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ROHR ALERT!! Attempted Runaway in Front of the Beige Book

1 message

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Dear Subscribers,
As noted in Monday's "Surging Into 'The Crunch'" ALERT!!, the US equities had already ramped up into a very key extended resistance. To cut to the chase, the front month S&P 500 future already exceeding the February 3,397.50 old all-time high by over 3.0% all in one week last week was up against the next, and last, projectable resistance. That was the 3,525 major topping line it had already tested early this week, which rises to 3,535 next week. Yet, as it is already above both of those levels at present, the burden of proof is on the bulls to create a selloff.

Otherwise, as noted late last week, "...*beyond the 3,525 area on next week's Close would indicate a pure 'runaway bull' market, with any sense of stabilized classic Oscillator readings needing to wait until the market corrected to the downside to establish a new bona fide resistance area*." What makes all of this a bit more interesting is the now extreme bifurcation of the US equities psychology versus the significant cracks forming in the underlying economic indications.

Just this morning the ADP Employment Change of plus 428,000 was less than half of the 950,000 expectation. And that was after other weak international data. Will the ADP number mean there will also be a significant miss Friday on the US Employment report from expected +1.550 million Nonfarm Payrolls? The bulls are taking comfort from the recent ADP numbers not being a good guide to weaker NFP readings over the past couple of months (after previous success.)

The broader read on the US economy will come from this afternoon's (14:00 EDT) Federal Reserve Beige Book reports from the regional FRBs. While still showing quite a bit of weakness overall, it will also be a relative reading on whether the previous pressures will continue to abate… or are they returning in the wake of renewed COVID-19 pressures? That said, as opposed to the previous Beige Book inferences on what the FOMC may do at their next meeting, that is less relevant with the Fed in sustained accommodation mode. This will be more of a general overview on the economy, and the trends of specific industries in the regions.

However, if we need to cite a reason for renewed optimism driving the continued US equities rise, it is Tuesday's developments on the US housing and rental front: a directive from the Centers for Disease Control that all single family owner and also rental evictions will be proscribed until the end of the year…!!??? It is fairly astounding that a health agency should exercise such broad power over what is on one hand a relatively tangential economic area. Yet when viewed through the prism of both political expediency and health policy, it makes some sense.

It is not totally unreasonable that the CDC should point out that any significant displacement of individuals and families with forced moves would be a problem for pandemic control. For much more on all of this, p[lease see Tuesday's article from Reuters

(https://reut.rs/2YQYk19), and a very good CNBC video segment (https://cnb.cx/3lHYWQn) on the rationale for using the CDC for this.

On the other (synergistic) hand, it would be another major COVID-19 pandemic blot on the Trump administration record if tens of millions (not an exaggeration) of people were evicted from their homes shortly before the November election. Our cynical political view was that this is something Trump would consider a blessing in the form of so many displaced people (mostly not of the class that is supporting him) NOT being able to vote due to a residence change. We cannot possibly know; but it would not be unreasonable based on past form (USPS etc.) Yet it would seem cooler heads prevailed on the risk of negative public sentiment.

However, this still creates even further pressure on the rental real estate owners, and ultimately the banks. While it relates more so to commercial real estate, there is a recent major Financial Times 'Big Read' article (https://bit.ly/3gRudNf) on the knock-on implications for the banks and mortgage companies that hold the paper on the properties where rent payment requirements are being suspended for now.

We had noted that the very friendly sounding early-crisis 'forbearance' directives from various governments were going to create this problem from as far back as their March announcement (see March 27th 'Think Implementation…' ALERT!!) There was always going to be the issue of 'forbearance' not being 'forgiveness', and the arrears representing an extreme problem for folks also suffering layoffs and shops with no sales. Further forbearance doesn't work across time…

...UNLESS there is direct support for either renters and mortgagees, or property owners suffering the lack of rents to pay mortgages on the properties. Of course, as the FT article notes, by extension this could become a significant problem for the banks a mere ten years after the last property crunch. As such, on a political level it is going to be very interesting to see how this plays out in Congress.

The less robust Republican COVID-19 'Phase IV' relief negotiation rejected extensive support for the renters or property owners that the Democrats pointed out was necessary to avoid just this sort of economic problem. While the Trump administration eviction proscription (through the rather creative vehicle of a CDC executive order) may prevent short-term pain and political fallout, there is now the issue of how his GOP allies in the Senate will need to legislatively proceed.

Once again, this is not in any way a political statement on our part… we remain neutral, and only want to share the economic implications. Yet in what is by nature a very political US general election year, it is going to be very interesting to see if Republicans engage in a major *volte-face* in order to defuse a return to a sharp negative focus on them in this issue from the Democrats. We shall see.

In the meantime, any avoidance of a major 'eviction crisis' is just one more bullet dodged by the US equities. After all, even Fed Chair Powell has been very pointed in expressing his concerns over the economic impact of any mass evictions. It is now the front month S&P 500 future new all-time high today above the last viable projectable resistance, and the subsequent price activity, which needs to be the focus for the balance of this week. And to highlight the degree to which this is in the face of a still troubling outlook and recent less than encouraging economic data, the global govvies are experiencing sharp recoveries from recent weakness.

The US Dollar Index is also recovering from recent pressure against developed currencies, possibly on the weaker economic data elsewhere. And the emerging currencies are back under some fairly significant pressure that speaks more so of a weakening of the recent 'risk on' psychology. All of which is inconsistent with the US equities rally extension, unless they are just in a world of their own.

Courtesy Repeat of Tuesday's critical consideration
[To be updated after the Beige Book and Thursday's global Services PMIs]
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 (as is clear on the weekly chart https://bit.ly/3hM2M8D 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.) Ergo, the rally could be sustained.

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's 3,397.50 front month future all-time high.

Along the way was a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR was so minor in the face of a major rally back from the February-March debacle, it was hard to imagine it could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that has now transpired on a push above it last week into the low 3,500 area.

That was also above extended 'adjusted' weekly Oscillator range in the 3,415-20 area last week, now rising $10 per week on the MA-41 rise. That was the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. And the rally has called for another 'adjustment' based on the 2,875 early 2018 high Close and the subsequent 3,381 February high Close prior to the COVID-19 pandemic debacle.

That new 'extended' weekly Oscillator threshold is MA-41 plus 395-400, which is 3,485-90 this week and rises to 3,495-3,500 next week. That is above the previous adjusted high range of 335-340; an increase of 18% based on the early 2018 weekly high Close and the equivalent level from February 2020. In addition, a longer term topping line can be projected across that February 3,397.50 trading high from the April 2010 first major high after the major cyclical 666 March 2009 trading low. That topping line is at 3,525 this week, rising into 3,535 next week.

That is interestingly in line with the MA-41 weekly rise as well. Which is not much of a surprise based on longer-term trend momentum readings being reflected in similar long-term technical trend indications. Yet that weekly Oscillator change is about as far as classical trend indications can be 'adjusted'. So beyond 3,525 by more than $10 on this week's Close would indicate a pure 'runaway bull', with any sense of stabilized classic

Oscillator readings needing to wait until the market corrected to the downside to establish a new bona fide resistance area.

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