Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US consumer takes Fifth Amendment and remains silent! – Inflationary pressures nowhere to be seen – US economy about "swapping dollars" – UK economy bad news just keeps coming – expect a substantial economic downturn – Euro Zone second quarter advance but Italy zero

Is the division of labor between advanced economies and China fading?

Are we seeing a return of the China trade – as European markets pause following disappointing industrial production and retail sales. This is significant as the global growth paradigm is now being supported by a dual axis – reminiscent of the "division of labor" propounded by Adam Smith.

Monetary policy remains the lever pulled by the advanced economies and fiscal policy by China. The effect of the former is starting to ebb – what of the second?

Euro Zone grows in second quarter but wide divergence

Euro Zone growth for the second quarter presents a picture of an economy – to the extent that it can be considered as one unit – which is growing but with considerable divergence. Germany continues to power ahead but Italy growth is zero. The outlook remains muted and we expect the ECB to err on the side of further easing.

US retail sales disappoint!

With regard to the US we have now seen the retail sales data which is seen as key as both a "snapshot" of the global economy's Plan C – the US consumer – and for a continuation of the stock market rally. Sales are flat indicating that the "strong" employment data is not feeding through to the cash register.

We have seen a stock market rally based on hope as to earnings – we view as even more critical the need for companies to start growing the top line!

Can you grow the economy without "final point of sale"?

Stagnating sales and stock buybacks financed with zero cost money are not a recipe for real economy strength. Pricing power remains weak and the talk is of increasing efficiencies. Slow growth rates are prospecting a return to a latter – day mercantilism - a world in which the economy is static and the aim is to redistribute the pie.

US economy is about "swapping dollars"

The data on the inflation front has also been discouraging with a fall in producer prices hinting at minimal price pressures in the US economy. A plethora of reasons are being put forth – strong dollar, lower oil prices. We see these as the usual excuses to deflect from the fact that this economy is not about value added but about "swapping dollars".

UK economy – contraction shall be deeper than expected

With regard to the UK the bad news just keeps coming – with construction output taking it on the snout. Caution is king in a situation of likely continued uncertainty as transactions in the housing sector have been placed on freeze. We see the outlook as brittle for both the economy and the currency and consider that export growth shall not be sufficient to offset domestic weakness.

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Where is the strategy? Exit shall be hard and messy!

More than a month on from the historic vote, there is still no clear, discernible strategy emerging. We see the electorate as being gently primed for the likely outcome dictated by the more conservative elements of the secessionists – "hard exit" and the need to engineer a two pronged shift in the UK economy:

Two pronged economic strategy – return to 1950's labor protection

On the domestic front the focus shall be on de-regulation. This shall center on reducing costs for small and mid-sized firms and comprise a likely reduction in labor protection. The aim is to offset decreasing purchasing power with potentially lower costs and prices.

Once again – the Commonwealth!

With regard to "Foreign Affairs" the focus shall be to increase exports to the Commonwealth and the emerging markets. Whether these markets can offset steady and low political risk trade with the EU remains doubtful.

Do not see a "blockbuster" agreement on oil

As concerns the oil price some investors are cheered by the prospect of some sort of production agreement next month. Due to considerable differences - determined by cash hoard - in the "starting blocks" position of the players determined by cash hoard – we view a meeting of views as unlikely.

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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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