Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets taking a slightly more optimistic view – is this justified? – Is the "smart money" always right – Lehman bankruptcy? Remain cautious on the Euro Zone – needs stronger global growth to move into higher gear

Markets taking a slightly more optimistic view – are they hoping for clemency from the Federal Reserve?

Markets are taking a slightly more optimistic view of the globe, indexes are up across the board and battered Europe appears to have stood up on the count of nine. Investors seem to be shrugging off continuing concerns about Brexit and focusing on the Federal Reserve meeting today.

Will the central bank focus on US retail sales?

Will the US central bank deliver some comfort in the form of a "wait and see" stance on raising interest rates? Will foreign considerations override mixed signals from the US economy? Retail sales holding may induce the Federal Reserve to strike an optimistic note – linking the data to a tightening labor market.

Betting houses wagering that the UK shall stay in the EU – hope they are right!

As concerns Brexit the polls continue to show the "leave" group leading. The betting houses are taking the opposite side of the trade, arguing that when the "chips are down" voters will stick with the "devil they know". The problem with this poll is that voters are voting across party lines, rendering traditional comparisons difficult.

The "smart money" has been wrong before! The author of these notes well remembers the "smart money" telling him in 1982 that the stock market recovery would soon fade out. We saw!

Do not confuse supply of inter-bank liquidity with support of asset prices

There shall be no turmoil! This is what we are hearing from some investment managers who take comfort from the ECB already increasing liquidity flows. We see a key distinction between the supply of liquidity to the banking sector and supporting asset prices in the event of a "leave" victory.

Japan and Switzerland will want to avoid massive currency revaluation

What shall the other central banks do in the event of a nasty surprise? We see the key objective as seeking to both avoid "knock on effects" on inter-bank funding and – for Japan and Switzerland – pulling out all of the stops to prevent a massive currency appreciation.

Buying of safe haven debt continues!

Sovereign fixed income markets are continuing to feel the effects of safe haven buying with systemic risk fears trumping returns. We see as key that the buying is concentrated in German government bonds and US Treasuries – which seem to rapidly be becoming the destination for incremental cash.

The focus on the US debt is eerily reminiscent of the Russian debt crisis in the late 1990's, which brought down LTCM. Hopefully there are no hedge funds with massive leveraged spread narrowing trades!

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Do not expect an investor's strike – not about interest but about not taking a massive hit to principal

Many thought that the fear factor was overblown and that bond yields would rebound following an "investor's strike". This reasoning works when the focus is on longer term returns. The current emphasis is not on returns but on shifting assets to a safe haven. Investors are not interested in "stocks for eternity" but in not suffering massive losses next week!

Sterling FX options curve looking like Greek debt yield curve last summer*!*

We are reading comments as to the "bump" in the FX options volatility curve – much higher at the short end and flattening towards the – in this case, appropriately named – "Far End"!
This is reminiscent of the Greek bond yield curve at the height of last year's crisis.

Longer term companies can re-price or reduce exposure

The curve does not flatten because an event is deemed impossible but because there is a massive demand to hedge short term transaction exposure. Once the shorter term is over – whichever way it goes- companies can adjust risk by repricing or reducing their exposure to the target risk.

Euro Zone trade balance improves – year on year exports weak

As concerns the Euro Zone the trade balance has improved, with lower exports year on year offset by lower imports. The point remains that this performance continues to be somewhat lopsided within the single currency area – with domestic demand still unable to offset slowing of global growth and exports.

We remain cautious on the Euro Zone, with the bond markets sending a powerful signal as to both inflation prospects and growth.

Oil price rise "sweet spot" for Saudi Arabia – allows less strain on reserves creating scope to "kill marginal players" softly!

Oil prices are easing as the disruptions start to ease and the US players – the more efficient ones – start to gear up for round two. We expect the recent improvement in prices shall add further firepower to Saudi Arabia's resources to wage its "elimination pricing" strategy war of attrition, pushing the marginal producers into a corner.

We continue to see different estimates as to when the oil market shall move into balance. The point is not when this "ideal state' shall be reached but at what price.

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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.

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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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