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ROHR ALERT!! US Employment Follies

1 message

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Dear Subscribers,

Well, there it is. Another completely over the top US Nonfarm Payrolls number at +4.8 million, with major gains in problem areas like hospitality and leisure as well as other areas. Yet the question remains whether this represents the 'stabilized' level of employment and business activity, or is it an aberration on rehiring?

CNBC has its pluses and minuses. On the 'plus' side is the very rapid report breakdowns by their senior economics reporter Steve Liesman. In his immediate response this morning (<https://cnb.cx/2YU3EkJ>) on major gains he also highlights the major rub to any economic growth euphoria based on the gains: the rehiring of workers listed previously as 'temporarily unemployed' was (wait for it)...

...4.8 million: the exact number of current jobs gained. He is followed by Rick Santelli with the Continuing Jobless Claims still up near 20.0 million. So amidst all of the still major (if slightly reduced of late) Weekly Initial Jobless Claims and these recent heavily better-than-expected monthly Nonfarm Payrolls gains there is a high degree of churn bringing into question the real strength of any rebound.

Liesman also provides a certain amount of perspective, like this morning's note from a well-regarded securities firm's assessment that the key is the 'scarring'. Much like we have been noting for a while, that refers to the 'stabilized' level of US employment in the at-risk industries once the government support ends.

Various government programs along with the Fed's moves to ease access to loans have encouraged some of the recent hiring binge. Yet as Fed Chair Powell noted in his Tuesday testimony, more debt is not the answer now. So the question remains what happens once the programs end, and businesses need to maintain staff on real business rather than incentives from government programs?

The difference between significant recent hiring and how many fewer jobs will be permanently maintained is the 'scarring' on the loss of sustained employment. However, we will not know this until the further government program evolution is complete later this summer. This week already saw the US Senate and now the House extend the PPP (Paycheck Protection Program that had expired Tuesday) through August 8th. Even more so than hope for more uptake of this program that businesses had recently shunned, there is hope it can be refocused.

Treasury Secretary Mnuchin had alluded to this in his Tuesday House testimony regarding this recently underutilized program's \$140 billion remaining funds being redirected to businesses (especially leisure and hospitality) that have been particularly hard hit by the COVID-19 pandemic. Yet the final decision on this will rest with the still highly partisan US Congress in a contentious election year.

This is on top of other major issues like the nominal July 31st end of enhanced Unemployment Benefits creating a 'cash cliff' for many laid off leisure and hospitality employees (see Monday's Reuters article <https://reut.rs/2BOuba9> once again for more), the 4.2 million American homes (many for lower income bracket minorities) with mortgages in forbearance (with the arrears being due once that grace period ends) which House Finance Chair Waters noted on Tuesday, and in light of the Republicans generally wanting to take a 'wait and see' approach.

Here's the additional rub on any timely activity in addition to all of the already significant partisan hurdles: The Senate is on full July 4th holiday recess from today until July 20th. And while the House will be ostensibly meeting remotely during that period, they will not be taking votes on any legislation until July 20th as well. While we need to allow that any decisions on critical legislation can be taken remotely, the question remains whether the Republicans are motivated?

As Mohamed El Erian noted earlier this week, the great early-June May US jobs number brought with it a bit of inertia after the previous push for emergency relief legislation. It is likely that today's much stronger Nonfarm Payrolls number (along with other indications) will only deepen GOP resistance to further timely action.

How are the markets reacting in the meantime? US equities are very predictably extending this week's rally from key lower support, with the September S&P 500 future once again trading above the 3,100-30 interim resistance. However, it is important to note that they had also done so previous without being able to Close above it. As today is the holiday-shortened weekly Close, it will be very important to see whether they can maintain the bid above it later today.

Yet even as the emerging currencies extend their recent recovery on the renewed 'risk on' psychology due to the recent better economic data, it is most interesting that the global govies are not under any pressure today after their recent slippage on the previous US equities run up. It's going to be very interesting.

This is the 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, and that remains the most prominent higher resistance. 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 weak.

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, and had revisited at the beginning of this week as well prior to the current economic data-driven rally. That congestion is reinforced by the manner in which it churned up against the low end into May.

It was churning into the 3,100-30 interim congestion in the middle of those major ranges pending clarification of the future 'macro' factor psychology. As on the expanding COVID-19 concerns, it dropped back once again last week. Yet having recovered from it now leaves it a critical near-term decision into the weekend.

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