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ROHR ALERT!! 'Risk On' Revival into US Presidential Debate(??)

1 message

ROHR Alert <rohralert@gmail.com> Tue, Sep 29, 2020 at 9:38 AM
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Dear Subscribers,
It seems a bit odd that US equities should surge higher through interim technical resistance, even if the more telling technical resistance remains at higher levels (more below.) The concern is that this is right into the first Trump-Biden US Presidential debate this evening. However, that may also just be coincidence.

COVID-19 vaccine development news into the weekend may have contributed to the rally beginning last Friday morning. That would seem a more telling influence in light of concerns over the COVID-19 pandemic resurgence in Europe.

According to Friday afternoon's Reuters article (https://reut.rs/367jj41), Johnson & Johnson's main vaccine candidate had done very well in a typically limited early-to-mid stage clinical trial. It has an ultimate distribution advantage of being a single dose vaccine (versus the two-dose alternative of key rivals.) It showed a 98% effective average antibody response after 29 days, even if the response among older individuals seemed less strong. That led to a J&J 60,000 person Stage 3 (final) trial kicking off last Wednesday. It is all moving constructively fast.

The good news is any vaccine which can protect a major portion of individuals below the age of 65 would be both a medical blessing, and lead to the hoped for economic reopening of the global economy across time. The near-term bad news is that these things still do indeed take time, and 'across time' in this case means the fully reviewed clinical trial results will only be available into early next year.

From a market perspective, the US equities are known for looking past any bad news for the 'silver lining' on future anticipation. As such, the impressive vaccine news from J&J late last week was the likely driver for the return of that 'risk on' activity, which currently might be exacerbated by the huge amounts of liquidity that has been infused by global central banks. That is in the context of near total lack of meaningful return on the classical 'risk free' investments (like bonds.)

That this is odd right into this evening's first US Presidential debate is reinforced by the sharp rally in US equities not being reflected in the other asset classes. Should there be a solution to the pandemic spread with associated quarantines and at least partial shutdowns, it would be natural for global govvies to come under more significant pressure, and for emerging currencies to rally sharply.

Instead, the global govvies have extended their recent rally this week, and the emerging currencies have not reversed their recent weakness against the US dollar. The Turkish lira worst of them is under further extensive pressure after weeks of previous weakness… even if that is likely for secular Turkish reasons.

As such, the market response to tonight's US Presidential debate will need to be watched closely. It represents a stark choice that extends to the economics of either a Trump or

Biden administration from early 2021. Any Biden Presidency would certainly include some tax and regulation increase, and that aspect of any impact on the pre-election polls will likely feed through to some sort of market response as well. The perverse part of it is that (prior to Donald Trump) the US equities tended to perform better under Democratic administrations.

That said, we already noted in our ‘WEEKEND: Volatility Rules Into Radical Week’ ALERT!! that the balance of the week has so much additional important economic data that the debate may be forgotten by Friday. Even though there are other key economic releases prior (like the global Manufacturing PMIs), this Friday’s US Employment report is so critical for subtle reasons (even already noted since late last week) that we repeat our full assessment from the weekend analysis:

“*Even in light of some of the other data also being impacted by the same lack of fresh US government COVID-19 relief, by far the more important influence will likely be Friday’s next US Employment report for the ‘month’ of September, the last of this always important indication prior to the November US election*.

“*It is important to note the basis for that report’s data as a way to understand why the forward estimates are already calling for a far weaker report than the August report released back on September 4th. As noted that morning in our ‘A Curious Sort of Friendly Jobs Report’ ALERT!!, the interesting basis of* ‘*...the monthly US Employment report is that it cuts off around the 18th day of the previous month. As such, the ‘August’ report is actually the ‘second half of July through the first half of August’ report*.*’ That is extremely critical into the October 2nd release.*

“This is because it will be the mid-August through mid-September data. It is the first monthly period that represents the activity after the previous supplemental $600/week unemployment benefit lapsed on July 31st. As such, it is the likely culmination of what we have characterized as the cynical game Speaker Pelosi and Democrats have been playing. As noted in Wednesday’s observation on this ‘...ends justify the means…’ approach of the Democrats to the election influence:

“ ‘*They hope it will weaken Trump’s strong economy argument among the select number of independent voters who will likely decide the presidential election in just six weeks*.’ *And recent data would seem to indicate this ‘let the people suffer in the near-term’ strategy is working. We shall see if it continues into next week with anticipated further US equities weakness (also an anti-Trump development.)”*

Aside from any of the US political machinations, the COVID-19 pandemic fallout continued on Americans lack of ability to discipline themselves to accomplish any suppression of the infection spread (see WEEKEND analysis for much more.) And that is also on the concerns over the European COVID-19 infection issues, especially in the UK that has just seen enough of a problem to trigger a fresh return of restrictions for many months from the Johnson government. It is the European concerns which drove the ‘risk off’ psychology prior to late last week, and whether the return of ‘risk on’ can be sustained is now the question.

This is the critical consideration
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

(as is clear on the weekly chart https://bit.ly/2GiNQB1 updated through Friday.) Yet it also pushed above that out of late July.

This opened the door to a retest of the February's 3,397.50 front month future all-time high. And after such a major rally back from the February-March debacle, it was hard to imagine the old February all-time high could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that then transpired on the late August push above it into the low 3,500 area.

Aside from the sheer magnitude of the selloff in the first week of September, it was important as 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 major DOWN Closing Price Reversal (CPR). 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 below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the recent attempt to stabilize at no worse than the 3,300 area, the market exhibited a couple of less than credible pattern bottoms with key failures in the 3,400 area (see our September 18th ALERT!! for a full discussion and Evolutionary Trend View fully annotated chart analysis.)

The latest of those saw a lackluster 3,400 area UP Break early Tuesday September 15th that failed in the wake of key macro factors. That suggested a previous 3,295 trading low of the selloff would be violated, as occurred late two weeks ago into lower ground. Follow-through after that Friday's temporary trading below 3,295 has seen the downtrend extend all the way to multiple tests of the 3,230-00 range last week, with a Tolerance to 3,185. Near-term resistance in the low-3,300 area has now been exceeded, with the more prominent resistance up in the 3,400 area (February high and recent failures), and support reinforced in the 3,230-00 area.

Thanks for your interest.

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