Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US futures in a cautious mood – monetary easing "The last beach" for the global economy? – Federal Reserve releases minutes, world yawns – Not getting too excited about UK retail sales -
ECB speaks of uncertainty – we agree!

US futures signal a cautious open – still analyzing "invisible ink" Federal Reserve minutes

US futures are slightly lower following a mini-rally yesterday after the minutes of the last Federal Reserve meeting while European investors take heart from the Federal Reserve "invisible ink" notes. Markets continue to also be supported by a historically low but firm oil price reducing the potential for systemic risk and market volatility.

Yesterday – today – tomorrow – monetary easing!

The consensus view remains that monetary easing was the wave of the past, is the wave of the present and shall be the wave of the future. A further shot in this direction has been fired by the ECB which comments on the considerable uncertainty as to the global economy.

ECB loading cannon – will they shoot?

The single currency area central bank may in September once again have to opt between placing further pressure on the banking system or easing further in the hope of:

Depreciating the Euro
Sparking "real" inflation – sufficient to engender a modicum of broad based pricing power

We are continuing to see a central bank driven market – where earnings releases are playing a lesser role due to the low targets set.

Focus on the Federal Reserve

Federal Reserve releases minutes – markets yawn!

The Federal Reserve has released the minutes of its last meeting and the markets have basically yawned. We are still seeing a US central bank in a "Mad magazine takes to central banking" mode. It is strong at filling in the blanks but weak at actually succeeding in steering the economy towards economic take – off.

Meanwhile bubbles build!

The consensus – brittle as it may be – still appears to be to wait for a pick-up in inflation. We see this emphasis as misplaced and view the only rationale for intervention to be the avoidance or worsening of "bubbles".

These can arise even in the absence of massive price increases. One would be hard put to decide where the "bubble" phenomenon is at its worst but some real estate may be getting close.

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Federal Reserve and credit markets going their own ways

As regards market reaction to any Federal Reserve move – we see a clear divergence or better put "division of labor" between the central bank and the financial markets. The former sets a notional reference rate – while the latter actually prices risk. This is the key piece to the puzzle.

We are tired of hearing about the "Amazon effect"!

We were interested to read that a leading Federal Reserve official has accepted the second quarter GDP growth rate of 1.2 per cent as genuine! Thankfully – this miserable performance is not being rationalized as the "Amazon effect"! There is a fundamental disconnect between unemployment – growth and inflation.

Focus on the UK

UK retail sales – is this much ado about nothing?

There is much excitement following the release of UK retail sales data showing a much stronger than expected increase following "The Vote". We do not see this as substantially modifying our view on the "Mutiny on the Bounty" UK economy for three key reasons:

Do not see this enthusiasm continuing

1- Discounting is strong – re-run of US model – swapping cash

2- Most goods imported and not yet repriced to adjust for weaker sterling – this is a windfall

3- Overseas shoppers snapping up UK shopping deals shall not change higher inflation and stagnant wages reducing purchasing power going forward.

UK can play competitive devaluation versus EU negotiators

The UK has a strong arrow in its otherwise weak quiver with regard to negotiations with the EU. Taking a leaf from the Chinese book it can let its currency go into free-fall reducing demand for EU imports and boosting its own sales.

While this shall automatically trigger an increase in imported inflation the "nuclear deterrent" short term on-off switch effect may prove fruitful.

Norway writes down UK commercial real estate – is it enough?

The Norwegian state oil pension fund has marked down the value of its UK commercial real estate by 5 per cent. Seeing the massive illiquidity in the sector – this appears insufficient. Several investment funds are still closed for redemptions and do not expect to re-open for several months.

We expect further "step function" drops in commercial real estate and see a major move building on the residential front. With the latter heavily leveraged – this may start seeping through to bank balance sheets.

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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.

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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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