Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Shall markets continue to ride the wave from the Federal Reserve speech? ECB says it is ready to move on deflation, Euro lower granting some respite for Euro Zone exporters. We are seeing a return of fundamental analysis to the oil market – what are the consequences for growth? Greece veers once more towards the brink!

Federal Reserve and US employment boost markets

Markets were last week granted a respite by the US central bank and increasing optimism – reinforced by the employment data – that a recession shall be avoided. Oil prices have resumed their descent, as investors refocus on supply and demand fundamentals.

Euro Zone – is this a re-run of the 1930's?

Euro Zone economic recovery remains weak, with persistent deflationary pressures and disappointing corporate earnings. Emerging markets remain in the thrall of China and the US central bank, little change on the ground.

Political risk – no sign of abating

Political risk shows no sign of abating, with the UK – EU referendum continuing to fuel both short and longer term uncertainty. There are already signs of reduced capital investment in the UK, with industry attempting to assess the viability of the UK economy outside of the EU.

Today's action

Europe higher on weaker Euro and hopes of resilient US economy

Stock markets in Europe are higher with investors buoyed by the weaker Euro following remarks by the ECB's chief economist that the bank is ready to take further measures to boost inflation. The overall picture in the Euro Zone remains one of halting recovery, boosted by "catch up" consumer demand but held back by slowing global growth and exports.

Oil prices decline but not yet for investors at systemic levels

With regard to the oil price, prices are once again declining. The decline has however not reached the point where investors deem it to harbor systemic implications. We see this as reflecting hopes of a breakthrough at the Qatar conference or that central banks shall do the heavy lifting. At these prices less competitive producers shall still be burning through their reserves.

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Macro Overview

We saw who is running the Federal Reserve – triumph of center over the periphery?

Last week, which was supposed to have confirmed the ascendancy of the "Stalinist" faction within the Federal Reserve, instead showed who is boss. As George Orwell rightly put it in ***Animal Farm*** *- we are all equal but some are more equal than others. Janet Yellen's speech trumped the regional Federal Reserve chiefs and created a powerful tailwind for the US stock market.*

"Brute" employment data lends optimism to no-recession scenario

This positive sentiment was buttressed by the employment data on April 1st – with "brute" employment rising and a modest increase in wages. This was seen as a further confirmation of a steadily falling recession risk, posited on US economic data.

This contrasts with continued concerns as to slowing global growth, persistent deflationary pressures, volatility in commodity and oil prices and political risk.

Federal Reserve shifts focus to foreign shores – worried as to triggering a tectonic mass of money displacement

We see these factors, in particular concerns as to a precarious equilibrium in the EM space, as staying the US central bank's hand. The renewed apparent moderation stems from systemic and not cyclical concerns as central banks seek to discern the tipping point between economic slowing and a rush for the doors.

Manufacturing shows signs of life – is this an enduring recovery?

Manufacturing data in the US and Europe has further buttressed hopes of an incipient economic stabilization. Whether this represents the beginning of a turnaround or a cyclical "catch-up" recovery within a stagnating long cycle remains unclear. We tend – on the basis of a still considerable output gap and faltering capital investment - to lean towards the former.

Return of fundamental analysis to the oil market

Oil prices have once again come off the boil. We are seeing a return to a fundamental analysis posited on "cash and carry" fundamental analysis as opposed to prospective rebalancing via concerted action by some major producers. Continued abstention by Iran and uncertainty as to Libyan and Iraqi intentions, has cast a pall on the efficacy of collective action.

Commodities advance slows – gap between long term prospects and short term bounce closing

As concerns commodities, prices have stopped their advance, with investors increasingly centered on global growth prospects. We have often commented on the divergence between the longer term prospects of the sector – as reflected in asset disposals and capital investment slashing to raise cash and reduce gearing – and short term price rebounds.

Share price gains have stemmed from liquidity inflows limiting insolvency risk, as opposed to a strengthening of economic fundamentals.

Europe continues multi-front battle

Europe continues to battle on multiple fronts – with political and economic factors increasingly intertwined. With the UK EU referendum less than three months away, polls continue to indicate a tight race.

Political Risk

UK – EU referendum sowing uncertainty

This continues to sow uncertainty with regard to both sterling and the prospects for the UK economy. Reflecting the growing respectability of the leave faction, a growing number of leading business personalities are throwing in their lot with the exit group. We see as critical that the former HSBC CEO has come out in support of the exit solution.

Coalition of the willing is steadily weakening!

As regards the oil price, we are seeing Saudi declarations increasing the "conditions precedent" for a production freeze - at best a weak solution. An agreement on the Yemen war, may remove some of the geopolitical uncertainties and add to the downward pressure. We view as sobering that Saudi Arabia is moving towards establishing a 2 trillion US Dollar fund for a post –oil world.

Greece – challenges on multiple fronts

Last but not least - there are machinations apparently with regard to the IMF role in the Greek rescue. Whether an IMF exit shall be sufficient to derail the program is unclear but this is a reminder of a problem that shall not go away. On the migrants issue, we are reading reports of rioting and stabbings in the Greek camps. We expect that the worse is yet to come.

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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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