Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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US markets off on the right foot – will Federal Reserve acquiesce?

US markets appear to have gotten off on the right foot, with Apple results inspiring some enthusiasm that possibly not all is lost and continued conviction that the Federal Reserve shall desist from raising rates. To this has been added the view that the US central bank shall not indicate any proclivity to raise rates before 2016.

Durable goods not good – consumer confidence weakens

The durable goods data yesterday did little to reassure regarding the robustness of capital asset investment – US companies are adhering to the golden maxim, when in doubt abstain! And there are plenty of doubters, as highlighted by a lower than expected consumer confidence reading.

We do not see disappointing consumer confidence as a cause for major alarm. Still cash constrained consumers continue to face a gap between their aspirations and purchasing power.

We read with interest that taking out net trade US GDP growth is above three per cent – suggesting a low wage but growing domestic economy. With the chance of a systemic risk receding, will the Federal Reserve start to concentrate on domestic metrics?

Sweden – getting worst of both worlds?

Monetary policy continues to also dominate abroad, with Sweden's central bank announcing an increase in its QE program. We are starting to see the reaction by the non – Euro EU members to the ECB's tough talk. With a substantial share of the EU members exports intra- EU, non-Euro members need to preserve their competitive advantage versus Euro area competitors.

Any point for smaller EU developed economies to stay out of the Euro?

This raises the longer term issue of whether not being in the Euro makes sense for the smaller EU economies. The UK has its own "gravitas" and the Eastern Europeans are trying to play the EM – decaffeinated light card. Where is the edge for Sweden - forced to march in lockstep with the ECB without reaping the benefits.

Oil closely correlated to GDP – where is the growth?

As regards energy – we have continued to see a decline in crude, with supplies rising and global growth expectations being steadily revised downwards. This is a sector which has a very strong correlation to GDP and GDP forecasts are not stellar.

Expect further weakness in iron ore – minor producers shall come under more pressure

Commodities are also wobbly, as the iron ore giants continue to practice "elimination pricing" to finish with those who entered the fray at the height of the China boom. BHP – Rio Tinto and VALE are acting like a collective Saudi Arabia with regard to iron ore.

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Emerging markets fall with commodities – Norwegians break open the piggy bank

Emerging markets continued to get battered as commodity prices fell. We do not see a return to the "halcyon" days of commodities and expect prices to continue to weaken. This shall impact the Canadian dollar, which has already started to retreat. With regard to oil, the Norwegian pension fund has started to make withdrawals from its stockpile.

What shall be the impact on market inflows if the sovereign wealth funds continue to draw down funds?

Deflation expectations rampant in the Euro Zone – Italy sells two year notes at a negative yield

Turning to the Euro Zone, Italy can celebrate its first sale of two year notes at a negative yield. Considering that Italy is rated barely investment grade, this reflects expectations that deflationary pressures shall increase. This shall increase the real value of sovereign debt – as Italy struggles to reduce its debt to GDP ratio. The country has succeeded in generating a primary surplus – will it be used for a stimulus program or to pay off debt?

Focus on the migrants' crisis

Shades of 1942 in Europe – "The Boat is Full"?

As concerns ever ebullient EU politics, the migrants' crisis shows no signs of abating. The German government is coming increasingly under fire and other nations are only reluctantly accepting their quota of migrants. We believe that the migrants' crisis goes well beyond the immediate "Boat is full" rhetoric reminiscent of the stance of several countries with regard to the refugees from Nazism.

EU countries speak of identity – what on earth does this mean in a globalized world?

The migrants' crisis is highlighting the lack of willingness of many EU countries to accept any change to their national identity. We are puzzled by what "identity" exactly means in a globalized world. The sight of the revelers at Munich's Oktoberfest stating that they wanted to live among real Germans, sends shivers down one's spine!

Go directly to polls – vote for right wing fanatics – do not collect 200!

Should any further confirmation of this right wing populist tilt be needed , the election in Poland of an ultra-conservative government and the growing strength of the extreme right in Germany, are grim omens of an era many thought long past.

EU not the EEC with a new name – this is not about free trade

What many are not grasping is that the EU is not the EEC with a new name. This is not about free trade – a European Free Trade area + labor mobility – but a group of countries seeking to play an active and constructive role in the globalization process that they have championed.

The EU countries wanted free access to global markets and labor Industrial Revolution wages for their companies. The benefits to their industries are a hundred times what the resettlement of the migrants shall cost.

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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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