

**August 30<sup>th</sup> 2016**

***Sour Apple? - EU governments want cash now! - Weaker Euro lifting European markets - UK first rumblings of the post vote era? US job date irrelevant for economy - Oil market remains oversupplied***

***Sour Apple? EU says pay up!***

*US futures are slightly lower as investors digest the impact of Apple's tax tussle with the EU. With the "global economy's central bank" facing potential back tax payments above US Dollars 10 billion, this is not making for good cheer. The Apple case is the most recent in a series of cases forcing US companies to pay up.*

***Previous tax "equilibrium" now moot***

*As we said when the Panama tax haven scandal erupted, the climate of willful ignorance adopted by the EU in relation to creative tax planning soured some time ago. The previous equilibrium posited on acceptance of transfer pricing in exchange for jobs is now moot.*

***Dominant strategy for EU governments - cash now!***

*With growth anemic and governments striving to control their deficits the new strategy is "cash now". We see this as a second round effect of the growing tide against globalization, as the EU attempts to show that it can - if necessary - stand up to the behemoths.*

***EU markets have decided that the glass is half-full***

*European markets have decided that the glass is half-full, preferring to focus on the decline in the Euro as opposed to a rise in the probability of an increase in US rates. The focus in a context of mounting political and economic uncertainty is on "saving the savable" - in this case exports.*

***Economic confidence outweighed by weaker Euro***

*Stock markets are firming notwithstanding a broad based drop in economic confidence in the Euro Zone. This has cut a swath across manufacturing and consumer goods. The Federal Reserve's guarded optimism is proving to be the silver lining in the cloud.*

***Sobering thought that the financial crisis has not wrought the changes allowing the single currency area to compete on productivity and not strictly on competitive devaluation.***

***German admonishments on Brexit keep coming***

*With regard to the Brexit question the admonishments from Germany just keep on coming. We are now hearing that for the UK to access the single market it shall have to pay into the EU budget. Seeing that this was the second attack front in the Leave campaign after the "immigration question" we do not see it getting much traction.*

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***Cut in interest rates not sufficient to spur UK mortgage applications***

*On the economic front the pound is weakening as mortgage applications tumble. This is significant as it highlights hesitation to take on big ticket financial commitments as opposed to buying discounted retail goods. Interest rate cuts and record low rates are not sufficient to trigger buying interest. Monetary policy has met its match in political uncertainty.*

***Starting to see business optimism fall in the UK***

*Business optimism has also taken a punch with consumer companies less optimistic than at any time since the 2009 crisis. Offering salaries are flat-lining, a possible leading indicator of a less bubbly labor market. We continue to see the pressure on the UK economy building and expect sterling to retest its post-vote lows.*

***Is this "Last exit to higher rates"?***

*Turning to the US investors are now focusing on the upcoming employment data on September 2nd. This is seen as key as it shall either be "Last exit to higher rates" or a massive disappointment. Forecasts diverge both as to the jobs that shall be created and the impact on the sovereign fixed income sector.*

***Job creation and economic growth having completed divorce proceedings sometime ago we consider it futile to speculate on this score. As to the knock-on effect on fixed income we see US government debt in strong demand.***

***US shall retain safe haven status***

*The search for safe haven assets and likely adoption of more measures by other central banks shall enhance the attractiveness of both the currency and credit. US debt is offering a unique combination of both cash yield and risk adjusted returns.*

***Oil - tug of war between currency and market fundamentals***

*On the oil front we are in the midst of a tug of war between a the currency effect and supply and demand fundamentals. While currency fluctuations can have a temporary impact, prices remain primarily driven by basic supply and demand fundamentals.*

***Producers re-positioning before armistice talks***

*Like armies positioning before the start of armistice talks the major sovereign producers are showing no compunctions as to pumping flat out and seizing market share. The "bottom line" remains that the market is oversupplied and that the hallowed moment of re-balancing keeps getting pushed out further and further.*

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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.

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## Research Highlights

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