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ROHR ALERT!! ECB Shifts to Warp Speed

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jun 4, 2020 at 9:21 AM
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Dear Subscribers,
Having just listened to ECB President Lagarde's full post-rate decision press conference, we are once again impressed. This is on several fronts, yet most tellingly on the PEPP €600 billion increase to €1.350B from the previous €750B. Most observers expected a PEPP (Pandemic Emergency Purchase Programme) increase, yet most likely only to €1.00B. And like her predecessor Signore Draghi, she clearly articulated the importance of this higher support program increase.

In response to a reporter's inquiry, she was explicit in explaining that the higher amount was considered the most likely path back to the "*pre-COVID inflation levels*", which is the reasonable minimum goal at present. The opening statement is available at https://bit.ly/3eH52fE along with a link to the full press conference.

The other key support provided was extension of the duration and reinvestment under PEPP. The purchase program will now run until the end of June 2021, with reinvestment of any principal returns continuing until the end of 2022. And that will in any event continue until well after the initial return to any ECB rate hikes.

There was also reinforcement for the effectiveness of the existing ECB lending and borrowing stimulus programs. And the 'ghost at the banquet' of the German Constitutional Court in Karlsruhe's ruling questioning the legality of ECB bond buying programs was dispatched with repeated statements that the ECB is only legally bound by rulings of the European Court of Justice. That had previously found the ECB bond buying is legal. Further, Madame Lagarde posited the Karlsruhe edict was a matter for the German government and parliament and Bundesbank, and she expects a positive outcome once it is fully reviewed.

Much like the US relief and the newly invigorated European governments' effort, now abetted by a much more accommodative Germany for the first time (see this extensive May 2nd Reuters article https://reut.rs/2WQmuIr), the idea into the major COVID-19 quarantine economic weakness is to overcompensate.

Normally this might be seen as excessive fiscal largesse, with a question over the degree to which they might be inflationary. Yet under current circumstances both the ECB and all other central banks would likely be very happy to see a return of moderate inflation. After all, in the weak post-2008-2008 Crisis economy we and others noted many times that is what they're good at, versus fighting deflation.

The other news this morning was also encouraging insofar as the US Weekly Jobless Claims dropped to a lower than expected 1.877 million from the previous week's revised 2.126M, even if Continuing Claims not surprisingly rose modestly to 21.487M. That this will still likely leave the US with an Unemployment Rate approaching 20.0% in Friday's Employment report remains troubling. Yet it is also something the US equities have already

discounted, as evidenced by their recent rally extension above some key elevated technical resistance (more below.)

What is most interesting in light of the ECB this morning, as well as the 'risk on' psychology extension to developed economy and emerging currencies against the previously stronger US dollar, is the continued resilience of global govvies.

Especially in the wake of the German agreement to participate in pan-European COVID-19 relief programs, the Bund had already been under more pressure than the other, more resilient leading govvies. Yet the still weak European outlook has created a bullish Bund anticipation (see Wednesday's 'Bond Market Dynamics' ALERT!! for much more on what the futures are indicating.) And the Bund along with the other global govvies are only under further modest pressure today, and equities are just a bit weaker despite the ECB shifting the PEPP into 'warp speed'.

Courtesy Repeat of Wednesday's critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Front month S&P 500 future was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/2Y0AJJY updated through Friday.) That was the recent key higher resistance it had violated on its push above its 2,675 trading high Tolerance from prior to the DOWN Break (including monthly MA-48.)

As such, it is reasonable the June S&P 500 future will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support. And the front month S&P 500 future pushed out of the broad higher range top in the 3,030-2,970 area late last week and sustained it, with the 3,200 area the next higher meaningful resistance.

The key levels along the way were previously violated support at 2,850 area and 2,750 area, both of which had been exceeded. It held below the latter in late-April without ever nearing the 2,675 Negated Tolerance of the 2,600 area DOWN Break.

This left open the potential to retest that more prominent confluence of resistance factors in the 2,970-3,030 range despite previous slippage. That resistance was further reinforced by the manner in which volatility had returned to the downside from late April into mid-May. This created a more highly focused Evolutionary Trend View (ETV) in the form of a near-term Head & Shoulders Top pattern.

That pattern along with the other key low-mid 2,800 area technical indications 'confluence' is reviewed at length in our TrendVIew Video (https://bit.ly/2XylbNn) on June S&P 500 future 'long arc' and shorter-term (04:00-06:40) developments. There is also comparison with a 2008 front month S&P 500 future recovery rally (07:10-11:30) with important implications for the current US equities decision.

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