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ROHR ALERT!! Follies Continue

1 message

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Dear Subscribers,
As noted in Thursday's 'US Employment Follies' ALERT!!, hoopla over a strong US Nonfarm Payrolls number was likely misplaced due to a key subset. And now we have a global rally also affecting US equities based on some missives about how good it is to invest in equities from (wait for it)... the Chinese government!?

How things have changed. Stock market direction from the Chinese Communist Party (CCP) inspiring a global stock market rally extension. Can this be real? Admittedly there is a sense China's aggressive address of COVID-19 pandemic spread is leading to an economic rebound there that will likely outshine the less suppressive West. When your ability to monitor and track all of the folks who are infected and quarantine all of their recent contacts outstrips the West, it is very reasonable to assume there will be a more effective address of the contagion.

There's only one problem with relying on a Chinese equities resurgence with support from the CCP: based on global economic turnover and trade flows, a stronger Chinese economy will not be sufficient to drive a recovery in the US and Europe if those economies become constrained again by COVID-19 impacts.

Yet for now there can be a better Chinese reopening than the now obvious failure in the US South and West (along with some other key countries) that is leading to partial re-closings; with a concern that full quarantines might be necessary again. That would represent a real economic problem for a US still struggling in any event with any sense 'stabilized' (on which we have been focused for some time) economic activity for key retail and dining businesses is going to be adequate.

This morning's CNBC interview (https://cnb.cx/2VNIHpt) of YELP Data Science VP Justin Norman was instructive on the continued weakening of those key sectors. The fact is that a greater number of businesses are permanently closing after they ran out of 'runway' provided by government relief programs. That figure increased from 41% the previous month to 44% last month, as many realized even innovations (curbside pickup, etc.) were not going to be sufficient.

Jefferies Chief Financial Economist Aneta Markowska joined the interview, and noted that while the slower opening Northeast US was continuing to gain ground, the latest South and West problems are offsetting that. This is very important, due to the greater economic activity in the dense Northeast being more critical to overall US growth. That said, there could still be problems for the US economy if the problem areas are indeed forced into more draconian restrictions once again.

CNBC also has interviewed more than a few smaller footprint restaurant owners (individual shops or localized chains) in the past couple of months, and they have consistently noted it is a low margin business even at full capacity. Most of them have noted that they are losing

money under 'social distancing' requirements, and are not sure how much longer they can hold on once government support programs lapse; they are open now to support their staffs and suppliers.

While we are expecting Congress to revisit those programs, we noted Thursday that they are on a July 4th break until July 17th, and Republicans are looking for major revisions to what they viewed as excessive previous programs. Of course, all of this is during a very contentious general election year. And on this round of programs there will be issues of any support for states and municipalities that are already laying off key workers (which Fed Chair Powell says will have a negative impact), lower enhanced unemployment benefits (to remove a disincentive to work), and possibly some assistance for marginal renters and homeowners.

The latter is a particularly contentious major issue, even if it is on a particularly 'long fuse'. The CNBC report on the key 'forbearance' issue from their Diana Olick (https://cnb.cx/2C56Lxf) on the further extensions available explains why this many continue to smolder over coming months instead of becoming a near-term threat to the economy and the markets. Yet the current sharp drop in mortgages in forbearance is a bit of a 'calendar' function rather than pointing to renewed strength in that area. What are real chances those folks are actually in a position to catch up on missed mortgage payments? This is on top of the jobs picture.

As noted on Thursday, 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 was not all that it appeared to be. The question there as well remains whether this represents the 'stabilized' level of employment and business activity, or is it a government program 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 sharply 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 Friday morning's note from a well-regarded securities firm's assessment that the key is '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 recent 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. Last week already saw the US Senate and the House extend the PPP (Paycheck Protection Program that expired last Tuesday) through August 8th. Even more so than hope for more uptake of this recently shunned program, is the hope it can be refocused on other areas in greater need. That's what Treasury Secretary Mnuchin alluded to in last Tuesday's House testimony.

So what's the net impact on the markets? Well, the Chinese boost had the US equities pushing up to a new recent high above the mid-June 3,167.75 front month S&P 500 future trading high. Yet the issue remains that the 3,200-30 range it stalled at a bit earlier remains the more significant resistance. That was into the June 10th OECD and FOMC negative impacts, after which it fell sharply back to the 3,030-2,970 congestion. Of special note, that topping action left a 3,186.75 weekly DOWN Closing Price Reversal (CPR) with a Tolerance to the post-May US Employment report the previous week at 3,210. It's going to be interesting.

It is also of note that the global govvies slippage is well-contained despite this recent US equities trading high. And neither developed currencies nor emerging currencies are gaining much further ground after their recent rally. Yet they are near higher levels. It feels like a lot is pending on the next US equities decision.

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 Friday June 26th due to a technical delay on last week's charts which will be addressed soon.) 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 last 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 again early last week. Yet having recovered now leaves it in a critical near-term decision into higher levels again.

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