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ROHR ALERT!! Bad News Seems Good News Again

1 message

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Dear Subscribers,

While the US Non-Manufacturing PMI came in better-than-expected, that is against a context of somewhat weaker than expected global Services PMIs and especially the much weaker than expected US ADP Employment Change of plus 167,000 versus a +1.50 million estimate. That should have sent a shiver through the US equities, which have instead reacted like they couldn't care less. While off the overnight September S&P 500 future 3,319.74 highs, they have exceeded after the Services PMI. How can this be in the face of other 'bad' news as well?

Well, as we noted since Friday, there is once again an extensive inter-asset class psychological 'bifurcation'. US equities still seem to ignore all of the still very bad US COVID-19 news (more below), even if there has been a bit of leveling off in the rate of new infections. Yet the global govies continue their overall bid and the emerging currencies have reverted to extensive weakness... both of which speak of the degree to which they are respecting the deteriorating economic outlook.

And as noted in Monday's 'Liquidity Rally' ALERT!!, there is something to be said for the degree to which the extreme Fed (and other central bank) accommodative liquidity actions inject enough money into the system to foment redirection of many investments from no-yield bonds into the US equities (and others.) There is also a longer term modest inflation advantage for equities in the form of a new business entrant competition barrier. See Monday's ALERT!! for more on that.

As such, US equities can push up into higher resistance (more below) on the expectation of continued government relief spending. While the current US government effort has been stalled in highly partisan Congressional debate, the expectation is there will be some sort of deal before they depart on their late Summer break (ostensibly Friday, yet likely spilling over into early next week.)

And with the delay creating even more consternation among already stressed small businesses (much more on that in Tuesday's ALERT!!), there will still likely be greater pressure on the immediate US economic outlook if it is the minimalist relief package the Republicans are proposing. Yet in this regard the US equities seem to feel they are in a win-win position. If Friday's US Employment report is strong, then it is a sign things may be better than the Cassandras are positing is the case for the economy. Yet even if it is weaker than expected, the inference is this will provide the Democrats the bargaining power to force more spending.

And regardless of any near-term COVID-19 infection spread improvement, the situation in the US remains bad... as Dr. Birx noted over the weekend, it is now "...*extraordinarily widespread.*" In and of itself that precludes the remedies which have assisted so many other countries control the pandemic spread. As noted in a very good Reuters 'Special Report: Local governments 'overwhelmed' in race to trace U.S. COVID contacts'

(<https://reut.rs/30oMFb2>), “The soaring number of COVID-19 cases in the United States has far outstripped many local health departments’ ability to trace the contacts of those infected...”, which it notes is a critical component in limiting the pandemic spread. Yet this is not news.

As we noted as far back as our July 14th ‘California Closed!’ ALERT!!, this was already apparent during the Florida infection surge. As we explored then, “Miami Beach Mayor Gelber noted on MSNBC (<https://on.msnbc.com/2WhPI7W>) and also in other forums, the aversion to wearing masks and especially the lack of contact tracing are real problems. While this is a nationwide problem, not just now in global pandemic spread leader Florida, it is most pronounced in Miami-Dade.

“Especially note his discussion on totally deficient contact tracing (00:50-03:10) on failures of the state. He has also noted in other interviews that the recent nominal addition of more contact tracers is meaningless now that daily new cases in Miami are more than 3,000. There is just no way to have enough tracers to reach that many people and their contacts.” That is now the national problem.

Earlier in the pandemic the remedy which might have helped quite a bit was much more national leadership, rather than kicking the problem to the individual states and municipalities. And we allow that certain steps by the federal government were helpful to some degree at times. Yet the waiting time for test results and uneven availability of the COVID-19 infection tests was, and remains, a problem.

Yet even at this point US President Trump seems to want to put the degree of the problem aside, and push to reopen businesses and schools despite the obvious widespread persistent pandemic problem... with still high infection rates (even if moderating a bit at present), and approximately 1,000 Americans dying each day.

That encourages the secondary significant problem: lack of faith in the credibility of the government response. On a market perspective, that could be what is also (at least in part) driving the return to weakness in US Dollar Index this week after a sharp rally to its last higher 94.00 failure area, sliding to the key 92.50 area low.

Trump’s lack of attention to the problem, and even insensitivity to the plight of the American public, is apparent in last week’s interview by AXOIS’ Jonathan Swan (<https://bit.ly/2BUUlbs>) that was released on Monday. As just a couple of brief highlights, when Swan (from 05:00) brings up the fact that Trumps Tulsa rally may have been responsible of spreading the infection, beside exaggerating all manner of details on the crowd size Trump swings into discussing how the rally coverage was “...the highest rating in the history of FOX Television Saturday night.”

This is consistent with Trump repeating his oft-stated position that the pandemic “is under control.” When Swan challenges this, citing Trump’s misguided communication (from 07:00) to his audience that wants to believe what he is saying, Trump allows it is a bad pandemic but, “It is what it is”, and again states “...it is under control as much as you can control it.” Really? How is it other countries are doing better?

That is not a political question in any degree; just comparison to what is going on in the rest of the world that seems to be better (even if still vexed to some degree) than how the US is doing. As such, the lack of faith that strikes at the prospect of substantial economic activity which US citizens are still scared about resuming.

That also informs our view on the lack of confidence in the US dollar. Even if we allow the weakness of the greenback may be related to the additional amounts of stimulus spending it may take to get past the economic pressure, it remains a matter of whether there is confidence in US leadership. We recall the extended weakness of the US dollar during the Carter administration due to the lack of confidence that the President knew what he was doing; in its way, this is worse.

To return to the economic outlook US equities seem content to ignore at present, CNBC's Steve Liesman had an interesting segment (<https://cnb.cx/2Pkkt2E>) on Tuesday regarding how many economists see a very long road back from the current extended weakness. This also plays into our previous views on how much small business failures will be a real problem. The bottom line is that even a strong second half US economic recovery will leave the economy in recession.

Economists are especially sure on the Unemployment Rate remaining up near 10% into the end of 2020 (see the associated graph <https://bit.ly/39X0Kzn>), and Liesman notes that they expect it to still be up around 7.3% by the end of 2021. That should be a real problem for US equities on overall economic factors. Yet the inflation bet remains a viable psychology for now, and might be enhanced by some further near-term economic weakness. That may also usher in Democratic dominance of the US political structure after November, with attendant ideas on greater sustained spending. Hey, maybe 'bad' news is indeed 'good' news again.

**Another Courtesy Repeat of Monday's critical consideration
[To be updated after Thursday morning's Bank of England announcements]**

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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