Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

December 17, 2015

Update December 17h 2015

Markets positive – world has not ended – European investors happy at lower Euro – oil keeps falling – rethink of real size of emerging market middle class

US industrial production falls

With regard to US economic data, we yesterday saw a further fall in industrial production – this does not seem to preoccupy the Federal Reserve unduly. Are we seeing the triumph of hope over experience?

US Manufacturing – ignore at your own peril!

Assessing the importance of manufacturing in terms of its GDP weighting ignores its massive contribution to exports, productivity growth and value added. Never have so many Americans been beholden to so few for "The Great Leap" forward and take – off.

The morning after the night before, markets relieved – could have been worse

Following the historic step yesterday, world stock markets have breathed a sigh of relief. The dominant opinion seems to be that it could have been worse, with investors comforted by declarations considered reassuring. Whether they are remains in the eye of the beholder. Going on the basis of the US central bank's statements, this shall most likely not be a "one-off" demonstrative raid on an enemy position but the opening salvo in a protracted military campaign.

Europe cheering lower Euro and longer de-compression time for the emerging markets

We are seeing considerable strength in Europe, with investor spirits boosted by a weakening of the Euro – lowering the cost of exports. The relative importance of the trade card for Germany – close to 50 per cent of GDP- is reflected in the strong leap for the DAX. We are also seeing relief that a reasonable outcome from the Federal Reserve shall lessen systemic risk from the emerging markets, not worsening an already precarious demand situation.

Europe in a holding pattern - do we have a unanimous pro-inflation consensus?

We see this as a holding pattern and continue to view the macro fundamentals as improved but certainly not stellar. Deflationary pressures remain strong, increasing the real value of debt for individuals, businesses and sovereigns. We now are in a new paradigm where there is a unanimous inflationary consensus. The ECB shall not stand by idly and we expect the single currency central bank to react decisively with respect to both falling prices and a rising Euro.

Emerging markets posting a relief rally – gradualism word of the day

The emerging market equity markets are also posting a relief rally, with the hope that:

The interest rate increase shall be gradual
The gradualism shall slow the capital outflows from the emerging economies and allow for a managed transition to more balanced economies

A bounce does not an asset allocation increase make

We remain skeptical on the emerging markets space and do not see an expectation of a "bounce" as providing a valid reason to increase allocation to this asset class. Economic fundamentals have not changed with a Chinese slowing still on the cards and commodities still beset by persistent price declines.

Jean Ergas
(646) 780-8906
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.

Low hanging fruit of middle class expansion already picked

On the internal demand front, while there is still scope for an expansion of the consumption driven middle class, we may have already seen the largest and easiest to achieve leap forward. The view that the "low hanging fruit" has been picked is gaining ground.

We may well see further commodities weakening

Commodities are weakening, with the pundits attributing this to the stronger US Dollar increasing their price for slowing economies. We beg to differ and see the major trigger as continued oversupply resulting from exceedingly generous growth forecasts.

The outlook remains difficult as the mid-size producers – late to the party- are squeezed between falling demand, higher financing costs and elimination pricing by the market leaders.

Short term prospects for oil remain muted, with a strong increase in US supplies providing further evidence that the shale sector has not vanished. On the foreign front, we are seeing continuing production increases from the traditional producers and we reiterate our view that this is now for some of them a case of "cash is king" – cash flow today as opposed to longer term business school marketing plans.

Focus on the Federal Reserve

Federal Reserve sticks to script – Labor market seen as improving – please explain millions of Americans still on the fringes of the work force – Where is inflation – "The Third Man"?

Cannot count on energy to redress inflation, oil and commodities not linear - Still see Federal Reserve action targeted at preventing further "bubbles"

Shades of Orson Welles – Vienna 1947 – Where is the "Third man"?

With regard to "The Third Man" – inflation – we are informed that this is expected to rise to the Federal Reserve's target of 2 per cent by 2018.

No guarantees of oil not falling further

Increases in inflation are posited on a stabilization of energy prices – this is far from certain. The supply – demand imbalance in the oil sector shows little sign of abating; price movements in commodities are not linear. Step function adjustments are common.

Inflation – energy prices – interest rates linkages not linear

This may force the Federal Reserve to review its forecasts and call time on increases or increase faster than expected. Linking policy to inflation and linking inflation to "transitory" energy prices is an excellent recipe for volatility.

Phillips curve does not work against wages of Industrial Revolution

We are not seeing wage increases that might offset further imported inflation. The Federal Reserve speaks of "tighter labor market". We see the link – in an atomized and hollowed out labor market – between employment and wage increases as null and void. Philipps curve does not work with the developed economies competing against wage levels of the Industrial Revolution.

Energy prices not "The root of all evil"

We are surprised that the Federal Reserve continues to be focused quasi-maniacally on oil prices as the "root of all evil" with respect to inflation. As much if not more damage is being wrought by continued overcapacity in China, with the world's second economy in the role played by Germany in the run-up to the First World War.

