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ROHR ALERT!! Consolidation Frustration

1 message

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Wed, Jul 8, 2020 at 11:34 AM

Dear Subscribers,

OK, we'll allow it is not typical market advisor behavior to whine about prevailing market conditions. Yet as active 'trend' advisors, after being spoiled by all of the major price swings since the US equities topped in mid-February into the dual hypervolatile bear trend implosion into March and subsequent massive recovery into early June, the current churn is frustrating. That is not just on the still active consolidation, yet also on the US equities seemingly trapped in a limited range.

Just to be clear, recent US equities consolidation has still managed to swing in what would normally be a very broad roughly \$200 range. Yet since front month S&P 500 future topped into the 3,200-30 range in early June and held the lower 3,030-2,970 support on selloffs since then, trend psychology has become far more stagnant. However, this is not due to lack of major influence expectations.

It is more so on many 'known unknowns' which are now constraining both bulls and bears at the top of the massive recovery rally. Please see our January 27th "The 'Known Unknown' Carries the Day" ALERT!! regarding the US equities pressure based on "*The spectre of the Chinese coronavirus spreading much faster and farther than previously expected...*" (with a link to origin and impact of Don Rumsfeld's famous "known unknowns" quote <http://bit.ly/39FJvSO>.)

That was after our previous week's 'Priced for Perfection?' ALERT!!, where we questioned the valuation of US equities which had been driven up by anticipatory psychology on the like of "*...USMCA trade deal, finally achieving a long-delayed US-China Phase I arrangement signing, continued accommodation from central banks, and now some daylight on possible US-Europe tariffs...*" and the rise of appreciation of the COVID-19 spread was a problem. As revisited repeatedly of late, the old axiom is, "*The market (which is to say the equities) dislikes nothing quite so much as uncertainty.*" Yet the current uncertainty is a two-way street.

As explored once again in Tuesday's 'More Negative EU Outlook' ALERT!!, the COVID-19 impact will weigh on future economic prospects throughout 2020. As a courtesy for anyone who missed it, Tuesday morning's release of the European Commission EU Summer 2020 Forecast was more dire reading than expected.

Even in the brief summary press release (<https://bit.ly/3gwSVTI> our markup with links to the full report and other interesting analysis) its leaders noted, "*...lifting of lockdown measures is proceeding at a more gradual pace than assumed in our Spring Forecast, (as such) the impact on economic activity in 2020 will be more significant than anticipated.*" Sound familiar? This is the same as elsewhere in the world, and especially of late in the US also brings into question 'sustained' levels of economic growth we have explored at length in all recent analysis.

There was also an excellent Reuters brief summary (<https://reut.rs/2BDgk6V>) Tuesday morning, highlighting the salient aspects. That includes a cautionary word, *“At the global level, the still rising rate of infections, particularly in the U.S. and emerging markets, has deteriorated the global outlook and is expected to act as a drag on the European economy.”* We have noted this previous.

Yet that is also in the context of those same drags on economic activity likely eliciting more government economic support and central bank accommodation, even if the latter may have gone about as far as possible (as noted recently by Fed Chair Powell.) And there are now problems with a previous upbeat influence from the Franco-German proposed €750 billion pan-Euro-zone COVID-19 relief fund. While Germany assuming the EU presidency since July 1st for the second half of 2020 may assist them in pushing it through, it remains problematic.

Clearly as important for the US and global economy are the next steps by the US Congress and Trump administration. President Trump has noted he'd like to see another \$1.0 trillion in economic relief (prior to the November election of course.) Yet the range of recipients who would benefit and to what degree is a real bone of contention for the highly partisan, bicamerally split US Congress. It goes to the significantly different groups, and which should get relief under future programs.

As we have reviewed in segments through our previous research, there are the states and municipalities whose budgets have been shattered by the implosion of sales tax receipts. They are already laying off key workers in areas like police, fire, teachers, hospitals, etc. And as Fed chair Powell has noted, that sort of activity was an economic drag after the 2008-2009 Crisis. Yet Republicans are averse to providing assistance to those entities they view as poorly run.

Democrats also want to see an extension of enhanced unemployment benefits, even as they allow the additional \$600 per month might need to be pared back to remove disincentives to return to work. That might be an area of agreement, yet with implications for the confidence of the unemployed and their spending habits.

Then there are implications of some layoffs yet to occur that have not as yet been part of the weaker 'sustained' economic activity expectations. That is to question once again what happens once government programs end, even if that is not until this Fall? This is exacerbated by the looming October 1 layoff proscription on the US airlines based on their major government relief packages. CNBC's Phil Lebeau noted in a recent video report (<https://bit.ly/2ZJppD2>) that United Airlines plans to send out thousands of 'warning' notices to employees who may be fully laid off.

As he further notes (01:20-02:00), this is based on the reduced booking levels which are not expected to rise further in July-August as previously presumed. This is at least in some goodly measure based on the Northeast corridor states requiring 14-day quarantines for anyone coming in from the troubled US South and West states, which is really depressing typically major summer travel.

He further notes that United is just the proverbial 'canary in the coal mine', as this will affect all of the airlines. In a separate report this morning he noted that based on these expectations, the slightly improved bookings will remain around 75% below the pre-COVID pandemic levels and this will have major implications for all of the airlines. Of course, the loss of airline jobs has not been a highlight of the COVID-19 reporting to date, because their relief packages prevented any layoffs.

Yet the impact from this admittedly somewhat limited commercial area is likely to be bigger than the simple net job losses at the airlines. The reduced size of the airlines will affect all manner of support organizations in areas of maintenance, food, cleaning, etc. And as to the airline workers themselves, what are the likely prospects for pilots, cabin staff, ground crews etc. in a much smaller industry?

As Fed Chair Powell has noted, there will be a significant drag from folks whose jobs in a particular industry (where he might have been referring to food service) are permanently no longer available (at least in the short-term.) And they will need to select and be retrained in another occupation before achieving any return to the workforce. In the case of pilots, one must wonder 'at what salary?' as well.

So there are the 'good' (government support and central bank accommodation with possible early vaccine development), the 'bad' (more layoffs and permanent business closures weighing the 'sustained' level of economic activity), and the 'ugly' (the degree to which COVID-19 continues to aggressively spread with some indications antibodies are not very long-lived... more on that tomorrow.)

That's the crux of major opposing forces fomenting the current market 'lock-up' for US equities and others now on significant countervailing 'known unknowns'. [Apologies to Sergio Leone for co-opting the title of his 1966 breakout 'spaghetti western' (<https://bit.ly/2ZNZQAS>) with Clint Eastwood's in the starring role.]

So here we are, frustrated with the US equities only down marginally into some key lower interim support once again (more below) after weak knee-jerk reaction to the EU forecast yesterday morning. As part of that further 'churn', emerging currencies are not under pressure on the weaker economic outlook after holding lower support, and global govies are remaining firm under that influence.

As noted on Tuesday, it all feels very similar (within a far more volatile market situation) to the Spring 2008 US EQUITIES rally, when the FRONT MONTH S&P 500 FUTURE churned back up in the low-mid 1,400 area from April until early June (<https://bit.ly/2VY9cZI>) prior to resuming an extended bear trend. If the bear does indeed resume, it would be a classic example of the adage, "*The market doesn't repeat itself, but sometimes it rhymes.*" We shall see.

Another Courtesy Repeat of Monday's critical consideration [To be updated after Thursday's OECD CLI & Weekly US Unemployment figures] 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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