



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

ROHR ALERT!! Liquidity Rally

1 message

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

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Dear Subscribers,

Well, the US equities bulls still seem to have the upper hand on overrunning the key interim higher resistance this morning after having dispatched the heavier lower resistance last week. It is of note that this is in the face of the continued extreme expansion of the US COVID-19 pandemic. So how could this be?

The one answer would seem to be something we strongly referenced in Friday's 'Liquidity Bifurcation' ALERT!!: the extreme liquidity which the central banks, especially the US Federal Reserve, are providing. While there has not been any core inflation as yet (currently more so limited to food and energy), unless and until the central banks need to tighten monetary conditions, in the longer run some inflation is good for the nominal value of the stock markets. While that may sound counterintuitive for those who fear inflation, that is the historic tendency.

The main reason this occurred in the past is the 'replacement value' of existing plant and equipment. Under an inflation scenario based on central bank monetary bloat (much more currency chasing the same amount of goods and services) not only do consumer prices head higher, so do prices of the equipment and basic building blocks (literally) for any new competitors to enter existing markets.

Added to that is the foreign exchange factor we have noted is a short-term fillip for the US equities in particular. Recent sustained, extensive US dollar weakness enhances the export competitiveness of US multinational companies at the same time as the nominal value of repatriated profits also ratchets higher. While minor fluctuations don't tend to mean very much, from its stabilized level only three months ago the US Dollar Index has declined by 6.0%; and that's meaningful.

As such, maybe it is not as much of a surprise as it appears for the US equities to head higher on future expectations, even as other asset classes continue a very disturbing view of what might be coming next for not only the US but also the global economy. Global govies remain very well bid despite setbacks since their last meaningful selloff on the early June US Employment data. This of course gains additional interest this week into the next set of those figures on Friday.

Similarly the US dollar losses against the other developed currencies are not being reflected in the emerging currencies. This is of course of note due to the latter often being a bellwether for overall global economic expectations and any 'risk on' economic and market psychology. In fact, after a very nice rally out of mid-June into mid-July, they have reverted to extensive weakness of late, which is consistent with everything we've seen on the hopeful reopenings in the US and elsewhere turning back into more restrictive 'de-openings' in so many areas.

It seems one of the main problems is the US population in general not taking very seriously the full rigor necessary to counter a heavy COVID-19 pandemic spread. Not to be political in any way, there has been disparagement of the mask-wearing effort by many in the US political class; at least until the recent reversal by some. However, it seems their followers are not as quick as the politicians to embrace the switch to a mask-wearing culture, claiming it is a matter of individual rights.

Yet even the previously somewhat reticent White House COVID-19 Task Force members are sounding an alarm about the extent of the COVID-19 spread now being a crisis. We saw Dr. Deborah Birx on various Sunday political media outlets noting the pandemic infections had entered a new phase where they are now “...*extraordinarily widespread.*” Note the Reuters article (<https://reut.rs/31fKfuF>) on the details, especially her observation from visiting many states, “*As I traveled around the country, I saw all of America moving...*”, including many Summer trips to hotspots. This is much like others’ observations on local mass gatherings.

Evidently you cannot communicate to Americans things are improving without them inferring that means “all clear”, which is in no way the case. As such, it is likely the pandemic will continue to be a problem over here, which will spill over into both personal and business concerns. Two are among the foremost: rental and mortgagee evictions and (more immediately) many further business closures.

While there may be some further ‘forbearance’ offered to apartment renters and some home owners, ‘forbearance’ is not ‘forgiveness’... as we have noted since first exploring this issue in our March 27th ‘Think Implementation’ ALERT!! It was a matter of avoiding evictions back in the early phase of the COVID-19 pandemic economic impact versus accumulating back rents and mortgage payments.

Those will be increasingly hard for lower income folks to make up when, at some point, the forbearance is rescinded. It is the laid off workers in the most heavily affected industries, like restaurants and hospitality who will feel heaviest impact. And it is at the point where it is creating problems for landlords as well. For a very good view of the combined impact in those two areas (property and dining), see last Monday’s CNBC interview of Dallas-based Charter Holdings CEO Ray Washburne (<https://cnb.cx/3gp3DLZ>.) And what he has to say has been reflected in many interviews of both small-to-mid sized restaurant owners and landlords.

While it is interesting right from the beginning on restaurant conditions seeming to improve in June then backsliding heavily in July, he also notes (from 01:20) that as a landlord he just cannot be as accommodative into August as he was back in April and May. He reflects many other comments on Charter Holdings property expenses. Yet even more telling on the restaurant front (from 02:45) was the improvement into June to 60-70% of pre-COVID turnover now slipping back to 50% or less. Unless it gets back to 60-70% soon, the restaurants are not viable.

That plays right into this morning’s New York Times article (<https://bit.ly/2D5tIS0>) ‘One-Third of New York’s Small Businesses May Be Gone Forever’. There are many reasons for this. Some were congenitally unable to adapt to the COVID-19 restrictions; like the child and adult play group company that was doing so well prior to the COVID-19 protocols. Some in the food service business are seeing the continued extreme lack of business due to the absence of office workers.

Yet this has importance beyond New York, due to the city and entire Northeast US corridor (including New Jersey, Connecticut, etc.) being such a heavy economic growth area for the

US economy as a whole. As Allianz' Mohamed El Erian also reinforced on CNBC this morning, central bank liquidity is now supporting the US equities, and the question is whether the near-term real economy damage catches up with that? Or does confidence in higher future valuations continue?

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/3i0r5j1> 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 after the June 10th negative OECD indications and disappointment with the FOMC.

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. Even though sinking back below 3,230 two weeks ago was a cautionary sign, the weekly Close above that level seems to reinforce an overall UP Break. Back below 3,200 (and especially its Tolerance at the 3,187 previous DOWN CPR signal) would still indicate a 'false' UP Break, which could signal an important near-term top.

However, as it is now managing 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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