Tigress Financial Partners

# Macro Snapshot – Chief Economist Jean Ergas

August 8, 2016

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***1- In a nutshell!***

***No reason to revise global growth after US data***

*See no reason to revise global growth expectations following US jobs data – Central banks remain key support for equity markets – will the US Federal Reserve dare to raise interest rates? Will it knock over "The Apple Cart"?*

***Political risk remains high***

*Political risk remains high with the UK situation still up in the air – We see the government as floundering with regard to economic strategy and the "ideologues" of secession as in firm control*

***US veering towards the center***

*The US appears to be veering towards the center – opting for political stability over a drastic recasting of the political and economic infrastructure. We see the Democratic party as also benefiting from an "optics" improvement in the labor market.*

***Will the US consumers keep spending?***

*This week we shall be seeing – among other US data – US retail sales. Shall the strong jobs report translate into an increase in spending providing an offset to weak capital spending? Can the US continue to present itself as a "stand-alone" economy?*

***Not bullish on oil***

*As regards oil, we see further weakness as the likely outcome with scarce support for a reduction in production. Cash remains king and trumps – no pun intended – longer term marketing strategies.*

***2- Today's action***

***Stock markets focusing on "The Call of the US" – are we seeing the rise of a new "buzz word"?***

*Stock markets are up this morning as Europe focuses on not the "Call of the Wild" but on the "Call of the US"! With US employment data coming in significantly stronger than expected hopes are high that jobs might be a leading indicator for GDP.*

*In a market which loves buzz words such as Euro – dollar parity and de-coupling, the next one might be "convergence" between employment and growth.*

***Not getting excited about the raising of the minimum wage***

*We remain somewhat skeptical on this front and see this as the "mopping up" of the lower paid workers. People who are doing some of the most back-breaking work and being paid a pittance! We shall not join in the "rent-a-crowd" type jubilation around the raising of the minimum wage.*

***It remains well below the level required to shift these employees from accounting employment-on the books – to economic employment" – can eat three times a day.***

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***Germany continues to be Euro Zone Lone Ranger and support***

*Turning to the Euro Zone – we are seeing some good news from German industrial production – which has come in close to 1 per cent. We see this as having a two-fold significance:*

*Germany remains an oasis of growth in an otherwise dismal context*
*The "pass-through" of German strength to the "Children of a lesser God" in the single currency area remains weak.*

***Investors not interested in Chinese flow data – but absolute level of reserves and sealed off "banking system"***

*Markets are taking not brilliant Chinese export and import data in their stride. The basic assumption appears to be that growth resulting from constant government mini-stimuli is irrelevant. What counts are:*

*FX reserves remaining at a level sufficient to stem the risk of a devaluation*
*That the banking system – riddled with bad loans – remain hermetically separated from the thoroughfares of international financial flows.*

***Focus on the US***

***Trump - is this the "flat tax" once again?***

*We now seem to be in the doldrums of summer with the Trump economic speech the highlight of the day! Whether the prospect of lower taxes – reminiscent of a "flat tax" shall be sufficient to deflect attention from the recent polemics shall be critical to maintaining the candidacy as a going concern.*

***The "Street" appears to be putting its money on the Democrats. Their program appears to be mutating into Sanders' decaffeinated lite in exchange for civil peace in the economic sphere.***

***Federal Reserve shall not shift from "Dating Game" to the "Waiting Game"***

*The Federal Reserve knows no rest! Federal Reserve governor Powell appears to be shifting his position from lower rates for the short term to lower potential growth for the proverbial "long run". We are not surprised and see companies' continued reluctance to invest as paving the way for declining productivity and wages.*

***We do not see the US central bank as shifting from "The Dating Game" to the "Waiting Game" subordinating interest rate increases to a stabilization of easing in the other major economies.***

***Focus on the UK***

***We are seeing a go ahead from the City for a "hard Brexit"***

*With regard to the vexing issue of Brexit –we are seeing some ominous rumblings from discussions between the UK government and representatives of the financial community. The position seems to be shifting towards "mutual access" negotiations as opposed to maintaining the status quo. This would require freedom of movement of people which would negate the major rallying call of the Leave campaign.*

***On the trade front the focus seems to be steadily shifting towards bilateral agreements or unilateral tariff reductions – We are looking at a "hard Brexit"!***

***Political Risk – West shall not risk action against Erdogan***

***As we forecast – where are the sanctions against Turkey?***

*On the political front we are hearing ominous rumblings from Turkey with Erdogan getting ready for a visit to Russia! Some see this as a reaction to the "Free World's" criticism of the Turkish government's repression following the attempted coup.*

***We shall be charitable!***

*Being charitable – one might view this as an attempt at injecting some humor into otherwise grim proceedings. Criticism has not led to any action and has remained toothless. Where is the threat of sanctions so generously bandied about in other cases?*

