Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

April 26, 2016

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Investors getting into the starting blocks, waiting for the central banks. Is this relevant? Will oil prices hold at the "Gothic Line"? Volatility is the friend of the marginal producers! Looking beyond Brexit – ready for a UK property bust?

Investors putting on their running shoes! Will they run for the hills?

Investors are getting into position ahead of the Federal Reserve meeting, which starts today. We continue to see the Federal Reserve's focus as being on financial market volatility – which is seen as a catalyst for systemic risk. The traditional focus of central banks, the management of the business cycle, is now secondary.

Global economy continues to under-perform - this is not about growth!

The global economy continues to under-perform. Growth estimates are being revised downward, debt levels remain high and overcapacity massive. Central banks are not intent on boosting growth but in avoiding a collapse. The traditional mainstay of the leveraged - inflation - is nowhere to be seen!

The global economy resembles a company which having skirted liquidation in 2008 – 2009 is now struggling through a re-organization plan. We will be writing off the consequences of the follies of the first decade of the century for some time!

Shall oil prices hold "The Gothic Line"?

Is the oil market stabilizing? Oil prices continue to hold the line above the US Dollar 40 level. We see the key significance of this latter day version of the "Gothic Line" as encouraging the US shale producers to both "hang in there" and hedge future production. This shall allow the stronger companies to cover cash operating costs and to fight another day.

We see insufficient attention dedicated to the role of volatility in creating windows for marginal producers to come up for air.

China still calling the shots on commodities

The mixed economic data out of China is once again sparking concerns as to global growth. This has in turn also put pressure on the mining companies – with some investors seeing a top in the recovery in commodity prices, from systemic and default risk lows.

The major players are now reverting to operating within a more compressed price range, seeking to ride the short cycle within the new long cycle.

We are looking beyond Brexit – old enough to remember secondary banking crisis in the 1970's!

The controversy around "Brexit" continues unabated, with the UK currency rallying. We see this as somewhat premature and view the UK economy as not stellar, with exports stuck in a rut and an overheated property market posing a not indifferent risk. UK crises have a history of being triggered by the housing market – see the secondary banking crisis in the 1970's.

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Saudi Arabia – not about to fold

We read with interest of Saudi Arabia's plan to diversify its economy away from oil. What is most striking is that the base case for the oil price is set at US Dollars 30. The Saudi government is launching a discrete hint that they are in a position to both prolong the price war and simultaneously engineer the transformation of their economy.

We are on nodding terms with Adam Smith!

Some are confusing reducing dependence on oil as synonymous with producing less oil. This reflects a mercantilist view of the economy whereby wealth cannot grow but can only be re-allocated. Being on nodding terms with Adam Smith, we see the Saudis as segmenting their economy into two compartments, the oil focused export sector and a non-oil domestic economy.

Emerging markets – temporary respite or structural change?

Markets have rallied largely to lesser systemic fears from the EM space, where the pause in US Dollar appreciation is seen as reducing pressure on leveraged currency mismatched companies. We see the respite as temporary.

Debt and leverage problems can be alleviated by currency fluctuations but are ultimately solved by increasing cash flow. We see scant indications that this is on the horizon.

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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.

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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