Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Investors cautious – slew of data and events upcoming – will the summer be stormy? – Oil under pressure and EU banks source of concern – US earnings, can the US economy plow ahead on its own?

Caution reigns – storm clouds gathering?

Markets are in a cautious mood as investors prepare for a slew of earnings, economic data and central bank meetings. Oil prices continue to show signs of fragility and the European banking crisis may be at a turning point in its inexorable escalation and the storm clouds start to darken over the UK economy.

US banks provided some support for the no-recession in 2016 camp – will earnings provide a further lift?

Markets are now focusing on US earnings as the bulk of the S+P 500 lines up to report. With the major banks out of the way – this has provided some support with regard to recession concerns. Investors are now attempting to discern whether US groups are succeeding in posting an acceptable performance despite a slack economy.

Shall we see a new" Great Divergence" between the S+P 500 and the US economy?

Are we going to see a new "great divergence" between the S+P 500 and the march of the US behemoth? With inflation still low or non-existent in several large markets and pricing power minimal the key shall be greater efficiency. The "low hanging fruit" having been picked this shall require capital investment – which however is not forthcoming.

Awaiting key data out of the US – Services critical

We shall be seeing key data out of the US, including services, manufacturing and consumer confidence. The key issue remains the extent to which the US economy is succeeding in pivoting to an internally driven, consumption expansion as global growth slows. We view services as key as they are mainly bought internally – reflecting "bench strength" and have little import component, signaling pricing power.

Central banks – what shall the tone be?

Turning to the final arbiters of the economy, the Federal Reserve is starting its meeting today. While a move is not expected the focus tomorrow shall be on assessing the extent to which "systemic" concerns shall hold sway over the US economy. Will concerns as to triggering massive "weight of money" flows lead the Federal Reserve to err on the side of caution in its comments?

Do not count on Japan – but does it matter?

At the other end of the planet succor from Japan may not be forthcoming, with the government still undecided as to a stimulus package. While not seeing Japan as the "swing" factor in the equation, as they say "every little bit helps"! The Japanese economy shall continue to be dependent on export led – weak currency boosted growth and the domestic component is unlikely to prove decisive.

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Oil shall continue to fall!

On the oil front we are continuing to see prices trend downwards. Overall economic activity shall – to say the least – be subdued, supplies are abundant and the US rig count is edging up. We expect weakness to intensify as investors see continued supply pressures from both the OPEC and non-OPEC producers and the US shale sector continues to surprise. The primary impact shall be on prices as the anti-deflation "pass through" fumbles.

European banks – this is the appetizer!

We are seeing a key turn in the European banking crisis with bank stocks getting hammered once again. Is it the upcoming release of the EU banking stress tests, an alarm from Commerzbank or both? We view the situation as both:
Becoming more acute
Spreading its geographical locus

Banking not helped by "statistical" economic recovery

The stock of Commerzbank, which was already rescued in 2008 – 2009 – is now plumbing all-time lows. This further signals that economic recovery is proving insufficient to engineer an improvement in the plight of the banking system and that more direct action shall be needed. We shall not comment extensively on the Italian saga – the stock prices speak for themselves.

Focus on Brexit

UK enthusiasm starts to ebb – Is this the "big fade out"?

Last but not least, the post vote enthusiasm in the UK following the seizure of power by the more radical sovereignty champions is now giving way to a new found sense of realism. The talk, following the abominable manufacturing confidence data, is of "action now" to avoid "apocalypse later.

Business borrowing kaput!

Business borrowing has crumbled as some start to slowly grasp that this is not about devaluing the currency within a set economic framework. The focus is on trying to assert oneself in a prospectively different trade and financial context.

Common sense from Scotland!

We are pleased to see that Nicola Sturgeon, leader of the Scottish nationalists, agrees with our view of the UK's prospects post-divorce. The UK prime minister appears to be on a road to a "new isolationism" triggered by an inflexible position on immigration – now referred to by the politically correct term of "freedom of movement".

"Hard Brexit" looking like first best outcome

Collating the noises being made about trade agreements with the Commonwealth – shades of the early 1960's – and the need for "realistic" expectations, the outcome shall be more WTO than EEA. This is the "hard Brexit" scenario envisaged by the Scottish leader.

What shall be of foreign direct investment?

We see the "fall-out" as extending well beyond the trade issue with UK growth likely settling into a narrower band. A contraction in foreign direct investment shall remove one of the key supports for job creation and capital investment. Inexpensive New Zealand lamb shall be hard to digest!

Will economics triumph over ideology? We doubt it!

Will we see economic concerns finally triumph over ideology? We still see the process as being in the “ideological” phase – much like the Cuban revolution in its early days – the UK being a rallying cry for all those intent on a “go it alone” strategy. Historically, the confusion and “experiments” associated with this phase generally result in long lasting economic damage.

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He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

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