Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

March 15, 2016

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All round markets are cautious, with investors reacting to fall in the oil price and nervous ahead of the Federal Reserve meeting. US consumers are not going wild, not enough to propel growth.

We remain skeptical as to oil bounce and see prices moving lower. Pound shall get pounded!

Europe cautious – US futures focused on data and the Federal Reserve

Europe is down and US futures are trading lower as investors focus on the upcoming Federal Reserve meeting and oil and commodity prices. We are seeing some of the enthusiasm triggered by the ECB moves last week come off the boil, with investors once again turning their attention to the vexing matter of European earnings. Earnings estimates along with growth have been repeatedly downgraded.

We may well ask what large European groups are doing with the quasi zero financing costs and low Euro.

On the US front, "brute" retail sales have fallen since January, indicating that consumers, representing 70 per cent of the economy, shall not step in for manufacturing. This may induce some caution as to the "stand alone" capacity of the US economy.

Producer prices have also fallen, casting a pall on inflation expectations. Will the Federal Reserve take this into account?

As concerns manufacturing, the Empire State index has succeeded in climbing back into positive territory.

While we may be seeing a plateauing of the pullback in manufacturing, its export heavy angle shall likely limit its capacity to provide the needed boost.

Economic analysis refocusing on single country domestic strength

With global growth forecasts being steadily revised downwards- the latest being Japan – analysis is reverting to domestic strength. It has become obvious that along with the limits to monetary policy, we are seeing the limits to exporting your way out of a slump.

This did not work in the 1930's and it shall not work now. Developed economies cannot advance without an upturn in domestic demand.

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As long as capital investment remains weak, we see little scope for a major upturn

The key concern remains the reluctance of global groups to start dispensing of their massive cash hoards and to plow this money into capital investment. Much is being made of large M&A transactions. We see these as an admission of scant prospects for organic growth. The focus has shifted from making a bigger pie to wringing all further savings out of the existing one.

Will there be a "Congress of Vienna" to redefine the contours of the global oil market?

Turning to the oil price, we are once again seeing weakness. Markets are starting to parse the news for concrete action. This is as opposed to rumors hinting at a "Congress of Vienna" scenario aimed at the re-casting of the global oil market. This hallowed day remains some ways off, with Iran refusing to tag along and freeze its output at current levels – barely above sanctions levels.

Commodities weaker – equilibrium is not sufficient to ignite prices

In sympathy with oil prices, we are also seeing a more realistic re-assessment of the prospects for commodities. It is becoming increasingly clear that commodity booms are driven by a surge in demand and not by monetary tinkering. While there is a considerable focus on supply reduction measures, closing of capacity and cut back on investment, this shall not ignite a fire under prices.

Pound having a bad day – shall not be the last!

Turning to the foreign exchange markets, we are seeing renewed weakness in the pound. This is being driven primarily by renewed concerns as to a possible UK exit from the EU. These uncertainties are being fanned by a feeling that the exit supporters are holding and consolidating their ground.

Global CFO shall carry on even if Brexit!

They are abetted by a relatively sanguine attitude by global CFO with regard to the prospect of this seismic event. 70 per cent do not see an exit as changing their views as to investing or trading with the UK. Whether this:

Underestimates the concrete difficulties in the event of a parting of the ways

or

Highlights the hitherto European centered slant dominating the discussion, remains unclear.

Nevertheless, we reiterate our dual expectation for a renewal of volatility and for the pound to re-test its lows this year.

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About Jean:

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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.

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