Tigress Financial Partners

Macro Snapshot – Chief Economist Jean Ergas

August 16, 2016

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More muted tone in markets – do not see Weimar inflation in US – Burn marketing textbooks and link between market share and pricing power – UK – back to the future – stagflation? Oil not going to 100 US Dollars anytime soon!

More muted tone in the markets – investors positioning for Federal Reserve minutes

We are seeing a more muted tone in the markets with investors starting to position for the Federal Reserve minutes tomorrow. While these reflect the "world of yesterday" – they may allow us some insight into the longer term thinking of what is deemed to be the "Central committee" of global monetary policy.

Do not exclude a rate rise in 2016!

We view as significant the continued discordance between the statements of some Federal Reserve officials and the markets. The keepers of the keys have reiterated the possibility of a rate rise this year – while "The markets" see this as not probable. One is reminded that "The markets" thought the prospect of a Leave victory in the UK as bordering on science – fiction!

No systemic event could be go ahead for minimal rate increase

In the absence of a significant systemic event, we see the US central bank as not averse to pulling the switch with a minimal increase in rates. The move shall not be dictated by strength in the US economy. The causal driver shall be the need to exit a state of emergency and align interest rates to a level commensurate with a weak economy.

Hyperinflation in the US unlikely!

We see ourselves confirmed in our view that US hyperinflation sightings have – as Mark Twain famously commented about rumors of his death – proven greatly exaggerated. The CPI has not budged since last month with stable oil prices seen as one of the likely causes. At the cost of being put in the stocks – we beg to differ!

"Real demand" in US weak!

US inflation is not rising for the very simple reason that to attract buyers companies have continued to discount and have abdicated from any pretense at pricing power. "Real demand" at a price which would reflect antiquated notions of market share is weak.

Oil price rise and stabilization not sufficient to push up prices

We were told that a rise in oil prices from the Marianna's trench would re-kindle the inflation spark. This has not happened and we are unlikely to see much progress on this front. This is also despite some US Dollar weakness and an allegedly "booming" labor market.

Jean Ergas
(646) 780-8880
jergas@tigressfp.com
Twitter: @jean_ergas

Tigress Financial Partners
Member of FINRA / MSRB / SIPC
500 Fifth Avenue
New York, NY 10110
(212) 430-8700
www.tigressfinancialpartners.com

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UK inflation rise – we are not surprised!

Turning to foreign shores – we are starting to see "hard data" emerge from the UK on inflation post "The Day". Not surprisingly a collapse in sterling has triggered a sharp increase in inflation – with prices rising 0.6 per cent. This is enough to make the US central bank turn green with envy!

We are seeing "Step function" type increases in certain prices. Input price increases are a part of the equation. However in a global economy many goods are priced on a global basis regardless of the provenance of the inputs.

Inflation expectations shall be marked up – stagflation?

As a second round consequence of the pound depreciation we see higher inflation expectations - lending further impetus to price rises. The UK's new normal may soon start to resemble the 1970's when economic growth stagnated and prices rose. This was a grim time which eventually ushered in the Thatcher revolution. We are hard put to see where salvation shall come from now.

Global banks shall not wait for "The Midnight Hour" of Brexit

We are starting to see intimations of moving out by the major global banks. From talk they appear to be passing to "The Act". We doubt that they shall wait to the last minute to see what reciprocity arrangements the UK shall strike with regard to financial services.

Should the move start in earnest – we expect further pressure in the London property market crushing a large part of the UK's reserves of "wealth effect".

Do not see oil at 100 anytime soon!

With regard to the oil price investors are once again betting on a meeting of minds next month as to production levels. We continue to see this as a paradox when most of the big players are keeping their foot on the accelerator. Ironically, the mere prospect of a freeze at current levels shall encourage them to re-double their efforts.

Tigress Financial Partners LLC - Member of FINRA / MSRB / SIPC
Research: (646) 780-8880 research@tigressfp.com
500 Fifth Avenue New York, NY 10110 (212) 430-8700 www.tigressfinancialpartners.com

Contacts

Jean Ergas
Chief Economist
(917) 551-6533 Direct
jergas@tigressfp.com

Ivan Feinseth
Chief Investment Officer
(646) 780-8901 Direct
ifeinseth@tigressfp.com

Philip Van Deusen
Director of Research
(646) 862-2909 Direct
pvandeusen@tigressfp.com

Lily Li
Managing Director
Global Wealth Management
(646) 780-8903 Direct
lilyli@tigressfp.com

About Jean:

Jean Ergas is the Chief Economist for Tigress Financial Partners LLC (Member FINRA, MSRB,SIPC) based in New York City.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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