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ROHR ALERT!! Same 'Old' ECB Stuff

1 message

ROHR Alert <rohralert@gmail.com> Thu, Sep 10, 2020 at 9:17 AM
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Dear Subscribers,
We are not disparaging ECB in its reiteration of its existing policies at today's meeting (https://bit.ly/3igh4yQ Opening Statement with Press Conference link.) The fact is that it has encouraged the necessary fiscal stimulus (especially from the fiscally strong Euro Area members) which had been lacking for many years, and also committed again to all of its current monetary policy support programs.

The latter were extensively discussed in Madame Lagarde's press conference in response to some reporters' inquiries. Not surprisingly, she confirmed that all of them were indeed reviewed at today's meeting, so their continuation was not just a *pro forma* rubber stamp of what is in place. In response to other questions she also provided chapter and verse on how their many programs like TLTROs can be leveraged to stimulate bank lending, and the PEPP program expanded securities purchases (https://bit.ly/2Fn1DWS) counters the COVID-19 pandemic pressures.

As such, more of the 'same old stuff' actually includes a goodly degree of 'new' activity that has been taken on since the pressures from the COVID-19 pandemic reared their ugly head. This is especially important in the context of European Union passage of its major COVID-19 relief program, versus the US where its equivalent seems intractably stalled in Congress. This is likely at least one of the major reasons for a perception that the Euro-zone economy might recover faster than the US, which is also still more troubled on COVID-19 pandemic control.

This is likely one of the factors as well behind the recent strength of the euro currency, and the residual pressure on German Bund prices (i.e. higher yields) versus a far more subdued bout of weakness in the US govvies. That said, please note that despite this perceptual differential, the euro has remained a bit stuck around, even if having traded above, the key EUR/USD 1.1815 technical area.

In other influences, economic data this week has come in with limited variation from estimates after Tuesday morning's cautionary OECD monthly Composite Leading Indicators (CLIs https://bit.ly/3m0bEdj our mildly marked-up version.) Even this morning's US Weekly Initial Unemployment and Continuing Claims came in at expected levels, even if those remain quite elevated.

It is also worth revisiting the negative US equities response to last Friday's nominally strong US Employment report. Yet that 1.371 million near miss on a 1.40 million estimate was in fact well below the earlier (prior to Wednesday's weak ADP number) estimate of 1.550 million job gains.

On OECD CLI's, while there were strong rebounds after March-April implosion, upside economic momentum is slowing. See Tuesday's 'Got the Blowoff Exhaustion Blues' ALERT!! for more on the OECD indications since March.

And the markets remain interesting in the wake of still mixed data and a more troubling US outlook on the lack of any chance the sorely needed next round of COVID-19 relief will pass until the end of this month, if at all. See the past couple of days ALERT!!s for much more on the opposing sides *realpolitik* on something that should be an urgent priority. That could affect the US economic performance in a way that spills over into the data into the end of this month and October.

That said, after a mild reaction from late yesterday into overnight trading, the front month S&P 500 future is once again pushing above the February 3,397.50 previous all-time high it had traded back below Friday and again on Monday. While that was very interesting, there are reasons (explored at length Wednesday) why any sustained activity above that old high may well lead to a test of the recently established resistance all the way back up in the low-3,500 area.

In addition to pressure on the global govvies, there is strength in the non-US developed currencies outside of the British pound vexed by recent Johnson regime threats to withdraw from the EU without a bona fide Brexit agreement. Additionally, the return of even a nominal 'risk on' psychology by the US equities is also encouraging overall strength in the emerging currencies that have only seen transient bouts of weakness since their rally began again in mid-August.

This is the critical consideration
COVID-19 virus spread caused US equities into a DOWN Break below the front month S&P 500 future 2,600 area major up channel in early March. That seemed to indicate more of a near-term failure. That was from the early 2016 low (as is clear on the weekly chart https://bit.ly/2DDzpGZ 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.) Ergo, the rally could be sustained. 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 at which it failed previously on the rally.

Yet pushing above it in late July opened the door to a retest of the February's 3,397.50 front month future all-time high. Yet after such a major rally back from the February-March debacle, it was hard to imagine it could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that has now transpired on a push above it two weeks ago into the low 3,500 area.

That was also above extended 'adjusted' weekly Oscillator range in the 3,425-30 area last week, now rising $10 per week on the MA-41 rise. That was the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. And the rally has called for another 'adjustment' based on the 2,875 early 2018 high Close and the subsequent 3,381 February high Close prior to the COVID-19 pandemic debacle.

That new 'extended' weekly Oscillator threshold is MA-41 plus 395-400, which was 3,485-90 last week and rises to 3,495-3,500 this week. Yet the extended key to any 'runaway' bull was a longer term topping line projected across the February 3,397.50 trading high from the April 2010 first major high after the major cyclical 2009 low. That topping line was at 3,525 last week, rising to 3,535 this week.

Aside from the sheer magnitude of last week's selloff, it was important for the establishment of a technical pattern top. With such a significant rally above the previous week's 3,504.50 Close, the drop well below it established a DOWN Closing Price Reversal (CPR) of some magnitude. Along with the topping line, that is now the key higher resistance on any sizable recovery from lower support.

The next significant support after it traded back below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as the rally resistance into early June, which was subsequently overrun on the rally extension into early August. On the upside, that newly established 3,504.50 DOWN CPR has a Tolerance to the previous week's 3,509.50 high (on a weekly Closing basis) and could be retested if activity above 3,400 area is sustained.

Thanks for your interest.

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