Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Some more desperate attempts at humor from the ADP report! Central banks under the spotlight- will they strike out? – Monetary policy, flogging a dead horse! – Oil prices – fasten your seat belt, more to come! Tired of hearing positive spin on UK – government is floundering! – We have not seen the end of the banking mess.

ADP – back to high school and throwing food in the cafeteria!

Those seeking a jocular moment might do well to look at today's ADP report – which reads like a 9th grade "good news bad news joke"! The good news is that job creation was higher than expected. The bad news is that most of the newly employed are likely to end up in either destitution or if reaction triumphs- in a debtors' prison!

Service sector was not made aware of end of indentured labor!

The data show massive hiring by the service sector – where present day conditions make "The condition of the working class in England" by Marx's first follower Friedrich Engels – look like Club Med at Cancun at spring break! We are also treated to some humor by comments that the key problem appears to be a lack of workers – we might better say "indentured servants!

Big honchos playing from backfield?

The US markets appear to be following in the tracks hewn by the "Old world" and are pointing to a lower opening, with weak oil prices, nervousness about global growth now extending to the US and concerns that central banks may opt to play from backfield. With Japan striking out on the dual monetary policy and fiscal policy front – all eyes are on the Bank of England tomorrow.

Monetary policy – we are flogging a dead horse!

We reiterate our view that global growth is slowing and that monetary policy is flogging a quasi-dead horse. The issue is not the cost of financing but the lack of "investable" projects. Zero per cent interest rates do not equate to a zero per cent discount rate.

Stop the rubbish about oil re-balancing

We see our view as to oil prices confirmed on two fronts. The first is that they have continued to fall – despite all of the rubbish we have had to listen to about the market re-balancing!
Far from the market re-balancing we see more flow on its merry way as a wide swath of producers ramp up production.

Return of sovereign risk – scarier than Jedi!

The second shall be not "The Return of the Jedi" but the return of sovereign risk as government treasuries and sovereign wealth funds once again come under pressure. This is likely to play out as "weight of money" selling in equity markets, lower prices for non-investment grade debt and a closer correlation between financing costs and credit ratings.

Central banks – we are reading the epitaph!

As regards the central banks we are not talking about the "End of easing" but about the epitaph for a policy which has yielded scant results. We are reverting to an analysis posited on supply shocks, dumping and still high debt levels. The Chinese supply shock shall no signs of abating and now is the flip side of advanced economies desire for China to stimulate its economy.

Few have benefited from zero interest rates

While much talk has been expended on de-leveraging we are still sitting on far higher debt as compared to phases of faster growth. The issue is not the sovereign cost of financing but:

The crisis and consequent drop in credit worthiness has precluded those who need it most to benefit from falling rates

Those who have benefited have not been in a position to reduce debt – they have merely played the "extension" game

There is such a thing as a capital repayment – low rates are not impeding oil patch bankruptcies.

UK vote was "a-historic" not historic – comparable to Sack of Rome by the barbarians! There is a reverse gear to progress!

With regard to the UK, we are seeing more grim tidings as the service sector implodes in the wake of a vote which some see as historic but which we view as "a-historic". Services are consumed mostly internally and therefore provide a guide to the domestic economy. The outlook is recession with the only question being – how long and how deep?

UK sets sail for Pitcairn Island!

We see the UK as mired in not one but several phases of uncertainty and floundering as we move from "present at the creation" to setting forth towards Pitcairn Island! We see the debate continuing to veer towards the immigration issue – now subsumed under the politically correct term - freedom of movement.

How many more phases of Brexit vote denial?

This is giving rise to the fourth wave of denial. The first was that the "remain" camp would triumph. The second was that there would be a "spot" second poll and the vote would be reversed. The third was that there would never be a hint of Brexit.

Obscurantism shall triumph over reason!

We are now to paraphrase Lenin's definition of the apogee of capitalism in the last and final phase of this nonsense! The UK will accept freedom of movement in return for unfettered access to the EU single market. To the contrary – we see the position on the immigration issue as hardening as no commitments are taken as to the status of those already in the UK.

Euro Zone – we are inching forward – is it enough?

Turning to the Euro Zone – we are seeing disappointing retail sales but an improvement in the composite overall services and manufacturing PMI. Germany continues to be the center – forward while other major single currency area economies take a nap!

The indications are for modest growth – we do not see this as sufficient to trigger "animal spirits"!

Bring out the champagne – Not all European banks are kaput!

We are seeing some signs of life in the European banking sector, as better than expected earnings from French banks give rise to bell-ringing. We are not amused! The bar is no longer decent returns but not ending up as a ward of state. The capacity to re-capitalize internally remains quasi-nil and the problem of the massive bad loans unresolved.

We see the situation as coming to a head. Italy appears to be striving for an EU wide waiver on bank rescues – allowing it to funnel funds directly to the banks as a "first buffer". Should the situation in Germany worsen they may soon have an ally.

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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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