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ROHR ALERT!! So, What Have You Done For Me Lately?

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jun 11, 2020 at 9:00 AM
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Dear Subscribers,
Wednesday's FOMC influence was 'as expected' in the wake of the recent US equities surge extension on last Friday's very strong US Employment report. Clearly the Fed does not want to remove any accommodation, as was clear from the formal Statement (https://bit.ly/3fb0NJx our marked-up version.) And Fed Chair Powell reinforced that sentiment at his afternoon press conference. Yet his reaction to US Employment figures questions was that, in being such a large divergence from any educated estimate, it clearly indicates extreme uncertainty.

During his press conference (https://bit.ly/2XSw2mU with a link to his opening statement transcript) he was asked why the Fed wasn't doing still more in light of its estimate that the US Unemployment Rate would remain up near 10.0% into the end of 2020 and only drop to 6.5% in 2021 (Projections: https://bit.ly/2ApMh1K.) He responded that this was a natural extension of the impact of the COVID-19 pandemic, due to some job losses being permanent in the intermediate-term.

The hope is that those folks can go through the more arduous extended path of getting retrained for roles in other industries. That will take time, and leave the unemployment levels higher than in a normal recovery. This is realistic, reflects what we and others have been saying for some time, and was reinforced by Wednesday morning's latest OECD semiannual World Economic Outlook.

That was as dismal as anything we have seen, which is to say realistic on future prospects. We strongly suggest review of that analysis in Wednesday's 'OECD Rains on Friendly Fed Party' ALERT!! Yet one item we can share which supports the FOMC's updated projections was a very good animation in the OECD analysis (https://bit.ly/3h7zem2) showing the shift from 2019 expectations into the present.

Much like the Fed, OECD projects that economic growth will not be back to the healthy 2019 trajectory for the next couple of years. It will obviously be worse and slower if there is a second wave of COVID-19 infection, and we encourage a read of Wednesday ALERT!! to access the full scope of what the OECD had to say.

So with that very accommodative Fed looking to employ even further measures if necessary, why would the US equities be under pressure? Well, that is because expectation of continuation of previous Fed largesse was 'as expected'. As we have noted in the old axiom on quite a few recent occasions, "*The market* (which is to say the equities) *is a creature of expectations*." And as future expectations are the influence which is yet to be incorporated in the market view there is the Rohr Axiom, "*Great traders and analysts need to be creatures of 'anticipation'*."

What is it that was supposed to be anticipated? It was that US equities had run up so far and reached their next significant technical trend level (more below.) It was therefore

possible (as noted in Wednesday's ALERT!!) they were vulnerable to hoping the Fed "...*will also announce some additional stimulus this afternoon*…"

That did not happen, even in the context of the FOMC communication and Chair Powell indicating the overall weakness was going to continue. It seems to have left the US equities asking, "*So, what have you done for me lately?*"

Yes we love you for keeping the short-term funding market liquid and going outside historic bounds in expanding your balance sheet, and even establishing a more direct effort to fund individual and corporate borrowing with the Main Street program that you just expanded again. Yet if the Fed is now saying the economy is going to remain weaker than the economic cheerleaders (like the President and his minions) are promoting, and there is not much they can do about that organic pandemic shift, well, the US equities are entitled to be a bit petulant.

Of course, it may be quite a bit more than a short-term 'hissy fit'. The recent surprising US Employment Nonfarm Payrolls gain encouraged all manner of likely unrealistic hopes. Yet as they say, "*Reality bites*." And the looming reality on both the pandemic and economic fronts is still disconcerting at best. Even prior to the OECD World Economic Outlook discussion yesterday, we noted Democratic Senator Shaheen on CNBC explaining Democrats were floating new programs (https://cnb.cx/2Ymvswz) to address a dire small business situation. That is due to the problems with the PPP loan program we have highlighted previous.

That led to a review of the COVID-19 situation with this warning: the CURRENT CRITICAL BOTTOM LINE is that the US state reopenings that were 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.

Considering what OECD and others have had to say about the economic impact of any secondary surge in pandemic infections, the economic outlook has a real risk of returning to more weakness. That may not even be about reinstituting any COVID-19 quarantines, as in the US the individual states' Governors will be very hesitant to close down economies once again. Yet even if it means that the more vulnerable (especially large numbers of older, financially well-to-do individuals) will be hesitant to return to anywhere near normal shopping and spending, it is going to exacerbate what was already going to be a weaker economic situation.

And of course, that has implications for the markets. US equities are going to be more concerned than on the recent manic recovery if less than optimal economic circumstances (than even diminished expectations were indicating) is the case. Already there is a resurgence in the global govvies which is inconsistent with the return to any 'new normal' economy. There was already an expectation there was nothing 'normal'... as we deemed it, it will be more so a '*new abnormal*'.

And the proverbial 'canary in the coal mine' is classically emerging currencies. That is due to sensitivity to the overall economic and market 'risk on' or 'risk off' psychology on a global basis. After a very impressive rise over roughly the past month on the easing of COVID-19 fears, they are finally experiencing substantial losses today. It seems that the Fed did not so much 'disappoint' as simply not providing any additional hope that conditions would continue to improve.

In a global context where COVID-19 cases are rising and there are still risks for many (especially smaller) US businesses, the US equities seem to be saying that's just not quite good enough to encourage further strength. It is therefore more likely they can now react back down. As Sherlock Holmes famously said to Dr. Watson (paraphrased from 'The Sign of the Four'), "*Eliminate the impossible and whatever remains, no matter how improbable, must be the truth*."

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/2MHIxfA 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, with interim levels at 2,850 and 2,750 that were important in the recent up trend. 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, as it rallied directly to 3,200 by late last week.

Yet it then stalled into all three days early this week right up against that 3,230 Tolerance with no sign it was going to push further. Especially after Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see above), the market is disappointed. While it is not that much lower in the context of recent hypervolatility, this opens a potential to retest that more prominent confluence of technical indications factors in the 2,970-3,030 range despite the recent strength. That congestion is reinforced by the manner in which the market churned up against the low end of it into May.

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