



August 19th 2016

Muted end to peak of “doldrums” week – Euro Zone inflation stalling, deflationary pressures still strong – Where to for oil-are prices running ahead of market fundamentals? – Is this a US 1994 fixed income scenario?

Muted end to the week – US interest rates and oil

We are seeing a muted end to the week as European markets reflect on US interest rates and uncertainty starts to reappear on the oil front. On the country macro front producer prices in Germany continue to be subdued – a possible tipping point for further ECB action.

Euro Zone inflation shall remain low

We see these measures as also driven by slowing global growth and limited expectations from the upcoming oil conference. With all levers having been pulled we are still at square one in terms of triggering a rebound in prices. Any Euro Zone recovery shall be limited by the absence of broad based pricing power.

Three cheers for firm oil – reduces market volatility and lowers the price of put options!

Oil prices have continued to firm on the basis of rumors of a possible agreement among the major producers. We remain somewhat skeptical but see this as at least limiting market volatility in a context of low volumes. Some might cynically see firmness in oil as lessening the cost of protection against “The Gathering Storm” in the autumn.

We continue to see the US shale producers as the “traders” of the oil sector reacting to and better placed to gain from short term fluctuations. As opposed to the sovereign producers locked into long term development plans and government expenditures.

Back to the future with interest rates?

Is this back to the future with Alan Greenspan foreseeing a sudden jump start to interest rate increases as the Federal Reserve grasps that stagflation has changed the rules of the game? Are we going to be seeing a re-run of 1994 when there was a blitz run-up in rates and the mortgage backed securities market collapsed?

We are seeing more and more warnings of bubbles in the bond market with the likelihood that a slight uptick in inflation or lesser deflationary pressures setting off an avalanche.

We are definitely in the “New Normal”!

As concerns the ongoing debate over the immediate interest rate picture in the US - we are once again hearing from the New York Federal Reserve that the US economy is making progress. We are definitely seeing this in a “New Normal” context!

U-6 metric still near 10 per cent

With regard to US data, we are seeing a continued hiatus in jobless claims. Whether this shall point to significant wage increases is – in our view – doubtful. The reserve army of the under-employed shows no signs of shrinking with the U-6 metric still flirting with the 10 per cent level.

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Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB /
SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

To subscribe to Jean’s Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

Is reality triumphing over wishful thinking?

On the UK front we are seeing further signs of reality gaining the upper hand over wishful thinking. The City is allegedly striving to secure at least limited access to the single market, highlighting that Brexit – soft or hard – shall be negotiated piecemeal.

Contacts

Jean Ergas**Chief Economist****(917) 551-6533 Direct**jergas@tigressfp.com**Ivan Feinseth****Chief Investment Officer****(646) 780-8901 Direct**ifeinseth@tigressfp.com**Philip Van Deusen****Director of Research****(646) 862-2909 Direct**pvandeusen@tigressfp.com**Lily Li****Managing Director****Global Wealth Management****(646) 780-8903 Direct**lilyli@tigressfp.com**About Jean:**

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB, SIPC) based in New York City.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC**Research: (646) 780-8880 research@tigressfp.com**500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

Research Highlights

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500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com