Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Macro indicators flashing orange – Bank of Japan does not deliver – US sputters and Euro Zone slows – EU banks under the spotlight! Are we starting to see the unwinding of industrial foreign direct investment in the UK?

Macro indicators are flashing orange – or is it all about earnings? We do not think so!

We are not surprised at the disappointing global growth data which has been our lot today – with neither the old or new worlds offering much respite. Euro Zone growth has fallen 50 per cent and the US economy has posted a second quarter expansion less than half of estimates, with capital spending constrained by overcapacity and uncertainty.

A further macro warning from the hotel sector

On the global growth front we are seeing sharp downward revisions by Hilton and Marriott – who see global growth slowing and corporate budget cutting as impacting on revenues. We are not surprised and see this as tallying with our expectations for further downgrades to top line expansion. There is no rising tide lifting all boats!

Bank of Japan disappoints – how relevant is this?

Markets are also contending with less than expected munificence from the Bank of Japan – with a "wait and see" attitude reminiscent of the ECB. We reiterate our view that Japan while important has faded as a key immediate potential "shock" factor and are seeing a muted impact on markets.

Do not expect massive US inventory build-up in run-up to the election

US growth continues to reflect limited capital spending and lower inventory accumulation – raising the prospect of an economy increasingly geared to "just in time" flow charting.
Contrary to prevailing opinion we do not see US companies ramping up production ahead of the November elections and the ambient uncertainty.

Cash remains driver of the economy – there is very little of it!

We are starting to see a return to reason and to the basic driver of growth – cash. There is very little of it! The oil dividend was stopped dead in its tracks by stagnant wages and an abysmal labor force participation rate. The bottom-line is that consumption is being increasingly "pushed upstairs" on the income ladder. Will this be sufficient?

Focus on the Euro Zone

Euro Zone recovery running out of steam – again!

Turning to the Euro Zone with second quarter growth of 0.3 per cent the – eternally – incipient recovery appears to be both brittle and stalling. ECB measures appear to be having scant impact on the "real economy". Zero interest rates have not triggered an investment boom as growth prospects remain weak and pricing power constrained.

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We have still to see the full impact of the UK vote

We expect the single currency area to continue to labor under these constraints – which predate the UK vote. Political considerations shall continue to trump "The march of the economy" as the aftermath of the UK vote starts to unfold and a swath of elections begins.

Focus on the EU banking stress tests

Can the private sector step in?

The results of the banking stress tests shall likely make for some market volatility. Investors shall be focusing on both the size of capital shortfalls and the extent to which these can be remedied by private sector or "bail-in" solutions.

A rather pointless morality play

We continue to see the crisis as a morality play pitting "no rest for the wicked" involvement of greedy yield seekers against the virtuous tax payer. One shudders when one reflects that the last time this "game" - in the style of "Games people play" was acted out, Lehman Brothers went bankrupt.

There has maybe been a small step forward with a private sector rescue for MPS. However, we doubt that a Euro 5 billion recapitalization shall be sufficient to quell macro prudential concerns.

Focus on the UK
Optimists point to continued existence of UK economy

The UK situation remains complex with the "optimists" feasting in selected data which highlights that the UK economy is still extant and the "realists" warning that the relevant data is still to come. We continue to view the UK situation as weak and expect that the pass through from manufacturing confidence and retail sales shall force a reassessment of prospects.

Ford getting ready for impact from Brexit

Ford is also emblematic of the challenges facing global companies in the "New UK economy". The company expects to lose US Dollars 1 billion in the next three years due to the dual expected effects of the fall in the pound and repatriated earnings and a weak if not contracting UK economy.

Durables' prices rising in UK

This is prompting it to reconsider shutting more capacity in the UK – and due to integrated supply chains – in continental Europe. The sharp currency devaluation shall prompt price increases – further pressuring the purchasing power of UK consumers.

Supply chains shall be restructured

We are starting to see the first signs of pull back among EU based supply chain driven companies – concerned as to the final agreement on trade access. The trend is likely to continue – impacting job creation in higher paid industrial positions.

Hitherto a US style lite labor legislation and ease of doing business combined with access to the EU has eased de-industrialization pressures. Will this be the same in the future?

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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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