Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update September 28th 2015

Not heard the last from Catalonia – China shock once again – VW scandal sows terror – US central bank still focused on financial markets and not on the real economy

We have not heard the last from Catalonia!

With regard to political risk, we shall be assessing the results of the elections in Catalonia. Austerity policies and recession have boosted the appeal of separatist movements, long considered fringe groups. While the separatists did not win an absolute majority and this was not a "make or break' referendum as in Scotland, the Catalan issue shall not disappear. With Catalonia representing 20 per cent of Spanish GDP, this is not a trivial matter.

Stock markets weak – all about China – all about growth

Stock markets across the globe are weak, following the release of data from China showing corporate profits falling close to nine per cent year on year. We are not surprised and continue to expect more data shocks from China – companies are starting to feel the squeeze of overcapacity and slowing foreign demand.

Pricing is being set at quasi dumping levels, with the focus short term cash flow as opposed to profitability.

With China slowing faster than the integrated players can reduce investment, we see the sector as continuing to remain under pressure.

This has unleashed further bedlam in the commodity sector. Mining stocks are being beaten senseless, with some analysts now starting to speculate that should commodity prices continue to weaken, the impact on Glencore could be even more dramatic than hitherto. The company did its IPO at 530 in 2011 – the shares are now trading at 77 pence, attempts to capture value all along the food chain have not worked.

Emerging markets getting hammered - shall continue

We are not surprised to see emerging market currencies being hammered – there is simply no diversification away from the China risk. Several of these economies are starting to burn through their FX reserves to support their currencies as they struggle to manage what is rapidly mutating into a secular decline.

We see this as the prelude to more sovereign downgrades with major consequences should more of these economies lose their investment grade status.

Europe – car makers getting hammered by China and by VW scandal

Turning to Europe, cold gusts from China are being accentuated by the ongoing crisis at VW now seen as entailing not only massive fines but stratospheric recall costs. In addition, this is seen as stemming capital investment in Germany and hampering an already brittle European recovery. The car sector is now contending with the dual challenge of the VW debacle and of the rapidly approaching "shoot out at the OK corral" in China.

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Luxury goods do not create economic linkages – cars do! A warning to the scoffers!

Focus on monetary policy

Raft of US economic data – key data US employment report

The coming week shall be focused on macro-data from the Euro Zone – inflation – and a broad array of data from the US. The US data shall include personal income and outlays, consumer confidence and manufacturing. This shall culminate on October 2nd with the employment data – which is the most politically sensitive.

We see US central bank as still focused on systemic risk

Whether the Federal Reserve shall start to re-focus on US data – as opposed to turbulence abroad – is not yet clear. We continue to see fears of triggering a systemic event as a key concern. While capital outflows from the emerging markets have been massive, we see them as far from exhausted.

Euro Zone inflation data awaited – future of QE?

As concerns the Euro Zone, the key data shall be the inflation number, which some see as acting as a call to action for the European Central Bank. Despite massive ECB lending and monetary measures, focused on both short term rates and quantitative easing, inflation remains well below the – already modest ECB target.

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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.

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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