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ROHR ALERT!! 'Risk On' Follies

1 message

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Dear Subscribers,
First of all, we are very happy to get back to the macro-technical analysis from Wednesday's 'Tie Goes to the Challenger' ALERT!! focus on the US Presidential debate and convoluted strategic election anticipation… madness and mayhem!

And the reason it is 'follies' today is the question over whether the current US equities 'risk on' recovery is based on anything more than the classical equities market exuberant anticipation; which often flies in the face of the real world economic indications... like at present on many fronts. Those include several areas we will expand upon below. Yet it is obvious main considerations are the potential, previously stalled, next US government COVID-19 relief package, the path of that pandemic in the US, and the state of the US employment situation.

That said, the obvious US equities price activity return to a 'risk on' psychology has seen a strong reinvigoration since last Friday's constructive Johnson & Johnson vaccine news (see Tuesday's ALERT!! for the full story.) The front month S&P 500 future rally back above the low 3,300 interim congestion has extended to near the more important 3,400 area (on several levels; more below.) This is now also apparent in the weakening of global govvies, renewed strength of emerging currencies after their recent slide, and other developed currencies also rallying somewhat against the US dollar after their recent weakness. Overall it's 'risk on'.

And as far as the vaccine news, there is also a misimpression we (among many others) have noted previous on the approval of any vaccine being an economic 'silver bullet'. Just this morning CNBC's David Faber interviewed master chef and restaurant entrepreneur Andrew Zimmern (https://cnb.cx/30mYiPp.)

The conversation was bleak, and he notes the specific problems of his industry is something he has been discussing for six months… about the time we noted huge hurdles it was facing that have continued to destroy it. In a nutshell, these are businesses that only retain roughly 6-7% of their turnover. So any restrictions of between 25% and 50% of capacity are crushing; and they continue to close.

This relates to the vaccine news insofar as any vaccine will likely only be 50% effective, and due to the recent political messaging only 50% of Americans would get the shot right away… effectively only 25% 'herd immunity' for many months after the vaccine is generally available. Zimmern points out that without the fresh $120 billion restaurants have requested, it will only get worse even through 2021.

This all works hand-in-glove with the YELP data we have noted on repeated monthly reporting cycles. That includes the CNBC reporting two weeks ago with the interview (https://cnb.cx/3kqCeem) of YELP Data Science VP Justin Norman. That included this somewhat dated (early September) yet still likely very relevant graph

(https://bit.ly/3mOolD1) of the shift from temporary to permanent business closures; and another article graph highlighting the impact on dining and retail.

This is therefore also the case for the restaurant supply industry as a knock-on effect of the restaurant closures. And the same applies to other industries that are seeing major cutbacks. For admittedly disconcerting active monitoring of the situation we suggest the Associated Press automatically-updating web page on latest layoff news (https://bit.ly/3ni1IlM.) While US Weekly Initial Unemployment Claims are 'better' at 837,000, that is still a dauntingly high number.

Obviously among the most prominent layoffs (not included in this week's Initial Claims) is Disney laying off 28,000 of their US employees. And the airlines are following through on promises to lay off tens of thousands of employees starting with today's lapse of previous bailout package proscriptions on layoffs.

That means American Airlines is dismissing 19,000, and even after a reduced pay for reduced work agreement with their pilots, United Airlines will still be laying off up to 13,000. Along with the other positions (everyone from baggage handlers to cabin staff and customer service personnel), these are highly paid jobs for which there is no ready replacement in a high unemployment environment. As one American Airlines flight attendant put it, "*At this point I don't have a Plan B*."

It's the same for other US as well as international airlines: British Airways will be dismissing 12,000 of their 42,000 employees. (Even previously stronger Advance Manufacturing PMIs saw some slippage this morning.) And much like the support businesses for the restaurant industry, along with the lack of hospitality bookings (with business travel nonexistent into a weak recreational travel season), the car rental companies, food service suppliers, etc. are all being heavily affected.

And the current path of the pandemic in the US is not encouraging. The spread is back to nothing less than rampant in key areas like the Midwest, with mildly resurgent problems in the Northeast. This also after Florida Governor DeSantis reopened all restaurants and bars for full capacity indoor activity. That was without any pre-notification to local officials, even as he banned any local fines for the lack of facemask wearing protection against the COVID-19 spread.

According to a CNN article (https://cnn.it/3jqTgJe) "*At least 27 states have reported more new cases since the previous week*…" and, "*Wisconsin reported its highest number of Covid-19 hospitalizations on record, with hospitalized patients nearly doubling in the state since September 18*…" The latter is most interesting, as President Trump is planning major election rallies in Green Bay and La Crosse, which the White House Coronavirus Task Force has designated as 'red zones' (highest risk of Covid-19 community spread.) Seems like Trump and strong ally DeSantis are on the same 'damn the virus, full speed ahead' page.

Yet, amidst all of this is the allegedly better prospect for that long-delayed US government COVID-19 relief package… or not. All of the 'happy talk' emanating from both Speaker Pelosi and Treasury Secretary Mnuchin on still being willing to work toward a compromise is folderol. Both Democratic leaders and the Trump administration are attempting to appear extremely accommodative.

Yet their positions haven't really changed to any significant degree. Trump knows Senate Republicans will not tolerate any spending above $1.0 trillion (if that), and the Democrats lower request was based on shortening the time frame… basically no *pro rata* change from

their original $3.0+ trillion request. This means there is not going to be a 'Heroes Act' (as the next package is now nominally known.)

That includes all of that support which will not flow as standalone relief for the airlines ($25 billion), restaurants ($120 billion), or any other purpose like support for states and municipalities that have also started significant layoffs. As such, the US equities rally can be considered folly, as it was likely based at least in part on the more upbeat US government COVID-19 relief package talk. That said, while any hope is maintained for that marginal possibility the more immediate impact will be from Friday's US Employment report. The current estimate for Nonfarm Payrolls is plus 850,000 jobs, down from last month's 1.371 million. We shall see.

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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