Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets moody, sulking about Federal Reserve minutes – US central bank sees "all clear"? Commodities on the back foot – where is the explosive growth? Brazil – moving to a different beat – Is Temer the Brazilian Monti?

Markets picking up from where they left off yesterday – falling!

Markets are picking up where they left off yesterday and continuing to fall, with investors across stocks, fixed income and non-dollar currency digesting the Federal Reserve minutes. While some see the minutes as having come out of left field, they are in fact a faithful reflection of everything that many Federal Reserve officials have been saying for several months.

Federal Reserve looking beyond 50 blocks in Manhattan

The crux of the matter is that the Federal Reserve is looking farther than 50 blocks in Manhattan with a perceived reduction of systemic risk being the trigger for a possible rate rise. China has not unleashed another currency driven crisis, the Euro Zone continues to trundle along and emerging markets sovereign defaults have not – yet - materialized.

Argentina bond issue – is this an "all clear" signal for raising rates?

In fact, Argentina tapping the capital markets is precisely the broader risk-on signal that the Federal Reserve is looking at. Major emerging market sovereign defaults have not – yet – materialized and commodities have come off their lows. Central banks can accept an orderly withdrawal into "the new normal" – but a rout is deemed dangerous.

In this context, we view as important that the scare around the commodity traders and miners with their massive banking and risk intermediation linkages has somewhat abated.

UK – EU referendum tops event risk list

What possible further impediments remain in this otherwise "optimal" environment? We tend to view this in terms of event risk with the UK – EU exit referendum topping the list. Will the US central bank raise rates and contribute to stoking market turbulence while the Bank of England is busy getting liquidity and currency life boats ready?

For an occurrence which is deemed unlikely the attention bestowed upon it by the press and central banks is truly impressive.

Who do you believe? UK referendum an act of faith

With regard to the UK – EU referendum pound is putting in a strong performance. This is driven by a poll showing a widening lead for the "remain" camp. Support is being driven by "The devil I know" attitude on the part of many conservatives. Other polls show the gap closing. The undecided are still numerous – do not count your chickens before they hatch!

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US elections - some argue – Federal Reserve shall not raise rates

Another key argument adduced by the partisans of non-intervention focuses on the US presidential elections. We see this as farther off on the time spectrum then countenanced by the central bank's metrics. By this reasoning there should be no action until at least one year into the presidential mandate, when economic guidelines shall have been defined.

Should we worry about the US Dollar?

Last but not least concerns as to the impact of a rate increase on the US Dollar are still present. The fear is that raising interest rates shall boost the US currency limiting US exports and reducing the value of US companies earnings from abroad. This shall also lower import prices and increase deflationary pressures.

We see these arguments as having a lesser impact as systemic risk is seen as overall decreasing. The Federal Reserve is now squarely on the home front with the global economy having been written off as a bad job.

Henceforth known as "The minutes"!

While the systemic factor may be attenuating – the Federal Reserve minutes – henceforth to be known by historians as "The minutes" – are exercising pressure on oil and commodity prices. The prevailing explanation is that this a function of the cost of carrying inventory for non- US Dollar based buyers. This views raw materials as a currency proxy.

Commodity super-cycles ultimately driven by growth – where is it?

We beg to differ and see commodity weakness as also reflecting concerns that the Chinese speculative stockpiling is ebbing as well as concerns that growth – the ultimate driver for the sector – is going nowhere.

The limits to growth are no longer defined by traditional economic metrics but by the extent to which the Chinese government is willing to defy accounting and continue to subsidize overcapacity.

Euro down on minutes – exactly what the ECB wants!

As might be expected, the confirmation of deflation summed with the Federal Reserve stance is exerting further pressure on the Euro. This should provide a slight lift to Euro Zone exporters who may be able to re-route some of their sales from the EM space to a slowly advancing US economy.

Brazil – moves to a different beat!

Turning to the EM economies, we are closely following the Brazilian situation which we see as having a fundamentally different dynamic than the other economies designated as emerging.

Is Brazil an emerging market? Was a global powerhouse already in the 1970's!

In fact, we wonder whether Brazil's designation as an emerging market was more a function of foreign retail investors and asset managers stepping up their exposure as opposed to weight in the global economy.

Is Temer the Brazilian Monti?

The parallels between Temer's government and the Monti government in Italy following Berlusconi's exit are striking. Both are moving into the top slot at a moment of acute crisis. Like Monti, Temer has assembled a team of "best and brightest" technocrats to push through reforms. Time is tight and many politically unpopular reforms shall be blocked. We may be seeing "Monti" redux.

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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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