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ROHR ALERT!! Hopeful Holding Highlights Hurdles

1 message

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Dear Subscribers,
Of course we are referring to the US equities. That is after the worst three days since the June 10th Fed disappointment and OECD warnings, See our previous June 10-11 'So, What Have You Done For Me Lately?' and 'OECD Rains on Friendly Fed Party' ALERT!!s for the full analysis of what drove that selloff. Note that we referenced that and had links to that OECD analysis as well as their March cautionary word in Tuesday's 'Got the Blowoff Exhaustion Blues' ALERT!!

That was on future risks. Now that the attempt to turn into a total 'runaway bull' above all resistance early last week turned into an obvious 'exhaustion' swing instead, it is obvious the US equities were significantly overdone on the rally. That is simply the 'nature of the beast': markets only leave exhaustion signals from strong swings into new trend extremes… in this case the new all-time high.

Yet here we are with a passably sizable recovery in nominal terms, as the front month S&P 500 future has traded $100 above the Tuesday afternoon low. Yet the selloff from the highs has left higher technical support levels as resistance now that the market has failed back below them. Of course, the 'macro' headwinds we have extensively explored previous also remain as hurdles to full resumption of the strong up trend along with those technical hurdles. Yet, as the US equities seemed capable of ignoring them previous, we will concentrate on levels for now.

The next significant front month S&P 500 future resistance is February's 3,397.50 previous all-time high, strongly exceeded two weeks ago. The further rally early last week prior to the major selloff left a bona fide DOWN Closing Price Reversal at week's end from the previous 3,504.50 weekly Close. And that is the next higher resistance, including a nearby weekly Oscillator threshold and the very long-term weekly chart topping line somewhat above that area (full details below.)

That 3,397.50 to 3.500 area $100 span between the significant higher levels may seem a bit of a broad berth. Yet we can only share the technical levels based on how the markets actually trade. And there was neither any meaningful stall of the rally on the way up above 3,400 to the low 3,500 area, nor any significant daily holding action on the way back down to 3,400. As such, it is not possible to infer there will be any such price activity if and when the market sustains activity back above the 3,400 in future. Once again, the nature of the beast in volatile markets.

Considering the activity during the initial COVID-19 crunch in February-March and subsequent sharp April-June recovery, it seems perfectly reasonable to project sustained volatility can be seen now that it has returned to a two-way market… ...just as was seen during the April-May and June $200+ trading ranges. Now that the manic momentum bloom is off the rally, we suspect the fundamental shifts can feed more volatility from many areas: economics, pandemic, medical, etc.

And to return to the ‘macro’ fundamental shifts that may overtly affect the path of the markets, there is the anticipation of economic fundamentals which may now be more so affected by politics; and especially the still fraught evolution of the next US government (Phase IV) COVID-19 relief package. It is not really news that the Republicans and Democrats are deadlocked into much different proposals on funding levels and purposes for the next round of relief spending. In fact, even with recent compromises they were roughly $1 trillion apart on the total.

Once again this is not a political position on our part. We are merely attempting to communicate the facts, and share what we consider the realpolitik which each side might be pursuing. That said, we were a bit shocked last weekend to hear a Republican Senator describe internal Senate discussion as the GOP formulating a ‘starting point’ for the negotiations with the Dems. Starting Point??!! Are they not aware the previous relief saw the $600/week supplemental unemployment benefits lapse on July 31st? And that Senate debate had an interesting result...

…clearly indicating that the rigid Republican fiscal conservatives have won the internal debate after quite a bit of previous spending. The GOP Senate bill due to pass later this week has reduced their proposed spending from just over $1.0 trillion to $500 billion. It is also an attempt to move the goalposts on the Dems.

And to reach that $500 billion figure with only a net new outlay of $300 billion, they have shifted a full $200 billion away from future Fed emergency funding availability for any financial markets rescue. It is all laid out in this morning’s very good Financial Times article (https://bit.ly/2ZjBvDi.) As it notes, “(this) *could reduce Washington’s ability to mount a rapid response to a new downturn in financial markets*.” While the GOP cites other sources for emergency funds, it seems that limiting the Fed’s flexibility in any crisis is not very propitious.

On the other side, there is the GOP aversion to any funds for strapped states and municipalities that have had their tax bases crushed by COVID-19 quarantines. However, the GOP gripe is that some funds will be used to clear up previous pension arrears and other deficit spending by the largely Democratic Party ruled entities. Yet rather than entering negotiations based on citing specific damage based solely on COVID-19 predations, the Dems are just demanding the money.

