



Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! ECB Still Full Throttle

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,

Having just seen this month's expression of continued full accommodation from ECB President Lagarde, it remains obvious that even more so than other central banks the ECB remains committed to a full throttle expansionary monetary policy. She was even asked about yesterday's Bank of Canada's growth outlook upgrade that included tapering its QE from \$C4.0 billion to \$C3.0 billion. In that regard she noted the Canadian and Euro-zone economies are on different paths. That was the same tack she took in disallowing any ECB moves based on Fed actions.

This was already obvious in her Introductory Statement (<https://bit.ly/3emCMQL>), reinforced by the detailed subtle answers to many questions during her press conference (<http://bit.ly/2yMh99Z>.) This is particularly the case regarding the ECB's QE programs, which she noted can be reduced if the European economy outperforms expectations; yet can equally be expanded if necessary. This was no surprise in the context of the Euro-zone economy having contracted again out of a bad Q4 2020 into a less bad Q1 2021. Yet she used that fact to reinforce the degree to which the ECB is not, and cannot be, responsive to any Fed moves.

As such, there will also be sustained ECB reinvestment of the proceeds from QE programs for all manner of securities purchases into 2022 (the earliest inflation might hit its target), or until inflation actually nears 2.0% in the medium-term (so maybe even further into the future.) This is right along with the ECB calling for more fiscal stimulus, even if cautioning that government largesse must be used for 'productive' purposes; possibly like infrastructure spending and education which will increase the productivity of the economy coming out of the pandemic.

And that was the other key theme: all of the accommodation remains necessary due to predations of the COVID-19 pandemic on the European economy. She was encouraged by the recent expansion of vaccination programs. Yet we need to allow that the fumbled previous European vaccination effort was a problem with its classically dirigiste approach: too much of an attempt at intergovernmental coordination that got terribly bogged down in bureaucratic processes.

This is not to single out the Euro-zone for this failure of implementation. Consider the US experience, where the federal government had achieved huge success in pushing drug makers to accelerate the mRNA vaccine development, and then refused to take the responsibility for the implementation of vaccination programs at the state level. But we digress, as the point is that there are reasons the Euro-zone is behind the economic reopening curve. Therefore the ECB remains entitled, indeed is obviously required, to maintain aggressive Monetary Policy and Quantitative Easing programs farther into the future than other central banks, and that will continue to support 'risk appetite' elsewhere as well.

And as noted in Wednesday's 'The Impossible and the Improbable' ALERT!!, there is also possibly what at this point is a 'stealth' factor (insofar as it is not as yet any sort of dominant headline news) assisting the 'risk-on' psychology improvement in key asset classes. That is repeated below for ease of access, along with the bottom line for the markets at the end of the macro factors.

Courtesy Repeat of Wednesday's 'The Impossible and the Improbable' ALERT!!

As already noted in Tuesday's 'The Bears Dilemma' ALERT!!, we are beginning to doubt the likelihood of the current accelerated US vaccine program delivering the much sought 'herd immunity'. This is due to both vaccine hesitancy (more below) and the likely arrival of new vaccine variants on a lack of overall global immunity mentioned in Tuesday's analysis. Yet US equities and other 'risk-on' psychology barometers are holding up rather well during their first reactions in a while.

The question is over how this can be in the face of the COVID-19 pandemic major resurgence in the rest of the world, and even to some degree in the US? Even in the context of the impressive vaccination statistics from the very accelerated US program, the overall adult population full vaccination percentage is likely to hit a delimiter sometime soon... with consideration of possible reimposition of some COVID-19 pandemic restrictions not 'priced in' to current US equities price levels.

The vaccine hesitancy is not likely a passing influence. Since much of the late phase Trump regime the pandemic has been politicized. Once again, this is not partisan political perspective, as we are only passing along what's in the news. Note this morning's article and video from Raleigh, North Carolina's CBS17 News (<https://bit.ly/3el4fCr>.) It notes, *"The NC Department of Health and Human Services says 47 percent of adults across the state have had at least one dose. And not surprisingly, percentages of complete vaccination also lags, with none of those 12 counties fully vaccinating more than 32 percent of their adult residents."*

Further, *"The CDC estimated more than 20 percent of residents in a dozen counties either would probably not or definitely not get the vaccine. Ten of them were won by Trump. At the other end, of the eight counties with an estimated hesitancy of 16 percent or below, four went for Biden."* And finally, they raise the same issue we have been noting of late... *"...demand for the vaccine leveling off in some parts of the state and the country — putting the pursuit of herd immunity in jeopardy..."* We dislike playing Cassandra, but that seems to be the reality.

As such, the question becomes why are the 'risk appetite' vehicles acting so positively if both globally and in the US the pandemic is resurgent, and the likelihood of achieving 'herd immunity' is lower than the authorities had hoped? That raises the spectre of the vaccine winning the race against the COVID-19 variants not 'possibly' being the driver of the abundant 'risk-on' psychology.

