Tigress Financial Partners

# Macro Snapshot – Chief Economist Jean Ergas

June 28, 2016

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***Will we see the war of the generations in Europe? – Markets perk up – is this a head fake? Not wild about the pound! – Banking sector will keep getting pummeled – expect government deficits to worsen as they raise minimum pensions to avoid further impoverishment***

***Is this generational warfare? For younger generations UK risks becoming 1960's + I-Phones***

*What we are now seeing is the possible end of a global, cosmopolitan United Kingdom. No wonder that the young are infuriated. Last week they looked forward to the chance of working in 28 countries – this week they have reverted to the early 1960's + I – Phone.*

***Will the young now all leave? Who shall pay for the pensions of an aging population?***

***Markets crashed – now what?***

*Markets have crashed as investors start to grasp the multiple voids with which they are confronted – political, economic and increasingly - a lack any sense of reality. The Brexit crisis – once derided by many as utterly impossible – has now mutated into a catalyst for shuttle diplomacy.*

***Shall Kerry succeed in selling motion as progress?***

*We expect to see Kerry making repeated trips to Europe. The aim shall be to effect a peaceful "disengagement" of the UK from the EU – much as Kissinger did in the Middle East in 1973-1974. Success shall be contingent on selling motion as progress!*

***Where is the "wiggle room" for the Bank of England?***

*With regard to prospective action by the Bank of England what is the "wiggle room"? With rates at record lows there is little room to cut – further reductions would:*

*Send a scary signal to foreign direct investors upon whom the UK depends for millions of jobs.*

*Deal another blow to the banks already reeling from a coterie of pressures.*

***Today's action!***

***Day 3 of ARE! Central banks to the rescue?***

*We have made it to day 3 ARE –after referendum era – the world is still turning and some are starting to see glimmers of light.*
*Markets are staging a predictable bounce following the massive selling and we are starting to hear rumors that central banks are about to once again start propping up the old order.*

***We have two comments as to the above. First – we need to ask whether the "Ancien Regime" is worth propping up. Second if yet further central bank readiness is being invoked is the situation even worse than believed?***

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***Are we seeing signs of remorse on the part of the ECB?***

*Is the ECB backtracking in the light of the UK debacle? Draghi is now calling for a global coordination of monetary policy – and focusing on the unpleasant effects of rock bottom interest rates on savers. Does the ECB fear a further populist shock – this time in the Euro Zone?*

***European older generation de-facto annuity writers!***

*We see the omens as grim as a large part of the European population confronts the dual risks of longevity and low returns on savings. Will the governments need to step in and increase minimum pensions to close the gap? What shall be the impact on government spending?*

***Wow – sterling at 1.33!***

*Right now, market action is focusing on UK sterling – which has – for the time being – avoided the ignominy of falling below 1.30 to the US Dollar. This "chart point" is widely seen as the new Maginot Line, when broken run for the hills! Despite this advance the pound is trading at 1.33 – a level deemed unthinkable by most one month ago.*

***View on pound veering between negative and abysmal***

*Our sentiment on the pound veers between negative and abysmal. Today we are seeing some unwinding of positions as the short sellers cover and lock in gains. Visibility going forward remains murky on the political front – with the EU countries telling the UK to "get on with it".*

***UK economy elephant balancing on a pin!***

*With regard to fundamentals, we continue to see the UK economy as an elephant balancing on a pin. Vote or no vote global slowing and a massive current account deficit were going to force an "adjustment" – politically correct term for massive asset re-pricing and / or recession.*

***Home equity and capital flight – is this enough?***

*There is a grudging acceptance that the UK economy may experience a recession in 2017. We deem the issue moot. An economy which is being financed by "The kindness of strangers" and safe haven property buying cannot be considered stable. When the home equity runs out – we should all run for the hills!*

***We have had enough of this "secret weapons" rubbish!***

*Some are starting to discern a shrewd plot by Cameron to dither and stop a UK exit by playing for time. This is augmented by "the referendum isn't binding" tune. We need to assess the situation as is and not on the basis of "secret weapons" theories!*

***Banking sector still miserable!***

*A great deal of enthusiasm is being expended on the banking sector. Barclay's and the other major UK lenders are up – although having fallen close to 30 per cent in two days and the other major EU lenders are also trying to stagger back to their feet.*

***Beware of false prophets and false dawns!***

*We see the banking revival as a false dawn and see the fundamentals for the sector as before – poor. We cannot speak of a return to normality when eight years after the start of the financial crisis, the major banks are trading at close to ½ of book!*

*The banking sector remains the key to any lasting recovery in the equity markets. We see two factors impeding a lasting rebound:*

*The recapitalization process of the weaker banks is far from complete*
*Economies that shall be hit by a UK vote induced recession / slowdown shall have less money to devote to re-stocking the banks with yet more money.*

***We see this crisis as impacting on the "shadow lenders" – with high sector and in the case of the UK – domestic credit concentrations. Will the UK government have to bail them out?***

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**About Jean:**

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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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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