storm" – remains unpredictable

With regard to political risk, the focus remains squarely on

Europe. The risk of a UK exit from the EU and the consequent turmoil this might engender remains a key issue. A UK exit would also trigger massive second round effects, leading to a weakening of the ties and commitments between the EU members.

What seemed like a "tail risk" event has now become a distinct possibility. This is causing the UK prime minister to frantically try to muster support. Will it work?

Comprehensive solution to migrants crisis still pending – now plan to stop entrants at the gate

A comprehensive agreement with regard to the migrant crisis is still pending. The focus has shifted from country allocations of migrants to stopping the problem at the EU borders. In a plan reminiscent of the last days of Rome, the migrants shall be blocked at the gate. The key support shall be agreement with the Turkish and Greek governments to stem the refugee flow into and within the European Union.

Renewed reports as to actions to stabilize the oil market

Oil prices received a boost from expectations of central bank – monetary stimulus, renewed reports of a possible agreement between major OPEC and non- OPEC producers for a freezing of production at current levels and a decrease in US shale production.

Expect US shale sector to once again confound doomsayers!

With the market still oversupplied we would be hesitant to pin our hopes on a drastic reduction in US shale output. The industry has – despite a spate of defaults – surprised with its overall resilience.

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

Focus on the US - Once again in the spotlight

US macro data providing support, US economy not crashing!

US data has succeeded in mitigating some of the disappointment caused by the lack of concerted action from the G-20 conference, on the dual currency and fiscal policy front. With hopes as to a synchronized upturn rapidly fading, the focus is turning to the strength of the US economy and its ability to grow on a "stand – alone" basis.

Macro-data allows for a glimmer of optimism

The macro-data while not stellar on the manufacturing and services front, has allowed for a glimmer of optimism that the economy is stabilizing. Sentiment has been aided by a stronger than forecast jobs increase, bolstering those who are betting on a "strength in numbers" as opposed to an increase in wages as the key growth driver.

We remain concerned by the fall in wages, reflecting the shift in job creation to relatively low paying jobs.

The major upshot of the US employment data has been the re-evaluation of the prospective course of US monetary policy.
There appear to be two major currents of opinion. The first centers on the "brute" increase in job creation, viewed as a portent of an increasingly robust economy and an argument to raise rates. The second is the fall in wages pointing to scant wage inflation pressures supporting a "hands off" stance.

We are of the view that the US central bank shall not – unless there is a concrete systemic risk – from its stated course of gradually "normalizing" interest rates.

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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.

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