Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

March 11, 2016

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Markets up on re-evaluation of ECB measures, looks increasingly like the counsel of despair. We refuse to cheer the need for negative interest rates, ultimate vote of no-confidence with regard to macro-economic management. "Street car named desire" monetary policy has reached the end of the line.

Oil market remains oversupplied. Will Iran join in? EU migrant crisis nowhere near solved and German regional elections loom. Can Angela Merkel hang in there?

Today's action!

Are we seeing a glimmer of light following yesterday's volatility?

So are investors being fickle or is this a "sea change" with regard to the efficacy of central bank intervention? We are seeing a reversal of yesterday's ambient despondency following – in a scene straight out of Oliver Twist – that a second portion of gruel shall not be forthcoming.

Some seeing a more positive twist to the ECB measures

There has been a slightly more positive twist, focused on ECB measures aimed at mitigating the impact of negative interest rates via subsidized lending. We remain of the view that this is a textbook example of desperate people doing desperate things!

Financing costs are not the major constraint on the expansion of bank lending

An increase in bank lending halting the unrelenting de-risking and shrinking of balance sheets – shall not be contingent on financing costs. The availability of lower cost finance shall not prompt banks in the short term to lend in a morose economic context. Longer term, banks need to re-position to meet increasingly tough capital requirements.

Germany is in deflation and the 2016 Euro Zone inflation outlook downgraded to 0.1 per cent. This is a deafening vote of no-confidence in progress so far, with the deflation risk far from banished.

Can Angela Merkel hold the line?

Speaking of Germany, on March 13th there shall be elections in three German states. The vote is widely seen as a referendum on Merkel's leadership. With palpable discontent due to the migrant issue on the rise, a set-back for the CDU may be seen as a harbinger of political instability up ahead.

EU proposed migrant plan running encountering opposition – Cyprus and Schengen sticking points

Turning to the migrant crisis, we are starting to see resistance to the draft plan to – against substantial concessions – rope or more aptly – corral, Turkey into being the bulwark against further inflows. The thorny issues of Cyprus, as well as the prospect of visa free travel for Turks within the Schengen zone, are already stoking dissent.

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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Oil starting to look like Beatles "Magical Mystery Tour"

Turning to oil, the present presumed machinations of several of the producers bear an uncanny resemblance to the Beatles album of my youth "Magical Mystery Tour"! A meeting - as to whose date no mortal is privy - is supposed to take place to "settle" panic in the oil fields.

Desperately seeking Iran!

Much is being made of the impact of supply disruptions from non-sanctioned producers. We see these as temporary reductions in the oil flow which can be resolved in the short term. It shall be irrelevant whether the increase in Iranian shipments starts now or in 6 months, it is on its way and shall have a lasting material impact.

We see the oil market as still oversupplied and see it as difficult to reach any lasting effective agreement without Iran.

Focus on the ECB

And so the great day came – and went!

And so the epochal day came and went. The ECB followed through and threw more of the same, with an ever lower incremental impact, at the markets. The reaction has shifted from raptures to doubts and lastly to disappointment. This was highlighted by dizzying gyrations in the FX markets, with the Euro first collapsing and then staging a comeback.

No desert!

As the French say, you develop an appetite while eating and Draghi wrecked the meal by pulling the desert at the last minute! Having announced the expected deposit rate cuts and increased QE – to include corporate bonds – we were told to expect no more munificence. We see yesterday's events signaling to those who stubbornly cling to the quaint idea that the "real economy "that:

This is the end of the line for monetary "Street car named desire"!

This is truly the end of the line for the monetary "street car named desire" of ever more expansionary central bank measures. Endless targeted lending programs, QE and negative interest rates have failed to spur either any respectable growth or inflation.

ECB gives up on pass-through via sovereign debt to corporate borrowing costs - goes for the jugular!

The resort to corporate bonds signals the ECB sees scant point in focusing on a projected pass through from sovereign financing costs to the corporate sector. They shall now focus directly on the corporate debt having given up hope as regards any trickle down effects from risk free securities.

Euro Zone GDP forecasts muted - look-out cannot spot inflation!

GDP forecasts are muted and the inflation prognosis remains grim. In rosier times the Euro Zone sought to boost the economy via exports – the objective now has been scaled back to avoiding a deflationary collapse, which may well not be linear but be a step function.

Euro Zone missed an excellent chance to push through reforms

Looking at the broader picture, we believe that the major Euro Zone economies have missed an excellent chance to push through necessary reforms. These should have been pushed through while the EM sphere was still pulling its weight, with export sales attenuating the impact of reductions in government expenditures and labor market dislocation.

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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