Macro Snapshot – Chief Economist Jean Ergas

March 24, 2016

March 24th 2016

In a nutshell!

Stock markets playing from backfield as Federal Reserve growls and long week- end looms. Europe attempts to forge a concerted strategy against terrorism – shall it work? Oil strength recedes as US shale sector's demise greatly exaggerated.

Stock markets are not amused!

To borrow a famous phrase from Queen Victoria – stock markets are not amused! Persistent aggressive and for some – but not us – intimations of interest rate increases are unsettling the complacency of those who see central banks as an annex of trading rooms.

A call for concerted action in Europe – shall it work?

We are once again hearing calls from across the Atlantic as to the need to forge a concerted anti-terrorist policy. So far the major result of the attempt has been an explosion of the "blame game". Belgium- seen as the weakest link in the chain - is under fire for not having adequately monitored terrorist suspects.

UK voters unimpressed by "collective security"

Meanwhile, we are seeing a strong advance of the "leave" camp in the UK. Echoing a slogan of the 1930's, UK public opinion is starting to question the doctrine of "collective security" underpinning the government's stance. The pound is falling and FX option volatility is soaring.

Greece – debt rescheduling starting to look like reparations

We read with interest that notwithstanding their being called upon to implement the "on the ground" part of the refugee strategy, Greece shall have to continue to meet all obligations under the rescue package. This is starting to look ominously like the reparations situation post World War 1.

US durable goods – still feeling the squeeze on the export front

On the US front, the key news has been the durable goods data, which confirms the squeeze on exports and capital investment. We reiterate our view that US economic strength shall need to rest on the twin axis of domestic demand and consumption.

Credit Suisse in the news

On the banking front, we are seeing another venerable institution – Credit Suisse – struggle with internal control and valuation issues. Again, the key issue is how you asses asset liquidity. This has once again prompted calls for a more rapid exit from the investment banking space.

Who shall be left to make markets? What does this mean for the less liquid fixed income classes?

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

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Focus on monetary policy

Zero interest rates - God that failed

Monetary policy centered on the age old maxim – to those who have shall be given – has rapidly become, to cite an epic work on the disillusionment of intellectuals who embraced communism, "The God that failed". Zero interest rates were the weaker of the one-two central bank strategy – low interest rates and liquidity.

Liquidity senior partner in rescue strategies

Liquidity and the sovereign backstop stopped the "Barbarians at the gates" – zero interest rates have massively distorted investment flows and by encouraging companies to privilege buy backs over productivity enhancements have set the stage for low growth.

US central bank cannot completely renounce its domestic mandate

The Federal Reserve is now reacting to an economy which is making timid headway and where systemic risk – in the form of a banking crisis – is seen as markedly lower. The US central bank needs to take foreign affairs into account but cannot be seen abdicating its mandate.

We are also seeing a shift in the Federal Reserve, with a "silent majority" opposed to appeasement of financial interests starting to emerge.

Focus on the oil price

Conventional wisdom does not understand binary decision making in oil sector

With regard to the oil price, we are starting to see a retrenchment from the dizzying heights of US Dollars 40. US inventories have continued to defy received wisdom. Conventional analysis predicated on all- in costs and complex formulas has failed to grasp that in oil – like shipping – the pump do not pump equation rests on cash coverage of operating costs.

Shell – BG deal based on US Dollars 80 oil – Will Godot show up?

We find it difficult to grasp what all the cheering was about. 40 dollars and, even 50 for that matter, are price levels still not sufficient to boost capital investment or materially improve the financial strength of the weaker producers. Shell's acquisition of BG was posited on a US Dollars 80 price, we are still some ways off and Godot may never show up!

We are focusing on oil supplies!

We shall not comment on technical levels but shall focus on the greater than expected build up in US oil supplies. This surpassed forecasts by a factor of almost four. The mood is also being dampened by the growing realization that freezing output at present levels –for the great and mighty meeting in Qatar – shall simply legitimize an excess supply.

We see the US inventory build-up as more important than US Dollar strength. The oil industry is starting to look like the shipping market, as soon as prices perk up – the over-ordering starts.

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women’s Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.