Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Focus on Federal Reserve meeting – is this the "Zero hour"? Treasury market expecting the Tet Offensive – Federal Reserve also there to ensure stability and avoid boom – bust cycles linked to asset bubbles - See a 60 per cent chance of some action on September 17th

Are we finally at the "zero hour" and is the "Great Repricing" at hand?

We are drawing closer to the "zero hour" when the suspense shall finally be lifted as to the direction of interest rates and – in the view of many – performance across asset classes, currency and geography. This is seen as sanctioning "The Great Repricing" which shall usher in the new financial order.

The Federal Reserve September meeting increasingly viewed as new Bretton Woods, recasting the financial and economic order

In the light of the media barrage being dedicated to this event, it would not be exaggerated to define this as an informal Bretton Woods in 1944 or a Congress of Vienna, which recast Europe in 1815. The US after having unleashed an economic, financial and social earthquake in 2008 are now once again seen as the arbiter of the global economy via monetary policy.

With regard to market attitudes, we are hearing comments downplaying the relevance of a Federal Reserve rate increase. We do not agree!

While 20 years ago an increase in ¼ per cent might have seemed inconsequential, we are now in a completely different context. Notwithstanding the lowest interest rates since the Great Depression - if not Napoleonic Wars – global growth is slowing and many companies are struggling to grow their top line. Deflationary pressures are increasing, threatening a precipitous increase in the real value of debt, in economies where financial engineering has supplanted growth as the lever of profitability.

Treasury bond market calling up reservists!

Turmoil yesterday in the bond market was a clear signal that the "zero hour" might finally be at hand. Rocketing Treasury yields and a strengthening US Dollar hinted that the crossing was at hand. We have mentioned the Federal Reserve's new focus on financial market volatility as a consideration in its decision making. No great commander shall attempt an invasion in a storm. Spike in treasury yields was not about low liquidity–traders running for cover!

Federal Reserve looking at the US consumer – 70 per cent of the economy

Momentary storm appears to be abating, invasion fleet can sail!

The momentary storm seems to have momentarily abated, economic data shows a US economy, which is still chugging along. Retail sales show the US consumer is still modestly buying – allaying some of the fears from the last consumer sentiment report. The Federal Reserve shall be more focused on the consumer – 70 per cent of the economy – as opposed to manufacturing.

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Waiting for the consumer price index, if US not in deflation, this will be seen as positive

This may allow it to weight disappointing industrial production less. With regard to today, the consumer price index shall be the centerpiece of attention. With low inflation the weak point in the Federal Reserve's ruminations – any sign of upward mobility in prices shall be seized upon.

We are assigning a 60 percent chance to a rate rise on September 17th. The amount is irrelevant, this signals the end of an era and goodbye to buy backs! In the event that the Federal Reserve does not increase rates, we expect strong language indicating a count – down!

Central bank key function also to provide stability

We remain of the view that the major driver behind the US central bank's eagerness to raise rates is to prevent further bubbles and the triggering of a further boom – bust cycle in the US economy. The Federal Reserve was founded not because the US economy was not growing. It was founded to ensure economic stability to allow long term industrial planning!

With regard to the Euro Zone, revised estimates show the single currency areas as on the outskirts of deflation – inflation at 0.1 per cent. We see the ECB as welcoming an increase in US rates, with an expected bump up in the US Dollar giving a boost to the inflation rate.

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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.

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