Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US stock market holding up – shall this continue? Who is running the Federal Reserve – center or the periphery? Shall we see the rise of informality in the US labor market? Euro Zone bond yields falling and core inflation remains minimal – stop blaming oil prices! Steel industry in the UK on the brink, we are seeing the end of an era.

US stock markets' good cheer continues – are investors making hay while the sun shines?

The US stock market's boisterousness continued yesterday with investors cheering the prospect of the US central bank not raising rates until at the earliest June. This smacks of making hay while the sun shines, or assuming that the road to higher rates shall be slower than hitherto telegraphed.

Who runs the Federal Reserve – the center or the periphery?

The speech by the head of the Federal Reserve stands somewhat in contrast to the heads of the regional banks. Their stance is slanted towards "The Pilgrim's Progress" in the domestic US market. Foreign affairs are taken into consideration but afforded a smaller weighting. This may lead us to re-consider the collegial nature of monetary decision making.

US job creation continues - but mostly low paying jobs

In the build-up to tomorrow's employment data, ADP numbers showed jobs increasing at a respectable pace. However, the "lion's share" of the positions has been generated by the service sector. We see the last decade as being the definitive refutation of "trickle down" economics – with a move towards informality reminiscent of a third world not yet emerging economy.

This is critical with regard to productivity and wage increases – an abundance of well-paid and stable jobs have been the essential underpinning of economic development. The trend in the US is not promising.

Is raising the minimum wage the only way to boost consumption?

With productivity difficult to increase in services, this may remain a constraint on wage growth and consumption. Consequently, this shall likely impact the pricing power of companies domestically, making revenue gains harder to achieve.

Today's action

Europe is down on weaker oil – US oil refuses to die!

European markets are down on some renewed weakness in the oil price. Investors are once again brushing aside the weaker US Dollar and focusing on supply and demand fundamentals. Iran is still standing in the wings and an increase in US oil supplies is once again confounding the skeptics. The closer WTI continues to hover around the US Dollars 40 mark, the greater the temptation to attempt to stay the course.

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Euro Zone deflationary pressures are alive and well

With regard to the "March of Europe", data this morning has confirmed that deflationary pressures are still alive and well. Price in the single currency zone have fallen year over year. On an ex-energy basis, there was a paltry 1 per cent increase. This is despite massive liquidity injections now reinforced by ECB bond buying.

Following avoidance of systemic collapse – ECB intervention diminishing returns

Summarizing the combined result of ECB action, the key accomplishment has been to prevent a systemic collapse. This was achieved by providing unfettered liquidity to the banks – caught in a sovereign – bank risk vicious circle. Efforts to lift inflation – avoiding a potentially devastating debt revaluation - have hitherto proven ineffective.

While many lay the blame at the door of falling oil prices, stagnating wages and still high unemployment have reduced demand and lowered corporate pricing power.

ECB about to launch Soviet style "Stalingrad offensive" will it work?

Euro Zone sovereign bond yields are once again collapsing, with investors positioning for a "Stalingrad" type offensive by the ECB. The European Central Bank shall soon be increasing the amount of bonds bought by Euro 20 billion and buying more types of debt.

Euro Zone monetary policy – case of mistaken identity

We see as striking that notwithstanding the marked reduction in long-term sovereign debt, growth forecasts are still being revised downwards. We see this as a case of "mistaken identity".

The Euro Zone's capital markets are less extensive, with access limited to top companies – who are flush with cash.

Where are the European assets?

On the investor front, the search for risk assets to offset falling bond yields is mitigated by generous pensions. Governments have "saved" for the employees, reducing the scope and fire power available for massive asset allocation shifts and "wealth effects".

Our major concern in the Euro Zone remains the risk posed by deflation to sovereign balance sheets. Notwithstanding years of brutal austerity, debt to GDP ratios for certain countries remain high. No government wants to repay with "real money" – hence the panic.

Are we reading the epitaph for the Industrial Revolution?

On a historical note, we are interested to read that the last of the steel plants in the UK is now up for sale, with the Tata group attempting to divest the ex- British Steel. This is not comparable to the closing of the coal mines. However, it would seem to be the epitaph for any further justification of import- substitution strategies – at any price.

The outlook for the steel "hold-outs" remains grim. Chinese steel being the object of dumping allegations but no major economy seems to be willing to jeopardize broader commercial interests.

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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.

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