



*March 21<sup>st</sup> 2016*

*Last week equities continued to power ahead globally supported by monetary policy, rise in the oil price - seen as reducing systemic risk – and a firming in commodities. Investors are shifting away from a “Phase 2” growth driven scenario to reverting to the “carry trade” – with low cost financing facilitating equity investment.*

*This week the major data point shall be the third US fourth quarter 2015 GDP estimate. This is seen as a reflection of the strength of the US economy prior to the financial turmoil. We shall also be seeing data on durable goods, indicating confidence to spend on “big ticket” items.*

### **Central bank accommodation key factor in equity advance**

*Last week we saw a continuation of the previous week’s enthusiasm as investors piled in to stocks. The shift was first and foremost based on protracted accommodation by central banks, with low or even negative interest rates increasing the attraction of stocks versus fixed income.*

### **Rise in stock markets has been uneven**

*The rise in equities was however uneven. Monetary policy provided a basic global prop to stocks. However, progress in European markets was constrained by concerns – sparked by declarations by the Norwegian central bank – that further forays into negative rates might be imminent. This has reignited fears of further bank margin erosion.*

### **Today’s action**

*Shall we see a follow through from the Federal Reserve meeting? Wither the oil price? What is the re-entry price for US shale? Rig count went up last week. EU migrant agreement start seen with trepidation – will it work? Political earthquake in the UK- will this hit sterling? Brazil – are we at the turning point?*

*We are seeing early morning weakness in the European markets. This is being driven by a lower oil price, as the US rig count has stopped its precipitous fall. There also appears to be a growing awareness that the US central bank may stick to its guns and raise rates this year should the US economy not veer off track and there is not a recrudescence of global financial turmoil.*

### **Federal Reserve meeting last week – Is the thrill gone?**

*We are entering a week where we shall see whether the effect of the Federal Reserve meeting was “a flash in the pan” or if investors shall soon once again start scoring economies on the basis of relative performance. The US economy, while not poised to be a “locomotive” still appears reasonably positioned to grow on the strength of internal demand.*

*We shall be seeing the last estimate of fourth quarter 2015 GDP on March 25<sup>th</sup>. While markets may see this as growing less relevant, it shall be studied for revisions and the “spare tire” the US economy had going into the financial turmoil.*

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***Political earthquake in the UK!***

*We are seeing another front being opened on the “Brexit” front.*

*The sudden resignation of the UK pensions minister – Ian Duncan Smith, officially over disagreements as to the UK government’s proposal to reduce disability benefits. This is however interpreted as a direct attack on Cameron’s leadership, which with the ex-minister a partisan of the “leave” camp is not a trifling matter.*

***Should the crisis worsen and prompt more dissent within the cabinet – this may prove unsettling for sterling. We are already seeing sterling coming under pressure in early trading.***

***Will the EU – Turkey agreement hold?******EU – Turkey agreement already being criticized***

*An agreement has been reached between the EU and Turkey on the issue of the migrants. While on the surface linear, the plan – which also involves repatriation of non-Syria refugees from Greece to Turkey – has already been criticized by human rights groups.*

***Migrant agreement strikes at heart of issue of Europe’s identity***

*Will Turkey treat these returnees equitably? Turkey is in return pressing for an acceleration of EU accession talks- which have already been scuttled. We see this situation as once again raising the fundamental issue of Europe’s identity.*

***Is the foot dragging fear of admitting a Muslim country into the EU? Will the migrants issue and the rise of terrorism force a re-think of these attitudes?***

***EU is risking a massive crisis at the Greek border***

*There are 50000 migrants stuck in frightful living conditions at the Greek border with Macedonia – should their condition worsen this might raise the pressure to mitigate the conditions of the agreement.*

***There are already serious concerns as to the readiness of the Greek authorities to process the migrant flow. Senior EU officials have themselves described this as a “herculean task”!***

***Can Greece leverage migrants deal to wring concessions out of its creditors?***

*This is taking place against a backdrop of debt negotiations between Greece and its multi-lateral creditors. These talks serve as a reminder that the Euro Zone debt crisis is not over but quiescent. We expect that Greece may seek to use its gate keeper function in the migrant crisis as a bargaining chip to force the talks along.*

***Emerging markets rise from the ashes – are they a phoenix?***

*As concerns the emerging markets, we have continued to see a strong rally across most markets and currencies. This was already underway, with a spate of disappointing US data dampening expectations of an aggressive monetary policy by the Federal Reserve, confirmed by the US central bank meeting.*

***Oil and commodity prices lift EM***

*This was buttressed by the increase in the oil price and a bounce in commodity prices. The former reduced fears of systemic risk and a consequent flight out of risk assets, while the latter relieved concerns as to sovereign defaults among major oil producers.*

***Oil price increase risks becoming a zero sum game***

*We see this as a fragile equilibrium akin to a zero sum game, with asymmetric impacts on the EM space. A rise in the oil price, while benefiting the producers, shall crimp the maneuver space for the oil importers, such as India, with regard to monetary policy.*

***We continue to see the emerging markets as marching in lockstep with external monetary policy – so much for de-coupling. With some disappointment we are seeing a renaissance of EM investment based not on economic fundamentals but on a grasp for higher absolute returns.***

***Brazil – is this the end of part 1?***

*The situation in Brazil appears to be moving towards a political climax – with Lula's predecessor – Cardoso – openly championing Dilma's departure. The tone has turned populist – with legitimacy now seen as stemming from the street demonstrations and not from parliament, widely considered discredited.*

***We reiterate our view that while a resolution to the political situation is key, the principal priority is a drastic “top down” economic reform program.***

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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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## Research Highlights

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