Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Update April 20th 2016

Return of more dispassionate analysis. Was it all about Kuwait?
US shale refuses to die! Euro Zone awaits ECB – we expect more of the same.
Emerging market debt – are we once again in bubble land? China – shall they cut the Gordian knot and reduce excess capacity?

US stocks continue their upward march!

Yesterday US stocks continued to advance pushed along by better than expected earnings from some major US companies. Sentiment was abetted by oil holding the US Dollar 40 level now seen as the "Stalingrad" level which must be held at all costs. We continue to see the dialogue between the producers as a "brutal friendship" – with Saudi Arabia calling the shots.

Today's action - Was it all about the Kuwait strike?

Are we seeing a timid return to caution ahead of the ECB meeting and after the end of the strike in Kuwait? Oil has come off the boil as investors start differentiating between disruptions and changes of policy.

We see oil edging downwards – stocks – oil correlation non-linear!

US supplies keep rising – defying once again the Nostradamus type forecasts which have been thick on the ground. We see oil moving lower and the market's sensitivity to falling prices increasing the closer we edge towards the US Dollars 35 mark. Current prices shall only marginally lessen the "cash drain" on producer reserves.

Oil price impact asymmetrical

We see a fundamental asymmetry with regard to the oil – stocks equation. A rise in oil prices while deemed as necessary to stave off deflationary pressures will:

Need to be contained to a comfort level around maximum the US Dollar 60 mark
Not be sufficient to trigger a major recovery

The US shall benefit disproportionately with regard to capital investment and reduction in systemic risk from an acceleration of energy prices.

Euro Zone investors pulling in their horns!

With regard to the Euro Zone and the broader European picture, investors are pulling in their horns. This is being driven in the short term by tomorrow's ECB meeting and in a longer term optic by mixed earnings from leading companies.

Euro Zone – Pilgrim's progress erratic!

Selected earnings have provided some relief from the steady drum beat of falling expectations. We are not focused on corporate earnings but on "The Pilgrim's Progress" of the domestic economies. Earnings of EU domiciled companies with the majority of their sales ex – EU do not tally with the continued snail's pace expansion

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Is the Argentine bond the beginning or the end of the EM sovereign recovery?

Moving to the emerging markets, we are seeing investor enthusiasm continue to spill over into the sovereign fixed income area. The Argentine "blockbuster" multi-tranche bond is heavily oversubscribed and Lebanon is waiting in the wings.

Investors desperate for yield grasp at every bond!

Considering Argentina's recent erratic history with regard to payments, we see this as investors pushed into a corner by negative interest rates and QE grasping at cash! We have often seen this form of extreme behavior as signaling market peaks –shall it also be the case this time?

China continues to confront Hobson's choice – will it cut the Gordian knot?

As concerns the "mother of all macro supports" – China, cautious statements as to a likely toning down of stimulus measures is keeping animal spirits in check. We are seeing increasing concern as to the Hobson's choice between boosting the economy and not increasing the bad loan problem.

Cost benefit analysis no longer adds up in China

The Chinese authorities may now have come to the realization that the credit sector risks are no longer compensated by the decreasing returns from stimulus measures. The question remains whether this shall be limited to not adding to the bad loan portfolios or whether it shall extend to closing inefficient production. We suspect that the tackling of the root causes is still some ways off.

Former Governor of the Bank of England comments on poverty of monetary policy

While we may not hear much of new from the ECB tomorrow – we are getting increasing echoes as to "The God that failed" – monetary policy. The latest to chime in is the former governor of the Bank of England – who was himself a major advocate of this policy. This is contrition indeed! The extent of the desperation is highlighted by QE being followed by negative interest rates.

Still a very long road ahead – still not at take off!

An argument can be made that QE in the US - coupled with a government banking rescue – stemmed off Act 2 of an incipient systemic collapse. However, the global macro benefits in terms of economic "take off" following stabilization have been disappointing. Much has been made of de-leveraging. There is still a long road ahead!

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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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