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ROHR ALERT!! On the Edge

1 message

ROHR Alert <rohralert@gmail.com> Tue, Oct 27, 2020 at 9:52 AM
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Dear Subscribers,
While this relates to the US equities in particular, in general it has to do with the overall 'risk on' psychology for which they are an overall bellwether. Their recent resilience has reinforced the idea there is still a 'risk on' dynamic at work, which was weighing on global govvies and the US dollar against other currencies.

Yet other influences include most clearly US election expectations. That is for any strong overall Democratic Party showing in line with Biden-Harris victory raising the prospect of a more profligate US government. That would also explain the pressure on the global govvies and US dollar. It is also in line with Speaker Pelosi's far higher COVID-19 stimulus/relief spending request, which the Senate Republicans have completely disparaged as waaaaaay too much money.

Once again, this is not a political statement on our part; more so communication of the factors that make up the current realpolitik in a contentious situation. It is the case however that the COVID-19 pandemic resurgence in the US and across Europe makes the Democrats' request look more reasonable. That is in the context of the additional restrictions which are being imposed on businesses in order to counter the now accelerating infection rates and hospitalizations.

This means that regardless of the previous US equities resilience, they are now 'on the edge' of needing to respond to the burgeoning pandemic impact after shaking it off since early this month. That specifically means the December S&P 500 future trading slippage below the 3,380 Tolerance of the 3,430-00 range key support that it held last week. That leaves a near-term question over whether it can sustain Closes above 3,430 again, or does it drop decisively below 3,380?

That is more important now for the other asset classes despite the likelihood they will continue to anticipate the impact of a potential US political sea change after next Tuesday's general election. The operative term is 'after' in the context of the additional time it will take (possibly up to a week) to count the record number of main-in ballots this year in response to COVID-19 fears. And if the race for the White House is at all close, there will be further delays based on Trump campaign legal challenges (see our September 27th 'Tie Goes to the Challenger' ALERT!!)

It goes back to Monday's CNBC interview of Allianz' Mohamed El-Erian. We repeat our view on that here because it is so relevant for the current market psychology:

"(He noted) ***there is a 50-50 possibility of some economies in Europe going back into recession based on fresh pandemic economic restrictions; the 'focused' approach is not working. Even with the US equities being more of a 'behavioral' market based on massive central bank liquidity, the rest of the economy still resides in a real world where the situation is getting worse once again*****.**

"*As we have noted quite a few times since the OECD mid-September Interim Outlook release (https://bit.ly/2Fzh3rz), we were surprised their interactive graphic (https://bit.ly/3knSYml) eliminated the Q4 'Double-hit scenario' potential from the June forecast (click the 'Compare with June forecasts' button to see the previous projections compared to September.) Seems that might still be the case*.

And, "*El-Erian also points out that any relief will likely need to wait until next year, as there is no greater potential for the McConnell Senate to pass a larger package after the election if Trump has lost the White House; or indeed even if he pulls out a victory. Therefore El-Erian notes the economic 'scarring' will continue, leading to more long-term unemployment, bankruptcies and greater inequality; with the latter of concern on long-term educational and employment aspects*."

Not noted in our analysis yesterday was what he said about the psychology near the end of the interview. He also followed up on his previous assertion that the US equities (and others to a lesser degree) were a 'liquidity rally' that is under the assumption central banks were pumping enough money to justify higher prices regardless of the economic fundamentals. On Monday he specified that the equities are in a '*central bank market*' while the rest of the world was trading on '*the real economy*'. That seems like a fair assessment, yet with potential for the real world to catch up with the US equities from time to time… maybe like now.

The greater impact of the 'real world' accelerated COVID-19 pandemic spread impacting the markets is also showing up in the global govvies recovery, and the weakening of the other currencies against the US dollar despite the continued expansion of the Biden-Harris polling lead over President Trump. This only seems likely in a near-term confluence of a much weaker economic outlook that at least temporarily overrides the anticipated greater Democratic profligacy, which was recently weighing on them. This is why the near-term decision of the US equities is important not just in its own right, but as a risk appetite bellwether.

And all of this will still be subject to a surprise move by Speaker Pelosi to agree to a COVID-19 stimulus/relief package along the lines of elevated Trump-Mnuchin spending offers. While the chances of that appear to be getting more remote, it might still happen if she figures the political advantage from Democrats looking more reasonable at the same time as embarrassing the Senate Republicans outweighs any benefit Trump-Pence might derive in the final days of the election campaign. That would put a sharp bear squeeze into the US equities.

Courtesy Repeat of Monday'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/34snIxy 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) with a 3,510 Tolerance. Along with the 3,540 topping line, that is now key resistance after a recent 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.)

Yet it held that 3,230-00 area once again. And recently surging back above the 3,400-30 area leaves a burden of proof on the bears to get the market to fail back below that area. In the meantime, whether the December S&P 500 future can post serial weekly Closes above first 3,505-10 and ultimately the 3,550 area will decide if it is indeed again 'Risk On' Forever. The only nominal resistance above that is the early September 3,587 front month S&P 500 future all-time trading high. And the key lower level is the 3,380 Tolerance of the 3,400 area (now including weekly MA-9 & MA-13) this side of the still major 3,230-00 area heavy congestion.

Thanks for your interest.

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