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ROHR ALERT!! The Hits Just Keep on Coming

1 message

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Dear Subscribers,

Friday's 'US-China Data Divergence' ALERT!! noted that separation between the two economies. Yet the more striking divergence remains the overall US equities trend versus an underlying economy still burdened with problems... and that goes even more so for current and looming global conditions as well.

Yet even the US is vulnerable to weak spots amidst items like Friday's strong Retail Sales figures and this morning's new all-time high of 78 on the National Association of Home Builders Housing Market Index. We often dismiss the latter as a homebuilder sentiment barometer rather than any sign of real future activity.

And in this case it is based on the massive flight from metropolitan centers to the suburbs as a way to address COVID-19 risks. So, of course single family home interest ('potential buyer traffic' that has significant weight in the index) is very strong at present (see this CNBC article for more details <https://cnb.cx/3avy0hu>.)

However, that is against now over 13,000 empty apartments in Manhattan, double since last year. And that is during July into August, which is usually the pre-back to school high rental volume season. Therefore, it is important to consider the strong home builder sentiment (and likely results) against the broader COVID-19 economy. During the further global and US economic data this week, like the very much weaker than expected current NY Empire State Manufacturing Index, it is important to consider the broader context rather than just individual figures.

And speaking of broader context, current global indications are not good at all. Friday's very weak Chinese Retail Sales figures were likely a further indication of its losing battle to restore consumer confidence and consumption (as revisited again Friday from earlier in the pandemic (<https://bit.ly/2ZxPaan>.) That is further reinforced by today's Reuters article (<https://reut.rs/310u70Y>) on the major layoffs at Chinese drone giant SZ DJI Technology Co Ltd. It has let go roughly two-thirds of headquarters and consumer side staff due to COVID-19 driven weak markets as well as political pressure in key export countries like the US.

Then there is the worse than even dire estimates Q2 Japanese economic GDP reports this morning. Another Reuters article (<https://reut.rs/3g2A01W>) notes it is a 'record economic plunge' that wipes out any of the Abenomics economic gains. It notes that, "...the coronavirus pandemic emptied shopping malls and crushed demand for cars and other exports, bolstering the case for bolder policy action to prevent a deeper recession." This is also the case for other heavy exporting Asia economies, such as the article reference to "...Thailand reported its biggest economic decline since the Asian financial crisis of 1998."

Consider that even the previous COVID-19 success story in South Korea is now under threat from a more extensive outbreak centered on a conservative religious community which has eschewed preventative measures. This sounds sadly like much of what has

transpired in the US South and West. According to another Reuters article (<https://reut.rs/32306Ng>), the Korean CDC Director says, *"We're seeing the current situation as an initial stage of a large-scale transmission."*

And the conservative religious organization is allegedly not forthcoming with the data necessary to perform the sort of extensive contact tracing that was so beneficial to South Korea's previous pandemic mitigation efforts. This weekend brought the fourth consecutive day of low-triple digit new cases. While very low compared to the US, this might trigger more extensive quarantine if not reversed.

There is also the US battle over returning to in-person learning as schools are scheduled to reopen. So far the majority of US high schools and many colleges are choosing remote learning. That is rightfully due to stubbornly high infection rates in many states and local communities. The economic point is the drag on parents who do not have childcare not returning to work if children are at home.

Of course, the President is concerned this will affect his attempt to rejuvenate the US economy prior to the November election. It is another drag on top of the now deteriorating global situation, with spillover implications for the US as well.

Yet the US equities, in the form of the broadly based S&P 500 Index, are within striking distance of February's all-time high. The front month S&P 500 future is at present within \$20 of its 3,397.50 peak. However, it is also of note that global govies which recently came back under pressure (in part on the strength of the US equities psychology) have held setbacks near lower key trend support.

That said, recently firmer emerging currencies have also come back under a bit of pressure after their previous gains. It all still feels like the market psychology bifurcation we noted had reached major proportions two weeks ago in our 'Liquidity Rally' ALERT!! The previous ability and likely future need for central banks to provide Brobdingnagian levels of liquidity to mitigate the COVID-19 damage likely still has excess funds chasing returns. As that cannot be achieved in classical 'no risk' debt markets, some will continue to chase yield in equities.

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/3h5ruRg> 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. Yet pushing above it in late July opened the door to a retest of the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again two weeks ago.

The only nominal resistance above that is February's 3,397.50 front month future all-time high. Along the way is a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR is so minor in the face of a major rally back from the February-March debacle, it is hard to imagine it can prevent the front month S&P 500 future from at least taking a look above 3,397.50.

That is also just above the extended 'adjusted' weekly Oscillator range, with the next (all-time) Oscillator range not until the 3,405-10 area this week. That is the same threshold at which it stalled in February. It's going to be very interesting. Does classical over-extension take its toll, or do US equities just power higher?

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