Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

April 15, 2016

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Investors playing from backfield – Relief at Chinese data – Oil, is this about stability? Brazil – we are at the start and not at the end of a long process. Not holding our breath as to European banks. Brexit – big hitters weigh in on the debate.

Markets cautious, investors squaring books ahead of Doha

Markets are pursuing their cautious path, with Europe slightly lower and the US futures following the cross-Atlantic lead. We see investors relieved by the Chinese data, that the worst appears to have been avoided, and squaring the book before the oil meeting in Qatar. Macro factors continue to dominate, with the avoidance of violent jolts key.

China – are we over the hump?

Markets were assuaged by Chinese data indicating that GDP expansion is in line with market forecasts and that the worst case "hard landing" scenario has been avoided. We see the holding pattern as driven by monetary easing policies, with their corollary being a further "savage accumulation" of bad loans.

Chinese economic policy reminiscent of Germany before First World War!

These are in effect subsidies to inefficient firms, creating further scope for overproduction and dumping. While many may cheer, this strategy boosts deflationary pressures. The advanced economy central banks would be better advised to focus on the quality and not "brute" size of growth.

Which counts more - higher oil prices and market turmoil or stability?

As regards oil prices, any thrill from the Qatar meeting appears to be fading fast. Markets are coming to grips with the fact that maintaining the status quo shall not re-balance a market which continues to be oversupplied. We see the focus on oil price stability as opposed – assuming a price above US Dollars 45 – volatility.

Brazil – possible impeachment a beginning and not the end

With regard to the emerging markets, in terms of non-China supply chain induced change we are focusing on Brazil. The upcoming impeachment vote this weekend, should it prove successful, shall mark the beginning of a lengthy process and not its end.

Change in the executive shall not automatically remove structural constraints

A change in the executive, while possibly opening the path for a more business friendly environment, shall not on its own overnight resolve the historically low investment ratio and infra-structure deficits. Logistic bottlenecks shall not vanish overnight and there needs to be a drastic reduction in "embedded" government spending.

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

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Optimistic on Brazil – not about to disappear!

Our longer term optimistic optic on Latin America's largest economy is predicated on the continued development - despite fits and starts – of a middle class and the burgeoning realization that import-substitution has run its course and energy self-sufficiency acting as a powerful buffer against external shocks.

Focus on the Euro Zone banks

European cyclical pressures compounded by continued banking concerns

Cyclical pressures are compounded by continued concerns with regard to the banking sector, as reflected in the focus on the Italian bank restructuring scheme. We are informed by the Italian economics minister that the rescue project is an underwriting syndicate for bank re-capitalization, should this prove necessary. Wherewith, there is no reason for the EU to intervene.

We have not seen the last of either the bank recapitalizations or bad loans

We remain skeptical that this shall be the last recapitalization or state sponsored merger. The planned capital injections shall restore required capital levels but not lead to a credit expansion. With growth for 2016 foreseen at 1.2 per cent, we have not seen the last of the bad loans.

Focus on Brexit

Brexit risk influences Bank of England decisions

We are interested to see that one reason for the Bank of England's decision to pass on an interest rate increase was a sense that Brexit is starting to impact asset prices and capital investment. This adds to concerns that the UK economy is being supported by domestic consumption spurred by rising house prices, while exports slow and the current account deficit widens.

IMF and US administration chime in on Brexit

On the political front, anxiety over a UK exit has triggered pro – EU declarations by the IMF and, more importantly, by the US president. The UK is seen as weaker outside of the EU both politically and economically. These critiques shall make it more difficult for the Leave group to argue that they can carve out new alliances.

We do not wish to be prophets of doom. However even ex-Brexit – an overheated UK property market, with marginal properties trading at unrealistic valuations, has spelt nasty surprises.

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

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.

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