Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Jobs disappoint some – are these numbers relevant? We are iconoclasts and proud of it! Canadian wild fires shall not push oil to US Dollars 100 – cannot believe it – we once again hear the "peak oil" heresy! Brexit – UK local elections do not show massive shift

Jobs market kaput? Or is this a strategic retreat?

And so "The number" is out and it is below expectations – 171000. We are not surprised – the US economy is in real terms going absolutely nowhere. With one ½ of the population unable to scrape together US Dollars 1000 why engage in massive hiring?

We see these data points as momentary blips – short cycle within the long cycle. One has difficulty mustering up enthusiasm when 2 per cent growth in the developed economies is viewed with the same awe as the building of the Aswan Dam!

Desperate serving the desperate – consumption reverting to the landed gentry!

What many have not grasped is that a lot of the hiring is driven by services – where low paid employees serve low paid customers. The economy has bifurcated, with purchasing power determined by when one's ancestors bought "real assets" than by tinkering with wage scales.

Labor participation rate pathetic! Demographics last refuge of the scoundrel!

We are not impressed with the labor force participation rate, which has succeeded in falling! The apologists shall now start shouting about demographics – which have now to paraphrase the immortal Samuel Johnson become "The last refuge of the scoundrel"!

Where are we headed?

Any more idols left to destroy?

We are exiting a phase focused on tenets which the iconoclasts are busy demolishing - Philipps curve, employment increases leading to economic expansion and inflation lifting all boats. We might add increasing populations and we have at one blow settled accounts with the world as "We liked it since 1945".

Return of inflation – is this "The Return of the Jedi"?

One reads with interest of the return of inflation – which is starting to sound like a cross between the "Return of the Jedi" and deliverance! Some see the catalyst as reforms in China reducing overcapacity – which together with wage increases – shall lift prices.

Do not count on China to reduce overcapacity!

We are somewhat skeptical and see this view rooted in "capitalist deviationist" short term profit thinking. Such reasoning totally ignores that overcapacity or threat thereof is the principal weapon wielded in the current political struggle. China is to manufacturing what Saudi Arabia is to the oil market - elimination pricing as a form of politics!

European banks – no end of a lesson!

Turning to the European banking crisis, we were not surprised to see the head of Italy's central bank state following the BPV capital increase debacle that:
There shall be more bank bail-outs
Bank bail-outs were fully justified as a means of preventing systemic risk

Two conclusions – neither pleasant!

We can draw two conclusions from the above:
The crisis – like we have long suspected – is far from over
There is slim hope that the bank-sovereign risk link shall be severed!

Trump emboldens EU opponents of free trade agreement with Latin American Mercosur

On the subject of global trade and the general issue of globalization, we are seeing pushback in Europe. Some EU members are voicing their opposition to a prospective free trade agreement with Mercosur – the Latin American customs union.

As usual the key concern is being flooded with lower priced agricultural goods! Donald Trump's rise in the US polls is already emboldening others!

Focus on oil

Canadian wild fires impacting very high cost oil

This morning we are seeing oil prices under pressure, as it becomes increasingly apparent that production disruptions are not the same as production cuts. The wildfires in Canada – while an immense tragedy – are threatening very expensive energy sources, even harder hit than the US shale sector.

Where are they now? The "peak oil story"!

We are amused to see that old ideas never die. They simply come back in a different guise! Those of us born before the Mesozoic might still remember the "peak oil" story. This bizarre depiction of the oil market was very popular in the time immediately preceding the ""Crisis".

We counsel caution!

It is now being enjoying a new lease on life as "The Gathering Storm" being wrought by the steady reduction in capital investment. So, the new narrative runs, the slashing of capital investment shall lead to a massive squeeze on supplies when the global economy starts to rocket. We counsel caution with regard to these forecasts!

Focus on commodities

And thou shall take it on the snout!

Commodities are starting to reel, as the recent enthusiasm starts to wilt. We were never wildly enthusiastic and still have difficulty in seeing where the next China and 150 years development in 20 is coming from. Commodity demand shall also be impacted by increasing manufacturing efficiencies with regard to both processes and inputs.

Where is the next great hope for commodities? China industrialization in style of Soviet collectivization in the 1930's

We are hearing a lot about India as the next in line. While greatly respecting India's achievements we see a fundamental difference with regard to demand for commodities. In China a strong and centralized executive brooking no opposition pushed construction of infrastructure in the same spirit as collectivization in the Soviet Union in the 1930's!

No matter if countless innocents died on building sites! This was the "omelet" theory of economic development in the age of cellular!

How will massive excess supply of labor in rural areas be absorbed?

In India, infrastructure is a lagging and not leading indicator. There is an effective parliamentary democracy and manufacturing is late to the party. Computers and technology shall not be sufficient to absorb massive excess labor in agriculture. Progress might be slower than many believe.

Focus on Brexit

Can we rely on the UK local elections?

Last but not least, the UK local elections have not resulted in a resounding victory for those who want to consign the EU to the rubbish heap of history. Still, this is not an economic issue and external political events can trigger unforeseen last minute reactions.

Earliest clearing of the air mid-June

With the UK Brexit vote in June immediately afterwards the Federal Reserve meeting, there shall be no clearing of the air until at least mid–July. We are starting to once again see nervousness building with the UK non-consumer economy taking a punch.

UK economy impacted both by Brexit vote and global slowing

Capital investment is being constrained by both concern as to the result of the poll and by slowing overseas demand. Even in the event that the UK stays – longer term prospects for the UK economy are not superb.

For good measure, the Japanese PM has declared that he is strongly in favor of the UK staying in the EU. Seeing the almost 40 billion pound Japanese investment in the UK – this is not a trifling comment!

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