Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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European markets up on ECB measures. Will they start buying preferred stock if conventional fixed income not sufficient? Political shock in Germany, will this threaten stability? Oil price retreats. There can be no deal without Iran – coalition of the willing starting to weaken.

Investors are now gearing up for the next "date with destiny" - the Federal Reserve meeting. Prior to sentencing - retail sales shall give us the pulse of the other 99 percent. US inflation shall provide a key metric for US central bank strategy.

Focus on the ECB

Investors galvanized by the ECB

Investors have been galvanized by the "fireworks" announced by the European Central Bank – a combination of yet even lower negative rates, quantitative easing, extended to corporate debt, and bank targeted lending programs.

These measures do not work!

We see these measures as a last attempt to rekindle both inflation and, subsequently, growth in the face of a slowing global economy. The "bottom line" is that these measures have hitherto failed to deliver on the dual inflation and growth front, seen as a "holding" strategy.

Whether holding the line shall be sufficient to engender a metamorphosis in the Euro Zone from sub-par and uneven growth to "locomotive" is doubtful.

ECB de-facto supreme arbiter of the Euro Zone economy

In the economic arena, effective decision making has been delegated to the European Central Bank. This reflects the entrenched institutional obstacles to reforms and the fading chances of an endogenously driven "real economy" recovery.

Deflation remains the major challenge

Economic data has continued to fall short of expectations, with regard to both growth – which remains modest and uneven – and the threat of encroaching deflation. Deflation and the ensuing re-leveraging at multiple levels, remains the major challenge.

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ECB opts for monetary policy over managed currency decline

The opinion is gaining ground that the ECB has elected to favor monetary policy over the focus on engineering currency devaluation. Some see this as reflecting commitments taken at the G-20 conference on the use of competitive devaluations – seen as a form of latter day protectionism.

Aim to re-kindle domestic demand

We see this rather as acknowledgement that with global growth slowing an export driven recovery is becoming more difficult. The alternative is to seek to rekindle domestic demand, primarily by providing low cost financing for capital investment. We remain skeptical of these measures.

German electoral shock – migrant crisis shakes up status – quo

Turning to political risk, the major "shock" item is the advance of the anti-immigrant front in the German regional elections in three regions. We see as significant that the AFD has not only surged in the still comparatively dismal former East Germany state of Saxony – Anhalt. The anti-immigrant contingent also forged ahead in Baden-Wuerttemberg, an industrial powerhouse.

Populist international scores a direct hit

This is a decisive thumbs-down with regard to the relatively "open door" migrant policy advocated by the German "Establishment" We are seeing a continuation of the "outsider" politics already playing out in the UK, France and Italy. This shall add impetus to the Brexit campaign in the UK – which is posited on loss of control as opposed to economic stagnation.

EU skeptics shall be emboldened

We expect that this defeat shall embolden the EU – skeptics at the upcoming EU summit. These are the countries seeking to strike a deal with regard to both not accepting migrants and, in broader terms, further economic and political integration.

Voter concerns have shifted from economic concerns to issues of political sovereignty and limits to cooperation within the EU. The locus of the solution has migrated from monetary policy to institutional reform.

As we speak!

European markets up on ECB measures – Federal Reserve shall this year go it alone

Today European markets are up on expectations of further ECB stimulus both lifting the Euro Zone economy and - via bond buying – push down returns on Euro Zone bonds and encourage a shift into equities. Meanwhile on the currency front, the US Dollar is clawing back some of last week's losses as investors see the Federal Reserve sticking to its rate raising policy.

Put option no longer central banks – last stop government spending

We continue to see the markets driven by the expectation of central bank and – if all else fails – massive government stimulus programs. The "put option" shall ultimately shift from lowering financing costs – central banks – to the state as buyer. The solution is no longer reflating the economy but lifting inflation and reducing the risk of re-leveraging via deflation.

Investors gearing up for the Federal Reserve meeting

Investors are gearing up for the Federal Reserve conclave. While expectations of an interest rate increase are minimal, the central bank's comments on the economy's progress or – lack thereof – shall be closely analyzed.

Expect Federal Reserve to – like the postman – knock twice this year

The Federal Reserve, with financial market volatility – source of potential systemic risk abating – and deflation not on the horizon, shall not be remiss to make more belligerent noises.

We continue to see a focus on main street – domestic economy – and not Wall Street, S+P 500 geared to global.

Iran asking for "time out" on production freeze

With regard to oil, we were not surprised to see that Iran has asked for "time out" with regard to any prospective agreement for a production freeze. Iran insists on attaining its goal of 4 million barrels a day, with re-capture of export markets, as a pre-condition for entering into concrete discussions.

We are starting to see the first cracks in the oil "coalition of the willing".

Skeptical as to commodity mini-boom

We remain skeptical as to the surge in the price of oil and of selected commodities, with the increase fueled by hopes of a "second act" in China. With the "savage phase" of capitalist accumulation and infrastructure development waning, we see scant scope for a re-run.

Shall the twain meet?

We are seeing a divergence between resource prices and the longer term prospects for the mining houses. While the former have rallied, the rating agencies - focused on cash flow sustainability – have steadily downgraded the major players.

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