



Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! The Rocky Relief Show?

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,

We are not actually in a time warp right now... yet on certain levels it surely feels that way. Does the Republican Party think it's the middle of May? The Democratic House passed their massive \$3.0 trillion next COVID-19 relief bill on May 15th. The Republican Senate has just finished 'internal' debate to offer their next bill (hopefully) later today. Their previous attitude was, "Let's wait and see."

That's fine insofar as it goes. Yet to wait until the beginning of the week when the previous benefits expire seems a bit like they believed they had plenty of time despite the Democrats signaling some urgency to not let those previous benefits expire on folks who need the money. Waiting to this point has ramifications for whether the spending which has greatly assisted the US economy will continue.

And of course, even if it was not a US general election year, there was going to be (as we have highlighted many times) disagreement on the basis of the Republican commitment to a \$1.0 trillion relief bill and the \$3.0 trillion the Democrats say it will take to provide adequate support. As noted recently, the excellent Financial Times article 'US heads for fiscal cliff as stimulus fades' (<https://bit.ly/2Wg1euT> our mildly marked-up version) would have been more accurately titled to note the 'retail sales cliff' if lower income individuals and families stop spending.

The other sense of a GOP time warp is that they have settled on the enlightened sounding replacement of the flat \$600 unemployment benefit supplement with '70% of previous pay'. That might be conceptually both fair and realistic. Yet like so many government proposals, in the real world it is likely not implementable.

Consider problems that many individual state agencies had in simply fulfilling the additional \$600 payment each month, and ask whether their systems are in any sort of position to timely input and act on extended income level calculations and distributions? And what about the folks who are not on a salary versus tips and gratuities? It's a nightmare of at least significant delay and possible failure.

The Trump administration and most of the Republican Party is also pushing to get the US economy open again despite a surge in COVID-19 infections. It is the case that this can only happen if schools reopen to free parents to return to work. Yet not just in the US hotspot but elsewhere in the world, the COVID-19 pandemic is entering a second wave that is fomenting a rollback of previous reopenings.

As this morning's Reuters article (<https://reut.rs/2Db54Pc>) 'New travel curbs imposed as world tackles second COVID-19 wave' notes, "*Nations in Asia imposed new restrictions on Monday and abrupt British quarantine on travellers from Spain threw Europe's summer reopening into disarray...*" While we will allow that Europe is doing better, the economic

impact of even a partial lockdown is not good for the global economy. It highlights our concern on 'sustained' activity.

Back to the time warp, Senate Leader McConnell cleverly jumped over the White House suggestion of \$70 billion in aid for schools to implement various COVID-19 prevention steps with a \$105 billion stipend in the Senate bill. Yet none of this has been approved much less with processes for distribution. In order to budget and retain staff or contractors to reopen next month as Republicans are demanding, schools would have needed that funding a couple of months ago. As such, while the school support looks good on paper, the implementation is already a failure.

So while this is not 'The Time Warp' song from the 1970's musical 'The Rocky Horror Show', it would seem to be 'The Rocky Relief Show' as produced and directed by the Republican Party. With the Senate just back in from its early summer break on the 20th and a late Summer holiday due to begin on August 8th, there is (as we stressed previous) a very narrow window to bridge and very wide chasm... even if the House is committed to remaining until a relief bill passes.

Once again (even more so than back in March and April) what is the calculus for businesses which are barely hanging on despite previous relief (like the PPP)? Once again we revisit (for anyone who missed it last week) the informed CNBC interview (<https://cnb.cx/39hAe3H>) with advocacy group American Action Forum President Douglas Holtz-Eakin. 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 due to government preferences and the budget.

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 support taking on further debt. Otherwise they will close and lay off workers who will need to shift into other industries, which is exactly what Fed Chair Powell has said as well. However, that will take time, and add to near-term sustained unemployment.

And it seems that the mainstream economic press is waking up to the 'sustained' economic environment problems in a pre-vaccine COVID-10 world. It is especially telling that Reuters titled an article (<https://reut.rs/2BppbJ0>) 'Fed hoped to skirt a second virus wave. Small businesses may sink in it.' They certainly cannot be accused of 'burying the lead', as the title kind of says it all on a more dire outlook.

As the article notes, "...the months ahead look far grimmer as cash balances dwindle, federal help expires, and the disease surges back." It goes on to note that the Fed seemed confident of a timely recovery at its June 10th meeting. Based on the early deployment of government funds, many businesses were confident of having the wherewithal to survive until conditions improved.

Yet it is the case as consumers returned to hotspots like bars and restaurants and participated in group activities (often not respecting COVID-19 protocols), the pandemic infections surged; especially in states spared initial damage. Per the Reuters article, "'We do expect closures to continue,' said Yelp VP for data science Justin Norman. 'We anticipate states will roll back or delay reopening plans ... possibly turning even more temporary closures into permanent ones.'"

And that does not include those businesses which are outside of the required closure areas, yet which decide that their model is not viable within COVID-19 social distancing and mask-wearing protocols. Sad but true.

And markets now add to the sense of uncertainty in what had been a more upbeat environment until later on last week. Yet that US equities UP Break is in question on the recent front month S&P 500 future slippage back below the key early June 3,230 area trading high. As noted previous, that was next December 2018 to February 2020 congestion resistance above once it escaped the important 3,030-2,970 area. Yet it must still be considered strong unless there is a failure below 3,200. That said, last week's early push above 3,230 was a false UP break for now, and will need to be exceeded again to prevent a slide to lower support.

As noted in Friday's 'Bifurcation Galore' ALERT!!, there were unusual intermarket tendencies across different asset classes. During the entire recent US equities rally the global govies have acted like they couldn't care less. While their relative trends have not pushed up strongly, they have held lower support and rebounded every time the US equities have pushed up on seemingly positive influences.

One of the key factors in the US equities (and others) rally extension has been a promise of further EU and likely US COVID-19 support spending. However, it is reasonable for global govies to assume that these secondary relief packages will more so only prevent further damage rather than restore real economic strength and attendant inflation. Yet the most interesting bifurcation against the global govies resilience is Gold running up from 1,450 as recently as March to set a new all-time high today above its 1,924 September 2011 high. That should speak of real inflation returning, which should be weighing on global govies.

Yet it is important to remember how much Gold also thrives in any environment of sheer uncertainty and also inflation 'expectations' rather than needing a reality of broad-based higher prices. Looking back to September 2011, global govies were already on a major rally from March lows as the previously feared inflation on extended Fed QE did not materialize. In fact, US inflation rose into September 2011, but peaked for a major slide into 2012. In a current weakening environment, it might also be the case that the Gold rally is more so psychological than real.

Then there is the currency factor, where as we have explained recently at length that the US dollar does not necessarily develop a crisis 'haven' bid in those cases where the US is at the center of the problem; as is now the case on the global COVID-19 pandemic. Yet the lack of faith in the US dollar on other factors as well (political and diplomatic), can also drive the strength of Gold at the same time it perversely encourages expectations of higher US multinationals earnings. It is likely the case the latter is at least partially supporting the US equities rally.

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/3jD6WB8> 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 at which it failed previously 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 was a strong indication. However, sinking back below 3,230 late last week is a cautionary sign, as the weekly Close above that level was necessary to fully signal that UP Break. Back below 3,200 would signal a 'false' UP Break, which could indicate an important near-term top... it's on the cusp.

If it does manage to press higher, 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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