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Markets wake up with a headache – Glencore down almost 10 per cent

Markets have woken up with a headache as chill winds from China, with exports falling sharply, lend a helping hand to a continued fall in commodities. Glencore is down almost 10 per cent, not far from the low point reached in the summer and the industry heavy weights are being knocked for six.

We are in the third round of what is going to be a “full contact” pugilist match without the mitigating effect of the Marquess of Queensberry.

Are diamonds forever? Anglo American struggling – Rio Tinto cuts investments – again!

It is often said that “Diamonds are Forever” – looking at Anglo American’s sufferings - which are rivaling those of Goethe’s Werther - one might have some doubt. The mining colossus is eliminating its dividend for the second half of 2015 and for 2016, will do massive asset sale and reduce its workforce by two thirds. In the same vein Rio Tinto has announced a second plan of investment cuts.

As we have often said, industry strategy is now focused on structural and not cyclical adjustments

We quote the immortal Creedence Clearwater Revival – Bad moon rising! Fasten your seat belts!

We stand by our view that this is not the end of the commodity story and to quote Creedence Clearwater Revival – see a “Bad Moon Rising”. As a young man in commodities, a seer in the business gave me some excellent advice: In this business there are no lengthy restructuring attempts and, eventually, bankruptcy.

The traders and mid-size firms do not go bust overnight. They go bust in the space of a day. Fasten your seat belts.

Day of mirth preceded by shake- out in oil – this is not over

This day of mirth was preceded yesterday by a big shake out in the oil market. Investors are now, rightly, getting worried that some companies shall not make it to the finish line. We see this as the crossing of the desert with little relief as the late comers to the party get butchered.

Day of reckoning for the non-trade investors in oil

The key distinction in the sector is between the industry and non-trade investors. Trade investors tend to have a stable of wells and resources, having averaged in over time. Non-trade investors are experts at jumping in at the top, buying quasi-depleted acreage from the trade investors. Eventually, they either go bankrupt or throw in the towel. This day is still some way off.

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

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direct access to Jean, contact
research@tigressfp.com.

We are shifting to a social Darwinist optic with regard to the re-balancing of the oil market

While some are now pinning their hopes on acceleration in the rate of decline of US production, we see this as by now of scarce relevance. The eye of the needle has shifted to the relationship between the traditional producers, seen as the principal arbiters of long term sizable and sustainable production. The focus has shifted from eliminating “opportunist” short term capacity to a “once and for all” social Darwinist approach based on survival of the fittest.

This is not about North Dakota and US high yield bonds; the “heart of the matter” remains geopolitics and the desperate need of still sanctioned countries to raise cash.

China pulls rug from investors

Turning to China, we have seen a greater than expected fall in Chinese exports, reflecting a weakening global economy. The yuan is starting to once again creak and we see little will on the part of the Chinese government to prop it up. We may well be on the verge of “The Guns of August 2”.

China having seen the low incremental results from monetary measures - will fall back on the traditional development model of inexpensive exports.

In the wake of this latest Chinese disappointment, emerging markets are once again taking it on the snout. Both the currencies and asset markets are getting slammed. Countries linked to the Chinese supply chain need to countenance dual level risk accumulation.

Emerging markets double trouble – EM myth of eternal growth – No end of a lesson

The Federal Reserve meeting and a rate increase may trigger capital outflows, while the “real economy” will be under pressure from both the Chinese slowdown and the risk of further competitive devaluations.

Contacts

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

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 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

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

500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com