Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Markets more optimistic this morning – where is the US consumer? Oil demand to be driven by India – we are still in the thrall of the emerging markets.

Historic events unfold in Brazil – will financial asset revaluations be the catalyst for economic recovery? Bond investors go out on both yield curve and may look at "Far Side" of credit spectrum

US consumer mutating into "The Fugitive"

US stocks went into retreat mode yesterday with investors wondering whether retail store results were a micro signal – reflecting flawed marketing strategies or a macro warning. The critical issue remains "The State of the Nation" of that elusive entity – the US consumer. Have tastes changed or has the alleged hero of our time mutated into "The fugitive"?

Can an economy live on discounting? Are we witnessing "The end of pricing power"?

While some will once again point to a shift towards the on-line retailers, this begs the question – where is the industry pricing power when cheap is the marketing strategy? Is retail the tip of the ice-berg for the sudden collapse of hitherto "sticky" prices? If so, which sectors are next in line?

Some are laying the blame on the hapless foreign buyers beaten into submission by the stronger US Dollar. We may well ask where are the 308 million US consumers – can they all be absent at roll call?

Oil dividend – was this a fleeting romance?

We are starting to hear that higher oil prices are already denting the enthusiasm of the US consumer. If this is the case, the "oil dividend" has been the most fleeting apparition since the beginning of time! It was supposed to kick in at US Dollars 60 – why is its impact fading at US Dollars 45?

We remain cautious on the US consumer, who remains saddled with both historically high leverage and lesser access to credit. The option of "rolling cards" is no longer available – this is payback time on capital.

Today's action

Stock markets edging higher on oil and hope! India to the rescue?

Stock markets are pushing higher this morning on higher oil prices offsetting what is a mediocre earnings season. Oil is being lifted by statements by the IEA – International Energy Agency foreseeing an increase in demand from India and from other emerging markets. At the end of this cornucopia, we shall still have too much oil on the market but the glut shall be lower!

IEA comments need to be sliced like a cake

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We see three layers in the energy agency's comments. The first is that we cannot – if there is still any correlation between energy consumption and economic growth – discern any growth in the advanced economies. Yesterday's US retail company results were a wake-up call for all those expecting US consumers to come to the rescue.

We are still in the thrall of the emerging economies – scant hope for the lions of yesteryear!!

The second is that the world is still beholden to the emerging economies – is hope a policy? One might also speculate that a slight uptick in prices might trigger an increase in US rates, sowing havoc in the EM space. As collateral effects we might see the bond markets take it on the snout.

Events in Brazil – Is this the turning point?

Moving on from the oil price, we are following events in Brazil. With the impeachment committee having given the president the thumbs down – the road is now open to both hopes and uncertainties. Hope shall be focused on the promise of a new, less governmental intervention economic policy.

It is not all about commodities!

However the economic situation remains difficult. While commonly assumed that low commodity prices are the root cause of the crisis – this is a home grown debacle fueled by overspending. The weight of commodities on the currency is disproportionate to their overall economic impact.

Bank of England sits on its hands – more dire warnings about Brexit – are voters listening?

The Bank of England has met and decided to take no new action on rates – which remain at a level last seen prior to Stephenson's "Rocket" inaugurating the age of rail travel. This has not stopped the head of the Bank of England from delivering further broadsides as to the effects of a UK exit from the EU.

An exit shall lead to a pound collapse, skyrocketing inflation and a sharp fall in capital investment. What is astounding is that the polls are still showing the vote as too close to call.

Negative yield fuels borrowing binge as investors wanting cash returns look at "Far Side" of the credit spectrum

We are being increasingly bombarded with the grim statistic of US Dollars 9 trillion of bonds now trading at negative rates. This is both spurring massive bond issuing by the "lucky few", while forcing those who seek higher returns to explore the "Far Side" of the yield curve. We shudder at the thought of buyers of negative yield instruments making a capital gain!

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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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