Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Message from Federal Reserve – start re-reading Rime of Ancient Mariner! Still about Brexit! Central banks are not kidding – this may not be a dress rehearsal! Fixed income irrational – is this a financial "Fail safe" scenario? – Oil continues to slide, this is not over! – Banking stocks taking a well-deserved beating!

Stock markets recovering from a brief bout of optimism!

Stock markets are recovering from a brief bout of optimism yesterday. The key driver continues to be concern as to a possible "leave" victory in next week's UK-EU referendum.

New polls have come out placing the "leave" camp firmly in the lead and Cameron still trying to play economics tomorrow versus immigration today.

Cameron takes "good fight" to outpost of Empire – "remain" camp flies the flag!

As a move to improve diplomatic relations within the EU, Cameron is taking the "good fight" to Gibraltar. "The Rock" is considered Spanish by Spain and has been intermittently subject to border closings. Is this an attempt to dispel the view that the "remain" camp is not aware of empire?

Central banks "not kidding"

The globe's central banks have not been remiss to voice their fears as to the negative impact of a "leave" victory. Central banks stand ready to both provide liquidity to their domestic financial markets and are coordinating action.

Have central bankers learned from the Lehman debacle?

Have the central banks finally cottoned on to the fact following the Lehman debacle that there is no such thing as a "contained" crisis? The focus shall not be initially on supporting asset prices but on ensuring liquidity sufficient to allow lending and borrowing markets to function.

Swiss and Danes stand ready for action!

As concerns the central bank "carousel" we are interested to see that fears as to post UK vote turmoil are spreading to Switzerland and Denmark. The Swiss National Bank shall act to offset massive buying of Swiss Francs, while Denmark shall seek to prevent its currency from breaking the cap with the Euro.

Will we see a repeat Danish version of the FX bedlam unleashed by the SNB abandoning its constraint on Swiss Franc – Euro appreciation?

Will we see stock exchange closures?

We need to ask whether phase 2 of the short term might include halting of stock markets or prohibitions on short selling. Will we see turmoil when the markets open before a definitive result?
Attempts to chart the long term consequences need to be subordinated to segmenting the short term into distinct phases.

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Needless to say, the Bank of England has been once again accused of intervening in the dispute. With the currency in free fall and "defense of Leningrad" measures being openly discussed such a reproach appears drawn from "The Theatre of the Absurd"

The word of order is only one – buy US Treasuries and German government bonds!

The cautionary mood is triggering further fears of systemic havoc and contributing to safe haven buying of selected sovereign debt and pressuring oil. Investors seem utterly disinterested in the return on their money they are willing to pay to store it in safety.

Silver lining for Euro Zone – prospect of weaker Euro!

We expect further buying of German bunds and US Treasuries, with Euro allocations being reduced. A welcome side effect for the ECB might be further Euro weakness. This might lend a modest boost to exports and lift import prices. Will this be enough to offset a "battening down of the hatches" should the "leave" camp score a field goal?

Is the oil price moving towards short term equilibrium?

Geopolitical concerns are increasing the pressure on the oil price, already weakening due to a lower than expected fall in US supplies. We are seeing the market slowly realizing that oversupply shall continue for some time and that the "equilibrium price" may be lower than many expect.

Banking stocks getting pummeled – again!

Banking stocks keep taking it on the snout – with the Federal Reserve's rates lower for longer speech yesterday combining with Brexit fears and mounting regulatory pressures. In addition negative rates on government bonds are causing havoc for banks which need to hold a certain percentage of risk free assets to comply with regulatory liquidity requirements.

Deflation remains the enemy!

With regard to more mundane matters – the Euro Zone despite the manifold efforts of the ECB – continues to languish in deflation. This detracts credibility from the monetary reflationary view and shall re-leverage company debt.

No mean risk in an economic area populated by small and mid-size companies financed by banks and having scant pricing power.

Focus on the Federal Reserve

Was it worth the suspense? Data dependent remains the buzz word!

Was it worth the suspense? We stayed until the end of the movie and were treated to another replay. The Federal Reserve – as expected – has left rates unchanged but in a moment of reality lowered growth and longer term interest rate *forecasts. We see the central bank gradually coming round to the view that not all is well with the US economy.*

US economy in a parallel shift – downwards!

Confirming our view, we see a clear signal to all who are willing to listen that there is a structural shift in the US economy. There has been a parallel shift downwards in the fluctuation band in the US economic cycle impacting on the triptych growth, inflation and interest rates. Two per cent growth is now the top!

New hires generating little incremental cash flow

We found the discussion of the labor market enlightening. More and more are finding work but growth forecasts are being lowered. This squares with our view that the much heralded "hiring boom" by small businesses has focused on services – with capped increases in productivity growth.

US economy not firing on all cylinders and productivity growth contained

Does a sliding stock market also reflect a growing awareness that the US economy is slowing and that there is little leeway for profitability increases? We are increasingly hearing the TINA – There is no alternative – speech as to equity markets. Whatever became of asset allocation strategies?

Not holding our breath on the US economy!

As regards "business as usual" economic data – US industrial production fell and the Empire State Manufacturing data was not brilliant. In the absence of Chinese style government spending and capital spending by the private sector – the customer is in the driver's seat. With wage growth uneven and coming off a low base we are not holding our breath.

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