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ROHR ALERT!! Hoping to Bridge the Trough

1 message

ROHR Alert <rohralert@gmail.com> Fri, Jul 17, 2020 at 8:34 AM
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Dear Subscribers,
It is both encouraging and scary that the ability of the global economy to get past the re-accelerated spread of COVID-19 infections now rests with governments. While we have focused on the US Congress as the Senate returns from its early summer break on Monday, today is also the beginning of the key EU negotiations.

And as this morning's Reuters article (https://reut.rs/2Cbj3oo) notes, it comes "...*after weeks of cross-continent quarrelling over the scale and scope of a joint rescue fund*." In addition to the size of the fund potentially being constrained by some of the more fiscally conservative northern states in this weekend's talks, there are other issues. Those include tying it to structural reform in the most afflicted states, and the idea of tying it to democratic protocols to address what some view as pernicious tendencies in recently more autocratic governments.

Of course, this only reflects similar funding appetite divergence in the highly partisan US Congress in a general election year. On that we once again highlight just how wide that divide is by revisiting the same Financial Times WeekendFT article (https://bit.ly/2Wg1euT) from Monday's 'Congress to the Rescue?' ALERT!!

In fact, this has only become more critical as the dynamic of the situation has become more intense due to the positive and negative forces moving from "colossal" a month ago to positively 'tectonic'. As an example, there is the shockingly major resurgence of the COVID-19 infection rate that is causing the 'de-opening' trend in many US states and many other parts of the world. On the other hand is the Moderna announcement of highly successful drug trials on its mRNA-1273 dual function as a potential vaccine and therapeutic. See this Wednesday's discussion and video (https://cnb.cx/3gWHJPS) with Moderna's Chief Medical Officer Tal Zacks regarding this upbeat news.

Yet as far as the fraught EU negotiations this weekend into the US Congress actions only beginning in three days, this is directly from Monday's ALERT!! which cites some of the most important sections of the FT article:

"'*While Democrats have pushed to maintain (the relief) until the economy improves, the White House and Congressional Republicans are resisting on the grounds that they discourage employment. The stand-off risks creating a dangerous economic cliff unless it is soon resolved*.'

"And as we have noted, the US Senate is not back from its current break until July 20th, with the enhanced unemployment benefits due to expire at the end of July. As a further note, while the schedule can be changed for emergency purposes, both houses of Congress are then out from August 8th until after Labor Day Monday (September 7th.)

"As such, there is a very narrow window to bridge a very wide divide. Along with an excellent brief summary of the relief efforts to date, the FT article also quotes qualified sources on, '...*while Democrats are pushing for a wide-ranging package worth an additional $3tn, White House officials and congressional Republicans have suggested a more modest amount, worth $1tn, that could struggle to meet all the needs*.'

"And, '*As well as hitting consumer spending, the withdrawal of fiscal stimulus could also make it harder for low and middle-income families struggling because of the pandemic to pay rent and mortgages, damaging the housing market*…' where forbearance in that area is only until the end of August. Of course, that backs up into an impact on the banks. As we have noted all of this previous, we are not surprised. Yet whereas they were only anticipatory concerns several weeks ago, they will loom large into next week's return of Congress."

Back to the present, this idea of the 'forbearance' coming around to affect the banks brings to mind how good it is that the major banks entered the pandemic with extremely strong balance sheets. Yet the banks ultimately taking a hit as the extended result of these policies is not news once kindly sounding forbearance was encouraged by the US government in the face of the initial pandemic spread.

We noted it in our 'Think Implementation…' ALERT!! on Friday, March 27th, exploring just what waived rents might mean to landlords and by extension the banks that hold both those rental property and individual home mortgages. Yet it is another of those items which will not be translated into bottom line impacts for many months. The critical near-term impact will be on consumer spending and general economic confidence based on what EU and US governments decide.

With markets parked into or near critical technical trend levels in the context of the major negative and positive influences growing in importance, it is not an exaggeration to say we are at a nearing a 'tectonic trend tipping point'.

Another Courtesy repeat of Tuesday's critical consideration
[Yes, it all remains the same on markets parked into key trend levels]

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/309ONSz updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also 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 if there is another selloff below the key 3,030-2,970, with interim levels at 2,850 and 2,750 that were important in the recent up trend. That is because the front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance just retested and failed on the current rally.

That is also where It stalled all three days after the early June US Employment surge with no sign it was going to push further, and it remains very prominent higher resistance. After the following Wednesday's downbeat Fed communication yet with no additional stimulus into a still weak economic situation (see that Thursday's ALERT!!), the S&P 500 dropped back to test and hold 3,000 area.

After churning recently around the 3,100-30 interim congestion in the middle of those major ranges pending clarification of the future 'macro' factor psychology, that remains a key interim area to watch. Expanding COVID-19 concerns dropped it back again early this week, yet with the US Congress back into early next week.

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