Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets weaker, growth concerns re-emerge. WTO has words of cheer – we are not surprised. ECB trying to hold back the waves - looks increasingly like King Canute! Federal Reserve scared of systemic risk.

Markets waking up on a weaker foot – growth concerns re-emerge

Markets are waking up on a weaker foot, with European stocks down sharply and the US futures looking to follow suit. Weakness is being driven by a stabilization of oil prices following yesterday's strong advance, as well as renewed concerns as to global growth. Sentiment is not being helped by continued falls in the European banks, considered both a barometer and the lynchpin of the economy.

The morning after the notes before!

Today's action presents a sharp contrast to yesterday's post Federal Reserve minutes euphoria. Relief driven by the expectation of a cautious approach to rate increases has given way to the realization that the global economy is weakening. We are seeing scant results with regard to the "real economy" from the "Bonfire of interest rates" and pushing down of long term interest rates.

World Trade Organization adds to cheerful mood!

The last broadside was launched by the World Trade Organization which is again foreseeing an increase in international trade lagging global GDP growth. This has also been attributed to declines in commodity prices, a shift towards services and more sophisticated manufacturing techniques.

World merchandise trade still an excellent metric

However, movement of goods is still a key metric of growth, in the case of container traffic reflecting consumer purchasing power. Looking longer term, the clouded outlook for free trade may add further obstacles to commerce, forcing a review of existing supply chains and the distribution of revenue.

Beware of paying insufficient attention to manufacturing!

There is considerable concern as to whether China shall succeed in effecting the transition from a manufacturing based to consumption. The issue of the new prospective industrial order has been given insufficient attention.

Level of manufacturing employment remains key metric for nascent economies

While the global economy is increasingly geared to services - manufacturing remains a large part of it and has traditionally been the channel for the creation of a formal economy. A choking off of manufacturing employment in emerging markets might deal a hammer blow to the rise of the next wave of the global middle class.

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ECB – this bank is not for quitters!

Turning to the Euro Zone, one can criticize the ECB for many reasons but they are not quitters! There has been a salvo of declarations with regard to deflation reaffirming the willingness to take further measures. One may well wonder – short of distributing arms to the population, handing out money in the street, what further remedies are available!

King Canute trying to hold back the waves!

We see this as similar to King Canute trying to hold back the waves! Chinese overproduction, weak energy and commodity prices and the need to discount massively to coax the marginal Euro from consumers provide a challenging backdrop.

Banking stocks keep taking it on the snout!

We are once again seeing pronounced falls in banking stocks, which we see as being susceptible to a multiplicity of perils, both short and long term. These range from the "Damocles Sword" of negative interest rates to the implementation of draconian and ever stricter capital requirements. Along the way, they need to contend with the minor issue of writing off an avalanche of bad loans.

Hopefully out of the systemic phase!

We appear to have momentarily moved out of the systemic phase – risk of non-payment on selected debt. The focus now is on the restructuring of the loss laden Italian banking sector, with the recapitalization of the worst afflicted now seen as an intermediate step to mergers and restructurings.

To those who have shall be given!

The ECB minutes confirm our view that policy is now focused on giving to those who have! Corporate bond buying is seen as further lowering borrowing costs for entities that are both flush with cash and already benefiting from low rates. Low rates of capital investment further decrease any need to borrow for industrial purposes.

We are interested in reading that the idea of Europe is alive and well. Voters in the Netherlands have rejected an EU – Ukraine association treaty. We see this as the harbinger of a closing of the ranks! Brexit danger looms.

Focus on the Federal Reserve

Federal Reserve view of the economy binary – is this too simplistic?

The event of the week – the release of the Federal Reserve minutes – has come and gone. We continue to be struck by a binary view of the global economy with an apparently strengthening US economy contrasting with slowing growth and instability abroad. What is not clear is the extent to which the "heart of the matter" is a cyclical risk based on available data or systemic concerns.

Following publication of the minutes we are reinforced in our view that systemic risk concerns compounded by low data transparency are driving the Federal Reserve. When in doubt abstain says the motto!

Federal Reserve has grasped difference between size of economy and financial market liquidity

The US central bank has understood that emerging markets do not have the buffers or market liquidity of the more advanced economies. A slight push will knock the door down and suffice to de-stabilize the precarious financial status quo. This is not about growth, which is miserable, but of not adding insult to injury.

As we have often said, China – the world's second economy – has the financial transparency of a pink sheet traded stock. Never have so many depended so much on statistical approximations.

Focus on commodities

We are moving from prices to asset sales

Action in commodities has shifted from market prices to asset sales, highlighting the different approaches to the sector. China is stepping up efforts to buy copper mines and secure supplies, regardless of whether this is the "bottom". Avoiding tail risk events along the value chain is deemed more important than asset trading.

We are informed that there is a scarcity of available properties, with leading mining companies still hanging on to hopes of a cyclical upturn.

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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.

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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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