Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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European stocks sliding. Euro Zone data disappoints and growth prospects appear brittle. US investors are now in "no-man's land" between slowing global economy and US earnings recession. Oil – we expect further declines and pressure on sovereign risk.

Workhorse of recovery faltering

Stocks in Europe are sliding as oil falls and Euro Zone data points to further growth weakening. This is coming on the heels of disappointing US manufacturing data yesterday, signaling that the historical "workhorse" of the US recovery is still reeling from low capital investment and a slowing of global growth.

Investors stuck in a "no-man's" land

Investors shall spend this week in a "no-man's land" between the Federal Reserve minutes and the start of corporate earnings. With earnings forecasts having been repeatedly slashed, optimists are banking on:

Results being less bad than expected, and a stable US dollar reducing the prospective drag on US earnings – some are also counting on an incipient European recovery.

We remain cautious on US earnings and see this as a question of exceptions – highlighting the domestic versus foreign split.

Oil may soon break US Dollars 35

Oil prices are continuing to fall and may soon break the US Dollars 35 psychological barrier – opening the path to once again plumb previous depths. Investors are starting to once again fret about the consequences of further declines on bank debt, investment flows and sovereign risk.

Two types of oil producers – neither in a good spot!

We can now divide the sovereign oil producers into two broad categories:

- *Those posting a loss at the government deficit level but still positive at the "wellhead"*
- *Those who are losing money from the start*

We continue to see scant will from Saudi Arabia to curtail its pricing strategy, with the "day of reckoning" for the "second eleven" continually being postponed, we see continued volatility up ahead.

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Euro Zone–storm cloud warnings?

Turning to the Euro Zone, markets are absorbing disappointing data ranging from German factory orders to services. German factory orders fell in March, driven mainly by faltering exports to the emerging markets. PMI composite data for the single currency area has also been revised downwards showing the limits of endless rounds of monetary intervention.

With regard to specific markets, we are concerned as to the halt of the "onward march" of the Italian economy. Services are faltering and growth prospects are flat. We may well see further pressure on ratings.

More hell fire warnings about Brexit – can start feeling the flames!

Moving to the vexing subject of Brexit, we are starting to read more hair-raising warnings of the consequences of the UK leaving the EU. The country could by 2020 lose 950000 jobs and five per cent of GDP, with the exit triggering a sharp devaluation, increased inflation and higher real interest rates.

UK systemic weight greater than economic

What is being left unsaid is the massive impact this might have on the highly leveraged property sector, which some already see weakening despite the lowest interest rates since the invention of the steam engine! We are seeing a UK economy which in terms of "shock power" is punching well above its weight.

RBA confirms cautious view on commodities

On the subject of commodities, some may well see confirmation of the "short term bounce within longer downward cycle" theory in the declarations by the Reserve Bank of Australia. The RBA sees the recent appreciation of the currency as an impediment to transitioning away from dependence on commodity exports.

With the Australian dollar at US 0.75 currently – will we see it moving below US 0.65 soon?

US trade data grist to the mill of protectionists!

As concerns US data, we have seen a greater than expected increase in the trade deficit, which shall be welcome grist to those now campaigning on a "fair trade" platform. The "strong dollar" is once again the alleged culprit.

US exports not a linear consequence of FX rate

We reiterate our view that a depreciation of the US currency shall do little to rekindle demand for capital goods in economies which are already experiencing slowing growth – if not outright recession. There are clear diminishing returns to both monetary policy and competitive devaluations.

The lack of an oil price rise despite a fall in the US currency is forcing us to reconsider the basic demand equation.

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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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