Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

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Stock market advance slowing today – end of the road or pause for breath? Three cheers UK – post vote a mess but somebody now running the mess! Will Italy square the circle and save banks within EU rules? Do not see Japan prospective monetary intervention as materially impacting global "real economy".

Stock markets slowing pace of advance – is this the end of the sprint?

Stock markets are slowing their pace of advance – as the UK political succession boost starts to wear off – with investors apparently more relaxed about the UK situation.

Whether this means clear sailing up ahead is far from certain. The change is that there shall soon be an executive that can start to formulate policy. Which side of the conservative or overall leave contingent the government shall be pitching to has yet to be determined.

Somebody shall be in charge of the UK mess – do trade agreements matter to the right wing of the conservative party?

The negotiations are likely to be a mess but there shall be somebody in charge of this mess. On the subject, we see that the soon to be Prime Minister shall need to appoint a point person for the process. The objective remains market access without labor mobility – we see this as close to squaring the circle. We however doubt that this shall be of consequence to the right wing of the conservatives who were at best reluctant Europeans.

Are we reduced to thinking that when it is not a "Lehman event" that everything is cool?

This residual uncertainty is reflected in in a momentary stalling of sterling and the UK stock market's recent surge. We do not share the Polly Anna view that the worst of the UK crisis is behind us. This limits damage assessment to the absence of a Lehman like event and not in terms of a slowing European economy. We see such an optic as speaking volumes on the prospects for global growth.

Will there be a general election in the UK?

The major shocks in terms of the negotiations to implement the separation are still ahead of us and the risk of a general election looms. "Facts on the ground" are that the pound is still trading at levels deemed shocking 3 weeks ago and that commercial property funds are conducting fire sales.

The future of trade – will it be stormy?

As concerns global companies there is little clarity as to what trade agreements the UK shall enter into. This shall take likely years - making planning and investment difficult. Once the "factory of the world" during the industrial revolution – the UK is now a launch pad for the EU.

Untangling supply chains shall take years and be expensive – no wonder German industry is pleading for a "soft" Brexit!

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Waiting with baited breath for solution to Italian banking crisis

On the Italian banking crisis front – we are informed that they are working on a solution that shall allow Italy to have its cake and eat it. Italy shall be able to use tax payer money as a first capital buffer for the banks while adhering to EU rules. Time is of the essence – with bank bad loans equal to 17 per cent of GDP – and markets trading on the fate of Italian mutuals, we continue to see a "tax payer" funded rescue as the major option.

What this is telling us is that there is scarce appetite among the non-distressed banks to snap up assets at "bargain" prices. Could this be an indicator of longer term skepticism as to loan – loss recovery ratios?

Shall see the US Beige Book today – do not agree on no impact of UK events on US!

On the US front, tomorrow we shall be seeing the US beige book- which might give us some insight into "Leviathan's" progress. Does the US economy have the resilience to withstand a downturn in Europe, as remains likely? Some say that Brexit shall have no impact on the US economy- we disagree! It could have a massive impact on US groups doing business in the UK and Europe – limiting both revenue and increasing exit costs.

We cite Gove in the UK – American people have had enough of the experts!

Minimizing the impact of the UK events echoes the previous stance that:
The "leave" contingent would meet an ignominious end
The EU was simply a free trade agreement – NAFTA style – completely missing the point of more than 60 years of post – war European history

Bank of England meets – this is not about cutting interest rates!

Shifting to the central banking front, the major event shall be tomorrow's meeting of the Bank of England. A further reduction in interest rates is expected, with investors wondering whether this shall be sufficient to reverse sterling's recent progress and embolden risk appetite. We consider that this is not about interest rate cuts but about re-defining the UK's role in the global economy.

Bank of England now "cleans up" – does not set economic policy!

The Bank of England can tinker with rates but it shall not be negotiating trade agreements – it's role is now of a "cleaner – upper" of the government's mess rather than acting as an economic center-forward. This puts it at odds with the other major global central banks that are not operating in a 180 degree "sea change" environment.
What shall likely happen in the UK is a re-orientation of the economy away from its trajectory of the last 43 years – not market reforms.

Sterling was a short whatever the outcome of the vote. The only difference was the speed of the adjustment. The referendum triggered a shock and not a rebalancing – with the secondary tremors spreading to the property market.

Do not hold your breath on US labor market normalizing – many US workers facing pre- emerging market conditions!

In the US we are hearing soothing words from the Minneapolis Federal Reserve, who see the US labor market as still not at full strength and inflation low. We share this assessment - with the US economy having shifted to a dual:

Level 1 "knowledge economy"

Level 2 underdeveloped economy "wanna be emerging market" – unlimited supply of labor structure – labor underemployment is unlikely to change soon.

This shall feed into the inflation rate, with subsistence wages for the newly on-boarded doing little to boost consumption. Dumping and a relatively firm US Dollar shall "tie up the odds and ends" of the inflation question.

More free money out of Japan – shall change nothing!

Last but not least, there has been much cheer in the expectation of more monetary stimulus out of what has recently been "The land of the rising yen". Whether this shall be sufficient to lend the global economy the impetus it needs is not open to doubt. It shall not!

Such measures simply reflect the nadir reached by central banks unable or unwilling to understand that overleveraging has been such that low interest rates or credit expansion shall have scant effect. This is not about interest rates but about repaying capital.

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