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ROHR ALERT!! Mnuchin Rescue or Misfire Mix?

1 message

ROHR Alert <rohralert@gmail.com> Wed, Jul 1, 2020 at 10:48 AM
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Dear Subscribers,
As noted in Tuesday's 'Waiting on Mr. Mnuchin' ALERT!!, much of the economic support from the US government and Fed was going to rest with what Treasury Secretary Mnuchin had to say. This was because Fed Chair Powell' opening statement (https://bit.ly/2VwFRVI our markup) for his House Financial Services Committee testimony was released into the US equities Close on Monday.

Also noted Tuesday morning, 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 following weak suggestion, "*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*." And that is exactly what transpired Tuesday.

This was of course not a surprise, as it became clear he demurred due to not wanting to comment on this with Mr. Mnuchin also testifying at the same time. However, even at that the problem for Mr. Mnuchin was 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. Even some Democrats seemed curiously less than highly inclined to push Mnuchin for answers on this.

Committee Chair Maxine Waters (D-CA) is a 'Liberal's Liberal', who is adamant in most cases on more social support to the less advantaged. When she asked Powell about the 4.2 million Americans (many lower income bracket minorities) whose mortgages are currently in forbearance, he noted the assistance there would need to be fiscal, and not something the Fed could provide. Waters then shifted over to Mnuchin, and we waited with baited breath to hear the pointed question on the mortgage (and by extension rent) forbearance…

...but she instead shifted away from it to a question on how the administration was going to address the lack of support to the 'territories'.(???) Unreal that she had the opportunity to press Mnuchin on a key issue many of her Democratic colleagues had strongly pushed in recent days, and yet pivoted away from it. This is in part why we consider the hearing a misfire. Both Powell and Mnuchin made great general gestures on continued support, yet provided little detail.

Powell even went so far as to downplay the degree to which any additional accommodative Fed lending would be advised for borrowers. In the context of once again highlighting the limited powers of the Fed (it has "*lending powers not spending powers*"), he observed that "*...more debt is not the answer here*." He is signaling that the at first helpful bridge loans that assisted companies staying in business could not be increased without potentially damaging them longer-term.

Even noting again his concern over the looming rent and mortgage problems and supporting Democratic concerns over state and municipal key personnel layoffs (fire, police, health, teachers) that had burdened the US economy's recovery after the 2008-2009 crisis, he consistently noted that these were fiscal stimulus areas.

And what did we get from Mnuchin? His repeated 'commitment' to "...*work with Congress in July to address these issues*." As such, the hearing was somewhat of a cheery sentiment 'misfire' without much substance. Powell demurring as expected and Mnuchin not being able to provide anything more concrete (due to the ultimate decision being with Congress and not the administration alone) means that it will now enter the 'meat grinder' of Congressional legislation negotiations in a highly partisan (maybe more so than any other) election year.

Yet US equities have gone from lower overnight to higher this morning on a key 'exigent' factor we will get back to shortly. In the meantime there was a seemingly positive US government step Tuesday, which also seems less than productive on a surface level, We had noted the PPP (Paycheck Protection Program) expired on Tuesday, even as businesses which received those loans-cum-grants are noting that the continued COVID-19 restrictions are not allowing normal activity. Yet the Senate approved an August 8th extension with $140 billion left in the program.

Of course, the obvious question is why they would bother when businesses were so under-motivated that they did not want to borrow that remaining sum? It is the case however that Mnuchin noted in his testimony the $140 billion "...*could be refocused to support restaurants, hotels and other industries hit hardest by the coronavirus pandemic*." If indeed that redirection can be accomplished, that would at least be a modest positive step by a Senate where the Republicans have been very averse of late (after the strong May jobs report) to spend more.

Maybe the GOP is going to school on the axiom from former Obama Chief of Staff Rahm Emanuel that, "*You never want a serious crisis to go to waste*." (That's real, and the full explanation can be seen here: https://bit.ly/3ikF7gj.) The GOP that is averse to spending more may have hit on the solution, "*You never want already approved relief funding that remains available to be returned when you can take credit for applying it to other areas now identified as being in need*."

It is going to be very interesting to see if the Democratic House will now approve the redirection of those PPP funds. At the very least this is a clever political move by the Republicans, providing an acid test for whether Democrats will approve a spending idea which originated with the other party in an election year.

However, much more to the point on this morning's abrupt return of a 'risk on' psychology which has pushed the US equities back up into the interim higher resistance from which they failed last week, there was COVID-19 vaccine news. Vaccine research partners BioNTech and Pfizer (the latter being known for its research announcement credibility) announced that their COVID-19 vaccine shows potential in human trials. The bottom line is that a limited test showed no adverse reactions and significant creation of 'neutralizing antibodies'.

The key is that the level of antibodies from the vaccine were at multiples of the levels found in people who had survived infection with the virus. Even with the caveat that there will now need to be major Phase 3 trials involving tens of thousands of people, this is very good news (Reuters https://reut.rs/3ik7MIS.)

It is the sort of thing that can 'bend the curve' of expectations higher from recent still negative OECD (https://bit.ly/3hg8mAz), IMF (https://bit.ly/2ViyCRc) and Fed expectations (see our previous analyses for more.) If so, it likely causes markets to anticipate better economic activity into a previously still downbeat 2021.

For now the US equities have seen the September S&P 500 future rally all the way back up into the 3,100-30 interim resistance it failed to Close above in late June. Similarly, developed currencies and emerging currencies are showing gains versus the US dollar for the first time in weeks on renewed 'risk on' psychology.

It is also no surprise that this is bringing more pressure onto the global govvies, even if they have only slipped back down to lower support levels so far. As has been the case previous, we will watch US equities as a general psychological barometer while watching the other asset classes closely for further signs.

Another Courtesy Repeat of Monday's critical consideration
[To be fully updated after Friday's US Employment report]

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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