Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

March 10, 2016

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Stocks have gotten what they wished for on ECB decision

The equity markets appear to have gotten what they were wishing for, with European shares posting very strong gains, on the ECB's announcement. This confirms that the single currency area's central bank is proceeding on a dual axis.

Fighting deflation takes precedence over banks

Draghi has decided that fighting deflation shall take precedence over concerns as to banking margins. As concerns the expansion of QE to Euro 80 billion a month, we expect that while the monthly increase in itself is unlikely to engineer a massive shift market sentiment it:

May wish to reduce financing cost differentials

Shows continued willingness to pull out all of the stops
Will likely be tilted towards purchases of peripheral bonds, to reduce financing cost differentials. As growth prospects are revised downwards, the focus is on improving overall sovereign expenditure.

Pressure on the Euro increases – we are reverting to "money illusion"

We are, as expected seeing, pressure on the Euro, fitting squarely into the ECB strategy of boosting inflation by raising the cost of imports. While inflation may not have a linear correlation to real economic growth, we see one of the key objectives as restoring pricing power to companies lacking an "economic" moat. We are seeing a reversal to "money illusion" economics posited on nominal value accounting.

Increasing nominal prices are a back door way of easing the strain on loan quality. Higher prices are expected to boost company revenues and margins, reducing the default risk.

Next date with destiny – Federal Reserve meeting next week

With the ECB decision out of the way, the financial markets next "date with destiny" shall be the Federal Reserve's meeting this coming week. We continue to see the sole obstacle to a further rate increase this year as being a return of systemic risk or increased market volatility on recession scares.

Federal Reserve undeterred!

China slowing, panic in the Euro Zone banking sector and the possible collapse of the European Union as we know it, have not dented the US central bank's underlying optimism as to the domestic economy.

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We see the bar as having been set very low – growth no growth. Economic data indicating that the US economy shall grow, hints at rate increases before the year is out.

Holding the line in the Balkans shall not be enough!

With regard to political risk, we are starting to see the first cracks in the EU with regard to the stopping of the migrant flow. The major fault line is the Turkish demand for visa – free travel within the Schengen zone. Predictably, this is arousing strong opposition from a wide coterie, including Merkel's own supporters and the opposition in France – with former president Sarkozy leading the charge.

The German leader has rightly commented that blocking the migrant flow does not solve the problem! The flow shall keep coming via other means and the crux of the issue remains their acceptance and resettlement within the EU.

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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.

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