Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Is this the dawning of a new" Age of Reason"? – OECD gives ECB marching orders – Brexit, we are not relaxed! – Bond markets betting on deflation – Shale oil industry still alive! – Cautious as to ability of mining companies to break raw material price – profitability link

Are we seeing the dawning of a new "Age of Reason"?

Are we seeing the dawning of a new "Age of Reason" as government bond yields plummet? Despite the fact that the world has not stopped turning some are starting to worry that a confluence of event risk, low or zero incremental growth from central bank policies and no discernible signs of a "locomotive".

OECD telling ECB – forget the banks and get economy moving!

We are also seeing renewed concerns that further forays into negative rates prompted by economic slowing could deal another "knockout" punch to banks. This is being fueled by appeals by the OECD to the European Central Bank to do more as growth prospects sink increasingly into a quagmire increasing deflationary pressures.

We see the European banks as "unfinished business" which shall continue to weigh on both a recovery in the single currency area and stability in financial markets.

Brexit – some are rationalizing it away!

Of event risks there is no shortage, with the "blockbuster" event being the UK – EU vote next week. The UK event risk is being rationalized away by the belief that voters will plump for the "devil they know" as opposed to a leap in the dark.

Can only hope that the optimists are correct!

We can only hope that the optimists are correct! Some reports are stating that the markets are coming round to the view that a UK exit from the EU would not impact UK or global growth to the extent expected. We are not interested in the proverbial "long run". The key shall be the avoidance of financial market turmoil and panic.

Sterling / US Dollar FX options are trading at the volatility levels last seen in 2009. Markets are not excluding a systemic event – is this Lehman without Lehman?

Federal Reserve to caucus before the UK vote – will the dissonance between central bank and data continue?

The UK referendum shall be preceded by the Federal Reserve meeting where expectations of a rate increase are practically zero. Investors shall however be focusing on whether the dissonance between the central bank's optimistic view of the US economy and recent statistics shall be borne out.

Will we see another round of turmoil out of China?

We see central banks navigating a mine-field this summer, with many still apprehensive as to the chances of a repeat of last year's Chinese turmoil. Growth is slowing, capital is streaming out of the country, FX reserves are falling and the economy is still driven by manufacturing exports. Will they let the currency rip?

Where is the "greater fool"?

In the meantime, we are seeing sovereign debt yields plumb new depths, with close to US Dollar 11 trillion trading at negative yields. This can have only two explanations. Investors appear to be banking on "a greater fool" taking the bonds off their hands at an even higher price.

Bond markets are voting on deflation!

Alternatively deflation prospects are so poor that holders expect to make a killing via either a scramble for safe assets in a collapse or as falling prices boost the value of cash. We see continued bond buying as a "thumbs down" as concerns the chances of the ECB policies triggering inflation.

Would not be so quick to write off the US shale producers

With regard to the oil price, will the US producers start ramping up production as prices rise? Some are arguing that the key to solving this rebus is not the absolute price level but the oil price volatility. So goes the argument, lenders shall want to see sustainability before taking the plunge.

We would not be so sanguine and do not exclude non-bank finance in the form of industry consolidation to replace bank lending.

Where is the next industrial revolution?

Commodities are taking a breather as China slows its buying. We are not wild about the sector with nominal prices scant 20 per cent higher than 25 years ago. This seems to confirm the long cycle view of a steady decline in prices. Where is the next industrial revolution?

The challenge for the miners and traders shall be to divorce profitability from the price level. With massive operating leverage and high breakeven rates, this shall be no mean feat!

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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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