Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

August 11, 2016

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Moving towards August 15th - Zombie week for markets – Oil continues to weaken – UK picture triumph of ideology – More surprises to come from the European bank saga – Global economy turning into an LBO without the discipline of debt.

Stock markets in Europe moving forward on central bank hopes

Stock markets in Europe are up with investor sentiment buoyed primarily by hopes of continued central bank leniency in the face of mediocre global growth prospects and a degree of continued US economic resilience. The US as bulwark of "Capitalism in one country" is helping to allay concerns as to the possibility of an increase in US rates.

Can employment migrate from a political metric to an economic indicator?

We shall be seeing the retail sales tomorrow. The key focus is on whether employment shall migrate from being a political metric to being an indicator of economic growth. We continue to see the US labor market as "clearing" due to the "sticky" coming unstuck and accepting sharply lower wages.

The impact of the recent hiring wave – while not a dummy variable – is having a minimal impact on the macro top line.

Oil cartel behaving contrary to economics textbooks

Oil is still slipping and we reiterate our negative short term view based on both slowing demand growth and production which refuses to call it a day. While we may be seeing a reduction in some non-OPEC producers the cartel is behaving contrary to economics textbooks and pumping like there was no tomorrow.

Some reality entering UK picture

As concerns the UK saga we are starting to see some reality stealthily make its way into the picture. Investors are realizing that monetary policy cannot overcome domestic capital spending and that foreign direct investors do not wish to be caught on the back foot.

Push to invoke Article 50 now coming from within the UK

The shape of the new trade framework – which is critical to supply chains and creation of jobs outside of the City's square mile - continues to be vague. We are seeing yet more calls for secede now and settle details later with the "Primacy of politics" firmly entrenched. The major push to invoke Article 50 is now coming from inside the UK as the ideologues run riot.

Are we back to competitive devaluations?

On the investment front while there is much cheering about the stock market's advance – few are pointing out that this is largely a proxy for FX spot rates. We see this regularly in the wake of sharp currency devaluations – including in emerging markets. Some are still seeing a massive export boost despite a morose global growth environment. Are we back to competitive devaluations?

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Scavengers snapping up Euro Zone peripheral debt

On the European fixed income front, we are seeing the whittling away of yield on Portuguese and Spanish debt as cash yield seekers scavenge for bonds. We see as the key risk that rock bottom interest rates shall lead countries to borrow and avoid the more painful option of cost cutting.

Economies acting like junk bond issuers

The focus is shifting away from absolute debt to GDP levels to "cost of carry" – this does not appear to be a viable long term strategy. Sovereign states are taking their cue from the riskier high yield issuers. Debt is deemed a form of consolidated equity. With deflation threatening to re-leverage the burden and scant growth - prospects do not look brilliant.

Still see estimates of EU bank bad loans as too low

We are interested to see estimates of bad EU bank loans at 9 per cent. While frightful this does not accurately reflect the myriad debtors who have hitherto been carried by the banks. We see two factors as complicating the picture:

The continued economic stagnation which shall push firms over the tipping point
Stricter capital constraints overall and impacting disproportionately the farther down on the credit risk scale.

The situation may appear to be most acute in Italy. However we see a substantial lag between the overcoming of the 2011-2012 Euro Zone debt crisis and a re-capitalization of the banking system.

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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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