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ROHR ALERT!! OECD Rains on Friendly Fed Party

1 message

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Dear Subscribers,
Despite the recent US equities surge, the 'macro' situation is now very critical. Everyone expects Fed Chair Powell to remain accommodative in his message at this afternoon's press conference. Yet the early 'dark cloud' in front of that silver lining was this morning's OECD semiannual World Economic Outlook. It was as dismal as anything we have seen, which is to say realistic on future prospects.

There are many cheerleaders pointing to recent US equities gains, and strength in emerging currencies and select developed currencies against the US dollar as a sign there can be a 'V-shaped' recovery in the global economy. Yet in light of the recent evidence and most likely scenarios, we are not convinced. And the OECD has added weight to that less than optimistic perspective this morning.

Before we delve into just what it said, it is important to revisit the main 'macro' influences we have covered at length in recent analysis. Those are the path of the US and global COVID-19 pandemic that is at a critical point in the US, the relief programs instituted by the US government and the Fed, and the evolution of the US political dynamic into November's US election in the wake of recent events.

In reverse order to respect the priority of each of those factors, we covered the current anti-discrimination protests potential influence in Monday's 'Social Shift or Just a Blip?' ALERT!! The bottom line is whether the Biden boost from his previous flat-to-negative election polls against President Trump will endure past the end of the current protest headlines. Much of that may depend on whether he can continue to improve articulation of positions and Democratic platform, and avoid the gaffes which have plagued him at times during extemporaneous talks.

The best continuing view of that remains RealClear Politics summary assessment of the Trump vs. Biden polls (https://bit.ly/2XBFTgL scroll down to link into the important 'Betting Odds' readings as well.) See Monday's ALERT!! for much more on our view of that, and how the 'macro' sentiment is affected by the protests.

We have little doubt the FOMC will remain at least as accommodative as recently communicated. Fed Chair Powell's recent expressions on further fiscal stimulus not needing to be concerned about overall government debt levels (which is a message of the rest of the world as well) are not going to be reversed today. However, with US equities having rallied so far, might there be some anticipation the Fed will also announce some additional stimulus this afternoon?

If so, then it is possible the US equities will push even higher. Even if that is not justified on any stabilized economic and employment view, the sheer liquidity flows will encourage thoughts of more US equities investment to come. That may be enough to drive the market

higher, further encourage emerging currencies and weigh on global govvies that had seen a somewhat surprising rebound this week.

Yet the ultimate arbiter of any economic reopening and potential strong rebound rests with the path of the COVID-19 pandemic. This is especially so in the context of the previous and proposed government relief efforts. We have cited many credible sources on the weaknesses in government relief, like the short term nature and ineffective timing of the US Paycheck Protection Program (PPP.)

Just this morning Democratic Senator Jean Shaheen was on CNBC explaining why she and other Dems were floating new programs (https://cnb.cx/2Ymvswz) to address a looming dire situation for small businesses. Especially shops with fewer than 100 employees are affected by this 'hole' in the programs. From early on she notes that even businesses who qualified were forced to take PPP loans too early into the COVID-19 quarantines. The net effect is that just as they are being encouraged to reopen, they are running out of money. She also notes (from 04:30) that businesses in some sectors (like Hospitality and Tourism) are still not going to be back to anything approximating previous income in the near-term.

And this is the CURRENT CRITICAL BOTTOM LINE: The US state reopenings that instituted around Memorial Day (May 29th) will be into week 3 anniversaries from the top of next week. As this Reuters article notes, there are already increased infections (https://reut.rs/2MHCTJt) in some southwestern and western US states.

Of particular note in addition to 21 US states seeing increases is, "*Arizona was among the first states to reopen in mid-May and its cases have increased 115% since then, leading a former state health chief to warn that a new stay-at-home order or field hospitals may be needed*." There have been significant increases in other states as well. Aside from the sheer health impact is the economic fallout.

That gets us back to this morning's OECD semiannual World Economic Outlook dismal discussion. OECD has come a long way in its presentation, and here is the 'The world economy on a tightrope' interactive overview (https://bit.ly/3hg8mAz.) On the second panel down from the top they were prescient enough to provide an overview of the two scenarios. That includes a linked graphic on changes from the 2019 outlook until now (https://bit.ly/3h7zem2.) The key factor? Whether there is a second wave of the COVID-19 pandemic infection spread and illnesses.

That is why this recently less highly focused consideration in the context of the anti-discrimination protests may well loom large again in the market psychology sooner than not. In fact, it may be worse than if there is just a significant increase in cases based on the reopening since Memorial Day. Even if warranted by the nature of the protests, due to clear lack of social distancing and some refusing to wear protective masks, any near-term infection increases will seem a harbinger of yet more problems another couple of weeks down the road. We shall see.

While many Governors of the early reopening states are attributing the higher infection counts to the fact there is now more testing, can it really be that simple and constructive? We remain skeptical, yet will be happy to wait until next week.

Yet regardless of that and even under the more upbeat consideration of there not being any COVID-19 second wave, the OECD is still downbeat on the outlook until into 2022. CNBC had Chief Economist Laurence Boone on to discuss the global situation this morning (https://cnb.cx/2AktRPO.) While she notes there may be a 'V-shaped' recovery, the upswing

is highly unlikely to exhibit a return to 2019 economic growth levels until 2022. For those who want to see more, here is the link to the full report (https://bit.ly/3hopFzs) with the details, and the online press conference (https://bit.ly/2Aan635) with Chief Economist Boone's full discussion.

That bottom line on the market trends is that the further information on the recently less highly focused COVID-19 infection rates, and especially important hospitalizations, will likely resurface as a more telling macro influence next week.

Another Courtesy Repeat of Monday's 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/2MHlxfA 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 two weeks ago and sustained it, with the 3,200 area the next higher meaningful resistance that has a 3,230 Tolerance. That is obviously what the market knew once it exceeded the 3,030 area.

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 previous 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 from late May (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.

Thanks for your interest.

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