Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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European markets slightly lower on "rumors of war" regarding US interest rates as chances of a September rate increase rise to 42 per cent. Oil is sliding pressured by strong US dollar and increasing Iraqi supply.

1 - In a nutshell!

Central banks continue to call the shots - Global growth continues to be modest - Revised US second quarter GDP confirms quasi recessionary economy - This week markets shall continue to react to the Jackson Hole speech and gear up for the US employment data

Speculation starts to build in run-up to the ECB meeting - Pressure in UK situation continues to build - Not wild about oil!

2 - Overview

Should we see as first best outcome for US moderate growth? Is this sufficient for the Federal Reserve to start raising rates?

The US GDP second quarter revised data has confirmed our view that those looking to the US as the "locomotive" for the global economy would be better advised to look elsewhere. The US economy continues to be weighed down by a capital investment "strike" with the ever fickle consumer expected to pick up the slack.

Federal Reserve continues to speak via a plethora of messengers

The focus has continued to be on the declarations of the US Federal Reserve as expressed via a plethora of messengers. The only valid distinction that can be drawn is with regard to the degree of optimism. We see this as confirming that the US business cycle has effected a sharp downwards " parallel shift" with the economy now firmly ensconced in a lower fluctuation band.

Do not see the link between labor market, wages and inflation

The US economy continues to be viewed as steadily strengthening. This is seen as laying the basis for further pressure on the labor market, wage pressures and - eventually - inflation. We do not agree and reiterate our view that the link between employment and growth as well as between wages and inflation has long been torn asunder.

The long and the short of it is that the Federal Reserve remains in tightening mode. While this makes it the "Lone Ranger" among the central banks, we can only hope that it shall not be the "last horseman of the apocalypse".

Is durable goods data signaling the start of something bigger?

Looking to the shorter term, recent durable goods data has re-awoken hope of an incipient " return of the big spenders". We shall need to see a robust series of this data to confirm that this is indeed the laying of the base for higher productivity and not minimal replacement investment.

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European growth shall remain modest

With regard to Europe we continue to see overall modest and uneven growth. Germany is - albeit advancing at a slower rate - the center-forward supported by domestic consumption. The weak points remain capital investment and slowing exports with recent business confidence data not promising.

Italy once again the crucible!

We see Italy as once again the crucible of the single currency area. To disappointing economic data has been added the political risk stemming from the recent tragic earthquake.

The government's handling of the aftermath shall influence public perception of government.

With the prospective institutional referendum in the autumn seen as a " make or break" moment for the government's reform program, the stakes are high. A defeat of the Renzi government shall create further instability in a Euro Zone struggling with multiple political risks.

Expect ECB to move again - shall it be sufficient?

Turning to monetary policy, the ECB has repeatedly stressed that it stands ready to take further action. Measures adopted hitherto have succeeded in avoiding a recrudescence of systemic risk. They have however proven insufficient to rekindle inflation. This shall be key to both creating broad based pricing power and reducing the real value of debt.

Article 50 - Are we waiting for Godot?

The UK continues to be at the center of the political debate with attention focused on the first step in divorce proceedings - the invoking of article 50. We believe that pressure to break- hitherto stemming mostly from the "other 27" - is now increasingly internal.

Dominant strategy - Stop "Barbarians at the Gate"

This is being allegedly driven by the wish to as quickly as possible gain a free hand in commercial agreements. We see the real motive as being the almost ideological urge to stop "The Barbarians at the Gate". Recent immigration data has shown that the prospect of the doors closing has spurred a last - minute rush.

Some glimmers of realism?

With regard to the shape of things to come we are starting to see glimmers of realism. Unfettered access the single market without freedom of movement is now seen as "not on" by the UK's soon to be former partners. This eliminates the oft mooted Norwegian option.

UK exit negotiators shall take a leaf from GE's management strategy

We expect the UK negotiators to adopt a GE management type approach. This shall center on defining core economic competences and prioritizing them in the negotiations.

Financial services remain the key economic constituency to be defended Stalingrad style while a weak pound shall support conventional trade.

Emerging markets fault lines still in place

As concerns the emerging markets we continue to trace a distinction between financial flows and the robustness of the economies. We see the fault lines of weakening Chinese growth rates and sensitivity to US monetary policy as still firmly in place.

Flows into the EM space are still being driven by a search for cash yield in a context of an ever increasing share of advanced economy sovereign debt trading at negative yields.

Political risk remains high

We continue to see political risk as high with regard to both the "chronic temporary" uncertainty in the UK and the US elections. The stalling in the UK is a source of instability in the rest of the EU with regard to both existing investments and prospective inflows.

Foreign investors not yet ready to bite at 1.31 FX rate

We do not see foreign direct investors as "ready to bite" at the current FX rate level without a clearer picture as to trade access. As concerns the broader impact of the FX depreciation on the UK economy - expectations of a boom reflect the triumph of hope over experience.

While a cheaper currency can provide a momentary boost it - apart from imported inflation - cannot remedy the fundamental issue of low productivity*.*

US economy faces a "Hobson's Choice" - where is fiscal probity?

As concerns the US elections we reiterate our view that the US economy faces a "Hobson's Choice" between political shock and explosive deficits - Trump victory - and a slow drift to higher debt and deficits - Clinton. Established opinion having abandoned hope of fiscal probity, the latter is seen as more appealing.

Skeptical as to success chances of oil conclave

As regards the oil price we continue to be skeptical as to the chances of an effective agreement or "understanding" being reached. We still see Iran as wanting to increase production and disruptions elsewhere as not tantamount to a policy change.

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