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ROHR ALERT!! Some Good, Some Bad and Massive Either Way

1 message

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Dear Subscribers,

The mixed influences continue, even within individual economic reports and future projections. Take this morning's US Weekly Jobless Claims. Both the Initial and Continuing Claims came in a bit lighter than expected. That was another week of lower Initial Claims at 1.314 million (versus 1.375M expected) and 18.062 million Continuing Claims (est. at 19.950M), the next drop in these numbers.

So it's all good, right? Well, that's only if you consider over 18 million Americans still out of work a good thing. It is important to keep in mind recent improvement in this area has been on the back of two key factors. The first is the Memorial Day into June reopening of many US states, where surging COVID-19 infection rates are now forcing a reversal... possibly leading to some temporary renewed layoffs.

The other is the PPP (Paycheck Protection Program) rehiring that was such an obviously major part of the dramatic June US Nonfarm Payrolls gains in last Thursday's report. As we have pointed out since then, the major above-estimate 4.8 million jobs gain was substantially the rehiring of workers previously in the 'temporarily unemployed' category (furloughed yet expected to be rehired.) And it shows up clearly in our marked-up summary from FXStreet <https://bit.ly/2ZNxp5U>.

While there is an expectation there will be further government support programs, as noted in Wednesday's 'Consolidation Frustration' ALERT!!, this is problematic with the Senate out until July 20th. With some key economic support programs (like the sizable supplementary unemployment benefits) due to end on July 31st, will the highly partisan US Congress be able to rush through a fix in time? It is also the case that most companies who were able to access the PPP funds have already expended them. It still gets back to 'sustained' economic activity.

As also noted on Wednesday, US equities (and other asset classes) are not stuck in a narrower consolidation now (compared to recent hypervolatile trend activity) NOT because of a lack of major influences. It is more so that there is some good, and some bad... and in each case they are massive impacts waiting to unfold.

Also incorporating 'some good, some bad' is this morning's next monthly OECD (Organization for Economic Cooperation and Development) Composite Leading Indicators (<https://bit.ly/2W3nrw9> our marked-up version.) While showing some real improvement in China, the interesting bounce in the rest of the world is only showing varying degrees of recovery that is still well short of activity prior to February this year. That is especially so for the US, Southern Euro-area and India.

Noted at the end of Wednesday's ALERT!! was the metaphorical relationship to Sergio Leone's 1966 'The Good, the Bad and the Ugly' (<https://bit.ly/2ZNZQAS>) western starring Clint Eastwood. So there are the 'good' of government support and central bank

accommodation, and what would be a market and economic panacea of early vaccine development. There is the 'bad' of more layoffs and permanent business closures. See Tuesday's CNBC YELP high frequency data report (<https://cnb.cx/2VNIHpt>) on continued higher permanent business closure.

It is also 'bad' that there are more layoffs coming that have not been in the market frame of reference due to government proscription on airline layoffs after their major emergency funding. CNBC's Phil Lebeau noted in a recent video report (<https://bit.ly/2ZJppD2>) that United Airlines is sending out thousands of 'warning' notices to employees. As he notes (01:20-02:00), this is on major July-August booking reductions that will surely impact other airlines as well.

Yet the truly 'ugly' is the degree to which COVID-19 continues to aggressively spread with some indications antibodies are not very long-lived. While there is also corroborating evidence from European studies, the CNN New Day Alisyn Camerota's interview (<https://bit.ly/3eeF9TE> unfortunately only available in Tweet form) of Texas COVID-19 reinfection victim Adam Stadler is one of the most disturbing first-hand accounts of COVID-19's impact on individuals.

And... he was deemed cured once, only to be reinfected after a very short period of time. (Here is a transcript of the interview as well <https://bit.ly/3gDgCct> for anyone who has a problem with Twitter access.) This goes to the degree to which the naturally occurring antibodies are not at all long-lived. It seems those who have survived, or receive antibodies from others, can't count on being immune.

The much hoped for natural lower Summer contagion of COVID-19 contagion is also obviously not happening. As such, short of a 'miracle' early vaccine (which will also need to provide more durable antibodies), this is going to be with us for quite a while, with continued health and economic impact. As noted Wednesday, this leaves the market not so much lacking influences, but more so having so many major potential influences as to be stuck pending further resolution.

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

So here we are, frustrated US equities bears on their recovery after Tuesday morning's knee-jerk selling into key interim support on the negative EU forecast. And as part of that further 'churn', emerging currencies are not under pressure on the weaker outlook after holding lower support, even as global govies remain very well bid under that influence. Another 'bifurcated' market situation.

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/2ZLWs9H> updated through Thursday.) 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 left it in a critical near-term decision into higher levels again, with the current drop back to 3,100-30 the interim decision once again as well.

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