Is it politically incorrect to speak of massive, subsidized overcapacity in China?

As long as the Chinese government does not shut down unprofitable companies- an outcome which we see as politically unpalatable – these pressures shall not abate. The Federal Reserve seems to be blithely ignoring that we are still in the midst of a strategy of competitive devaluations.

Deflationary pressures are showing little signs of abating in the major developed economies, with spill-over effects on the US. The backdrop for a rise in prices in the US remains modest at best.

Dot plots irrelevant – we are focusing on the "Far Side" of the credit spectrum

With regard to the vexing issue of further rate increases, the market is being prepared for a series of further rate raises in the course of 2016. We see the "dot plots" as largely irrelevant, with the key driver being an already tighter financing environment for the "Far Side" of the credit spectrum.

What shall the impact be abroad?

Euro Zone no Plan B – forced devaluation only option

The Euro Zone is still lagging the US in terms of economic recovery and with less scope for structural adjustment has no Plan B as opposed to monetary measures. With massive injections of liquidity having had a minimal impact, a forced devaluation is the only option.

Emerging markets do not see selling as over despite rally

As regards the emerging markets, while we see the Federal Reserve move as expected, we do not believe that the selling is over in the currency and asset markets. Contrary to popular belief, we see investor skepticism having shifted from a relative yield play to concerns over growth.

Governments may find themselves in a bind – having to raise rates to prevent further capital outflows and difficulties in financing their current accounts.

Commodity producers – this is not about the Federal Reserve

With respect to the commodity producers – where there is some overlap with the emerging markets – we continue to be skeptical with regard to both currency and growth. While we see a possible US Dollar strengthening as weakening commodity prices, we see the action as driven by Chinese slowing far more than by monetary policy.

China will continue to practice "benign neglect"

Will we see a sequel and / or repeat of "The Guns of August" in China. We do not see the Federal Reserve move as causing any significant changes to Chinese currency policy. We see a continuation of a policy of "benign neglect" compounding the "dumping highest stage of capitalism" spectacle to which we are being subjected.

The mistake when pushing globalization was the assumption that participation in the global economy = following conventional rules of resource allocation.

Contacts

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

Research Report Disclaimer

This report is produced for informational purposes only and is not a solicitation to buy or sell any securities or services from any companies or issuers mentioned herein or to participate in any particular trading strategy or in any jurisdiction in which such an offer or solicitation would violate applicable laws or regulations.

Tigress research is distributed in the United States by Tigress Financial Partners LLC a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA) and in Brazil by Gradual Investmentos, Gradual CCTVM S/A, a financial institution authorized by the Central Bank of Brazil.

The information contained herein has been obtained or derived from sources believed to be reliable but its accuracy and completeness is not guaranteed and should not be the sole basis of any investment decision but only to be used as a factor in the investment decision process.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and investment objectives of any person(s) receiving it. The analysis and conclusions herein are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed in this report reflect the judgment of the author(s) at this date and are subject to change without further notice. Tigress Financial Partners is under no obligation to provide updates to recipients of any previously issued reports or recommendations.

The market value and expected income from any investment may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of the underlying companies or other factors. Past performance is not indicative of future performance. Estimates of future performance, research ratings and target prices are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the most recently available closing price on the primary exchange for the subject company's securities/instruments.

Securities are offered through Tigress Financial Partners LLC a SEC Registered Broker Dealer and a member of FINRA / MSRB / SIPC which clears its securities transactions and provides custody of client accounts on a fully disclosed basis through Pershing LLC, a subsidiary of The Bank of New York Mellon.

Securities in your account are protected up to $500,000 of which $250,000 can be for claims for cash awaiting reinvestment. Please note that SIPC does not protect against loss due to market fluctuation. For additional information please go to www.sipc.org.

In addition to SIPC protection, Pershing provides Tigress Financial Partners LLC client accounts coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurance companies. The excess of SIPC coverage provides an aggregate loss limit of $1 billion for eligible securities over all client accounts and a per-client loss limit of $1.9 million for cash awaiting reinvestment within the aggregate loss limit of $1 billion. The excess of SIPC coverage does not protect against loss due to market fluctuation. For additional information please go to www.lloyds.com.

Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

About Tigress Financial Partners LLC

Tigress Financial Partners is a specialized financial services firm providing expertise and services in investment banking, investment research, asset management, corporate advisory and trade execution services.

Tigress Financial Partners provides its services to corporate entities, institutional investors, high-net worth individual investors, public and private pensions, federal, state and municipal governments.

Tigress Financial Partners LLC is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB) and the Securities Investor Protection Corporation (SIPC).

Tigress Financial Partners LLC is a Woman-Owned Business Enterprise (WBE) and is nationally certified by WBENC, the Women's Business Enterprise National Council.

Tigress Financial Partners LLC is a wholly-owned subsidiary of Tigress Holdings LLC and Gradual Holding Financeira S.A.

For further information please go to www.tigressfinancialpartners.com.