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ROHR ALERT!! TYPO CORRECTED: EU and Vaccine Up Breakout

1 message

ROHR Alert <rohralert@gmail.com> Tue, Jul 21, 2020 at 12:02 PM
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Dear Subscribers,
As noted in Monday's 'Tectonic Trend Tipping Point' ALERT!!, the major negative remains the extent of the COVID-19 pandemic infection (along with some key details on its nature.) On the other hand is the lately upbeat news on vaccines and therapeutics, and also especially the 'tipping' factor of the degree of fresh government pandemic relief to 'bridge the trough' (see Friday's ALERT!!)

On the downside, the COVID-19 infection spread in the US remains diabolically extensive, and except in some key areas (like California's recent improvement) seemingly on an inexorable upward path. Perhaps President Trump capitulating on agreeing that wearing masks is 'patriotic' will help. There is a strong suspicion that his shift to supporting the mask-wearing he had long resisted was (as CNN reported) "...*was primarily motivated by floundering poll numbers*…" Yet it is a positive step, and possibly a small step toward getting COVID-19 under control.

Yet the news from hard-hit states outside of California remains bad, as infections continue to spiral. In fact, even some areas which had seemingly improved to a degree which allowed rational reopenings were back under pressure. The title of Monday morning's Reuters article (https://reut.rs/2ZJrtfk) is 'Cuomo warns of reopening rollback if New Yorkers continue partying in large groups'.

It seems that as soon as some folks are told things are getting better they want to believe social distancing and other protocols are no longer necessary. Governor Cuomo even threatened the de-opening of bars and restaurants that had not even been allowed indoor service once again under the previous strictures loosening. Of course, these are among the most stressed businesses from the initial stay at home orders, which can least afford another round of sharp limits on their traffic.

In Chicago as well, Mayor Lightfoot has ordered (according to a Monday Reuters article https://reut.rs/32B2ixr) from Friday of this week '...re-tighten (of) COVID-19 rules for restaurants, bars, gyms and salons'. And as noted above, this is in areas which had previously had worse situations and were thought to be clear to more fully reopen. It still all gets back to the 'sustained' level of economic activity.

Yet the new high in the US equities (and strength elsewhere) seems to refute the idea that weaker topline economic turnover is a reason to fear the future. It is no doubt in part due to the positive medical developments. While there have been others since (like Monday's Oxford University vaccine efficacy), we still feel the most important last Tuesday's Moderna news on the limited trial success of its mRNA1273 vaccine which can also be used as an early phase therapeutic.

For more please see the CNBC interview with Moderna Chief Medical Officer Tal Zaks (https://cnb.cx/3gWHJPS) where he explains some of the details. Yet if the dual efficacy of

their drug proves to be successful in accelerated Phase 3 trials which begin today, it could be a real game changer in the COVID-19 battle. It is still the case however that effective implementation of any vaccine or antiviral therapeutic is months away due to testing and production considerations.

It is therefore the case that the current upbeat response of the US equities is likely more so based on the degree of further government relief packages to offset the economic impact of the COVID-19 pandemic. And in that regard, after a very extended (5-day) full European Union negotiations out of last Friday into the wee hours of this morning, there was a major relief package passed. It is also a major breakthrough for the EU insofar as full pan-European founding was finally agreed in a major way for the first time (see Reuters https://reut.rs/3flwPx7.)

This is the sort of thing the more fiscally conservative EU states had resisted for many years. As such, going along with the €750 billion package was a definitive breakthrough in Euro-zone solidarity. Quite an accomplishment, which also speaks of the degree to which the full union can act together in future crises.

Now, being the EU, the agreement is also full of fine line contingencies and some unattractive strictures; such as the support for the hardest hit southern EU states being in the form of low interest loans instead of grants. Yet if that is what was necessary to get the frugal northern neighbors to agree, so be it. Still positive. For anyone wanting more details, once again see Reuters https://reut.rs/3g05JSt.)

That leaves the next shoe to fall on the government support to get past the worst of the pre-vaccine COVID-19 economic impact with the US Congress. As we have noted, there seemed to be a very large gap between the Democratic Party (House) $3.0 trillion ask to fully fund all manner of relief and the Republican Senate's far more parsimonious suggestion that no more than $1.0 trillion will be needed.

Yet in a positive development this morning, Senate Majority Leader McConnell has committed $105 billion for school funding. This is a sign of some flexibility in an area where Democrats are demanding support. McConnell rightfully notes (see The Hill article https://bit.ly/32E4kNg) that schools have been hard-hit by the pandemic (especially local sales tax receipts), and will need additional funds to establish the COVID-19 prevention protocols needed for any rational reopening.

As we have noted previous, there *WILL* be a further US relief package, as the Republicans are not so daft as to believe they can go into the November election cast as the villains in any lack of relief. In that regard, the school relief was higher than what the White House had been proposing and McConnel was clear the GOP Senate was for a qualified PPP jobs program extension as well as another round of outright stimulus checks. It all sounds good, even if less than the Dems' ask.

As such, it is not necessarily a surprise that the US equities have surmounted resistance with the September S&P 500 future pushing above the key 3,200-30 range into which they had stalled since early June. That is an UP Break of sorts.

Yet it is also of note that the global govvies are not at all acting like they believe the current efforts will foment enough growth to trigger any inflation. They are either holding or modestly advancing their bids after recent recoveries. Yet it is also not surprising that the US dollar remains under pressure on the greater success of Europe seeming to move toward addressing its near-term concerns.

There is also the classic matter of the US dollar being a 'haven' when there is a global crisis. The exceptions have been in those cases where the US is the center of the problem, which is very much the case right now on the COVID-19 spread.

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/3fOhpY4 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.)

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 retested and failed recently 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 a very prominent technical area, which it has just pushed above. After churning recently around the 3,100-30 interim congestion in the middle of the 3,030-2,970 and 3,200-30 ranges rallying above 3,230 despite the expanding US COVID-19 concerns is a strong indication. Next resistance is the February 24th major gap down from the February 21st 3,339.25 weekly Close. That is also key congestion as higher resistance, even if the gap begins at the 3,312 high of the following week (established Monday of that collapse week.) The only nominal resistance above that is February's 3,397.50 front month future all-time high.

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