***Security remains the "bottom line"***

*We continue to see the "bottom line" as security and see an upcoming "From Russia with Love" scenario – for those old enough to remember James Bond- as a further lever used by Turkey. Merkel's position is weakening and she will be hesitant to do anything to prejudice the agreements regarding the migrants.*

***3- Global Overview***

***1 - Global growth and key market drivers***

***Can the US become a new beacon of growth or is this "capitalism in one country"?***

*We confirm our view that despite the stronger than expected jobs data in the US, a "holding" pattern at a low level in the Euro Zone and a "financial economy" recovery in the emerging markets global growth remains weak and shall likely weaken further.*

***Symbiotic relationship between markets and central banks persists***

*Investor hopes remain anchored in continued central bank easing. Despite the by now pan-continental descent into record low or – in many cases – negative rates growth remains minimal. As we have often said comparisons between current real interest rates and the pre-Lehman epoch are highly misleading.*

***It is not the cost of debt but its sheer size!***

*The impediment to reinvestment and expansion is not the cost of finance but the sheer volume of debt. Reducing "coupon" is irrelevant in a context of slow growth and deflation – with the former impacting cash flow and the latter leading to a "re-leveraging".*

***We are not through with the UK "sea change"!***

*With regard to extra – cyclical factors investors continue to focus on the potential impact of the UK vote on both the EU and the global economy. We are continuing to see a steady stream of disappointing data indicating a marked slowing of the world's 5$^{th}$ economy.*

***Bank of England takes broad array of measures***

*This has prompted broad based action by the Bank of England centered on a reduction in interest rates, an expansion of quantitative easing and targeted bank lending. Whether these measures shall be sufficient to ease uncertainty and rekindle consumption and investment remains doubtful.*

***Monetary policy has hitherto benefited the "haves" boosting the value of assets. The asset-less have not seen a significant "wealth effect" as reflected by rising wealth and income inequality in the US and UK.***

***US jobs data and growth are not synonymous!***

*The US jobs data has confirmed its iconic status as a political and not economic metric. "Full employment" and an alleged labor squeeze have not engendered a commensurate rise in wages. Hiring continues to focus on the service sector – low pay levels. This shall limit consumption's capacity to offset continued stagnation in capital spending.*

***Political risk remains high – UK situation far from resolved***

*Political risk remains high and we see the UK situation as far from resolved. The UK – exit revolution is still in the "ideological phase" and we are seeing increasing calls for "secession now".*

***The proponents of this "maximalist" vision are propounding bilateral trade agreements or trade within WTO terms. This does not bode well for a friendly separation.***

***Turkey not out of the critical phase***

*The situation in Turkey while fading from the press remains tricky. Repression continues to increase and the Erdogan government is not remiss to use the migrant issue to force his political agenda regarding visas and deflecting EU critiques.*

***US – Erdogan relationship – A new Saudi Arabia?***

*Turkey – as during the Cold War – is a key bulwark in the defense of the "Free World" and shall not be held to exacting institutional standards. We continue to see the "bottom line" for the US as security, Turkey is mutating into a Saudi Arabia type relationship – no space for linking human rights and cooperation.*

***IS the US opting for the institutional status quo?***

*Turning to home shores we are seeing a shift towards the institutional "status quo" in the presidential campaign. Whether "more of the same" represents an optimal economic outcome, it is deemed preferable to a drastic re-drawing of political alliances carrying in its protectionism and a "hiring freeze" with regard to new trade agreements.*

***It shall not be "ad-hoc" life boats that shall quell the European banking crisis***

*The European banking crisis continues to at periodic, ever shorter intervals sow uncertainty. In Italy attempts at a private sector rescue of MPS are seen as insufficient to solve the bank's capital issues with regard to both:*

*Settling the bad loans issue*
*Re-establishing MPS as a "going concern:*

*Suspension of trading in banking stocks is at odds with repeated government assurances as to "move on" admonitions from the Italian government.*

***Crisis is multi-layered, we expect an EU TARP***

*We see this grasping for private sector solutions as inadequate to:*

*Successfully confront complex – multilayered issues*
*Lay the framework for a re-capitalization of many European banks and "bail-in" bank lending as a substitute for fiscal policy.*

***Oil***

***Pressure on oil not over – "bulls" tempering their enthusiasm***

***-Excess supplies adding to volatility***

*We continue to see oil prices under pressure with supply increasing as disrupted production returns to the market. The likely scenario remains a further "raid" below the US Dollar 40 WTI mark and a gradual recovery. We are seeing the "bulls" moderating their enthusiasm downgrading their price target from the US Dollar 70 to the high 50' range.*

***We view as a complicating factor making for volatility the inventories which remain high.***

***"Dash for cash" still the dominant strategy***

*Supply steadiness shall also be driven by the continued need for cash of the major producers, with any decline in price setting off further lifting. We see production as still guided by short term liquidity and not by sophisticated marketing strategies.*

***We continue to view Saudi Arabia as reluctant to overturn the "apple cart" in the light of the heightened uncertainty driven the "Primacy of Politics".***

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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.

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