



*April 8<sup>th</sup> 2016*

***Better safe than sorry! Commodities – do not fasten your seat belts! Will Europe roar? Who is afraid of the Panama accounts? We are not amused by the Federal Reserve, lots of jobs – I have three! Europe – the boat is full.***

### **Macro context**

***We are seeing a move towards traditional safe havens***

*This lead to a move to treasury bonds, the US Dollar and the yen. While some see this as traders reducing exposure to equities ahead of earnings, we view this as reflecting deeper rooted macro concerns. Outflows from equity funds reflect shifts in asset allocation strategies and not repositioning within other risk assets or even cash. There is a direct transfer from stocks to risk free assets.*

### **Commodities falling again**

*Commodities have continued coming off the boil, with copper leading the way. As we have mentioned the focus is now intra-industry asset sales and not commercial or investor buying.*

*We reiterate our cautious fundamental view, with a rise in commodities dependent on either an upsurge in inflation or a collapse in the US Dollar.*

### **Today's action**

***Once more unto the breach!***

*Once again unto the breach might well be the market motto this morning, with the European markets perking up and the US futures auguring some respite. We are seeing a firmer US Dollar – Euro, with yet another ECB official reassuring markets that there are still arrows left in the quiver to fight deflation. Objectives are being ratcheted down, from achieving a modicum of growth to managing declining expectations.*

***One is informed that protracted periods of low growth and low inflation may be hazardous to the health of the financial system. This shall be very useful for the mid-term!***

### **European bank stocks ride again!**

*Amidst much cheer, European banking stocks are higher following yesterday's debacle. This is both a function of more optimistic growth forecasts for the Euro Zone by Moody's and moves in the most impacted market Italy to solve the banking crisis. We see salvage schemes as forestalling the worst but doing little to restore the banks to their role of driving growth.*

**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**

**To subscribe to Jean's Global Macro Overview, order customized reports, or gain direct access to Jean, contact [research@tigressfp.com](mailto:research@tigressfp.com).**

***Marvin Gaye sang “Beware the Windy City” – we say “Beware negative interest rates”***

*In this context, investors remain acutely conscious of the risk of further forays into negative rates by the leading central banks. The prime suspect is Japan, where equity markets and export prospects are being pummeled by the rising yen, as investors seek safety. Should Japan lower rates, this may reduce the stigma linked to these extreme policies, further smashing bank margins.*

***Are we on the verge of a step function jump in oil prices?***

*Investor attention is centered on an increase in oil prices as hopes of an agreement in Qatar are supported by hopes that an effective understanding shall be possible despite non-participation by Iran. These hopes are being boosted by reports that Iran shall not be able to meet its 4 million barrels a day export target until 2020.*

***Sentiment is now therefore veering towards revising downwards expectations of the impact on the oil market even if Iran remains obdurate.***

***Labor market is excellent – I have three jobs! Americans become multi-taskers!***

*Declarations by the head of the US central bank yesterday that the world’s largest economy is in fine shape are further adding to the optimistic tone. Considerable progress has been made in the labor market – assuming that we are using a statistical and not economic definition of unemployment.*

***We are now likely at the point where the net gain to purchasing power from people moving off unemployment and into paid work is at its historical lowest.***

***Good to know no US asset bubbles!***

*We were also interested to hear Janet Yellen state that US asset markets are not in bubble! We wonder if commercial real estate is excluded. What is undoubted is that zero interest rates are not conducive to rational investment decisions.*

***Federal Reserve worried about renewed rout in US real estate?***

*The one consolation is that the Federal Reserve may also be hesitating to put the foot to the pedal due to the fear of triggering a renewed collapse in property prices. In the absence of wage increases, the move from being “underwater” to purchase price has been one of the main supports of modest consumption growth.*

***Will the Panama scandal claim further victims?***

*With regard to political events, we are transfixed by the rapidly spreading Panama accounts and trusts scandal. Following the hasty departure of Iceland’s Prime Minister, Cameron is now under fire. Whether this shall have further consequences is not certain but it shall certainly not help the cause of those campaigning for the UK to stay in the EU.*

***Dutch voters say no to Ukraine!***

*Brexit was lent a hand by voters in the Netherlands, who rejected an EU association treaty with the Ukraine by a 2 to 1 margin. With many fearing for their safety, the idealism of the 2004 EU expansion seems very distant!*

***Political concerns trump free trade***

*Political concerns are trumping free trade, with the result that Ukraine is increasingly isolated in its struggle with Russia. The EU appears to increasingly be a club which is accepting no new members, representing a reversal from the previous doctrine of safety in numbers.*

***There is already speculation that – should the UK opt to leave the EU – the Netherlands might be the next to apply for an exit visa.***

**Contacts**

**Jean Ergas**  
Chief Economist  
(917) 551-6533 Direct  
[iergas@tigressfp.com](mailto:iergas@tigressfp.com)

**Ivan Feinseth**  
Chief Investment Officer  
(646) 780-8901 Direct  
[ifeinseth@tigressfp.com](mailto:ifeinseth@tigressfp.com)

**Philip Van Deusen**  
Director of Research  
(646) 862-2909 Direct  
[pvandeusen@tigressfp.com](mailto:pvandeusen@tigressfp.com)

**Ernest Williams**  
Institutional Sales & Trading  
(646) 862-2912 Direct  
[ewilliams@tigressfp.com](mailto: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 Highlights

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**Research: (646) 780-8880 [research@tigressfp.com](mailto:research@tigressfp.com)**

500 Fifth Avenue New York, NY 10110 (212) 430-8700 [www.tigressfinancialpartners.com](http://www.tigressfinancialpartners.com)