Macro Snapshot – Chief Economist Jean Ergas

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Markets coming to grips with horror in UK – Do not see massive upside to global economy if pro-EU wins – Are we seeing "The closing of the European Mind"? – Where is the "tipping point" with regard to Japan?

Markets still coming to grips with tragic events in the UK

Markets are still coming to grips with what seem as a reversal in the likelihood of a UK anti-EU vote, reducing the event risk which has been driving markets. Campaigning has now been suspended for a second day and the publication of further poll results has been delayed.

Macro pressures pre-date UK vote crisis

This has led to a momentary recovery in what are termed risk assets. However bond yields on selected sovereign debt remain at historically low levels. This reflects macro pressures which have pre-dated the UK debate and which are not viewed as resolvable in either the short term or by means exclusively of monetary policy.

A UK remain vote shall not be the catalyst for a jump in capital investment

A reduction in perceived event - systemic risk shall not in our view be a catalyst for increased capital investment – key to boosting productivity improvements and lifting wages. Overcapacity remains high in both advanced and emerging markets and pricing power weak.

We are impressed by US Dollar relative resilience

On the currency front, the major shift has been a moderate claw back of the pound rather than a marked weakening of the US Dollar. We are impressed by the resilience of the US currency in the face of the backtracking by the Federal Reserve on monetary policy and growth forecasts.

US shall continue to be seen as an attractive investment target across asset classes

The US economy continues to be viewed as a prime destination for geographical and asset allocation shifts. We continue to see investors reducing their exposure to European stocks and stocks overall. In the absence of attractive single currency alternatives they shall be attracted to US debt.

Lower economic growth no longer seen as a blip

With regard to growth prospects for the US- we see as significant a downgrading of expectations by the St.Louis Federal Reserve chief, Bullard. Slower growth is no longer viewed as a "blip" but as an entrenched trend, limiting interest rate increases.

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We see this as possibly prompting both a "do it yourself" repricing of risk by the credit markets – as top line expansion becomes increasingly elusive – and further pressure on the banking sector.

US consumer inflation weak

As regards conventional economic data US consumer price inflation is going nowhere, belying the import price data. This points to the continued lack of pricing power and prospectively to a tightening of operating margins. Will the Federal Reserve seize upon this data to persevere in its cautious stance?

Is the Euro Zone reverting to a Europe of the nation states?

With regard to the Euro Zone – the good news is that there has been a marked increase in hourly wages. However, this is centered on Germany reflecting a continued uneven economic recovery. We are rapidly moving to the point where aggregate Euro Zone data is losing relevance, with pass-through between the single currency area economies decreasing.

Are we seeing "The closing of the European Mind"?

This may prompt further gains for populist groups in upcoming elections, resulting in "The closing of the European mind". The shift away from economic and political integration shall continue to gather steam – in a climate reminiscent of the competitive devaluations of the 1930's. Seeking the most concessions shall be the equivalent of debasing the currency.

Has the Bank of Japan given up?

On the currency markets, we have seen yen strength in the wake of the BOJ decision to let things be. There are two key considerations stemming therefrom. The first is that they are keeping their powder dry should there be a systemic crisis. The second is that they have concluded that Japan's problems are structural and cannot be solved via monetary policy.

We need to ask when we shall reach the "tipping point" where Japan's malaise ceases to be seen as an internal issue and starts to be viewed as a potentially de-stabilizing factor.

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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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