This gets back to the 'Sherlock Holmes Market Psychology' we recently cited once again (which has been part of our analytic approach for many years <http://bit.ly/25GidVh>.) While a variation of it is expressed in Arthur Conan Doyle's Holmes adventure 'The Sign of the Four' (Lippincott's Monthly Magazine, 1889), the full expression if this often revisited observation is, *"Once you eliminate the impossible, whatever remains, no matter how improbable, must be the truth."*

The economic inference from the continued positive 'risk-on' activity in the key asset classes must be, overall with potential short-term setbacks, that the US and global economic reopenings will continue to gain momentum across time. And if it is beginning to look like vaccines are relatively 'impossible' as a solution to the pandemic suppression puzzle, then how can US equities and other 'risk appetite' barometers continue to remain so strong (even within the recent reaction)?

Well, that need to "*eliminate the impossible*" requires consideration of what else might be able to address the pandemic in a manner which will allow continued (and even expanded) economic reopenings which seem to be the driver for the upbeat market activity. The only other remedy for the predations of the pandemic would seem to indeed be 'remedy', rather than prevention through immunization. That gets back to our recent review of the use of therapeutics, which we already extensively reviewed in last Thursday's 'Imagine... It's All Good' ALERT!!

We highly recommend review of that extensive discussion for anyone who has not already done so. Especially note the focus on beleaguered Michigan (article and associated video clip) that was denied any additional vaccine dose surge to address its major B.1.1.7 variant-based pandemic resurgence. Governor Whitmer has taken the enlightened step of getting a therapeutic surge instead, along with the means to deploy this 'cure'. This is why Michigan is a crucible that will inform our view of whether 'therapeutics' can fully address the pandemic overall.

Michigan is among the earliest US states where many people chafed under the pandemic-induced economic restrictions. As Governor Whitmer knows it is not feasible to attempt their reimposition, it is a real test of the alternative solution. We must admit that we have not explored the issue of whether there are adequate supplies of therapeutics (substantially the Regeneron and Ely Lilly drugs.)

Yet we presume if they become the obvious address of the pandemic, where achieving 'herd immunity' through vaccination turns out to not be 'possible', there will be ways to surge their production as well. Keep an eye on that Michigan real-time test, where what has seemed 'improbable' may end up being the truth. That will also depend on more effective US testing, which must also improve.

In the meantime, the bottom line is that the US equities reaction might see June S&P 500 future slip to the 4,100 area to test the minor congestion from the rally extension last week. Of course, the more major support remains down into the low-4,000 area for the overall 'risk-on' psychology to maintain.

It is especially the recent case in foreign exchange, where developed currencies are finally exhibiting a more upbeat global view. That is on the US Dollar Index failing the 91.70 Tolerance of the important 92.30-.00 range last week, reinforced by EUR/USD above 1.2000. It is now sinking closer to the 91.00-90.50 historic congestion, reinforced by trading below it December through February. Next lower support is the historically important 89.50-.00 area also tested then.

Emerging currencies have backed off just a bit, yet had already broken their key resistances of late after stalling into them earlier this month. That said, the South African rand has seen USD/ZAR not quite reach 14.00 area support prior to the current recovery. Yet that is not near the important violated 14.50-.40 support. And the Mexican peso has only slipped back around the USD/MXN 20.00 area.

Courtesy Repeat of Wednesday's critical consideration

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/3v2BmSk> 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.

While that might have been a sustained top, the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area was indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, along with 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, the March S&P 500 future stalled into the old high, and then US equities struggled to sustain activity above the 3,959.25 previous all-time high by more than \$10 (both a natural rule of thumb and key weekly Oscillator level) through all of that week. This was the further indication that Negation of the 3,931-35 dual resistance might be more of a 'failure swing' than full bullish signal.

There was even atypical weakness into the FOMC announcements and Chair Powell's press conference. Even the March S&P 500 future push back above the old 3,960 area high, saw various factors conspire to drop it back to 3,960 area. June S&P 500 future (front month since March 19th) also fell sharply below the previous week's 3,942 weekly Close. That was important insofar as it established a 3,942 weekly DOWN Closing Price Reversal (CPR), nominally a real top.

Of note that had a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again. However, after overrunning that the previous Friday, a strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. Overrunning those levels two weeks ago Monday left next weekly Oscillator thresholds into 4,160 and 4,190 last week (MA-41 now rising \$25/week.) That was fulfilled on the late week push, contributing to the current reaction.

Yet the potential for there to have been an UP 'Runaway Gap' on the April 5th opening (see the chart) leaves low-4,000 area 'big penny' psychology more critical than usual on any near-term selloff. That 'Runaway Gap' opening (see the Tuesday April 6th ALERT!!) leaves low-4,000 area 'big penny' psychology more critical than usual on any near-term selloff. If that holds, the extended daily Objective is 4,193, with a weekly Objective (based on 3,720 selloff low) of 4,316. The interim support based on recent congestion is the 4,100-4,085 range.

Thanks for your interest.

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Contact: rohralert@gmail.com

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