Gmail

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

ROHR ALERT!! US-China Data Divergence

1 message

ROHR Alert <rohralert@gmail.com> Fri, Aug 14, 2020 at 9:19 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
It is a most interesting morning for economic data. While some other numbers were more or less as expected, Chinese July Retail Sales were a disappointment at down 1.1% versus a +0.1% rebound expected from June's dismal -1.8%. It is also the case that Euro-zone Employment at -2.9% was much worse than the anticipated -1.7%. Yet outside of a disappointing headline number, Core US Retail Sales were encouraging. So why this divergence after China's ostensible post COVID-19 recovery, and what might it mean for the global economy?

It would seem that the US economy was still benefiting from previous COVID-19 government relief packages into July. That's fair, yet also raises the question over what is going to happen now that the next relief package seems intractably stalled in Congress? Even if one eventually does pass, there is already the issue of how much damage is being done to lower-middle and lower income household consumption due to the disconcerting delay. It doesn't look very good.

There is also the extended implication of the much weaker than expected Chinese Retail Sales. As we covered after April's IMF World Economic Forum four months ago and revisited in mid-July, it was important to note what we (among others) had cited as far back as shortly after the COVID-19 outbreak in China: It had smashed its temporary if robust dalliance with 'conspicuous consumption'.

There was a highly-informed IMF article as part of that report 'How coronavirus is changing what Chinese consumers buy' article (https://bit.ly/2ZxPaan) on their recently sustained culture of 'conspicuous consumption' being totally derailed by the pandemic. Coming down from an excessive spending high will not likely be just temporary. Getting back to classically more frugal habits in a culture previously known for more conservative financial habits is likely permanent; a significant 'reversion to trend' that is the norm in so many financial functions.

This is not good news for a Chinese government that was driving consumerism as a way to wean the economy from export dependence. As such, more than a few informed sources point to the degree to which this will present an additional challenge to any return to strong growth. And that extends to a Europe that has such a strong export market in China, which will also remain under pressure.

The stall in the next round of US COVID-19 relief will likely be a problem into this month, and not just a retail spending problem. As noted previous and revisited once again pointedly in our July 13th 'Congress to the Rescue?' ALERT!!, "*...while Democrats are pushing for a wide-ranging package worth an additional $3tn, White House officials and congressional Republicans have suggested a more modest amount, worth $1tn, that could struggle to meet all the needs.*"

"And, '*As well as hitting consumer spending, the withdrawal of fiscal stimulus could also make it harder for low- and middle-income families struggling because of the pandemic to pay rent and mortgages, damaging the housing market*…'" …forbearance there has also lapsed, with further developments in late August.

While noises from Washington raises hopes, it is still the case that the previous renter and homeowner mortgage arrears moratoriums lapsing means eviction and foreclosure processes are moving forward from landlords and mortgage holders. Evictions that were already occurring are now picking up momentum. That will also not be good for the near-term future retail sales outlook

As a final note added to our Thursday 'It's Harris!' ALERT!!, there is another reason that the US equities are not overly concerned about a switch to a far more Liberal Democratic regime after November's US election. The Biden-Harris team that has promised to raise individual taxes on the 'rich' and corporate taxes as well will take over an economy with roughly a 10% Unemployment Rate. As such, for all of their campaign rhetoric, it is hard to imagine that they will move to summarily raise taxes into an economy that still needs short term stimulation.

Another 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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