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

ROHR ALERT!! Creaky But Not Crumbling …Yet

1 message

ROHR Alert <rohralert@gmail.com> Thu, Jun 25, 2020 at 9:57 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
Our refocus on 'Normalcy Bias' since late last week began to come to fruition in Wednesday's US equities selloff that seemed to be based on fears of the surging COVID-19 infections in the US and elsewhere. We saw this coming even before the worst activity, as reported in Wednesday morning's "'Normalcy Bias' Cracks Begin to Show" ALERT!! highlighting the heightened fears even in previously sanguine areas like Florida and the southwest US. It's starting to feel very bad.

That said, the US equities response so far has been for the FRONT MONTH S&P 500 FUTURE (now September) to slip from the heavily tested interim 3,100-30 midrange resistance. That is right between the bigger 3,200-30 resistance from which it failed so badly two weeks ago after a positive response to the strong US Employment report. Yet last week it held an early week washout below the key lower 3,030-2,970 range that encouraged the recent recovery. It is the case that bears need to have it crack that lower support to take control again.

And the lack of upside follow through after that astoundingly above estimate US Employment report spills over into current 'macro-technical' psychology. It has been the case out of last week into this week that the US (and global) economic data has been mostly better than expected. As such, US equities not being able to Close above that front month S&P 500 future interim 3,100-30 area is very telling.

This points to the renewed concerns over the COVID-19 infection spread. While it has been explained away by the US government and individual state Governors noting the higher levels of testing, it is obviously spreading to a greater degree. One cannot observe day-by-day record infection levels and still posit that it is just more testing (as a certain denizen of 1600 Pennsylvania Ave. is wont to do.)

In fact, lack of adherence to COVID-19 control protocols is rife, and we already noted Wednesday that the infection resurgence is "…*right on time: as we had anticipated, after a rather sloppy (sans masks and social distancing), euphoric US Memorial Day reopening*." With the issue of mask wearing being politicized, many on the right feel they need to shun them to sow solidarity with President Trump.

Just how poorly this fares in the face of science (including all members of the White House COVID-19 advisory board) is now apparent, and will continue to grow as long as masks and other protections are shunned. On Wednesday we shared Tuesday's Reuters article (https://reut.rs/2BxZiqa) on the situation, and it is of note Texas Governor Abbott has finally issued a 'recommendation'.

The question now is whether that is too little too late. Adding to OECD warning (https://bit.ly/3hg8mAz) Fed Chair Powell's poet-rate decision press conference (https://bit.ly/2XSw2mU) we highlighted two weeks ago, Wednesday was the release of the

IMF's World Economic Outlook (https://bit.ly/2ViyCRc) which further significantly downgraded global growth expectations. That is especially for the developed world, including Europe and especially the major US downgrade.

Here is a brief Reuters summary (https://reut.rs/3fUxdbv) where Chief Economist Gita Gopinath notes, "*We are definitely not out of the woods*." You can also view her Wednesday CNBC interview (https://cnb.cx/2BFT5Il), and we have extracted the major growth table from the WEO (https://bit.ly/2Yv8hBB) for ease of access.

And as noted above, those OECD, IMF and Fed concerns are reinforced by the continued lack of adherence to COVID-19 suppression protocols. A recent VOX article (https://bit.ly/2VhjPpT) notes that while all 50 US states are reopening, just seven are meeting the US administration's guidelines for doing so. This once again threatens hospital capacity to handle the worst cases, and will very likely deter 'at risk' groups from re-engaging in the economy.

While the article has extensive information on all this, the chart of the individual states' level of preparedness (https://bit.ly/2Z64xpj) is a useful summary view. However much the greater number of infections might be due to more testing, the higher awareness of what are now burgeoning infection levels cannot be a good thing for the US (and others) economic performance into summer and beyond.

So while the US equities are only creaky and have not yet cracked the lower support, the Governors of New York, New Jersey and Connecticut have just effectively shut down travel from high infection rate areas (requiring travelers to quarantine for 14 days.) As such, what are the chances things are actually getting back to 'normal'... versus so many hopes being a case of 'Normalcy Bias'?

It is important to note nominal (so far) weakness of US equities has seen only a modest further bid in global govvies. Yet that bid could strengthen as and when the US equities weaken further. On the other hand, both developed currencies and emerging currencies have weakened of late against the US dollar.

Another Courtesy Repeat of Tuesday'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 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/31fEdeO 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 into early June.

It stalled all three days early the following week up against that 3,230 Tolerance with no sign it was going to push further. After the following Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see that 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 last week.

That congestion is reinforced by the manner in which the market churned up against the low end into May. It is now churning in the interim 3,100-30 middle of those major ranges pending clarification of the future 'macro' factor psychology.

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Contact: rohralert@gmail.com