Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

June 1, 2016

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We enter the ante- chamber of the "long hot" summer – Brexit fears mount, immigration the key – Chinese growth, is this a stalemate – Oil market – a timid return to reality? ECB gets ready for the big day! Will we see more easing? Italian banks again sow discontent – Is this 1968 in France again?

Stock markets cautious – a slew of risks to contend with

Stock markets enter the ante-chamber of the "long hot" summer on a cautious footing, with renewed concerns on both the event risk and macro-economic front coming to the fore. Polls showing a lead for the Brexit front are doing little to incite enthusiasm, oil is slipping and the Chinese economy is treading water.

Global economy caught in a squeeze!

We are seeing a return to "first principles" by investors, who are starting to look beyond the UK disruption factor to the "top line". The global economy is being squeezed by the need to still work off the debt excesses of yesteryear and the lack of structural reforms in several key economies.

UK- The boat is full!

With regard to the key event, the UK referendum on the EU, the pound keeps falling. Recent telephone and on-line polls show the leave camp in the lead, as the "go it alone" contingent refocuses with a vengeance on the immigration theme. The message is clear – the boat is full!

Do not want arrivals from the EU!

We see as key that the dynamics of the immigration polemic in the UK are completely different from those in the other EU countries. In the UK – there is a move against EU immigration as well as that from outside of the EU. This does not bode well for "togetherness" whatever the outcome of the poll.

The immigration issue and the consequent fears engendered may well boost the Leave camp. Will we see "The Silent Majority" speak its mind?

China – throwing good money after the bad?

Turning to the news from China, we are seeing our fears confirmed. Massive monetary and fiscal stimulus has done little to engineer a significant economic acceleration with both manufacturing and services barely holding the line. The much vaunted "transition" still appears to be some ways off!

The government may well be tempted to practice benign neglect with regard to the currency. When does slippage turn into panic?

OPEC meeting – do not hold your breath!

Oil watchers have their work ct out for them with all eyes on the OPEC meeting. We are seeing a pull-back in oil prices following declarations by the UAE energy minister that the "natural rebalancing" is working. At the shorter end of the curve, the disruption effect from the Canadian fires is waning as production starts to come back on track.

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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Oil should be higher if capital investment cuts effective

We reiterate our view that the market has not yet fully priced in the difference between temporary disruptions and a concerted effort to squeeze longer term supply. It is striking that despite the epochal cuts to capital investment oil prices are not higher.

Markets still oversupplied – many need to pump for cash

Markets are betting on both a structural oversupply and the need for many to "pump for cash". The financial situation of many producers remains precarious, with "social break – even" prices well above the current level. In a climate of rising mass expectations this is creating a dangerous mix.

Will there be civil war in Algeria?

We cannot exclude the risk of turmoil worsening in Venezuela and repeat our warning on Algeria, where the oil collapse is coinciding with a generational change in politics. Will the generation of the anti- French struggle go peacefully or will there be renewed civil war?

ECB - hoping for an oil squeeze?

Tomorrow we shall be hearing from the ECB, with the Euro Zone manufacturing PMI data – still barely above contraction – indicating a continued muted recovery. While some see the OPEC conference and the hope of an "oil squeeze" as guiding the central bank's actions, we see these hopes as misplaced.

Euro Zone companies shift from profitability to cash flow

An almost doubling of the oil price has failed to ignite price rises – oil is not the issue! The issue remains Euro Zone dependence on exports coupled with a lack of global growth. The lack of the export valve is leading to price discounting internally as companies shift their optic from profitability estimates to cash flow.

Still too early for all clear on the banking front

On the banking front, still far too early to sound the "all clear", as Italian bank recapitalization again takes the stage. Will the government backed fund again have to step up and buy the shares of Banco Popolare? A discount of 30 per cent is not attracting buyers.

With the head of Italy's central bank advocating continued and earlier intervention state intervention, hopes of a reduction in the sovereign – banking risk link are looking thinner by the day.

France – is this another 1968?

Last but not least, the turmoil in France is spreading, with railway workers joining the protest against a liberalization of the labor laws. Will this lead to a general strike and another toppling of the Bastille? It is still early days – however the idea that it takes a left wing government to implement a conservative policy can be safely dispensed with.

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.

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