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ROHR ALERT!! A Bit of 'Risk On' Again

1 message

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Tue, Aug 11, 2020 at 10:12 AM

Dear Subscribers,

The provisional question mark at the end of Monday's 'Up-Up and Away?' ALERT!! title has been definitively addressed by both late US equities strength yesterday and the clear follow through this morning. And to say the very least, the nature of the news on various fronts driving that on a 'macro' level is striking,

It reminds us of Dorothy's line in the 'Wizard of Oz', "*Lions and Tigers and Bears. Oh My!*" Only in this case it's "*Vaccine and Tax Cuts and Inflation.*" In fact, overall impact of the vaccine chase on the markets leads us to believe 'macro' is no longer 'politico-economic' but rather 'politico-medical-economic'. This morning that includes the Russian announcement of registering the first COVID-19 vaccine despite the lack of full trials or even published documentation. Breathtaking.

While the markets are taking this as positive news, the medical community is far less enthusiastic. For more on what Russia had to say, see the Associated Press article (<https://bit.ly/30KxTLJ>) updated early this morning. Yet whatever the market reaction, there is room to doubt this is a credible effort as yet. Its trial was on a very limited number of people (in the hundreds) versus tens of thousands normally required for vaccine efficacy. And it was over a very short period.

Which is why the sheer declaration from Russian President Putin, "(it offers) *lasting immunity from the coronavirus*" is highly suspect. As one of the problems with the immunity from the antibodies created by a natural COVID-19 infection is that they appear very short-lived. Compared to sustained immunity from previous coronavirus infections, they seem to fade after only a few months. More durable immunity from antibodies is one of the key goals of any manufactured vaccine.

So even if the Russian vaccine is showing initial effectiveness in limited trials, how would anyone know it offers "*lasting immunity*"? Further critical skepticism is crystalized in this morning's CNBC interview of former FDA Commissioner Gottlieb (<https://cnb.cx/3adTjUK>.) That is both on the effectiveness of the type of vaccine the Russians have developed (which have disappointed in other firms' trials), and the safety issue of it only being finished with a Phase 1 clinical trial.

On both efficacy and safety he notes that there is a problem if it ends up failing on either front for those who take the vaccine. That is because it is not medically recommended to vaccinate the same person twice in one season. So if it is not effective, those who have already taken it will be proscribed from seeking other protection. In addition, any safety issue (i.e. bad side effects) would further empower an already active 'anti-vaxxer' community in the US and elsewhere.

We have a sneaking suspicion President Putin's 'inner KGB officer' is into a further disinformation effort. Aside from whatever Russia is doing to influence November's US

general election in Donald Trump's favor (as noted by Trump's own intelligence services), getting the US or other pharmaceutical companies and regulators to jump the gun on a vaccine approval would also be sort of a de facto victory for Russia that is relishing the weakness of the Western economies.

Speaking of working for Trump's election chances in November, he is also very capable of acting on his own behalf. Whether anyone happens to consider them effective or merely 'unconstitutional slop' (as even one well regarded Republican senator characterized them), Trump's COVID-19 relief extension executive orders have been a source of the current "bit of 'risk on' again" market psychology.

Beyond that, the President who rightfully brought back corporate tax cuts and some major (some would say too much) deregulation is at it again. As reported by Bloomberg (<https://bit.ly/3gO9qei>) and others, news leaked on Monday on his mulling over a capital gains tax cut. It is most interesting that into an election where the plight of the average working (or at this point not working) lower and lower-middle class is a key focus he is proposing helping the rich get richer. However, for now that is another part of this morning's "bit of 'risk on' again".

And on the economic front there is also somewhat support news. There was Monday's OECD Composite Leading Indicators (<https://bit.ly/3gLL7h5>) showing some further improvement, even if obviously still well-below the levels from prior to the horrific pandemic impact into March and especially April. As they caution in the opening statement, *"Following their strong increase in June, the pace of improvement in CLIs inevitably slowed in most major economies."* They also state the obvious that, *"With uncertainty persisting around the possibility of future mitigation measures, the CLIs should be interpreted with care."*

Yet in the pure economic data there was some slight room for hope on the much sought (even if not productive in the longer run) inflation return. That was clear in today's US PPI data coming stronger than expected at +6.0% headline monthly and +5.0% Core monthly. More of a "bit of 'risk on' again". Yet the annualized figures were still much weaker, and quite a bit of the near-term inflation was based on food. So rather than strong 'demand-pull' consumer demand, this was in part on supply chain disruption even as some farmers need to destroy crops.

There was also the much weaker than expected NFIB Small Business Optimism at just 98.8. That was against last month's 100.6 and (more strikingly) versus an estimate of 105.9. Evidently there are some surprises on the business confidence front from small business. This reinforces the still pernicious item we referenced in the wake of the US GDP release in our July 31st 'Liquidity Bifurcation' ALERT!!

That was collapse in 'Velocity' of the US Monetary Base (<https://bit.ly/2XeMQ6W> our lightly marked-up version courtesy StLouisFed.org data with graph by DavidPaulLaipple.) The lack of business confidence and investment/hiring meant that no matter how much liquidity the Fed provided, the money was not being recirculated (i.e. the actual 'velocity' driver) in a manner that would deliver greater economic growth and employment. Yet for now that is being ignored by markets.

It is interesting that after their early surge today the US equities have now backed off from closer to their February all-time highs. Yet the "bit of 'risk on' again" psychology is hitting the global govies for the first time in a while, with futures back below some key technical levels. It is no surprise that emerging currencies are gaining back some ground after their

recent significant losses... yet not really all that much in the context of a renewed risk on' psychology. Most interesting.

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/33LQ85G> 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 three weeks ago was a cautionary sign, the weekly Close above that level seems to reinforce an overall UP Break.

However, as it managed to press higher, next resistance was the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again. 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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