Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets in Europe gingerly moving forward – US consumers – shall they report for duty? – Yet more rumors about an OPEC production freeze – will they all play along? Republican economic agenda, worst of both worlds!

Markets in Europe attempt to gingerly move forward – can consumers offset capital spending?

Markets in Europe are attempting to gingerly move forward braving renewed weakness in the oil price and sitting out to see the US retail sales at the end of this week. Will the US consumer be able to offset the potential impact of weaker oil prices on earnings, capital spending and financial flows? Never have globally so many expected so much from so few!

Boost to spending now being devolved to the more well to do more consuming

Previously consumer spending in the US was seen as a broad based bedrock of demand. The worst recovery since 1945 has caused a fall in real incomes for a major part of the population and income inequality measures placing the US near the up and coming emerging markets. This is shifting the burden of opening their wallets on to ever fewer people.

Are we seeing a re-run of US discount boosted spending in the UK?

With regard to Europe, we are seeing the pound once again decline. This is seen as a reaction to both more monetary easing by the Bank of England and increasing ambient pessimism among the business community. Consumer spending is being supported by discounting – we may well ask for how long? The talk is of a "shallow recession" – at the same time the central bank stands ready to intervene!

Commercial office prices are cratering and funds are still blocking redemptions – has capital moved before consumption?

Hopes as to an agreement on oil prices start to recede

With regard to the oil price the hopes as to a production freeze agreement are starting to ebb. We have tended to view this as unlikely due to two factors. The first is that some producers hit by disruptions are still producing below capacity and that Iran is still focused on regaining its pre-sanctions output.

Little ability to finance cash flow gaps reduces willingness to shift from cash generation to marketing strategies

The second is that we see little proclivity or ability for countries with limited access to the global capital markets and the ability to finance "cash flow gaps". Slowing global growth shall likely further abet this trend as medium term prospects key to a cyclical strategy are being revised downwards.

We are hearing less about US Dollar 100 by year end with hopes now centered on the upper 50's range. The first best outcome is now at a level still straining the higher cost producers.

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Do not see turn in deflationary pressures following Chinese data

Chinese producer price – factory gate deflation has slowed. This is being interpreted as a positive sign that imported pricing pressures are behind us. We beg to differ for two reasons. The data is likely the result of an uptick in iron ore and not of a reduction of overcapacity along also the internal value chain.

Aim no longer to boost growth but to stop deflation!

The second is that slowing growth in the advanced economies coupled with at best low inflation is making it quasi-impossible for producers to put through price increases. This is the reverse side of consumers reaping a deflation "windfall". The lofty ambition of engineering a currency devaluation to boost growth has been subordinated to depreciation to stop "re-leveraging".

Not knocked out by the Republican economic program – Curious combination of riskiest strategies of Democrats and Republicans!

The stock market was not impressed by the Republican economic program – which is focused on internal measures with the plan to retreat into a Smoot-Hawley tariff mode put on hold. The strategy is centered on cutting corporate tax rates, encouraging repatriation of offshore cash and production and a strong demand boost via infrastructure programs.

This sounds like a bizarre blend of "Laffer curve economics" and Keynesian fiscal policy - problem is – where to get the money?

Italian government gets go-ahead for the referendum

On the political front in the Euro Zone, the Renzi government has received approval for the institutional referendum. This shall be held within 60 days and should – hopefully – cement the reforms already in place. Whether re-configuring the role of the Senate shall be sufficient to re-boot the economy or solve the banking crisis is another matter.

We are not in a "steady state" situation!

We see the Italian government as "long" on long term solutions – seen as contingent on internal reforms - but short of answers to counter immediate pressures. Reforms may have a long term impact on growth in a "steady state" context – this has no resemblance to it!

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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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