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ROHR ALERT!! ECB Recommits

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jan 21, 2021 at 9:46 AM
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Dear Subscribers,
There were no surprises in Madame Lagarde's delivery of the ECB Monetary Policy Statement (http://bit.ly/2XY4sDZ) or in her post-rate decision press conference (https://bit.ly/2M6xFtE) with reporter Q&A. Much like statements and press conferences of BoC Governor Macklem Wednesday and the BoJ's Kuroda earlier this morning, she was pointed in her observations on the additional weight on the European economy from the recent resurgence of the COVID-19 pandemic. Also much like other economies, it is the service sector suffering the most.

She fully committed to extending current extremely accommodative ECB policies until such time as the economy recovers, and much like the Fed, even beyond any initial increase in the inflation rate. In response to a question on tapering the ECB's programs, she revisited the "*whatever is necessary*" psychology espoused by her predecessor Mario Draghi insofar as she said the ECB has full flexibility to adjust any of its instruments to adapt to the evolving situation. Also as with the Fed's Powell (and Draghi previous), she called for coordinated fiscal stimulus in order to support the economy during the current additional pandemic pressure.

It is a rightful point of faith among central bankers that the great success of the US Federal Reserve in seemingly beating the 2008-2009 Housing and Credit Bust should not be taken to mean they alone can address overall economic weakness. In response to a question on quite a few European countries wrapping up their stimulus programs this year, she pointedly noted this is not a good idea.

And in that regard, it is hoped that help is on the way in the form of the incoming Biden administration's proposals, which will hopefully also assist the global economy. Yet Lagarde was also pointed in noting that Europe could not allow itself to diminish its fiscal actions in the hope US actions alone would suffice.

As we have already explored at length the plusses of accelerated federalization of the US vaccination program Biden has proposed as well as the likely weaknesses in his COVID-19 stimulus/relief proposal, we suggest a read of our recent analysis for more on those. (Please see Wednesday's 'Inauguration Day…' ALERT!! for more on the vaccination advantages, and Tuesday's 'Friendly Biden Anticipation' ALERT!! on the issues surrounding his COVID-19 stimulus/relief proposal.)

Market responses are also eminently predictable at present, as the US equities 'Friendly Biden Anticipation' and 'Inauguration Day' bullish rally extension to new all-time highs saw further strength on 'friendly ECB anticipation' (along with the same for the BoJ earlier.) Yet, as is often the case with 'friendly Fed anticipation' (our model for the activity of the past several days), in the event the lack of any new, more aggressive and exotic program announcement from the ECB has left the US equities rally reacting just a bit to the downside… at least for now.

Of course, this does not mean that they have necessarily topped out. Based on the current rapid rise of weekly MA-41, our weekly Oscillator resistances this week (based on the December activity) are the 3,855 and 3,885 areas. Yet those are currently rising by a full $25 per week, leaving more headroom into next week.

And given the psychological importance of the 3,800 'big penny' area in recent price evolution, we suspect the 3,820-00 area will act as initial support on any setback. That is despite the further near-term US economic data erosion, like the still very elevated level of Weekly Initial Jobless Claims despite strength in the Philadelphia Fed Manufacturing Survey and Housing Starts. That dichotomy fully reinforces the differences between the manufacturing and services economies.

That said, reiteration of ECB's aggressive monetary accommodation has not been good for global govvies, and especially the German Bund. It is a problem likely at least partially based on the calls for more fiscal stimulus, and the March Bund future has fallen back slightly below its 177.50-.00 area. How that fares into the weekly Close will likely be an influence back into the other global govvies as well.

That said, in the US the March T-note future has only slipped modestly despite the strong fiscal stimulus and relief spending proposed by incoming President Biden and his administration. That might be partially on the anticipation that the stimulus portion of the proposal might be less effective unless it is adjusted to provide more support to the folks who really need it, and less additional funds to the folks who have not been affected as badly (if indeed at all) by the pandemic. (See Tuesday's 'Friendly Biden Anticipation' ALERT!! for more on all of that.)

This gets back to the overall concept of the global govvies pricing based on the 'real yield'. For anyone who has forgotten their economics training, that is the premium yield the global govvies need to offer above the longer-term inflation expectation, which has been depressed of late. Even though overall inflation expectations are rising, whether the ultimate form of the Biden stimulus/relief package that passes Congress is money that will be immediately spent (or more likely saved by many) will likely be a key economic and inflation influence.

Foreign exchange is also reflecting the degree to which the proposed Biden stimulus/relief package will flood some additional US dollars into the market, yet might not be the hoped for boon to the US economy. After a contrarian rally in the runup to the Biden inauguration (the final step in anticipation his proposals can be implemented) that saw the US Dollar Index test the top of the 90.50-91.00 area early this week, it has sagged back below that area. That is based on developed currencies regaining their bid against the greenback after recent reactions.

While less influential in the overall pricing of the US dollar, after a good-sized early year downside reaction, emerging currencies regained their bid since hitting lower support into the beginning of last week. That is relevant not just for folks trading those instruments directly, yet also for overall global 'risk on' psychology. That reinforces the degree to which US equities likely remain bullish overall.

Another Courtesy Repeat of Tuesday's critical consideration
[To be updated after Friday's important global Advance PMIs and other key data]
Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart https://bit.ly/3bOSSmQ (updated through Friday.) Such a significant rally above the

previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. After that held once again, the recent surge back above the 3,400-30 area left a burden of proof on the bears to get the market to fail back below that area. Yet instead the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from the serial positive vaccine announcements since early November.

The near-term question was whether it could hold support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them in early-mid November on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the beginning of December with a 3,700 new all-time high. While it traded slightly above that into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally', saw it up near the 3,750-3,800 resistance.

However, based on recent weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 25 points per week, those are up to 3,855 and 3,885 this week. And as is often the case at a new extended all-time high, those are presently the only quantifiable resistances, and they are still rising $25/week based on the accelerated rise of weekly MA-41.

Of note, last week's straight down drop did not establish any technical top in its own right, with the lower supports more critical on any further pressure. After the March S&P 500 future was holding 3,775 area minor recent congestion most of last week, it failed late week… interestingly in the wake of Biden's major proposal.

However, important psychological and technical support remains down in the 3,740 area it barely neared prior to rebounding. That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate two weeks ago Tuesday.) That was held despite the more prominent lower support being the 3,700-20 area it had been trading below early last week. Those are now key near term supports.

Thanks for your interest.

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