

May 5th 2016

Markets enjoying a bounce, shall this prove ephemeral? Natural re-balancing shall carry the day in the oil market – there shall be some unpleasantness! Teach me to dance – Zorba the Greek economic analysis – we shall weigh everything! Brexit – are we seeing a replay of the United Empire Loyalists?

Today's action

Market's enjoying a bounce – will this last?

Markets appear to be enjoying a bounce lifted by a firming in oil prices. This is being fueled by production disruptions, a fall in US oil production – which remains at very robust levels – and noises from Iran that they shall join in a deal when pre-crisis production levels have been reached.

Are we on the verge of a “seismic shift”?

Is this the prelude to a massive upsurge in oil prices? We remain impressed by the resilience of the US shale sector despite the endless blows dealt to it! Saudi Arabia remains committed to “natural re-balancing” and wild fires in Canada do not an effective cartel squeeze make.

Employment and growth have parted ways

Markets are gearing up for tomorrow's blockbuster data – the US employment report. We see its importance as somewhat blunted by the waning of any relationship between employment growth and economic expansion. Unemployment has been falling steadily but economic growth remains scarce on the ground and wages are at best stagnant.

Euro Zone following in US footsteps

We are seeing similar trends to the US in the Euro Zone. While unemployment is falling, growth remains weak and inflation virtually non-existent. This is leading to a re-leveraging of an economy where limited access to multiple financing channels has made bank debt the principal support to an under-capitalized SME sector.

Euro Zone flat inflation pushes out de-leveraging targets

In both the US and the Euro Zone employment is growing but is largely focused on the low paying service sector, where productivity gains and the scope for higher wages are limited. This shall keep inflation low – if not negative – and further stretch out the de-leveraging process.

We must cease equating re-entry into the labor force as synonymous with greater consumption. The labor force is “rotating down”. This shall have substantial impact on consumption and company pricing power.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB /
SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

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research@tigressfp.com.

Are we seeing a re-run of the American Revolution?

With regard to the Brexit debate, we are seeing new polls once again putting the exit contingent and the EU loyalists as almost tied. This is starting to look like a re-run of the American Revolution – no taxation without adequate representation and sovereignty.

Should the leave contingent carry the day, shall we see a mass migration of the EU loyalists moving to Paris? Time to stock up on luxury housing in the French capital?***There shall be growth?******Should we weigh everything?***

In the immortal film “Zorba the Greek” Anthony Quinn – Zorba – tells the English intellectual Anthony Bates – you think too much, clever people and grocers weigh everything! We might soon find ourselves following this advice! Yesterday’s ADP was bad but the ISM non-manufacturing and factory data was better than expected.

Should we revisit hopes for first quarter GDP?

Is the situation not as dire as feared? This has also led some to re-evaluate their forecasts for the first quarter GDP final estimate. The ISM non-manufacturing employment index was robust = raising hopes for the May 6th blockbuster data.

More may be working but they are producing less!

This lines up perfectly with falling US productivity – reflecting both an investment “strike” with regard to capital assets and the progressive shift towards service jobs. More shall work but wages shall stagnate.

And then there was one!

On the US front, the Republican candidates have all fallen by the wayside, leaving Donald Trump as the sole candidate. US business will now have to both weigh who will make it to the White House and what policies the winner shall adopt.

Please re-read Milton Friedman Monetary History of the United States!

The “Apple of discord” with regard to Trump remains the threat to free trade. Even if we do not see a repeat of the Smoot-Hawley tariff of the Depression – we may see history reversing! The move towards open borders may be dealt a powerful blow by those unwilling or unable to wait for the proverbial “long run”!

Contacts**Jean Ergas****Chief Economist****(917) 551-6533 Direct**jergas@tigressfp.com**Ivan Feinseth****Chief Investment Officer****(646) 780-8901 Direct**ifeinseth@tigressfp.com**Philip Van Deusen****Director of Research****(646) 862-2909 Direct**pvandeusen@tigressfp.com**Ernest Williams****Institutional Sales & Trading****(646) 862-2912 Direct**ewilliams@tigressfp.com**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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