Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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More horror in Europe – US banks hanging in there- Central banks still in "pole position" - remain skeptical on UK - And yet more unspeakable horror – UK and US starting to discuss separate trade agreement – Are they moving too fast?

More horror in France

And yet another frightful horror perpetrated by terrorists- again in France. What is also shocking is the hitherto muted reaction of the markets-can it be that we have become inured? The French prime minister says that we must learn to live with terrorism – a grim prospect.

US investor supported by banking results

Markets in the US are poised to open slightly higher with investors cheered by a spate of bank results which have been in line or beaten forecasts. While a great deal is being expended on the banking- UK referendum relationship – this data is mostly pre-poll and reflects a relatively resilient US economy.

Tennessee William's finance – "The Kindness of Strangers"

We are seeing a market once again propelled by expectations as to the "kindness of strangers" as opposed to an improvement in macro or corporate fundamentals.
The UK situation has yet to play out and banking weakness in Europe shall not be solved tomorrow.

We are shifting from analyzing companies to sizing up economies

Investors have now switched their focus and are starting to look beyond corporate results to "stand-alone" strength of the single economies. Growth prospects remain modest – at best – and outside of the US are driven largely by government stimulus programs and / or continued massive monetary intervention.

Central banks and governments have opted for a continued accumulation of bad loans over financial balance. Being present at the creation was bad enough – we do not wish to be in attendance at the unraveling!

East – West US is best!

The US economy is the outlier among the major economies in being able to generate some – albeit modest – "organic" growth. This shall in our view accelerate "The Great Migration" towards these shores as investors tire of looking for bargains in "The Old World" and seek safe havens.

They are also seeking a cash return on their funds – which US companies can still offer across a broad range of both industrial sectors and credit segments.

New generation of EM investors no cultural link to Europe – the nineteenth century is over!

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While previously safe havens were seen in terms of asset classes – they are now increasingly being redefined in terms of geography. We see this "weight of money" effect as continuing abetted also by EM outflows as a generation of EM investors which has no cultural link to Europe gains strength.

What is the link between two per cent inflation and a better life for Americans?

With regard to US economic data consumer prices have continued to inch forward. However, we are still far from the two per cent set as "The Gold Standard" by the Federal Reserve. What the relationship between this hallowed threshold and economic growth – which we see as "the dominant strategy" – is has yet to be explained.

Has the Federal Reserve mutated into ECB lite?

Has the US central bank mutated into ECB lite – with a focus on avoiding deflation trumping all other issues? We reiterate our view that two per cent inflation shall not be sufficient to restore the broad based pricing power which drove the economy for more than 50 years.

Focus on the UK

Cutting interest rates in the UK shall not trigger a boom

We continue to be cautious on the UK and do not expect that a rate reduction - from an already very low level – shall be sufficient to relaunch the economy. Capital investment shall not recover until there is some clarity as to the trade rules of the "brave new UK economy.

Yesterday - 1 per cent plus on "cable" and FTSE 100 rally stops – what is it built on?

From the point of view of the elite of the UK economy – as represented in the FTSE 100 – the UK central bank may have gone a bridge too far yesterday. The increase in the "cable" was sufficient to stem the equity advance. Is this a signal that the central bank shall lean towards managing currency decline?

We see the UK as paralleling its nemesis – the Euro Zone. A weak currency is the dominant strategy.

US and UK start talking about a separate trade agreement – shall events move faster than believed?

The UK and US have initiated preliminary negotiations with regard to a separate trade agreement – outside of the US – EU agreement currently being negotiated. If anybody needed further evidence that the UK is not kidding about leaving the EU – this is it!

It seems that the US is also revising its position on the US – EU treaty – with UK exports to the US being 25 per cent of the total, this is not surprising.

Italian banking crisis looking risky

As concerns the European banking crisis we read that the CEO of Unicredit is pleading for special treatment for the Italian banks. We see this issue as twofold:

The success side of a waiver shall be a reduced risk of a bank winding up

The minus side of the equation shall be another failed attempt to break the "fatal attraction" between banking risk and sovereign risk.

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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.

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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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