Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

August 24, 2016

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Sentiment remains fickle - oil prices falling, not surprised! Oil sector - some are more equal than others - Never say never to a US rate increase - Will a right wing conservative government embark on Keynesian policies?

What a difference a day makes! Iconoclasts at work!

What a difference a day makes! Yesterday the talk of the town was optimism boosted by oil prices and resilience in the Euro Zone. Sentiment was also abetted by an almost unshakeable conviction that the Federal Reserve ever again ever raising rates was unthinkable.

We might caution that a book written by Norman Angell in 1911 boldly predicted that due to "globalization round 1" war was impossible. We saw.

Oil prices falling - we are not surprised! Energy "human comedy" still playing out!

This morning investors are unnerved by a fall in oil prices. We discern - in addition to a rise in US inventories - a wavering belief as to OPEC and friends capacity or willingness to cobble together some semblance of agreement.The press is finally starting to latch on to the fact that there are two troupes in the energy" human comedy".

1 - The private sector oil companies
2 - The sovereign producers

Some are more equal than others!

Group 1 are price takers and have been conspicuous by their absence in the debate. Group 2 are the price makers - with some more equal than others. Within this group vast differences in priorities persist. We do not see this changing anytime soon.

Yellen speech - a work in progress - could be messy

The Federal Reserve meeting remains squarely in focus. US housing data is seen as lending credibility that the US economy remain supported by - albeit not spectacular - domestic fundamentals. As we mentioned yesterday the Yellen script is a work in progress - subject to revision up to the last minute!

To QE or not to QE? That is the question!

We view the discussion in broader terms. The critical point is not whether further monetary measures should be taken but whether these measures are effective. Hitherto the one result has been to inflate risk assets with - outside of the US - scant pass-through to the "real economy".

We have not only reached the end of the line with bank earnings under pressure. In the "QE economies" dominated by aging populations lower interest rates are forcing consumers to save more!

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German economy grows but capital investment nowhere to be seen!

As regards the Euro Zone, Germany remains in pole position. While growth slowed in the second quarter it is still - by today's standards - at 0.4 per cent. The key driver is exports which are compensating for the drag from a fall in capital investment.

We see the principal market mover in Europe as now being "The primacy of politics". With the "UK question" likely to remain unsettled for several years - we expect few industries to take the plunge.

Excellent comments from WPP CEO

We read with interest the comments from the CEO of the WPP group - which posted stronger than expected results. Longer term advertising budgets are likely to come under pressure as companies place on hold or slash capital investment. Companies are sitting on massive cash reserves.

Companies shifting to more prudent working capital management

We see this reflecting both a shift to more prudent working capital management and to the lack of attractive investment opportunities. Sobering thought that negative rates not sufficient to spur investment.

Will UK turn on the tap of government spending? Could be a good example for others!

Turning to the UK there are increasing reports that the baton shall now pass from monetary to fiscal policy. With a balanced budget by 2020 having been forsaken, the door is open to government spending. Germany has just recorded a massive government surplus - might this not be an appropriate time to "share and share" alike?

Getting ready for "The Gathering Storm"

With the Bank of England reluctant to embark on negative rates and QE having hitherto been a subsidy for the rich - this may well be the only way out to buffer "The Gathering Storm". We remain cautious on the UK and see continuing confusion as to what the UK government's priorities are and whether they are in the realm of the possible.

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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.

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.

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