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ROHR ALERT!! A Curious Sort of Runaway Bull

1 message

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Dear Subscribers,

As noted in Wednesday morning's 'Attempted Runaway in Front of the Beige Book' ALERT!!, the US equities have now overrun even the most extended indications of 'overbought' conditions. At Tuesday's high the front month S&P 500 future was \$62 above the 3,525 last long-term topping line, and 'adjusted' weekly Oscillator resistance at 3,490. Only a selloff back into and especially below those levels (rising \$10 into next week) would signal any weakness.

The US equities were probably encouraged quite a bit by a still constructive Fed Beige Book (<https://bit.ly/2QQkzQn>) that indicated continued growth of various levels in all districts, even if it was obviously moderating. The only real weak spot was some businesses which had only temporarily furloughed workers previous were indicating they were now permanently closing. That is an issue we have highlighted previous, and further labor market pressures are revisited below.

Yet on the positive side this morning was the better than expected US weekly Unemployment Claims dropping to 881,000 (versus a 950m000 estimate.) Yet it is still the case that Continuing Claims remained up at 13.254 million (even if that was also lower than expected.) How this plays out on the broader picture will become apparent in Friday's full monthly US Employment report. The current estimate is for a jobs gain of 1.40 million, down from earlier estimates of 1,550 million in the wake of Wednesday's much weaker than expected ADP numbers.

Yet whatever that may show, the labor market pressures will continue on the back of continued economic weakness and the end of government support programs not seeming to move any closer to reinvigoration. As just one example, the major US airline relief that proscribed layoffs until after September 30th has not had any successor program. As such, United Airlines (for one) has announced layoffs of 16,000 staff as of October 1st. As this Fox News article that had the best breakdown (<https://fxn.ws/3539nIA>) notes, that includes many jobs for which there is not much future employment opportunity for those workers in the field.

In a still distressed economy, where are 2,850 pilots, 6,920 flight attendants and 2,010 technicians supposed to find work? While a more minor headline number, there are also 320 catering and 430 contact center employees, and 1,400 from the management and administrative team. While some may note that this is less than the 36,000 layoffs UAL projected back in July, that is due in large measure to the many workers who have chosen the company's early retirement scheme.

Like so many industries, things just do not appear capable of returning to the pre-February 'normal' anywhere this side of an effective and broadly taken COVID-19 vaccine. In fact, in a Tuesday interview (<https://bit.ly/2Due1E2>) UAL's ex-CEO and current Executive Chairman

Oscar Munoz added that the weakness in the key business travel area will not likely return until there is a vaccine.

We also remind everyone that while the development and approval of vaccine(s) will be a hugely constructive step, it is not the panacea some have suggested; for either social or political reasons. In the first instance, the obvious pressure from the current US political denizens to get a vaccine as soon as possible is raising rightful fears over its efficacy and safety. Especially the latter issue means many will demure from taking the vaccines until they have been around for a while.

Secondly, as the more enlightened medical professionals have been at pains to highlight, vaccines are rarely 100% effective... as such, not a 'silver bullet'. It is more so the case that they are roughly 50% effective, even if even that would be a very major accomplishment. Yet the practical implication is that various COVID-19 suppression protocols will remain in place long after any successful vaccines are approved and in broad use. As such, expect some restrictions in businesses that have already been suffering, like dining, hospitality, travel, entertainment, etc.

Expectations many political and cultural and business partisans have expressed that cash flow and profits in the affected industries will be booming again soon, contributing to a major 'V' chapped recovery, are just plain misguided. It is going to be a long slog, with quite a few headwinds along the way. Estimable Mohamed El-Erian was interviewed on CNBC this morning (<https://cnb.cx/32SFjt>.) And the man who coined the phrase 'the new normal' after the 2008 Crisis has a new one.

He points out that when the banks realized the other banks were risky, they pulled back from trading with them. That was the 'financial counterparty risk' hitting the entire trading and bank liquidity arenas. He notes that the reticence of people to want to go out and engage with other people in the COVID-19 era is an equivalent yet even more pernicious in its way 'personal counterparty risk'. Much as the extensive toxic, unassessable blended mortgage backed securities (MBS) were a problem into and after 2008, the current lack of effective US testing and tracking are leaving not just those with vulnerabilities hesitant to venture in the crowd.

On that basis El-Erian is not expecting any sort of a full 'V' shaped recovery. He suspects it will be more of a 'square root' (V) recovery. After the very sharp initial rebound, it is more likely to plateau for a long time. That would seem more consistent with continued economic headwinds than a full 'V' shaped recovery.

And yet, the US equities have indeed pushed up to that major new high, even if the current sharp selloff this morning has dropped the front month S&P 500 future back below both the 3,525 and 3,490 levels. Yet we will only likely know after Friday activity (into the US Labor Day holiday long weekend) whether the previous overrunning of the key technical resistance parameters noted above is going to be sustained. It seems a bit of a mindless 'Teflon' bid at present.

Of note, global govies have seen on a sharp recovery from previous weakness, which is inconsistent with the continued extreme extended 'risk on' psychology in the US equities. On the other hand, emerging currencies are gaining ground again, reinforcing the 'risk on' psychology. We shall see on Friday.

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 (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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