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**ROHR ALERT!! China Chill**

1 message

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**Dear Subscribers,**

**As we have noted for some time, 'macro' factors are more important at present than the classical economic releases. And the somewhat surprising US instant (72 hour deadline) closure of the Chinese consulate in Houston is just the latest in a string of further serious deteriorations in the now rocky Sino-US relationship.**

**According to this morning's Financial Times article (<https://bit.ly/2D069cU>), the US claims this move is "...in order to protect American intellectual property and Americans' private information." While there is little doubt that there is some Chinese spying in the US and elsewhere, this was seen as a fairly aggressive move by the US in a relationship which had been very good until earlier this year.**

**And as it raises further questions over already stressed international trade, it is not any sort of surprise that the US equities reacted badly on a near-term basis to this development. However, as noted in Tuesday's 'EU and Vaccine Up Breakout' ALERT!!, the more major and immediate tectonic shift is the EU move into a pan-European funded COVID-19 rescue effort, and some very good vaccine development news. (See Tuesday's ALERT!! for details and links to more info.)**

**That high likelihood of further relief spending is indeed the 'tipping' factor which gives the US equities assurance in the near-term that there is not going to be serious economic damage... at least not over late Summer into the early Fall. Obviously the previously recalcitrant Republicans are not foolish enough to go into the November US election having completely derailed further relief spending.**

**Once again, those are the sort of 'macro' factors that help restore confidence in the near-term outlook and drive a knee-jerk 'risk on' psychology. It is of particular interest that this is the face of continued deterioration of the COVID-19 infection rates in the US (and elsewhere) that is driving 'de-opening' even in some areas that had seemed to defeat the aggressive virus spread with previous actions.**

**And we are coming to you a bit earlier than usual in the context of this week not seeing much critical data until Thursday, and the 'macro factors outside of the current US-China irritation already being well-established. So essentially short and sweet today on the predictable limited US equities downside reaction on the diplomatic news, yet not in any way threatening lower support (more below.)**

**That said, the further evolution of the overall 'sustained' US economic situation remains troubled. In a very good CNBC discussion with business advocacy group American Action Forum President Douglas Holtz-Eakin (<https://cnb.cx/39hAe3H>.) Along with CNBC's Steve Liesman, he points out (00:35-01:30) that while the first wave of *carte blanche* government support for business was enlightened in a pandemic crisis, future funding will need to be as loans and not forgivable grants.**

He and Liesman agree (from 03:30 onward) that at some point it is necessary for owners to decide whether the business is viable enough to take out more loans. Otherwise they should close and lay off employees who will need to shift jobs into either industries, which is exactly what Fed Chair Powell has said as well.

If not, then it is senseless for the government (and by extension taxpayers) to continue to pour money into 'zombie' businesses. This both makes sense, and gets back to our longstanding position that it will be the 'sustained' level of pre-vaccine economic activity that is important to the economy and earnings once the government support lapses. As that support is near-term assured, it is likely US equities' rally on a renewed 'risk on' psychology can continue for now.

It is also of note that there will be predictable further weakness of the US dollar. While a global crisis can trigger a 'haven' bid in the greenback, that is typically not the case when the US is the center of the problem; as is now the case on it being a major focus of the COVID-19 pandemic. Yet that is also a bit of a silver lining for US equities valuations, as a sharply weaker US dollar also means higher repatriated earnings for US multinational corporations as Q3 progresses.

While components like the overall 'sustained' level of economic activity might overshadow that aspect into the future, it is a further fillip for the current 'risk on' psychology. As we have reminded you many times of late, "*The market (which is to say equities) is a creature of expectations.*" Nominal enhancement of multinationals' earnings can only add to the friendly psychology for now.

Along the way (and as noted again of late), global govies continue to grind higher on the prospect that all of this US and EU (and other) rescue spending is NOT going to create any real economic revival versus preventing a tragedy. However, after their recent selloffs, this is only back near or into resistance.

Courtesy Repeat of Tuesday's 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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