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ROHR ALERT!! QE Lives!!

1 message

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Dear Subscribers,
Well, actually it has been alive all along. Yet it has now received an extra shot of invigorating flow from the ECB expansion of its bond buying program. It was a bit of a surprise that an ECB which already committed to sustaining its programs announced an expansion of its PEPP purchases today. Yet in the context of the lagging European COVID-19 vaccination effort and flagging economy, it is not a total surprise. Madame Lagarde pointed out that Q1 will see another contraction.

You can take several paths to reviewing this in the YouTube press conference video (https://bit.ly/3couM0z), Monetary Policy Statement (http://bit.ly/3bBuRPu) or Lagarde's press conference Introductory Statement (http://bit.ly/2N78Tue.) [Due to ECB website changes, we cannot offer all that on one page at this time.]

However, a summary is also available in this morning's very good coverage from Reuters (https://reut.rs/3cjl2nr.) It aptly summarizes a series of points Madame Lagarde explored at length in the statement and her press conference which includes, "*Euro zone growth is currently weaker than forecast as a new wave of the coronavirus pandemic and a painfully slow vaccine rollout are requiring longer lockdowns, challenging expectations for a rapid rebound in the spring*."

It also notes the sort of market impact which those who have been closely watching the global govvies already knew on, "*The widely expected move comes after a steady rise in yields since the start of the year that has mostly mirrored a similar move in U.S. Treasuries rather than reflecting improved economic prospects across the euro zone*." As such, the ECB feels well within its rights to expand its bond market support, and still maintains full future flexibility.

Of course, this all fits in with Wednesday's "A Bit of 'Risk On' Is Back" ALERT!! perspective, especially on the already extensive "...*anticipation/hope is the Fed will go some way toward quelling the recent sharp rise in longer-term interest rates that have bothered both US equities and emerging currencies*…" The ECB move today was the first shoe to fall on additional central bank support for their still ailing economy, and there is some expectation that some sort of FOMC engagement in a fresh form of 'Operation Twist' (from the Bernanke and Yellen regimes) will see Fed balance sheet duration extension through bond purchases.

The countervailing factors are that US economic data has been much stronger than Europe, and Powell made clear in his Wall Street Journal Jobs Summit interview that the topic had not yet been explored. While we suspect that is going to change at next week's FOMC meeting (announcement, updated projections and press conference on Wednesday), even lack of any likelihood of 'Twist' occurring will not prevent anticipation of the possibility now that the ECB has moved.

As such, and still with due concern for Tuesday's 'Bright Line COVID-19 Caution' ALERT!! warning on the medium term outlook (premature US state reopenings), as noted on Wednesday it appears that the recent weakness of global govvies (upsurge in yields) is over. And that is now reinforced by the ECB moves, which has seen the Bund post the largest gains among the global govvies. There is nothing like a central bank buying program to boost the prices on the longer dated fixed income instruments, even if the T-note and Gilt are clearly lagging.

Yet the salutary effect on the US equities, where the March S&P 500 future is now back up challenging the multiple resistances in the 3,931-35 area. That is both the short-term Head & Shoulders Top 3,881 DOWN Break Tolerance, and the minor weekly DOWN Closing Price Reversal (CPR) from the week ending February 19th. While its violation remains a contingent factor at this moment, sustained activity much above that area would signal the Negation of that dual topping indication.

That would point toward extending the overall bull trend above the mid-February (part of that weekly DOWN CPR) front month S&P future all-time trading high at 3,959.25, which is also right in line with recent weekly Oscillator thresholds into next week after the recent correction. The further Oscillator thresholds based on recent activity are not until the 3,945-70 and the 4,040-70 areas. And as weekly MA-41 is still losing the old low Closes from last May, it is rising $20 per week.

Therefore, all of this seems very propitious for the US equities, if they can indeed finally knock out the resistance Tolerances in that March S&P 500 future 3,931-35 area which has constrained them over the past several weeks. The one proverbial 'fly in the ointment' is the pending front month future quarterly expiration next Friday, with June S&P 500 future trading at a $10 discount to the March contract. This is part of the reason that the March S&P 500 future Negates the 3,931-35 area Tolerance of the previous DOWN signals for a further move up which will offset the June contract discount. It is going to be very interesting into next Wednesday.

After the ECB move today it is also highly likely the other global govvies will be underpinned by the classical 'friendly Fed anticipation', at least until we see what actually transpires next Wednesday. And the ECB's expanded QE move is also having a not very surprising positive effect on the emerging currencies, even if there is little impact on the recently weaker developed currencies. That is no surprise on greater ECB largesse not helping the euro against the US dollar.

Courtesy Repeat of Wednesday's critical consideration
[To be updated after Friday's major European, UK and Canadian 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/38gNaas (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 and ultimately above the 3,750-3,800 resistance.

On recent form, March S&P 500 future dropping below key near-term 3,880 area congestion support was a near-term Head & Shoulders Top DOWN Break. It is of note that the nominal 3,802 Objective was seen several times prior last Friday's temporary violation in the wake of the stronger than expected Nonfarm Payrolls aspect of the US Employment Report. That has continued through this week.

As noted previous, the 3,931 Tolerance (high of the Right Shoulder) of the Head & Shoulders Top could not be exceeded once again on any of the recent rallies, and remains a key threshold to be watched on the current push back up. It is also the case that the 'lower lows' seen since mid-February had established an overall 3,860 down channel UP break which it has churned above in recent days.

As that is rather than a clean UP Break above that resistance projection, it is a bit suspicious, yet with only sustained activity back below speaking of a reversion to a more bearish near-term trend once again. Of course, that still leaves the Head & Shoulders Top 3,802 downside Objective reinstated as a key lower threshold, and more prominent supports back in the 3,700 area, the 3,600 area congestion, and even down into the 3,500 area… the Negated September CPR top.

Thanks for your interest.

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