Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

April 13, 2016

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Stock markets up on China – is export boost dumping? Oil conclave looking shaky – will they agree to disagree? Sweden speaks of even lower rates – is this an omen for the banks?

US retail sales disappoint – we are not surprised!

US retail sales for the month of March have disappointed. We are not surprised and still see the US consumer as either cash challenged in absolute or funneling available cash to reduce still high leverage levels. We are not expecting the consumer to pick up the slack from manufacturing and expect further moderation up ahead, should gas prices rise.

Stock markets exuding greater optimism on China data, oil hopes and Italian banks

Stock markets are exuding greater optimism this morning. Improving export data from China, continued resilience on the oil front and stronger European banks – following the Italian restructuring plan – are lifting the mood. This is offsetting continued concerns about global growth on both a comprehensive and trade basis.

Markets are apparently setting low targets and operating on a binary, recession – non – recession basis.

Can China still acquit its role as global "fallback"?

Chinese export data together with rising exports and increasing

FX reserves, is seen as confirming the potential support from the global "fullback". The extent to which the export increase reflects continued price cutting abetted by de-facto insolvent credit institutions needs to be carefully weighed in the equation.

Cracks are widening in the coalition of the willing ahead of Qatar conclave!

As regards the oil price, prices remain resilient. The expectation that the Qatar conference shall stabilize prices or at the very least, reduce volatility is high. This seems to, however, run contrary to the widening of dissent within the prospective attendees.

Key point is slowing demand growth for oil

Some are calling for a production cut, while others are making their commitment to freeze on production contingent on the others going along. Abstracting from the "quarrel among lovers" of the upcoming conference, we are staying focused on the critical issue of slowing oil demand growth.

We remain skeptical as to the capacity of the conference to agree to curtailing production or to "party discipline" as regards sticking to the pacts!

Markets view Italian bank restructuring as "glass is half full"

European stocks are getting a boost from a "glass is half full" reaction to the banking restructuring measures in Italy. The strategy is three -pronged: allowing banks to purchase a cap on loan losses, underwrite upcoming capital increases by the worst impacted institution and where all else fails – merge banks.

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As they say in Brazil – mais que nada!

The plan is not tantamount to a "bad bank" scheme, where a state entity buys non-performing loans on a without recourse basis. However beauty is in the eye of the beholder and it is still as the famous Brazilian song said "Mas que nada" – better than nothing! Markets were lent a boost by declarations by the Italian minister of the economy limiting concerns as to EU lambasting of the scheme.

Markets may soon realize that the scope for re-shuffling is ever more limited. This is not a question of solving the problem of one bank but tackling a boat that still keeps leaking.

Yes, rates can go lower!

Relative cheer on the Italian banking front has succeeded in momentarily dampening concerns as to the downward march of interest rates. That rates can plumb new depths, was confirmed by the Swedish central bank, which sees further scope in this regard.

Is imperfect competition an effective buffer against negative central bank rates?

We see as interesting that the likely impact of negative rates is viewed via the prism of market structure. High levels of bank concentration are seen as creating "economic rents" and providing a buffer for falling margins. This may well refer to both the Swedish banking system and countries where bad loans are not higher than the current account deficit!

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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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