Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Stock markets in Europe marking time – Draghi does not spread good cheer – will Europe move beyond stagnation? – Whatever the result – UK referendum a "watershed" on labor mobility and immigration – China, deflationary pressures continue – We see positive signs in Brazil!

Europe marks time – cannot rebalance like US

Stock markets in Europe are marking time as global growth concerns – like a bad penny – keep investors focused on the real economy. The Euro's relative strength is also not helping matters. This is seen as slowing exports in an already "dead man's shuffle" global macro context as it becomes clear that Europe does not have the US option of seeking to rebalance exports with domestic demand.

Which is worse "Poverty of historicism" or "Poverty of monetary policy"?

We have also heard once again from the indefatigable head of the ECB who has repeated his clarion call for structural reforms. To paraphrase the great philosopher Karl Popper's work "The Poverty of Historicism" we may well summarize the central banks' present dilemma as "The poverty of monetary policy"!

From low growth low growth!

The key comment is that Draghi has come round to a basic truth that low growth begets low growth. Reforms advocated focus on labor market reform and increasing productivity. This is all well and good but centers on "strategic planning" – the "long run".

Structural reforms long term impact – priority now avoiding a a social implosion!

We see two problems: The first is that in the short run deflation and lack of pricing power shall continue to cause havoc. The second is that with the populist wave mounting governments shall be hard put to move to a US style labor market – whose short term impact shall be to reduce the headcount.

Do not believe in automatic convergence trade!

The continuing vicissitudes of the single currency area are also putting paid to the "convergence" thesis centered on a closing of the relative valuation gap between the "Old World" and global markets. We continue to not see any historical inevitability driving such a process – the valuation gap is well justified.

What about the top line?

As regards the ECB corporate buying investors are skeptical as to the impact on the real economy – which is increasingly seen as driving valuations. Any advantage to be reaped via lowering of financing costs is pithy compared to growing the "top line".

We may soon need to redefine the boundaries between growth and value stocks – low growth and limited capital expenditure and investment becoming the hallmark of many groups.

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More shouting about the UK referendum

The UK-EU referendum continues to be a key focus with the fight becoming increasingly nasty. The "remain" camp threatens with "pauperization" of those already at the bottom of the income scale, while the exit fans warn of Turkey joining the EU.

There may be a nasty surprise!

Should immigration fears triumph over economic rationality we may have a nasty surprise. We do not see a "remain" victory as stemming the European populist onslaught. It shall not be the triumph of "The Enlightenment" over the obscurantists but the result of the liberal camp adopting the "obscurantists" views.

Little to cheer about Chinese inflation data

With regard to the emerging markets we are amused to see great cheer at the news that factory gate deflation in China has eased. The fact remains that these prices are continuing to fall increasing deflationary pressures and reducing advanced economy companies' pricing power.

We see efforts to reduce overcapacity as marking time, with the added risk that government subsidies of solvent firms shall continue to distort the competitive landscape.

Considering buying that apartment in Recife!

Brazilian exports are staging a rapid recovery with the massive Real devaluation kicking in. The "hat trick" for the central bank continues to be to prevent a real appreciation while adjusting monetary policy to limit the risk of imported inflation. Brazil shall be a very rocky ride but on a 3-4 year basis a very profitable one.

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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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