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ROHR ALERT!! When a Good Idea is Bad

1 message

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Dear Subscribers,
Well, our question over whether the next US government COVID-19 spending bill was going to be 'The Rocky Relief Show?' (Monday's ALERT!! title) has clearly been answered. Yes, it is indeed going to be 'rocky' getting that next round of relief approved in the highly partisan US Congress. Not really much of a surprise.

However, with the previous $600 unemployment insurance supplement expiring at the end of this week, Republicans are more than a day late, and their proposed alternative would seem to be far more than a dollar short. They are negotiating for a flat reduction of that supplement to $200. Aside from being unacceptable to the Democrats, it does raise the question of whether that will hit retail spending.

Which is a real shame, because their alternative of reducing that supplement to 70 percent of previous earnings (based on last October) was very enlightened. That would have avoided the $600 supplement problem of providing more income from remaining unemployed, while not cutting it too much to support them.

In addition to being a practical solution, it is conceptually and philosophically very appealing to a broad range of Americans. In a CNBC interview of Republican deficit hawk Senator Pat Toomey (R-PA), he expressed concerns about the level of the deficit at present, and the forward view if the government just keeps going back to provide the next incremental trillion upon trillion relief package.

The degree to which the 70 percent of previous earnings alternative is attractive was reinforced by a graphic (https://bit.ly/3jMwZpF) during the interview. It seems both fair and balanced, and anything which garners support from 46% of a very partisan American public is likely a 'good' idea. Kudos to Republicans on that.

Yet it is also completely unworkable at this point, only 4 days prior to the previous supplemental benefits expiring. As we noted on Monday, this gives a sense that the GOP must have passed through a time warp. Even if '70% of previous pay' might be conceptually and practically 'good', the total inability to implement it in the real world is 'bad'. Consider the problems that many individual state agencies had in simply fulfilling the additional $600 payment each month.

Now 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. And Sen. Toomey did not downplay the problems with the continued disagreements within the Republican Party.

Add that delay (which is why the GOP could not present its bill until Monday) to the undoubtedly thorny negotiations with the House Democrats who passed their $3.0 trillion

bill back on May 15th, and it spells d-e-l-a-y. During the interview Toomey glibly noted it will likely take "...*another week or two.*" Wait...what?

However we slice it at this point, the earlier supplement will expire at the end of this week, and the folks who are relying on any sort of supplement (and the state welfare systems which will need to implement it) will be left wondering just what it is they will be getting. Just fear of those delays and the potential for a reduced supplement will likely weigh on consumer spending. And as we write this the US Consumer Confidence was released, a disappointing 92.6 versus a 94.5 estimate against 98.3 last month. That is current, as opposed to some recent data which is rearview mirror into more upbeat June prior to various recent 'de-openings'.

Of course, the other 'macro' factors to watch are the central banks. And we will know more on whatever limited additional moves the Fed is going to make on Wednesday afternoon. In the meantime, this morning it announced it would extend some of its previous lending facilities through the end of this year. On one hand that is good; on the other it is a sign the Fed sees sustained weakness.

Courtesy Repeat of Monday'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/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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