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ROHR ALERT!! Stimulus RIP?

1 message

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Dear Subscribers,
Well, that's it… the stimulus/relief spending effort is dead based on President Trump's disgust with Democrats hardball lack of acquiescence to the Republican 'skinny deal' on limited support. And… Wait! What? No it isn't dead? Wow!!!

For a full explanation of the events, please see this morning's update of a very good Reuters article (https://reut.rs/3d) noting that Trump "...*urged Congress to quickly pass $25 billion in funding for passenger airlines, $135 billion for small businesses and provide $1,200 stimulus checks for Americans*." The obvious difference there was no support for heavily affected states and municipalities. The problem with that limited support is that spending bills need to originate in the House, and what are the chances Speaker Pelosi will go along with that?

That makes it seem like Tuesday's 'Deal or No Deal?' ALERT!! title remains the operative consideration. And there is another consideration for viewing all of Trump's actions in the near term: As part of his COVID-19 treatment he is on a significant level of strong steroids in the form of dexamethasone, which acts as a significant anti-inflammatory to aid in the suppression of various problems.

We have personal familiarity with high doses of corticosteroids, which we used for a medical problem many years ago. They are great for short-term fighting of the inflammation, yet also come with some key side effects. Once the drug has addressed the inflammation it acts as a form of stimulant, potentially increasing a sense of well-being and also aggression in some cases. Think about the last person on the planet who needed further reinforcement for self-confidence or aggression acceleration. Yep, the President of the United States.

As such, it is not just the case for his *volte face* on stimulus/relief spending that is a concern. There is also the idea he might be psychologically affected by that aspect of the drug cocktail he is taking to address his COVID-19 infection. It is already apparent in statements from now 'getting' how COVID-19 works (because he has experienced it firsthand), and removing his mask as soon as he returned to the White House Monday, that he may be a bit more erratic than usual. That is not a political statement… it is merely an observation on what to expect next.

While it has always been the case with the President to 'expect the unexpected', that may now see even wider swings in his statements and actions. This is not a comforting overall thought, and will likely also leave the markets even more erratic as a reflection of that. It's like COVID-19 volatility on steroids (literally.)

While the looming election is also creating uncertainty over the US fiscal and tax and regulatory environment, President Trump's actions only reinforce a negative development we have reviewed previous: the implosion of the Velocity of the US Monetary Base. While

that may sound like an ethereal academic perspective in the current context, it is based on serious real world considerations in play now.

Shortly after the late July release of the very weak Preliminary US Q2 GDP data, we also explored the Velocity of the US Monetary Base (which was updated at the same time) in our 'Liquidity Bifurcation' ALERT! that Friday. It was diabolical.

As the same tendencies abide, or have more likely worsened on the business closures and layoffs, we revisit that view here regarding need for stimulus/relief:

"*...note the most recent release in conjunction with the expected nasty implosion of US Q2 GDP of the long-term graph of the 'Velocity' (https://bit.ly/2XeMQ6W our lightly marked-up version courtesy StLouisFed.org data with graph by DavidPaulLaipple) of the US Monetary Base.*

"*As an aside, note the lack of 'velocity' back into 2015-2016, even as the Yellen Fed was warning of an inflation on economic growth. Along with Congress' lack of lowering corporate taxes and regulation, this is when we noted Fed 'normalcy bias' as it sought to justify extended QE programs under Chair Bernanke*.

"*The lack of business confidence and investment/hiring meant that no matter how much liquidity the Fed provided the money was not being recirculated (i.e. the 'velocity' driver) in a manner that would deliver growth. It is little wonder that under the Obama administration the received wisdom was it was not possible under their 'new normal' to achieve annual US GDP growth above 2.0 % again*.

"*Further note that even under major Trump administration moves on taxes and regulatory reform, 'velocity' only recovered to slightly above the all-time low from back in the early 1940s. This was likely in some major measure due to the improved tax and regulatory environment being offset by Trump administration heavy tariff actions in trade policies, depressing corporate confidence*.

"*And now? It has slumped into another new all-time low. This is not necessarily a big surprise in the context of most businesses not having any incentive to invest and hire in the current and near-term future environment. The exception is of course those who are bringing on more staff for shifting businesses to adjust for the continuation of the COVID-19 pandemic; like restaurants shifting to more carry-out volume while restricting their inside seating capacity. Yet that does not bode well for many businesses which are burdened by the extended problems*.

"*That leaves quite a bit of near-term future (i.e. pre-vaccine) activity dependent on whether US consumers remain confident, and have the wherewithal to continue their recent strong spending*." (Our current underline.)

And what has changed since Friday, July 31st? Hmmm. Wasn't that right around the day the previous $600/week supplemental US Unemployment Benefit expired? Have any businesses outside of the major retailers and high tech companies who are in the COVID-19 sweet spot been borrowing, investing and (most important) hiring more workers? It certainly doesn't seem so. Therefore, just as much or likely even more so than back then, there is extensive bifurcation of the market psychology (relief still coming) versus a real economy which is still suffering.

At the very least, US equities that implode to a degree as soon as the prospect of the stimulus/relief deal lapses is not likely on a stable footing. While it is back up near the key higher resistance (more below) it was probing earlier Tuesday, the ability to sustain the rally above that area is a proof that remains in the pudding.

That said, the 'risk on' psychology continues to modestly assist both developed currencies and emerging currencies against the US dollar. It is also mildly weighing on the global govvies despite the dire economic prospects if there is any stimulus/relief failure, even if not to a trend decisive degree as yet.

Courtesy Repeat of Tuesday's 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/3d5p5EJ 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. Follow-through after that saw multiple tests of the 3,230-00 range (Tolerance to 3,185.) Near-term resistance in the low-3,300 area was exceeded last week, with the more prominent resistance up in the 3,400 area (February high and recent failures) now being retested.

Thanks for your interest.

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