Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US jobs show labor market not treading water – labor market kaput! This is not about the Verizon strike! Euro Zone continues to plod ahead – lack of reforms showing limits of monetary policy. We remain cautious on oil and see recent price stabilization as insufficient to reverse tide

US jobs data – succeeded in failing even a very low standard!

We have seen the US jobs data and the US economy has succeeded in disappointing the already low expectations. This cannot be explained by the Verizon strike but reflects cautious hiring as US companies batten down the hatches in the light of slow growth in purchasing power abroad and a "cash challenged" US economic electorate.

Unemployment insurance and private employers now swapping dollars

Our focus remains on real increases in aggregate purchasing power which remains weak. Employment growth has been centered on low paying service jobs – with unemployment insurance and employers "swapping" dollars.

Want to understand the US labor market? Read development economics!

The US labor market is now similar to an emerging market – with a relatively small number able to command higher compensation and "The Great Displaced" constituting an "on call" work force.

As incremental impact of monetary policy wanes – economic analysis focuses on "stand-alone" capacity

The jobs data shall be key to assessing US economic strength. With the effectiveness of monetary measures viewed as rapidly waning, investors are focusing on "stand alone" analysis with regard to both the self-propelling ability of major economies and the strength of their domestic markets.

We shall also be seeing data on the US service sector. This should give us some insight into the flow-through of a fall in unemployment on services, which are consumed internally.

Is it all about the inflation rate?

With regard to divining the Federal Reserve's next move, we are continuing to hear the US central bank voice confidence in the economy. The key stumbling block remains core inflation which is still well below the Federal Reserve's target. The pass-through from an alleged tightening of the labor market has yet to materialize and global overcapacity remains high.

This both reduces the need for capital investment, lowering productivity and future wage increases and allows firms to free up cash to finance cash flow sales strategies.

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

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Euro Zone data remains somewhat disappointing – progress slow and not uniform

Euro Zone data overall PMI for May reflects a still glacial pace of advance confirming the ECB's message of caution yesterday. There is a divergence in the data, with Italy once again on the verge of slipping into recession, Germany holding its own and Spain roaring ahead. The catalyst for progress appears to be the willingness to implement reforms as opposed to monetary policy.

UK – EU referendum gaining the attention that it deserves!

The UK-EU referendum is finally gaining recognition for what it is – a potentially seminal event in global politics and economics. Angela Merkel has stated that the UK outside of the EU would be isolated and find it difficult to wring favorable trade agreements out of prospective partners. This has been followed by warnings from the head of J.P.Morgan and the CEO of Emirates.

Remain camp keeps missing the point! This is not about long term capital appreciation! Capital versus wage earners – a page out of the class struggle!

We continue to see the "remain" campaign as largely missing the point. This is not about long run growth – the focus of the well to do who benefit disproportionately from capital inflows and asset appreciation.

Focal point is impact of immigration on wages and social services

For the leave camp – composed of the largely same constituency of the Trump support in the US – it is about relieving pressure on wages and social services from immigration.

Wither the ECB?

ECB speaks, very little happens!

Yesterday, the ECB spoke and very little has happened! Draghi has essentially confirmed the narrative expected – "wait and see" impact of plethora of measures adopted. The coming week shall finally see the launch of the corporate bond buying program, whose effect on the real economy we estimate as negligible.

The key consequence shall be to increase demand for US treasuries, limiting the impact of US central bank measures on the long end of the funding curve.

Little reason to cheer – inflation and growth still too low!

We see little cheer in the fact that there have not been major downward revisions in growth and inflation forecasts. However, these levels are still not sufficient to either spur capital investment or grant a minimum of pricing power across sectors.

There shall be blood on the bank balance sheets!

The fact that inflation in two years is expected to be 1.6 per cent is a quasi-cast iron guarantee of less efficient companies going out of business and bank bad loans rising. This shall place further pressure on financial institutions and force governments to take a greater role in bank restructurings.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC
Research: (646) 780-8880 research@tigressfp.com
500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

Deflation plus Euro shall gradually weed out, meek, timid and faint of heart!

Low inflation and deflation combined with the existing "gold standard" type strictures of the Euro, shall lead to a weeding out of the meek, timid and faint of heart! Countries are no longer able to devalue and companies cannot raise prices – are real wage reductions the only way forward?

Can we impose common sense solutions on a Europe which has lost its senses?

The ECB along with the OECD and IMF keeps clamoring for structural reforms. We see this as confirming the divorce between economic theory and political reality. It is often said that politics is the art of the possible" - the same can be said of the challenges in imposing common sense solutions in a Europe riven by separatism and populism.

We shall not see market turmoil with end or tapering of ECB purchases

Some are seeing beyond the end of the ECB bond buying in 2017. We see the consequences as not of the entity wrought by the US central bank's announcement of the start of its tapering. The Euro is not the world's reserve or principal trade currency and the Euro Zone is not expected to act as a "locomotive".

ECB tapering may impact global inflation and place further pressure on bank balance sheets

In the light of the hitherto scant wealth effect and disparate efficacy in the transmission of credit – we see global real economy consequences as limited. We do however see a longer term risk in a worsening of deflationary pressures, resulting in higher real debt burdens and an increase in bank bad loans.

Focus on oil

Are "noise" oil price movements sufficient?

Yesterday' stabilization in oil prices was driven by a drawdown of inventories. Whether a level of approximately US Dollars 49-50 is a surefire recipe for massive profits or sufficient to offset the continued OPEC free-for all remains open to question.

Need to distinguish between short term and longer term consequences of "natural re-balancing"

We see the need to distinguish between the short term pass through of prices to energy stocks and the longer term market structure implications of these price levels. The process of "natural re-balancing" an apt euphemism for elimination pricing is spearheading a process drawn straight from economic social Darwinism.

The weak shall go the wall and presumably stay there!

We see the number of key players being whittled down with high cost producers as well as those saddled with high social peace costs being pushed to the sidelines. With Iran opting out until it has regained its pre-sanctions position and others still pumping for cash, considerable pressures remain.

Iran – shall come out of left field

We read that Iran – far from being the laggard of popular legend – has succeeded in lifting output beyond market expectations at breakneck speed. It shall now start holding oil field tenders open to foreign companies, moving from increasing efficiency to expanding capacity.

There shall be changes in the Middle East!

One can expect further surprises on both the economic and political front. We expect the funds flow issues from the sanctions to be resolved fairly quickly as the US seeks to neutralize antagonism in the region, laying the framework for a settlement of key conflicts.

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Research: (646) 780-8880 research@tigressfp.com
500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

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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