Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets stable- Greece agree to disagree – Sterling hedging costs hit record – who should we believe? G-7 Stalinists versus revisionists – Euro Zone needs to square the circle between budgetary discipline and the populist onslaught

Markets relatively firm globally – is this sustainable?

Markets have remained relatively firm globally. This optimism is centered on firming oil prices, stable commodities and the reduction of event risk in the Euro Zone with an agreement on Greece. Whether these supports have substantial staying power remains open to question.

Can motorists do OPEC's job?

Oil prices are supported by the driving season which is entering its peak phase and by continuing supply disruptions. Can seasonality do the work of concerted action by major sovereign producers? The market remains oversupplied and inventory levels remain near record levels.

Commodities – does stabilization imply recovery?

As regards commodities, we are seeing stabilization at a low level, as opposed to a seemingly never ending collapse. While this may reduce systemic risk attaching to specific countries and companies, it shall not lift the sector to previous heights.

Greek "Agreement" leaves many issues unaddressed

The Greek agreement is notable for the extent to which it is based on a decision to leave the key issues open for further discussion. IMF insistence on some form of debt reduction remains largely unaddressed with the continued focus on roll-over and little focus on growth.

UK – EU referendum hedging costs hitting records – should we believe the pro-EU polls?

As regards the UK – EU referendum, despite the increasing optimism as to a victory of the "remain" camp, sterling hedging costs have hit a record. Is this "tail risk" hedging or does this reflect concerns that the result may be finely balanced and driven by emotion?

We are once again focused on US macro-data- analysis now centered on the domestic economy

US core durable goods posted a fall of 0.8 per cent highlighting that the US economy is increasingly dependent on the consumer. Capital investment – despite the "strong economy" much touted by the Federal Reserve remains weak with companies either reluctant to invest or investing abroad.

Can the US economy go the next mile – from an allegedly "tight" labor market to higher wages?

US economy recovery is now seen as contingent on a shift from low unemployment to higher wages. We remain skeptical on this front due to declining productivity constraining increases in compensation and a labor market that continues to clear at subsistence wage levels.

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***Global growth is expected to remain weak with fiscal policy hampered by the need for governments to steadily reduce both a debt overhang and persistent deficits*.**

G-7 Stalinists square off against revisionists!

This is the critical economic issue at the G-7 conference. Germany and the UK –"Stalinist" supporters of austerity to the "bitter end" shall be squaring off with economies – such as Italy - who are at the end of their tether.

Japanese Prime Minister – is this 2008 – 2209 all over again?

In this context, the Japanese prime minister is now tracing grim comparisons to the Lehman crisis – should demands for fiscal stimulus not be enacted. Alarm warnings are based on the collapse in commodity prices – seen as paralleling the drop seen at the height of the debacle.

We may need to rethink our stance on commodity prices – no longer a "cash and carry" but a leading indicator of decline.

Austerity coupled with continuing deflationary pressures and low export growth has resulted in steadily rising debt to GDP ratios. All that is standing between these economies and the "deep blue sea" is loose monetary policy reducing the cost of debt service.

***We do not see this as continuing indefinitely and expect that at some point we shall see a "step function" move down in credit ratings and an increase in financing costs*.**

Euro Zone needs to square the circle!

The need to "square the circle" has become more urgent with the rise of the populist movements. The original "save your way to greatness – Poor Richard's Almanac" strategy was conceived in a political context of relative stability.

Politics closing the gap with economic stagnation

Politics has now closed the gap with economic stagnation as voters grasp that the issues are structural and not cyclical. Shall the need for short term political stability outweigh the proverbial "long term"?

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About Jean:

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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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