Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

June 2, 2016

June 2nd 2016

European stock markets hanging on to gains – US investors gearing up for tomorrow's jobs data, is this relevant?
UK – EU referendum focus needs to be on short term solvency and not on calendar spread trades! Expect little from the OPEC conference – natural re-balancing = survival of the fittest!

European markets hanging on to gains – waiting for the ECB conference

European markets are hanging on to slight gains following the terse first statement from the ECB that it is keeping rates on hold. As when analyzing financial statements – the key is in the notes, in this case the conference.

Our initial forebodings have been proven correct, with forecasts of slower growth and further declines in inflation or outright deflation.

Base line scenario – ECB shall not announce new measures

The general assumption that the ECB shall not announce further measures – but wait to see the result of the plethora of actions already announced – appears to have been confirmed. We see the ECB continuing to contend with deflationary pressures, which will likely lead to yet further accommodation.

Need to brake Euro ascent!

Going forward, these actions shall be supported by the need to counter Euro strength, placing a further constraint on exports in addition to a slowing global economy. We are seeing a clear dividing line between the US recovery – centered on hopes of restored health of the consumers – and the Euro Zone, where rescue shall come from abroad.

ECB challenges – prices refuse to climb – We are seeing "The Great Re-leveraging"

The scale of the challenge facing the ECB is reflected in the continued fall in Euro Zone producer prices – down 4.4 per cent on a year-on –year basis. Prices are falling notwithstanding rising oil prices, some stabilization in commodities and a relatively stable Euro.

We reiterate our view that the deflation problem is largely internal – with continued high unemployment and stagnant real wages pressuring demand. Sales are rising driven by discounting – inventory liquidation is not a plan.

Brexit vote knows no rest – is this the lull before the storm? Short term versus long term options – does this make sense?

The Brexit drama keeps steaming ahead, with investors somewhat more cautious as to what appeared to be a clear cut result for the EU loyalists. Much is being made of the volatility spread between the shorter dated "hump day" FX options and the longer dated. The implication being that this is a "volatility event" as opposed to a seismic shift.

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.

We do not buy calendar spread trades! This is about remaining solvent – not about the "long run"!

We disagree! Economic history is littered with the corpses of those who focused on the proverbial "long run" and ignored the "road bumps"! The point is not where we shall be in five years but where we shall be on vote day and the day after – margin calls do not wait for the "long run"!

The key – whatever one's view of the longer term perspectives for the UK economy – shall be to remain solvent. Asset fire sales may undo years of patient investing.

Expect little from the OPEC conference – there shall not be a "popular front"!

Turning to the OPEC conference, we expect little progress towards the creation of a "popular front" given two factors:

The Saudi and UAE belief that "natural rebalancing" is working
Iran's resistance to production cuts precisely when it is attempting to rebuild its finances following years of sanctions.

Oil market re-balances by natural means – implosion in Venezuela and risks increase in Algeria

We see the Saudi Arabian natural rebalancing strategy – if continued – as representing a high risk for countries such as Venezuela and Algeria. Long run adjustments as capital investment cuts impact on supply – shall be anathema to producers facing either immediate financial pressures or high social costs.

Focus on the US economy

US key focus jobs data tomorrow – is this relevant?

With regard to the US, the key focus shall be on the jobs data tomorrow. Will the employment situation act as a spur to the Federal Reserve to "front run" a prospective increase in inflation? Today's ADP number slightly below expectations suggests steady but not spectacular job gains.

We continue to see a "parting of the ways" between the jobs data and the US economy. For an economy allegedly at close to "full employment" wage and consumption increases remain weak.

Is this the light at the end of the tunnel in the US?

Are we seeing light at the end of the tunnel – can we have "capitalism in one country" allowing for modest expectations? The good news in an otherwise depressing day for the vexing issue of global growth was US manufacturing data – which did not post a decline.

Beige book – US growing modestly but growing!

This was bolstered by the Beige book which speaks of modest growth – as opposed to modest to moderate. Labor markets are seen as tightening while wages are rising slightly. Considering that the US is – according to the central bank – near full employment, this is somewhat worrying.

How shall "desserts" – just or otherwise – be distributed?

Wage pressures are being muted by a lower labor participation rate and still considerable hiring in low paid service jobs. We may well be near a new paradigm for the re-distribution of "desserts" – just or not – between capital and labor.

Many earning less in nominal and real terms in the US!

Many workers are earning less in both nominal and real terms than before the financial crisis. It shall take a lot of wage pressure to lift consumption to a point commensurate to where we are in the business cycle!

Investors are grateful for small mercies

Despite this simple arithmetic - Investors are reverting to their recession – no recession scenario. This data is taken as supporting the view that an earnings recession has not yet translated into an economic contraction. As they say – be grateful for small mercies!

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

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.

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women's Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.