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ROHR ALERT!! Tech Issues Abbreviated ALERT!!

1 message

ROHR Alert <rohralert@gmail.com> Mon, Sep 14, 2020 at 11:06 AM
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Dear Subscribers,
We are having tech issues on the way back in from the weekend, and will only be providing an overview today. The bottom line is the extension of the further extreme bifurcation of the psychology between underlying economic psychology and the US equities. That shows up in the other asset classes' activity as well.

We need to allow that much of the return to US equities exuberance is driven by renewed hopes around a COVID-19 vaccine on quite a few levels. Yet as we (among many more qualified others) have been at pains to point out, availability by early next year does not equate to a 'magic bullet' which will return the US and global economy to pre-pandemic economic growth. As this morning's very good 'Retirements, layoffs, labor force flight may leave scars on U.S economy' Reuters article (https://reut.rs/3bUme17) notes, "*Six months into the pandemic, evidence of longer-term damage to the U.S. labor market is emerging*…"

Sadly, we are not reporting this so much as news as a confirmation of the trends we had been expecting due to the continued COVID-19 suppression protocols which will likely continue into early 2021. That is a toxic situation for so many large (hospitality, airlines, etc.) and small (dining, ride-hailing, retail) businesses which will continue to weigh on the general US (and global) economy even if a vaccine is available sooner than not… at least until widespread uptake and the efficacy of vaccine(s) is established, especially among vulnerable populations.

As a reminder of the low base from which the global economy began the long road back from the COVID-19 damage, this morning OECD issued an update for their G20 GDP Q2 2020 Growth report (https://bit.ly/3mkyVqD our marked-up version). It highlights how bad the Q2 contraction actually was, even if economies have healed to some degree. This is important at the beginning of this week, as OECD is scheduled to publish its Global Interim Economic Outlook Wednesday morning… in front of the FOMC meeting and press conference that afternoon.

The last time those coincided was back on June 10th, with the disappointment that the Fed did not offer further immediate steps leading to disappointment in the US equities. And that is again especially important this time in the context of the Fed's policy evolution Chair Powell enunciated at Jackson Hole. That was the clear indication the Fed would tolerate more inflation if and when there is better economic growth. Yet as we and many others have noted, this doesn't mean the Fed has power to create that growth, which is more so dependent on Congress.

And with Congress troublingly deadlocked on any further fiscal stimulus/relief for the COVID-19 predations on so many workers, businesses and state and local governments, there is a distinct potential for 'friendly Fed anticipation' (also likely part of current US equities strength) turning into 'Fed disappointment' instead.

Especially note this morning's Financial Times article (https://bit.ly/33uUiwG) on so many otherwise well-informed individuals urging the Fed to back up its new policy with specific indications. Yet as we (once again among others) have noted repeatedly, what is it the Fed can actually do on the economic front if there is no stimulus from Congress? The Fed can talk about tolerating inflation as long as it wants, yet as 'code language' on some ability to stimulate it. This is legerdemain.

The article notes the broad understanding of what is transpiring in the absence of further stimulus/relief. To wit, "*Most economists and Fed policymakers hoped that the White House and Congress would have delivered at least $1tn in additional fiscal stimulus to the US economy by now. However, negotiations on a new relief package have stalled and hopes of a deal have dwindled, raising fears of a looming hit to consumption and a wave of business failures and job cuts*."

Without further action to stimulate business investment and employment, which is actually weakening as the pandemic drags on (see the Reuters article above), it is not within the Fed's power to drive the inflation so many would find a positive sign at present. On a 'macro' level this gets back to the implosion of the Velocity of the US Monetary Base (https://bit.ly/2XeMQ6W through the end of Q2) we have previously highlighted. Just as Chair Yellen made the mistake of warning about inflation in 2015 after all of the previous stimulus, Powell has the same problem.

Short of full employment where wage gains are outpacing availability of products and services, there really is not any threat of the rightfully feared 'demand-pull' inflation that the central banks have classically had to fight. This is why the shift in Fed policy which Powell has communicated sounds more like greater growth 'wishful thinking' than anything the Fed can create in current economic reality.

As such, even allowing the current US equities bounce looks impressive after the front month S&P 500 technical trend failure last week (see Friday's 'US Equities Short-Term Trend Twist' ALERT!!), it is so far just a rally back to a failure area (also see the market analysis below.) Curious in the context of this morning's US equities surge is the global govvies continuing to hold most of their impressive gains from last week. That would speak more so of a 'risk off' psychology.

That said, emerging currencies holding recent gains would speak of a continued 'risk on' psychology that is supportive of the upbeat US equities activity. As such, we still see the overall market and economic psychology as bifurcated, with the aftermath of Wednesday's combined impact from the OECD and FOMC influences the next likely window for a resolution of these contradictory cross currents.

Another Courtesy Repeat of Thursday's critical consideration
[To be fully updated in Tuesday ALERT!!]

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 after it traded 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. On the upside, 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) and could be retested if activity above 3,400 area is sustained.

Thanks for your interest.

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