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ROHR ALERT!! Bothers and Banks

1 message

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Dear Subscribers,
Much to review today despite previous boosts and bothers for the US and global economy and markets remaining mostly the same, yet with some key evolution. Overall our Wednesday 'Powell Put Political Problem' ALERT!! has come to fruition in the continued GOP concerns over the extent of government spending and the impact of current programs on the US economy and employment.

Senator Rob Portman (R-OH) was interviewed on CNBC (https://cnb.cx/3fCuKCi) this morning on the $600/month US Unemployment Insurance supplement being a disincentive to return to work. While it is on a sliding scale based on the degree to which that program is extended beyond the current July 31st end date.

At its current level the lowest 20% of workers are receiving double what they were making in previous jobs. The GOP says it is amenable to the program continuing, yet only with the addition of incentives to get back to work. It must be admitted that in the current circumstances some businesses are having problems hiring workers… even rehiring their previous staff due to great unemployment benefits.

Republican foot-dragging to 'refine' any future program for employment support or the other major areas reviewed during Fed Chair Powell's Senate testimony (see Wednesday's ALERT!! for much much more) will likely delay approval of new measures in such a highly partisan environment. On both sides of Congressional politics there is a view that some proposals from the other side are DOA ('dead on arrival'.) A lack of consensus will likely delay future support programs.

Another bother is the rising tide of US COVID-19 infections. As we had noted previous, the recent infection surge is also being accompanied by higher hospitalization rates, which is a sign of a more troubling situation. While the keen to reopen state governors are citing more widespread testing (which is indeed the case) for the infection count increase, we are entering the critical period after the US Memorial Day holiday excesses (making large groups without masks or social distancing.) Any sign the disease is accelerating should be bad for US equities.

The other side of the coin is the continued central bank accommodation actions to offset the economic damage from COVID-19. First off this morning was the Swiss National Bank commitment to all current, and even suggesting some further, steps to provide support to its economy. In fact, in a CNBC interview this morning SNB President Thomas Jordan (https://cnb.cx/2UWSI91) signaled that he was comfortable both with the SNB's extensive currency intervention against the franc, and then went a step further: If necessary, the SNB would consider lowering its already radically low -0.75% interest rate. Breathtaking!

Altogether more expected, yet still a strong move in the wake of the Bank of England leaving its base rate steady at 0.10%, was its 8-1 MPC majority vote for a £100 billion

addition to its Asset Purchase Facility QE program. Given the weight of COVID-19 economic weakness, that is a reasonable extension of its economic support. The full meeting minutes (https://bit.ly/2UVzOK2) highlight the reasons in the wake of a 20% UK economic contraction. And they note issues previously reviewed from the OECD and Fed Chair Powell. "*Evidence from business surveys and the Bank's Agents is consistent with a weak outlook for employment…*". "*Some households are also worried about their job security*."

In the face of all the recent central bank support there was also a troubling development out of a recently more hopeful Europe. One of the unexpected twists that kept the global economic sentiment and economic outlook more upbeat into late May was the pan-European COVID-19 relief package commitment. As we noted in our May 22nd ALERT!!, "*Germany's Merkel finally* (relented and joined) *France's Macron to propose a €500 billion pan-European COVID-19 relief fund that would mutualize European Union debts. That is a radical step toward a 'Euro-bond' that Germany had previously fought against."* Quite a development.

Yet the latest news on that is the resistance to this program. As noted in today's Financial Times article (https://bit.ly/2UWmghC), the less progressive forces in Europe are against this program coming to fruition. Given that Europe started from a lower economic base than the US and is in its worst recession ever, this might seem counterproductive. Yet as Merkel is cautioning, the failure of the massive €750 billion (up from an initial €500 billion proposal) program "...*would only help populist forces opposed to the European project*."

Desperation encourages despotism, and the immigrant fears going back several years had already empowered more authoritarian governments to take hold in Poland, Hungary and Austria. They are aided and abetted by the still fiscally rigid 'Frugal four' of Holland, Austria, Denmark and Sweden, who might be joined by some eastern European states as well. While this would clearly be a drag on Europe, the global economic impact is likely a reversal of some of the late May enthusiasm as well. We'll need to see once Germany assumes the EU Presidency on July 1st. Yet here is one more of the complicated cross currents noted of late.

In the meantime, the US equities are churning halfway between the front month S&P 500 future 3,200-30 resistance from which they failed last week, and the key lower 3,030-2,970 range they recovered from below early this week. It is of note that outside of UK and Canadian Retail Sales Data there is not much new Friday. As such, any decision into the weekend will be purely psychological.

Also note that the June S&P 500 future expires on Friday. While the September contract is trading $11 lower, with the market not in any key area right now that should not make much of a difference. That said, global govvies are more of a 'country' market right now, with the Gilt weakening on the BoE expansion of its Asset Purchase Facility Program, yet the Bund and US T-note remaining firm.

Yet also of note on the latter, the June T-note future expires on Friday with the September contract trading a typical three-eighths of a point lower. In the wake of its recent recovery, that still leaves the front month back above the key levels the June contract had slipped temporarily below two weeks ago on the US equities surge to recent highs. That is why the equities psychology remains important.

This is true for developed and emerging currencies against the US dollar as well. Recent developed currency gains are being given back in the context of more bothersome

developments. This is even more so for emerging currencies that had done so well prior to last Thursday's return of 'risk off' psychology.

This is the critical consideration
[To be revised after Thursday's SNB and BOE rate decisions and statements] 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 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 front month 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.

It then stalled all three days early last week right up against that 3,230 Tolerance with no sign it was going to push further. Especially after last Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see last Thursday's ALERT!!), the US equities were extremely disappointed. In the context of recent hypervolatility, this opened the potential to retest that more prominent confluence of technical factors in the 2,970-3,030 range, which it vigorously tested into early this week.

That congestion is reinforced by the manner in which the market churned up against the low end of it into May. It is now churning in the middle of those two major ranges pending clarification of the future 'macro' factor psychology.

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