Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

June 29, 2016

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Is it all over – No! Will not comment on Nigel Farage insulting European Parliament – a disgrace! – Everything's fine – look at the UK banks !– Will China allow currency to slide? – Tired of D+ arguments about UK trade deficit with the EU! – Is harassment of immigrant school children "sovereignty" – shame on the Leave camp!

Is it all over? Polly Anna rides again!

Is it all over? Can we breathe a sigh of relief and all go home, believing that a last minute solution shall be found and that Brexit shall never happen? We do not share this Polly Anna view and expect further bumps along what could be a very bumpy road.

Markets up on perceived lower systemic risk – not economic fundamentals

We see market relief not driven by any fundamental "sea change" view of longer term economic prospects. The advance – where it is not being impelled by short covering rests on a - for now still untested assumption – that the potential for systemic risk has fallen.

Markets functioned – with minor exception of largest UK banking groups!

The key point is that we see investors as mistaking the relatively smooth functioning of markets – with the minor exception of halting of trading in Barclays and RBS – as an all clear. While we may have seen a bounce in the banking sector – these stocks are still trading below book.

Banking stocks continue to be the key to a recovery in financial markets. Will we once again be seeing governments insuring deposits should depositors start to panic?

EU countries want UK escorted out of building immediately!

With regard to the political outlook – the UK is facing pressure to invoke article 50 as a pre-requisite for formally opening negotiations to leave the EU. Germany – who is the most lenient seems to lean towards giving them until December. The others – the "Stalinists" want security to escort them out of the building immediately!

Do not want uncertainty within uncertainty – start reviewing international trade economics textbooks!

What the remaining countries wish to avoid is uncertainty within uncertainty. To the vagaries of a "final agreement" they do not wish to add uncertainty as to the start of the divorce process.

This is unlikely to be either a linear or friendly process – leaving the EU shall involve tearing up more than 40 years of accumulated legislation and multiple trade treaties.

These shall not only impact free trade within the EU but also free trade agreements negotiated by the EU. Will these countries accord the UK the same terms as the mightier union?

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Today's action!

Is this soft or high impact aerobics?

Stock markets are continuing to post a bounce following the "crashette" triggered by the UK – EU vote. Investor hopes continue to be pinned on further central bank intervention. However with interest rates already in the Marianna's trench or heading there it is hard to see what "wiggle room" is left.

Federal Reserve impact external – US credit markets leading indicator and do their own re-pricing

The last option is for the Federal Reserve to postpone lifting rates in order to limit a further strengthening of the US currency. The monetary option is not geared to the internal market – where credit markets adjust via changes in risk spreads but is focused abroad.

What about a depreciation of the Chinese currency?

The possibility of further easing is centered abroad. "Safe haven" flows have caused a rapid appreciation of the Japanese yen threatening to reduce exports and deal a further blow to a weak economy. While we appreciate the importance of the third global economy – China remains the major concern.

Still relatively robust reserves provide some buffer against capital flight

Will a slowing of growth to an economy still heavily dependent on the manufacturing – export axis – be tempted to allow the currency to slide? We see a still – in absolute – relatively robust FX reserves position as representing a sufficient buffer against short term capital flight.

UK – complete political disarray!

Turning to the "economy of the moment" – the UK, the auspices are not good. The political void continues – with the singular situation of the UK prime minister urging the leader of the opposition to resign! Chaos remains the order of the day – with internal disarray impacting the UK's ability to present credible interlocutors abroad.

This is not a "pause" – this is a break-up!

The other EU members have made it abundantly clear that this is not a "pause" – of which doomed relationships are replete – but a break. "Get your stuff out of my apartment" remains the order of the day. While this is being seen as a situation where the UK has all of the cards – making the others day waiting for them to call it quits – we do not agree!

The UK economy will get pounded senseless - selling souvenirs to tourists shall not save the day!

Storm clouds are already gathering over the UK economy – see in this respect the collapse of the banks, small and mid-cap companies and home builders. The discontent is already palpable among the disaffected "remainers" who – especially the young – see their life chances as having been crushed.

Are we seeing "The unacceptable side of sovereignty"?

We are – and this is even more important – seeing discord among "The winners" who are now splitting into the – so to speak "moderates" and the "Stalinist" hardliners. The key issue remains immigration – the author of these notes remembers well the rise of the National Front in the UK and buttons urging - stop immigration and start repatriation.

A sorry pass has been reached when the hapless children of immigrants are harassed on school buses! We may well ask – is this what "sovereignty" is about?

This is not an "adjustment" – short term consumption shall crater - permanent dent in capital investment flows – longer term structure of UK economy complete change

While we are reading about a likely "technical" recession in the UK – we see this as misleading. The issue is not a "technical" recession, which makes it sound as a normal part of the business cycle. It is that the structure of the UK economy risks being changed out of recognition – with access to markets across a broad range of sectors being placed in jeopardy.

We are tired of this nonsense about the UK's trade deficit with the EU – If kind author would give student a D+!

Much is being made of the rest of the EU's trade deficit with the UK and the alleged negotiating power which it confers. This is complete and utter rubbish built on an analysis of trade even more rudimentary than the two economies – two products model studied in schools!

UK pursued de- industrialization in an EU setting!

The UK imports industrial goods which benefit from the WTO regime and it exports services where the EU lack of barriers and uniformity of standards is critical. The UK has pursued an economic policy based on exploiting the knowledge economy and de-industrializing.

Even complete collapse of financial sector did not change open market economy

Even a complete collapse of the financial sector and a massive deficit – which under the "new regime" shall not be closed before we have all become fish – has not led them to desist from twentieth century economics.

They shall now be forced to take a step 60 years back and take a page from one of the "Great Experiments" - import substitution. Argentina was a pioneer of this strategy!

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