Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Fasten your seat belts – Euro Zone inflation at zero per cent!

Following trillions of Euros in monetary stimulus "headline" Euro Zone inflation is at zero and core – ex-energy has reached the dizzying height of one per cent.

See ECB as moving forward with new measures, need to avoid a deflationary collapse

We see the ECB as announcing new measures in December. The aim shall be two-fold:

Increase inflation and reduce the revaluation of debt – easing pressure on cash flow via restoring pricing power to a broad array of companies;
Depreciating the Euro and increasing non- Euro Zone exports

With Italy's two year notes trading below zero return, we are forced to ponder the lack of profitable outlets for corporate liquidity in the real economy.

With the majority of trade within the Euro Zone – we are seeing a more muted export expansion than might have been the case in other countries.

Domestic demand still weak and fighting deflation from Asia -
Euro Zone deflation consumer driven – imported deflation supply side

We are still far away from the two per cent target – reflecting a strengthening but still weak domestic demand in several Euro Zone countries. To this is added the persistent deflation from the East as Asia seeks to unravel its massive overcapacity.

Data on unemployment marginally improved but still very high

Data on unemployment has marginally improved. However, the overall single currency area unemployment remains above 10 per cent. Much has been made of internal devaluation – wage deflation - as necessary to restore competitiveness.

The key shall not be wages to workers but the overall cost of labor to employers, which remains at prohibitive levels. US competitiveness for foreign direct investors has been driven not only by wages and productivity, but also by the lower social security and other employer share of costs.

And then there was one – US only large economy making any real pretense of raising rates

As concerns currencies – we remain dollar partial – by default.
We are continuing to see the interest rate cuts and forays into negative yields. Positive bond rates shine in such a scenario. We are intrigued by the complete break between government bond yields and risk.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact research@tigressfp.com.

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The US consumer, an evasive prey – spends less than already very modest forecast

US consumer spending has come in at less than forecast – with US consumers appearing to be concerned as to the apparent slowing of the US economy. We see this in far simpler terms.

Consumption driven by sustained real wage increases – we cannot net out against falling prices!

While capital spending has a strong correlation in certain sectors to the global economy, consumption is driven by sustained real wage increases. Those who continue to insist on seeing a long term sustainable boost to spending from low inflation are wrong. A decrease in prices can neither be guaranteed and nor is it desirable.

Inflation remains weak and well below the two per cent target set by the Federal Reserve. We reiterate our view that the US is still in a low wage very gradual economic recovery, with financial markets still driven by monetary policy.

The mighty – how they have fallen! Europe - end of an era?

Europe is continuing to come to terms with an end of an era, as Deutsche Bank did the unthinkable and announced scrapping its dividend for the next two years. The Deutsche situation reflects not only the need to settle accounts with the recent tormented past, but the urgency in building stronger capital buffers by new and ever stricter capital constraints.

A Farewell to Arms from Deutsche Bank

Ernest Hemingway famously wrote of “A Farewell to Arms” after seeing the carnage on the Italian – Austrian front in the First World War. Deutsche Bank is echoing this sentiment in its intention to reduce drastically its presence in the front line trench warfare of international banking.

Return to the basics – banks shall focus on blocking and tackling!

We see as noteworthy that capital intensive investment banking business is being put through the shredder, with returns not commensurate with the capital outlay dictating a hasty retreat. Banks shall return to their commercial banking roots and seek to diversify into asset management and low capital requirement sectors.

The key shall be stability of revenue and little capital in play! Banks shall seek to manage the monies of the “happy few” and act as a financial concierge!

When all else fails try commodities! Real value of commodities has been falling since the 18th century!

When all else fails try commodities! And once again some are starting to call a “bottom” to the rout. Comparisons are being drawn with previous collapses of the recent age. We are not convinced that we can extrapolate any meaningful data from the 1980’s and 1990’s. We do not exclude a plateauing but do not see opportunities for gain as in the first decade of this century.

The recent expansion was a replay of the Industrial Revolution and not cyclical expansion in a developed economy. The Chinese economy was a prime example of “zero based” budgeting - we start from zero and need everything!

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Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(212) 430-8730 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Brian O'Sullivan
Managing Director, Trading
(646) 798-8453 Direct
bosullivan@tigressfp.com

Ernest Williams
Institutional Sales & Trading
(646) 862-2912 Direct
ewilliams@tigressfp.com

Chris DeCarolis
Research Associate
(646) 402-6695 Direct
cdecarolis@tigressfp.com

About Jean:

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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Research: (646) 780-8880 research@tigressfp.com

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