This is where it strikes us that Dems could be playing a very cynical game in the context of the looming US general election. If there is no relief bill passed very soon (and the current expectation it will not pass until late this month), then the suffering will continue and deepen at the grass roots level. While it is easy to dismiss most of Donald Trump’s conspiracy theories, he has recently expressed the view this lack of relief compromise is a serious plan by the Democrats.

Despite the fact that the Dems are considered the more ‘people friendly’ party, and there are grounds (real estate relief along with support for cities and states) for their higher relief spending request, this could be their indulgence in the most cynical form of *realpolitik*: the old cliché, “*The ends justify the means*.” Yes there will be more suffering, especially among classes most likely to be Democratic supporters and also commensurately more likely to vote against Trump.

Yet this is about more than motivating the Liberal/Progressive base with more pain into the November 3rd election. It is also about affecting the US economic data into October. See Tuesday’s ‘Got the Blowoff Exhaustion Blues’ ALERT!! for much more on the fine points of

how the US Employment report data is compiled for a view on how the September figures released on October 2nd might be heavily depressed by any lack of current relief.

Of course, after the supplemental unemployment benefits lapses on July 31st, that may also be true for other US data in the context of still spotty international economic data. In that regard any Democrat *realpolitik* on allowing more suffering in the near-term to trigger weaker economic indications may be what they feel is necessary to take away Trump's and his administration's claim of fostering a strong economic recovery after the sharp COVID-19 quarantine recession.

This all gets back to the market implications, and why any near-term recovery in the US equities needs to be viewed from a cautionary perspective. Beyond just the narrow area of the US data, there are the same headwinds noted previous in areas like the resurgence of the COVID-19 spread, even in many areas thought to have suffered and fully recovered… like Europe and Asia and some US areas.

Yet now in addition to that if the recent bright spot of US economic data becomes less friendly on the September data we are going to see in October, the Dems will view that as a *coup de grâce* on the demise of Donald J. Trump. Polling shows that Trump's 'law & order' message is not a huge priority despite the recent racial protest unrest, with the economy a much higher priority.

If his economic shepherding claims are neutered by a round of weakening data, he is in trouble. It would be ironic after his disparagement of the Bush family if his electoral fate ended up the same as incumbent Bush senior's fail against Bill Clinton in 1992… weak economic data led American people to vote for a change. And that was right before an economic recovery fostered by Bush's policies.

As such, even if front month S&P 500 future manages to push above that 3,397.50 previous February all-time high (not actually a major technical level outside of being a major previous high), as noted above it may have a fairly easy time rally back to the low-3,500 area recent topping signal. However, especially in light of factors noted today and previous, it would be challenging for it to head much higher. If it stalls instead, the next major lower support is in the 3,230-00 area.

That said, today's US equities strength has brought pressure back onto the global govvies, and emerging currencies are strengthening nicely again after the recent weakness on the back of the US equities weakness. We also expect more of the same in those areas if the front month S&P 500 future surmounts the 3,400 area.

Courtesy Repeat of Tuesday's critical consideration
COVID-19 virus spread caused US equities into a DOWN Break below the front month S&P 500 future 2,600 area major up channel in early March. That 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/2DDzpGZ 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 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. Yet after such 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 two weeks ago into the low 3,500 area.

That was also above extended 'adjusted' weekly Oscillator range in the 3,425-30 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 was 3,485-90 last week and rises to 3,495-3,500 this week. Yet the extended key to any 'runaway' bull was a longer term topping line projected across the February 3,397.50 trading high from the April 2010 first major high after the major cyclical 2009 low. That topping line was at 3,525 last week, rising to 3,535 this week.

Aside from the sheer magnitude of last week's selloff, it was important for the establishment of a technical pattern top. With such a significant rally above the previous week's 3,504.50 Close, the drop well below it established a DOWN Closing Price Reversal (CPR) of some magnitude. Along with the topping line, that is now the key higher resistance on any sizable recovery from lower support.

The next significant support now that it is back below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as the rally resistance into early June, which was subsequently overrun on the rally extension into early August. That newly established 3,504.50 DOWN CPR has a Tolerance to the previous week's 3,509.50 high (on a weekly Closing basis.)

Thanks for your interest.

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