Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

August 10, 2016

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Not much to report! – We are in the doldrums – Much talk about central banks – will they save the world? UK – see a bad moon rising! – Turkey this is about "holding the line"

We are approaching the doldrums - Powers that be on vacation!

We are now nearing the bottom of the August doldrums – with the mighty, rich and powerful flocking to vacation resorts where they shall no doubt spend time bemoaning income inequality! This is reminiscent of a great sociologist who wrote of the "Columbus syndrome" regarding the poor – they are regularly re-discovered.

We shall see a "re-run" of David Copperfield!

Turning to more mundane matters than "David Copperfield Redux" the earnings season is now – for better or for worse - out of the way. Investors are reassured that the public company is not in need of World Wildlife Fund assistance.

It would be exaggerated to say that grading was on a curve – existence was deemed to be sufficient to scrape through.

Markets look to the "usual suspects"

Attention is turning once again towards the "usual suspects". These include central banks, the oil price, growth capital spending and the "economist of last resort" – the US consumer.

We see central banks as still being "The Talk of the Town" with expectations that range from abstinence – the Federal Reserve – to continued easing – everybody else.

Do not buy "rumors of war" as to hyperinflation in the US

There are starting to be "rumors of war" that a continuing collapse in US productivity may lend impetus to central bank tightening. The US economy shall "overheat" in the midst of the worst recovery since recorded history and falling real wages for those languishing at the bottom of the income scale.

Federal Reserve shall go for employment growth and repaying debt in devalued money

We do not see this as the principal issue confronting "Olympus"!
There are three reasons:

1 – The default choice is growth – getting more people into the labor force. Shadow unemployment is still close to 10 per cent.
We cannot believe that all Americans are retiring at 19 having sold an app for US Dollars 50 billion.

2- With debt still at high levels it may be advisable to focus on "shrinkage of capital" as opposed to reducing interest rates.
The key peril for companies and consumers is the inability to make capital repayments.

3- The US government cannot wait to start repaying debt in devalued money. This basic axiom has underpinned all actions since inception and has been the key to sovereign "financial flexibility".

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Bank of England – new movie "Desperately seeking bonds"!

We are seeing the impact of Bank of England government debt buying. Long term UK "gilts" are hitting all time low yields as the "Wanted – long term debt" signs go up! We see the issue as not only whether the Bank of England is running out of bonds but whether the UK central bank and its accomplices – are running out of time.

Insurance companies and pension funds play hard to get!

On the execution front, the UK bond buyer in chief is being confronted by a vicious circle. The holders of 10 year + debt – insurers and pension funds buy for the long term cash yield and do not want to sell "coupon" in return for a one-off capital gain.

This places further upward pressure as "available for sale" gets bid up to the roof- in turn making the others even less willing to sell.

Bond buying irrelevant!

The key question remains – does this make any difference to economic prospects? We believe it does not and that the post-vote UK shall slow significantly more than expected. Central bank surveys are showing domestic companies putting their investment and employment plans on hold.

Brexit economics failing at the prep course level!

Simultaneously imported inflation shall decrease disposable income. Without even factoring in the decrease in home equity we expect a substantial contraction. This is countered by claims that in the "long run" the UK economy shall boom – we see this as a belated admission that Brexit economics is already failing at the prep course level.

UK shall settle for basic – "economy" package

As to the negotiations it took Greenland three years to settle outstanding issues. We are looking at not only a "hard" but at a messy Brexit and a default to the "basic" package likely. In this context, we are not surprised to see estimates that the move from single EU market access to WTO rules would reduce UK GDP by 4 per cent. This assumes "all things being equal" – which they rarely are.

Turkey – this is about holding the line

Turning to the more conventional shores of political risk there is increasing concern as to the Turkish economy and the possibility of a further downgrade to junk by Moody's. While expecting turmoil as short term foreign financing steps back we continue to see the major issue as political.

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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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