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ROHR ALERT!! Powell Put Expectations Again

1 message

ROHR Alert <rohralert@gmail.com> Tue, Jun 16, 2020 at 8:08 AM
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Dear Subscribers,
Monday's 'Colossal Cross Current Complexity' ALERT!! reviewed quite a few permutations of a still challenging economic environment. As we anticipate what Fed Chair Powell will have to say at 10:00 EDT it is important to note he will once again be suggesting more fiscal largesse will be necessary, even if that means further assumption of debt by the US government… yet better than a depression.

And we are coming to you earlier than usual in anticipation of the first of his two days of semiannual testimony today before the US Senate. This tends to be the more telling session, as there is a rightful assumption that classically little new will be shared at the second secession in the House tomorrow (12:00 EDT.)

It is also the case that prior to that we have had the latest US retail Sales figures, which were stronger than the already robust estimates. The headline number was +17.7% compared to a +8.0% estimate; and ex-Autos was +12.4% compared to an estimate of just +5.1%. Those are as heartening in their way as the massive US Employment Nonfarm Payrolls upside surprise. Yet here as well, this is merely making up a portion of what had been lost over the previous several months.

The Retail Sales figure is a new all-time high, yet only offsets the previous month's record drop of (an upwardly revised) -14.7%. Extrapolating that data compared to the figures in an early Reuters article (https://reut.rs/3hwcHzE) this morning, it would seem the headline gain only gets the Retail Sales figures back to half of what they were prior to the onset of the COVID-19 pandemic.

Yet the relative strength or weakness of any near-term economic data matters less for the 'long arc' of the US equities trend (and cross currents into other asset classes) than the 'stabilized' economic environment once the COVID-19 relief efforts have lapsed. We remain skeptical of the sort of full 'V-shaped' recovery promoted by the cheerleaders (including Trump and his minions.) The recent US Employment report and other recent economic data certainly suggest a possible 'V' recovery from the depths of the COVID-19 quarantine debacle.

Yet whether that will in any way be a 'full' recovery or only put the US and global economy back on a lower (if indeed improved) growth track is very problematic. We agree with Powell's press conference (https://bit.ly/2XSw2mU) response to a reporter's question that "*...into the millions of people who don't get to go back to their old job and there may not be a job for them for some time.*"

As also noted on the day last Wednesday, that is also consistent with the OECD World Economic Outlook (https://bit.ly/3hg8mAz) prior to the FOMC. Of particular note was the OECD graphic (https://bit.ly/3h7zem2 animated evolutionary view you need to watch) which

illustrated the degree of economic damage, and how any secondary COVID-19 surge (a risk right now) could further depress growth.

Yet the consideration of the 'Powell Put' goes beyond his strong encouragement for more fiscal stimulus to Congress. It is also based on direct Fed activity in the recent expansion of its journey into expanding its balance sheet with the recent soiree into items like corporate debt. In fact, Monday's announcement it will indeed be buying up to $250 billion of that debt from qualified issuers was part of what encouraged the US equities recovery from early lower ground.

So it is going to be very interesting to hear what he has to say in the Senate, and how the US equities and other asset classes respond. For now the global govvies have given back some recent important gains, yet remain above the key technical support levels. And emerging currencies have predictably also recovered to some degree after their sharp selloffs since last Thursday's return of 'risk off'.

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 3,070 developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break. Isn't it interesting that the next significant decision is back in that area now.

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/3hrXDTC updated through Friday.) That was the key higher resistance it had violated on its mid-April 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 three 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 last 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 was disappointed. While it is not that much lower in the context of recent hypervolatility, this opened the 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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