Gmail

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

ROHR ALERT!! Waiting on Mr. Mnuchin

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,
As noted in Monday's 'Curiously Creaky…' ALERT!!, US equities struggled to hold gains on what was overall positive economic data last week. Yet they managed to bounce from the key lower support (more below) on Monday, and we surmise that was at least in part due to anticipation of the communications today from Fed Chair Powell and Treasury Secretary Mnuchin. We are not waiting on whatever Mr. Powell has to say, because his statement (https://bit.ly/2VwFRVI our markup) for his testimony was released into the US equities Close on Monday.

Anticipation this would be accommodative, at least in reviewing all of the steps the Fed has taken across many fronts was likely responsible for the afternoon rally extension. And indeed the statement opens with the positives and still troubling negatives of the COVID-19 economic impact, and moves on to an extensive litany of all of the significant Fed moves in the credit markets.

Yet as opposed to previous Congressional testimony and June 10th post-FOMC release press conference (https://bit.ly/2XSw2mU) he did not make any mention of the need for further fiscal stimulus outside of the indication, "*The path forward will also depend on the policy actions taken at all levels of government to provide relief and to support the recovery for as long as needed*." This can, of course, be inferred to mean more Congressional spending. Yet it might be he demurred due to not wanting to comment on this with Mr. Mnuchin also speaking today.

In any event, recent reversals of individual state's reopening plans in the face of surging COVID-19 infection rates and now rising hospitalizations warrants more concern for the US economy and ultimately the markets. Even though US equities held the lower key support once again, if the bounce is predicated on more governmental support, the activity after Powell and Mnuchin are done today will be the real proof in the proverbial market pudding; with emphasis on the latter.

The problem for Mnuchin is that many Republicans lawmakers are reverting to classical GOP 'deficit hawk' mode after the $3.0 trillion already spent by the US government in COVID-19 relief. Yet the question remains whether that is enough to head off further significant economic damage we have already highlighted across recent research. It is of note that the PPP (Paycheck Protection Program) expires today, even as businesses which received those loans-cum-grants are noting that the continued COVID-19 restrictions are not allowing normal activity.

This especially affects the public businesses burdened by social distancing and mask requirements. Having been provided those loans into full quarantines which made them useless for earning money, they are now faced with protocols which mean their retail turnover will not exceed 50% of their previous business income.

All of that is while their fixed costs remain high, with many of them either closing forever, or laying off a significant percentage of their workers (at least 20%-30%.) And as we have noted previous, the knock-on effect on those workers ranges from stressful to tragic. Repeating what we noted on Monday, Reuters 'cash cliff' article (https://reut.rs/2BOuba9) article is as compelling economically as it is personally depressing. It is about the fate of workers who have benefitted quite a bit from the expanded US government unemployment benefits, yet are going to be in dire straits once they terminate at the end of July.

The cross current on that is what many have already noted which might constrain anything Mnuchin can definitively commit to today: Congressional Inertia, and that is centered in the GOP run Senate. As today's testimony is in the Democratic House, expect questions about the 'cash cliff' faced by the middle-lower income hospitality-dining workers (along with soon-to-be laid off airline staff and others) noted in the Reuters article including rents and mortgages. It is going to be very interesting to hear what the Treasury Secretary has to say, and market responses.

Speaking of which, it is very interesting the global govvies are quietly extending their rallies despite the US equities rally yesterday into this morning. It is also the case that emerging currencies are slipping further at the same time. Not exactly what would be expected if the recently lapsed 'risk on' psychology was returning.

Courtesy Repeat of Monday's critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future 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/2Vt5QxD updated through last 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 in early June 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 also rallied directly to 3,200 in 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 early week into mid-June.

That congestion is reinforced by the manner in which the market churned up against the low end into May. It was recently churning into the 3,100-30 middle of those major ranges

pending clarification of the future ‘macro’ factor psychology. As that was remaining weak on COVID-19 concerns, it dropped back once again.

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