Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

April 21, 2016

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ECB keeps rates on hold – will stay low

The ECB has – to nobody's surprise decided to keep interest rates on hold, while foreseeing that this shall not change for some time. We are hitherto seeing the script play out as we thought, with risks to the downside still prevailing, an excellent use of understatement!

Will not distribute arms to the population!

The inability - despite massive liquidity injections and firming commodities – of inflation to gain a foothold remains a major concern. We are interested to hear extreme moderation as regards the subject of directly "distributing arms to the population" via so called "helicopter money". With consumers in a de-leveraging mood, this would have little impact.

US markets – surfing the big wave!

US markets have recently put in a bounce continuing their upward trajectory with everybody agreeing that they are expensive but no-one wishing to be the first to bail from the cresting wave!
The proximate cause was further optimism around oil and expectations of continued central bank support to keep a global over-leverage economy afloat.

We see systemic risk and recession risk stock valuation gaps as having closed – we are seeing "catch up" buying by underweight asset managers

We see markets as having more than generously closed any valuation gap stemming from systemic and recession fears. Buying appears to now be based on the assumption that the market was under-owned. With the end of the first half now looming, we may see asset managers trying to lock in short term performance.

Will June be "The month from hell"?

With Brexit, the Federal Reserve meeting and an OPEC conference, some are starting to see June as "The month from hell"! The assumption is that should the US central bank consider a Brexit likely, they shall not raise rates.

We see the situation as more complex - a Brexit victory may mark the end of the suspense but the start of a period of massive turbulence. This shall not be a question of interest rates but of providing liquidity!

Today's action

Markets defiant in the face of macro adversity

Stock markets are continuing to "hold the line" in the face of slowing global growth, low or non-existent inflation in most advanced economies and oil prices at levels which are unprofitable for most producers. Markets are now resting on a twin axis of hopes for oil and central bank support, whether these two factors are sufficient to justify changes in asset allocation remains a matter of some debate.

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Energy continues to be critical – major source of potential surprises

We continue to see sentiment around the energy complex as critical, in the light of the fact that this is the one macro-economic variable where there can be short term surprises. Consumers have disappointed and central banks are likely to tread cautiously for fear of letting in the "barbarians" massed at the gates.

Oil – Is this the long awaited turning point?

Oil hopes are being buoyed by "rebound" hopes of an earlier than expected OPEC meeting and, increasingly by signs of declining US production shall help the market to re-balance. While US output may be declining, it has weathered storms that would have felled an ox! We are starting to see reports of US energy producers looking to sell shares to investors who see a bottom.

On a global basis, excess supply continues, with key producers both willing and able to turn on the spigot. While some draw comfort from firmer prices, the key point remains that the factors making for volatility remain in place.

Potential energy investors shifting from single track macro bet to dual macro – micro strategy

Potential energy investors via the new round of prospective equity offerings are buying a dual call option:
The "macro" call is a call on oil prices
The "micro" call is a bet that the gains shall be asymmetrically distributed, with the most beaten down posting the fastest turnaround.

Caution remains key for central banks

Turning to monetary policy, we continue to see caution as the dominant strategy for the advanced economies. The ECB has left rates unchanged as expected, with some arguing that the massive push to reduce interest rates and funnel liquidity is starting to stabilize both the inflation rate and the economy.

In the absence of an upsurge in capital investment - we doubt that there shall be a return to a level of acceptable growth.

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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.

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