Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

July 22, 2016

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Is this a Robert Johnson "Crossroads moment" for US stocks? – Pound shall continue to fall – everybody happy! - Is Francois Hollande looking for a way out? – We shall soon see TARP Euro Zone version – Oil will continue to fall

Turning point or pause for breath?

Are we at a turning point is this a pause for breath? US stocks posted a slight decline yesterday as earnings across a broad range of sectors missed estimates and oil prices continued to retreat. The impression is that revenue increases – seen as the next target – may be more illusion than reality.

Does the "bull" argument still hold?

With the benefit of low financing costs having largely run its course, this leaves multiples increase as the saving grace for stocks. The "bull" argument shall rest on TINA and a stable -if not spectacular –US economy.

Today's action

We are seeing European stock markets hovering around the flat line as investors try to assess the "march of the Euro Zone". Some glad tidings have been delivered in the form of overall stability as per the PMI indexes but there continue to be wide disparities between the major economies.

Will the ECB continue to rely on Germany acting as "the locomotive" or shall this data be the clinching argument for more measures?

We paraphrase Charles Dickens - "modest expectations"

Those with modest expectations were not disappointed yesterday by the ECB. The Euro Zone central bank did not cut rates and took a" wait and see" stance on further measures. Euro Zone growth risks remain to the downside as the "poverty of monetary policy" with regard to resolving structural problems becomes increasingly evident.

UK – chickens coming home to roost!

With regard to the UK, the first tangible data post – vote shows that – unlike believed by a good many – this is starting to have a concrete impact on the economy. The PMI services has collapsed to the lowest level since 2009 while manufacturing is at the 2013 point.

Services domestic – fasten your seat belts!

Services are mostly consumed domestically and with the largest share of the economy home based this is not a brilliant omen. As concerns manufacturing this data casts some doubt on the currency story. Has UK manufacturing overestimated the export component or is this a reality check with 2/3 of UK FTSE 100 generated domestically?

Pound collapse now stage 2 – Shades of check point Charlie Large sign "entering the Soviet zone"!

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The pound has weakened on this data and we expect it to fall further. While the first "step function" adjustment was the result of a binary shock we shall now start seeing a slide dictated by economic fundamentals. We recall the words of the governor of the Bank of the England of "not getting in the way of the FX rate" and look to the Euro Zone.

Bank of England shall guide descent not reverse it

Interest rate reductions disproportionately benefit those who can continue to access credit in a recession – the "lucky few". A fall in the FX rate extends to a wider range of entities – both in terms of outbound exports and demand for services and tourist inflows. Policy shall remain anchored to stabilization but not trend reversal.

Is Hollande trying to save face?

Are we starting to see a thawing of views as regards the "get your stuff out of my apartment" speech by the "other 27" to the UK? Does "preparation for negotiations" as stated by the French President Hollande represent a face saving device? We do not see this as a way out for the UK to never invoke article 50 but as granting a slight extension into 2017.

Only people stressed by bank stress tests – investors and analysts!

Turning to the banking crisis we shall soon see the results of the EBA – European Banking Authority – stress tests. We see the major impact as stressing the analysts and investors, as incompetence in banking appears to not only be its own reward buy a generous one as well!

Will we see a "Marshall Plan" for the European banks?

ECB head Draghi – in a speech reminiscent of US Secretary of State Marshall's speech of 1947 for the defense of Europe –suggested the need for a pan-Euro Zone "Marshall Plan" for the banking system. This is tantamount to admitting that a non-public solution is not feasible and that TARP is the way forward.

Is this "A fistful of dollars" for the European banks?

This shall be buttressed by exceptions provided for in new EU legislation allowing for state intervention as a first line buffer should there be a substantial risk to the economy. We see the banking situation as now starting to discount the "Hobson's choice" between the bad and the worse made by the ECB. Lower rates to attempt to boost inflation and rekindle the economy – while downplaying the risks to lender profitability.

One half billion Euros shall not be enough!

We see this as confirming our view that the short and long term pressures are likely to be far more serious than assumed. Euro ½ billion shall not be sufficient to fill the gap in bank balance sheets:
Wrought by almost a decade of recession or slow growth
With regard to future capital requirements

Key signal has been given – US – Turkey military cooperation

Turning to political risks of the more violent kind The situation in Turkey remains tense with over 60000 now implicated in government post – coup attempt measures. We see as "signal" that the US – Turkish anti-ISIS cooperation has been reasserted. Turkey's economy, while sizeable, remains relatively closed and domestically focused.

Potential shocks are therefore predominantly security linked. The State Department is losing little sleep over the Turkish lira – its concern is to avoid chaos.

A timid return to reason?

With regard to the oil market, we are starting to see some timid glimmers of reason emerge in the discussion. The last of the obstinate are starting to see the difference between supply disruptions and policy changes. What counts are the longer term actions by producers and current indications are that "pumping for cash" remains the dominant strategy.

We remain cautious on oil and see the more astute market participants as trading volatility and not-crude!

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