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ROHR ALERT!! ECB Reinforces Accommodation Drive

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jul 16, 2020 at 9:55 AM
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Dear Subscribers,
ECB President Lagarde was unsurprisingly unabashed in her aggressive support for continued accommodation to counter major negative impacts from COVID-19 on Europe. The full opening 'Monetary Policy Decisions' statement is available at https://bit.ly/2OByHv along with a link to the video of the full press conference.

The pre-existing APP (Asset Purchase Programme) along with PEPP (pandemic emergency purchase programme) will fully continue for now. Of course, 'now' means until the impact of COVID-19 is done. As such, for a very long time in the context of the greater than expected economic weakness from the serial waves of the pandemic in various Euro-zone countries. While less dire than the current US circumstances, there are still residual drags in Europe that she was clear are of concern in their impact on both people's health and economic lives.

She also felt that the TLTRO (Targeted Longer-term Refinancing Operations) extending favorable financing to institutions was being successful by increasing lending to companies and individuals. While noting a bit of tightening in credit conditions due to COVID-19 household finance concerns, these were secondary to the overall success of the programs in preventing further economic damage.

As was already articulated under predecessor Mario Draghi, the reinvestment of yield from both APP and PEPP will continue until well after conditions are strong enough to once again raise the ECB base rate. As such, the ECB balance sheet will remain very large until the economy manages to fully recover from COVID-19.

There was also no surprise in her call (once again much like Draghi) for more structural reform to make Europe competitive and additional fiscal stimulus in addition to the €540 billion already approved. It is of course interesting that this was the first phase of pan-European COVID-19 relief so far into the crisis.

Yet now that Germany is on board for the first time in efforts of this type, there is some hope further fiscal stimulus will be forthcoming. The challenge is also addressing concerns of some of the more fiscally conservative northern states (sans Germany now that it is supporting such measures), and possibly tying some of the aid to democratic processes in recently more autocratic states.

Yet the overall message is the same clear major support for accommodation as heard from other central banks during the economic pressures from COVID-19. As we have noted extensively, along with the seemingly enhanced potential for COVID-19 vaccine and therapeutics development this is 'good' news. Over the past couple of days there have been further positive indications on that front.

See Wednesday's discussion and video (https://cnb.cx/3gWHJPS) with Moderna's Chief Medical Officer Tal Zacks regarding their mRNA-1273 drug's dual function as a potential

vaccine and therapeutic for the most upbeat recent news. Yet any of this more positive forward view still only counters the continued deterioration of the situation on the ground, especially in the US but also in many other places.

That gets back to what can be expected in any 'stabilized' economic situation even once the near-term (i.e. pre-vaccine) spread of the pandemic can be curbed. A good indication is this morning's very mixed Chinese economic data. While its annualized GDP came in better than expected (3.2% versus a 2.1% estimate), its Retail Sales were abysmal at -1.8% against a +0.3% estimate. This goes back to something we (among others) had noted as far back as shortly after the original COVID-19 outbreak in China smashed its then robust conspicuous consumption.

As referenced in the April IMF World Economic Forum 'How coronavirus is changing what Chinese consumers buy' article (https://bit.ly/2ZxPaan), their recently sustained culture of 'conspicuous consumption' has been totally derailed by the pandemic. Coming down from an excessive spending high will not likely be just temporary. Getting back to classically more frugal habits in a culture previously known for more conservative financial habits is likely permanent.

This is not good news for a Chinese government that was driving consumerism as a way to wean the economy from export dependence. As such, more than a few informed sources point to the degree to which this will present an additional challenge to any return to strong growth. Along with noting this morning's better than expected GDP number, a Reuters article (https://reut.rs/3fyMJKz) also once again explores these challenges that will also affect the global economy.

Therefore, as we have noted of late, quite a bit will rest with the degree of further US government support into some of the previous serial COVID-19 relief efforts expiring later this month and in August. From 'Monday's Congress to the Rescue?' ALERT!! once again, "*...while Democrats are pushing for a wide-ranging package worth an additional $3tn, White House officials and congressional Republicans have suggested a more modest amount, worth $1tn, that could struggle to meet all the needs*."

"And, '*As well as hitting consumer spending, the withdrawal of fiscal stimulus could also make it harder for low and middle-income families struggling because of the pandemic to pay rent and mortgages, damaging the housing market*…' where forbearance in that area is only until the end of August."

"And further, as we suggested, '*...the US Senate is not back from its current break until July 20th, with the enhanced unemployment benefits due to expire at the end of July. As a further note, while the schedule can be changed for emergency purposes, both houses of Congress are then out from August 8th until after Labor Day Monday (September 7th.)'* As such, there is a very narrow window to bridge a very wide divide, that will only clarify from the beginning of next week."

As such, it remains important to consider whether September S&P 500 future can surmount the still key 3,200-30 resistance it has ramped up to retest throughout this week. Along the way global govvies were back under pressure, yet only to a modest degree after recent recovery from supports. And it is interesting that the US dollar continues to weaken. However, it is hard to tell whether that is due to a renewed 'risk on' psychology, or continued prominent US COVID-19 concerns.

Another Courtesy repeat of Tuesday's critical consideration

COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future 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 3,070 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/309ONSz updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.)

As such, it is reasonable the front month S&P 500 future will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support if there is another selloff below the key 3,030-2,970, with interim levels at 2,850 and 2,750 that were important in the recent up trend. That is because the front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance just retested and failed on the current rally.

That is also where It stalled all three days after the early June US Employment surge with no sign it was going to push further, and it remains very prominent higher resistance. After the following Wednesday's downbeat Fed communication yet with no additional stimulus into a still weak economic situation (see that Thursday's ALERT!!), the S&P 500 dropped back to test and hold 3,000 area.

After churning recently around the 3,100-30 interim congestion in the middle of those major ranges pending clarification of the future 'macro' factor psychology, that remains a key interim area to watch. Expanding COVID-19 concerns dropped it back again early this week, yet with the US Congress back into early next week.

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