The ECB Has Spent $2.6 Trillion of Your Money

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Back in Switzerland ... We find the office ... and a life.

We have been traveling since the end of May ...

What interests us today?
After a rebound yesterday, the stock market is again in retreat this morning ...

Yesterday, the Wall Street market climbed ... led upward by the shares of banks, which received permission from the Fed to increase their dividends ...

Today, the stock market is already giving up its gains ... the CAC 40 is down since its opening ... losing 0.68% in less than 3 hours.

According to Bloomberg, the market became frightened after the speech of Mario Draghi, the ECB leader, on Tuesday ...

Draghi seems to have convinced the market that its stimulus program - its bonds repurchases at the rate of 60 billion euros per month - will finally come to term ...

As a reminder, the ECB has begun to buy back the bonds of governments in the euro zone, plus corporate bonds, in order to give a "boost" to the economy ...

After about € 2,300 billion in purchases since the inception of this program, the ECB has managed to reduce interest rates to the lowest levels we have seen ...

Where did all the money come from?

In large part, investors on the stock exchange have benefited ...

Wall Street has climbed 79% in 5 years ... the CAC 40 took 64% ...

Now the market is worried about what could happen if the ECB slows down its program ... and the last comments of Mario Draghi have not reassured them ...

Martin Whetton, an analyst at ANZ quoted by Reuters, summarizes the consensus on the market:

"When central banks begin to reduce their programs, and when they reduce the size of their assets, then we can confidently say that the markets will face a much more difficult environment than they have experienced for a long time . "

At present, the market is trading shares of some companies with valuations that exceed all records ... more than $ 760 billion for Apple ... and $ 650 billion for Alphabet, Google's parent company ...

Sooner or later, the market must change direction ...

Pay attention.

Meanwhile, the government is sinking even deeper into debt ...

Point:

"The 2017 deficit should be valued at 3.2% of GDP against an initial target of 2.8%, according to information from the Canard enchaîné and Les Echos. That is a slippage of more than 8 billion euros. "

As we often recall, the deficit does not "count" at this time ...

Why?

Well, our leaders at the ECB have cut interest rates so much that our government spends almost nothing to pay them back ...

When the debts reach maturity, they issue a new obligation to cover the repayment ...

As a result, as long as rates remain at current levels, the government can afford to spend larg ...

However, sooner or later, the market changes ...

As interest rates rise, our interest expense will also climb ...

Instead of spending 10% of its budget to pay interest on debt, as it does at the moment, the government will have to put 20% ... then 50% ... then the entire budget to pay its debt ... while Trying at all costs to reduce what he owes before it is too late ...

We thought we were on the way to this kind of scenario in late 2016 ...

In the space of 6 months, our rates had risen from 0.1% to 1% on some of our debts ...

Since then, the market has come to rescue us ... these same rates have come down, arriving at less than 0.6% in late June ...

Today, these rates have jumped to 0.7% after Draghi's speech ... but these rates remain for the moment at the bottom of their range ...

What happens next?

As we have explained in previous messages, we are in a period of "calm" ...

We will have more news on the health of companies at the end of the second quarter ... tomorrow!

However, we will have to wait a few weeks for them to publish their results ...

What should be monitored in these results?

Well, the market we have today is looking for signs of growth ... especially in the IT sector ...

We announced earlier that worse than expected results could destabilize this market ...

Since the beginning of May, the CAC 40 has been slowing down, having lost 3.4% over this period ...

Without news to comfort her, we should expect a summer marked by a decline in actions ...

To be continued…