Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Are we on the verge of destructive trade policies? Can ECB deliver? If they do, what shall be the impact on the real economy? IMF wants new economic demand creation policies – who can afford this? Stocks can move on oil but we cannot analyze oil like stocks!

Are we on the verge of an epochal shift? Shall send candidates copy of "The Wealth of Nations"!

Are we on the verge of political surprises in the US? Much is being made this morning of the Sanders victory in Michigan, confounding the polls. While Clinton remains ahead in the Democratic primary sweepstakes, those who are on nodding terms with Adam Smith's "Wealth of Nations", please start quaking in your boots!

Economic plan – return to "Leave it to beaver" US!

The closing of the US economy is now a concrete policy option. Nirvana shall be a return to a 1960's US economy, facing no competition. The gap between technological advance and "catch up" economic growth placed a premium on a scarce labor base, generating massive economic rents for selected groups.

If neo-mercantilists win, supply chain disruption shall ensue

Whatever the electoral outcome, there shall be little support for trade liberalization. Above and beyond the economic consequences, supply chain disruption shall over time cause havoc in emerging market economies.

Optimism in Europe – waiting for the ECB

We are seeing some optimism in Europe, with investors putting their hopes in the ECB meeting tomorrow. This comes on the heels of the French central bank lowering its growth forecast and renewed warnings from the IMF. With the OECD also chiming in, some are hoping that this may trigger a shift towards more aggressive demand stimulus policies.

We are continuing to see investors opting for the non-recession slow growth scenario, coupled with expectations of further monetary easing or at the least, non-intervention.

Shall the ECB seize the day?

Many are wondering whether the ECB shall "seize the day" and announce bold new measures. These would include a combination of more quantitative easing and even lower deposit rates. However, judging by the measured reaction of the sovereign fixed income markets, investor enthusiasm is somewhat muted. It is becoming increasingly evident that every basis point of easing is having a smaller impact.

Euro Zone – lesser scope for pass-through from central bank action

The key distinction between the US and the Euro Zone is the transmission mechanism between monetary policy and the real economy. The US with its multiple access channels to capital markets financing – marching in lock step with monetary policy -allows potentially more entities to benefit from the pass-through from central bank action.

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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Capital markets versus bank lending

In the Euro Zone, banks remain the principal source of financing for the small and mid-size sector. Banks shall use the central bank kindness to boost their depleted margins! We continue to view the EU banking restructuring as not over. The banks still need to face up to their mountain of bad loans, while simultaneously meeting more stringent capital requirements on new business.

Focus on growth

We are fed up with rationalizations about China!

Markets have continued to react to every whisper coming out of China, with exports sharply down and no sign of a rapid recovery. Some attempt to rationalize this with references to "growing pains". However without having written a doctoral thesis on input – output tables it is clear that a slowing Chinese economy is not good news!

All economies now "stand-alone"

At this juncture it is increasingly evident that China shall not provide the needed boost to the developed economies. All economies shall now need to be assessed on a stand – alone basis. We have long argued that you cannot export your way out of a growth recession and we now have the confirmation.

IMF issues a call to arms for demand stimulus policies

On the subject of growth, the IMF has issued a call to arms for a return to demand stimulus policies, implicitly recognizing that we have reached the outer banks of the limits of monetary policy. As for the emerging economies, there is little that they can do to re-balance their economies away from commodities or the Chinese supply chain.

The growth "surprise" must therefore come from Europe. Whether the Euro Zone – firmly in the grip of German austerity zeal – shall succeed in breaking with 1932 economic orthodoxy, remains unclear.

Can we analyze oil like the stock market?

Oil prices yesterday came off the boil as traders realized that as of yet no concrete action has been taken. We are informed that the market was "oversold" but remember that this was prevalent opinion as oil slid towards 10 dollars at the end of the last century.

We continue to see oil driven by a political dynamic which shows no sign of changing route, with Saudi Arabia still insisting on a market solution to the present crisis – of which they have been the instigators!

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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