Gmail

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

ROHR ALERT!! Bond Market Dynamics

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com
Wed, Jun 3, 2020 at 10:32 AM

NOTICE: Go Daddy Continuing Problem: Better yet not 100%. We are a bit late again today on the continued issues. While most links are working, some may still not be functioning properly until Thursday. Apologies for these recent issues.

Dear Subscribers,
Why is bond market activity important to the US equities 'long arc' view? Well it is often noted, "*The bond market is the equities smarter older brother*." That was revisited as recently as our May 8th 'Bifurcated ...Again' ALERT!! As noted then, "...t*he US equities rally (was) already 'discounting' the bad news and expecting better things to come*." Well, in their way, they are at least getting 'less bad' news.

Today that took the form of slightly better-than-expected global Services PMIs after Monday's as-expected Manufacturing PMIs. Yet those were all still well into contractionary ground, well below the 50.0 balance point. The ostensibly better news today was a very much less bad ADP Employment report (minus 2.76 million on a -9.0 million estimate.) That has raised hopes for a far less dire US Employment report on Friday than the minus 8.00 million estimate.

Fair enough, and we welcome less dismal news for the US and global economy. However, the global govvies are still holding in very well outside of the weak sister German Bund. Neither the US T-note nor the UK Gilt have dropped back below recently exceeded key congestion and DOWN signal levels. And there are grounds to consider why this 'country' differential is reasonable at this time.

The biggest recent news in Europe has been German agreement to participate in a major pan-European COVID-19 relief fund. At €750 billion it far outstrips any individual country rescue package to date. As such, secular weight on the Bund is more so from what appears to be a change in the draw on the German treasury from a broader European spending program. This is the sort of thing they have resisted for years, along with the thought of any deficit spending fiscal stimulus.

Even as Germany (at the strong behest of Frau Merkel) opened its doors to all manner of Middle Eastern and North African refugees that put pressure on the economies of its European cohorts, it refused to spend despite its serial budget surpluses. Its reason? "Well, now we have all of these refugees to care for...", which was not well-received by its European counterparts. Rightfully so.

That additional pressure on the German treasury goes some way to explaining why the June Bund future failed below key 173.50-.00 support while the others held equivalent levels. Yet there is a key 'technical' event looming into next Monday: the typically early quarterly expiration of the front month Bund future. And these have seen serial major premiums and discounts in the second month which are far beyond what is experienced in the other long-dated bond futures.

In this case the September Bund future is trading at a 3.00 premium to the June contract. June Bund future is currently down to the low 171.00 area, which looks pretty weak in its own right and by comparison with the other global govvies. Next major lower support is the 170.50-.00 area, which it may well reach between now and Monday. However, unless June contract expires below 170.00, due to the 3.00 September Bund future premium it will be no worse than 173.50-.00 again.

As we have reviewed on many previous expiration cycles, if the second month contract holds support, it will be entitled to push higher regardless of whether it took over as the front month at a premium or discount to the expired contract. Therefore, unless the September Bund future is also failing 173.50-.00 again later on next week, the Bund will likely see renewal of its up trend.

Why is any of this important for US equities? It gets back to Tuesday's 'Working Higher' ALERT!! observation that above key resistance (more below) US equities are entitled to push higher despite some still troubling 'long arc' outlook issues. Yet once again, "*The bond market is the equities smarter older brother*."

And overall resilience of global govvies (especially the Bund technical expiration issue noted above) speaks of there still being some basis to doubt development of a strong US and global economic rebound. As also noted previous, the real story on the success of US states and other countries' reopening efforts will not be known until mid-June. As such, US equities can rally up to the next resistance from the December-February period while the global govvies still show concerns.

On the US equities side in this upbeat anticipatory rally is the weakness of the US dollar against the other currencies. Even laggard developed economy currencies have been gaining of late, likely on the back of that newfound German bonhomie on pan-European spending encouraging the most upbeat anticipation in years.

It is going to be extremely interesting to see what Madame Lagarde has to say at tomorrow's ECB post-rate decision press conference. Needless to say, despite ECB monetary largesse, much greater fiscal stimulus is something it has been after Germany to produce for many years under Signore Draghi and now Lagarde.

And the generally more upbeat global sentiment is just the sort of thing that also encourages emerging currencies that have had such major rallies. Some are even through key resistance areas on their recent rally extensions into today.

This is the critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Front month S&P 500 future was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/2Y0AJJY updated through Friday.) That was the recent key higher resistance it had violated on its push above its 2,675 trading high Tolerance from prior to the DOWN Break (including monthly MA-48.)

As such, it is reasonable the June S&P 500 future will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support. And the front month S&P 500 future pushed

out of the broad higher range top in the 3,030-2,970 area late last week and sustained it, with the 3,200 area the next higher meaningful resistance.

The key levels along the way were previously violated support at 2,850 area and 2,750 area, both of which had been exceeded. It held below the latter in late-April without ever nearing the 2,675 Negated Tolerance of the 2,600 area DOWN Break.

This left open the potential to retest that more prominent confluence of resistance factors in the 2,970-3,030 range despite the recent slippage. That resistance was further reinforced by the manner in which volatility had returned to the downside from late April into mid-May. This created a more highly focused Evolutionary Trend View (ETV) in the form of a near-term Head & Shoulders Top pattern.

That pattern along with the other key low-mid 2,800 area technical indications 'confluence' is reviewed at length in our TrendVIew Video (https://bit.ly/2XylbNn) on June S&P 500 future 'long arc' and shorter-term (04:00-06:40) developments. There is also comparison with a 2008 front month S&P 500 future recovery rally (07:10-11:30) with important implications for the current US equities decision.

NOTICE: The Rohr International, Inc. research team or its principals may already have entered positions or have orders working based on this view.

Thanks for your interest.

This Current ROHR TREND ALERT!! will be available soon via the sidebar at www.rohr-blog.com for Gold and Platinum echelon subscribers.

Please reply **'Unsubscribe'** if you no longer wish to receive these emails.

Contact: rohralert@gmail.com