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ROHR ALERT!! It's Harris!

1 message

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Dear Subscribers,
Former VP Joe Biden finally made his much delayed Vice Presidential candidate announcement of Senator Kamala Harris on Tuesday, and they held their initial formal joint press conference (https://bit.ly/33W3Wur) Wednesday afternoon. Unsurprisingly, it was long on Trump-Pence administration criticism and broad societal platitudes, and short on specific plans. There will be plenty of time to flesh all of that out at the convention and during the campaign into November.

Some thought the often-changeable Harris was not the best pick. That was due to her previous strong public prosecutor positions (at odds with the police and justice reform movements.) Yet in its way, that is an asset against a Donald Trump who is attempting to position himself as a 'law and order' President, versus some other VP candidates who do not have Harris' background in this area.

Despite the public prosecutor criticisms, the fact is that she has among the most liberal Senate voting records. This includes many aspects which will motivate the Progressive Left to come out and vote for her despite the 'law and order' aspect. And despite Biden and Harris mostly expressing specific anti-Trump sentiment and not much on policy, shouldn't the US equities be scared that a Presidential candidate already pulled to the Left has selected a very Liberal running mate?

Not necessarily. There are very good reasons US equities are not concerned, at least not at this point for the key reason mentioned at the end of this brief review. In the first instance, for all the Republicans are perceived as a 'party of business', historically US equities tend to perform better under Democratic administrations.

This is in part due to the degree to which the classically higher taxation under the Democrats (which Biden has been very explicit in promising if he is elected) is funneled back into the US economy as welfare programs and public projects.

Secondly, Harris' flexibility will be an asset in supporting a President Biden. Presuming they will pick a compliantly liberal administration team, she can be counted on to support any decision once Biden has decided to go a certain way on any issue. It was much the same in VP Biden's support for President Obama during his administration. This is as opposed to the considerable rancor that has plagued the Trump administration almost since the beginning in January 2017.

Last, yet certainly by no means least, just how much of the Progressive Left agenda (including the Green New Deal and other radical reforms) will get the funding support the Far Left would like to see depends on who controls the Senate after the November election results are tallied. While the House has the constitutional power on spending program initiation, any of those bills also need to pass the Senate to become law and receive the funding cited in the bill.

While a 53-47 Republican majority may be under threat due to strong anti-Trump sentiment, there are also some Democrats whose seats are not fully secure. Only the final tally after the election will tell, and the US equities (and other markets) are going to have a hard time discounting this aspect. While the opinion polls may influence the markets, they remember how unreliable polls were in 2016.

In fact, the greater, if still nascent, political risk now is with the US-China new Cold War. The latest concern on top of the trade tariffs and sanctions based on China's Hong Kong security law enforcement is the potential for China to be locked out of the global US dollar transaction settlements system. While this is so far mostly sabre rattling on the part of the Trump administration, it is a serious situation that is outlined in a current Reuters article (https://reut.rs/3iv8rzY.)

As the article notes, in the wake of US sanctions and veiled threats to China's vast US debt holdings and recent moves against Chinese companies, "*Yuan internationalisation was a good-to-have. It's now becoming a must-have," said Shuang Ding, head of Greater China economic research at Standard Chartered and a former economist at the People's Bank of China (PBOC)*. It is also not surprising that Russia is backing this Chinese effort to diminish the US.

This seems a clear case of the Trump administration again scoring an 'own goal' (moving against its own and US interests.) This seems to be a negative for China, and we will allow some of the Chinese actions call for a response. However, in this particular instance it will encourage others to settle commercial trades in Chinese yuan. What did the Trump administration think would happen? That the Chinese would just say, "*Gee, I guess we can't do any international business*"?

It also creates a dilemma for US allies, who will certainly still want to do business with China. Did the Trump administration also think the Europeans would say, "*Aw, too bad. We guess we can't export to one of our major export markets*"? This is the sort of folly that comes from surface level atavistic thinking in what should be a far more nuanced arena like international relations and trade.

It is even likely that Australia, which is very sympathetic to the US on many of the issues regarding China, is not going to abandon its overall trade on minerals and ores just because the trades cannot be settled in US dollars. The bottom line, also outlined in the Reuters article, "A*fter a five-year lull, Beijing is reviving its push to globalise the yuan*." And, "*The yuan's share of global foreign exchange reserves surpassed 2% in the first quarter…*" besting even Switzerland for fifth place.

While Chinese policies in areas like capital controls and other restrictions work against the yuan being a reserve currency anytime soon, any US move on kicking China out of the global US dollar settlements system could backfire. Confiscation or restrictions on China's US debt holdings would likely have immediate and disruptive implications for US equities, debt and US dollar. The latter is already experiencing quite a bit of weakness on the insufficient US COVID-19 response.

For now US equities are keeping their bid toward February's previous time highs. And near-term initial inflation is actually feeding that instead of deterring it even as it weighs a bit on global govvies (see Wednesday's 'Hot, Hot, Hot… Inflation' ALERT!! for much more.) In the meantime, euro-currency and other developed currencies are gaining against the US dollar, along with emerging currencies gaining a bit more ground against the beleaguered greenback after recent losses.

Courtesy Repeat of Wednesday'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 now 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 subsequent 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.) Even Tuesday's late selloff back below the 3,340 area did not get close to 3,312. The only nominal resistance above that is February's 3,397.50 front month future all-time high.

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