Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Euro Zone grows but deflation re-appears. Brexit fears hitting Eastern Europe – end to EU expansion? US consumers playing defense!

Totem and taboo – Apple takes it on the snout! See "Bad moon rising in China" – Shelf life of low wage manufacturing model getting shorter by the minute – It's not about the US Dollar - too much capacity!

Europe lower on Apple and BOJ

Europe is down with investors hesitant following warnings from Carl Icahn about the markets and Apple and disappointment with the Bank of Japan. Weak US GDP in the first quarter and the prospect of a more "wait and see" Federal Reserve are pushing the Euro higher – chiseling away at the single currency area's export competitiveness.

Euro Zone grows but capital investment going nowhere!

Euro Zone GDP growth coming in above forecasts and falling unemployment are failing to induce any enthusiasm, with some seeing this more as "catch-up" buying than the beginning of a sustained trend. Capital investment remains weak and exports are being squeezed – growth is coming from consumers snapping up bargains as companies slash prices.

Return of Deflation – riskier than the Jedi!

Prices and deflation shall be the "Stalingrad" of the ECB's battle. Today's data – 0.2 per cent – indicates that despite an uptick in oil prices and some growth, price pressures remain non-existent. We reiterate our view that continued overcapacity and open borders are a powerful deflationary force. The issue is not cyclical and will not be solved by a modicum of growth.

We are pleased to see that Euro Zone GDP has now reached the pre-crisis 2007 level. This has however been a somewhat uneven progress, with substantial disparities between the economies.

Take out development economics textbooks – review center and periphery!

With regard to Brexit, we are seeing a re-play of the center and periphery theory. With the stay or leave debate picking up steam, some are getting nervous as to the larger Eastern European economies. Their success and investment flows have hitherto been built on their role of an "internal China" working for an expanding European Union.

The prospect of a key player defecting and consequent less money to splash around is having a sobering effect on bond prices. The major Eastern European economies have already been usurped by China eating their lunch. Will the UK and robots do the rest?

Once burned twice shy – US consumers playing from backfield!

Turning to the US, we have now seen data on personal income, savings and consumption. We see a confirmation of the continued caution of US consumers who despite a slight gain in income are saving more and spending less. This despite low oil prices and rock bottom interest rates – as they say "once burned, twice shy"!

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Focus on US GDP

Are we hoping against hope? – do not look to US consumers for deliverance!

US GDP data was below already modest expectations but hope springs eternal! Many are forecasting that the improving "brute measure" job market and low oil price are building a fire under consumption. We remain skeptical, with consumers still de-leveraging and wage growth remaining both weak and starting from a low base.

The labor market today bears no resemblance to the unionized manufacturing work force of the 1950's and 1960's. The work force is increasingly in low pay service jobs where productivity gains and wage increases are hard to come by.

Low capital investment not a function of the US Dollar – global overcapacity has hardly been dented!

We are informed that capital investment remains moribund. This is hardly surprising given slowing global growth and massive overcapacity. This is not only about oil and the relatively strong US dollar – we may well ask, if they are not buying from US companies, who has beaten us to the punch?

Focus on Apple and EM

Icahn dares break the US market "totem" – Apple!

Yesterday, the US stock market after initially recovering from the Bank of Japan disappointment and miserable first quarter GDP data, succumbed to Icahn selling Apple. This lends credibility that Apple has mutated from being a company to being a macro-economic indicator and a totem!

To cite Sigmund Freud "Totem and taboo" – Icahn has dared strike the "totem" – which is still widely seen as the US ATM.

This is not about government intervention in China – we look longer term and see a bad moon rising!

The reason cited was the Chinese market, with the risk of government intervention seen as a risk. We are far less sophisticated and see limits to growing the middle class – which has been among the most avid purchasers of Apple products. The population is aging and labor will increasingly be substituted by robots – this shall be the accelerated "summer session" version of the advanced economies.

EM countries shall not be able to emulate China – do not have infrastructure and low wages no longer the trump card.

We reiterate our cautious view on the EM space with regard to emulating China. The major contenders lack the necessary infrastructure and have been beaten to the punch by the world's second largest economy. This shall have substantial consequences with regard to growth forecasts for leading global groups.

In post-war Europe the manufacturing – middle class link lasted 25 years. In the EM space the shelf life shall be much shorter.

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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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