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ROHR ALERT!! ECB Confirms COVID-19 Weakness

1 message

ROHR Alert <rohralert@gmail.com> Thu, Oct 29, 2020 at 11:30 AM
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Dear Subscribers,
Well, nobody can accuse ECB Christine President Lagarde of 'burying the lead' of the major story. The opening of her post rate (non-)decision (steady at 0.00%) press conference today (http://bit.ly/2yMh99Z) included this major litany of woes:

Renewed public health and Euro-zone economic recovery risks; the COVID-19 pandemic again weighing on activity; Services sector being particularly affected; business investment also weakening with weak labor and product demand; and last, but by no means least, on balance "...*risks are clearly to the downside*."

Admittedly none of this is any real surprise in the wake of official government COVID-19 pandemic suppression measures discussed at length in Wednesday's extensive 'COVID-19 Pressure' ALERT!! Yet that was on near-term prospective plans, and overnight into today those have been announced across Europe. Everywhere from France to Germany to the Czech Republic and remaining in place in the UK, the restrictions border on the draconian. Yet they are deemed necessary to counter the dramatic resurgence of the pandemic infection spread that has become a threat to the regional health system and economies.

While we will return to that shortly, overnight US equities swings into US Regular Trading Hours (RTH) have been radical enough to warrant technical trend address before further 'macro' assessment. There was a massive short-term rally back from the December S&P 500 future Close below the 3,280 Tolerance of the 3,330-00 interim congestion support range. In fact, the rally up to 3,310 was back up into what was the failure of that interim support, with the more major 3,230-00 area the next support; as noted previous, that is likely to be seen on this selloff.

Yet much as was the case on the near-term holding of the higher 3,380 Tolerance of the far more major 3,430-00 (including the old February previous all-time high), any signal there was going to be more of a recovery needed to exhibit sustained strength back above the overall congestion range. After Monday's very temporary trading slightly below 3,380, the December S&P 500 future managed to trade back above 3,400. Yet never got anywhere near the 3,430 level, much less above it.

That led to Tuesday's weak Close barely holding into the 3,380 level, which was already a sign of the market trading 'heavy'. Of course, the accelerated US and European COVID-19 pandemic spread indications (possibly especially the latter) overnight into Wednesday triggered the major extension of the already prominent weakness from the beginning of the week. As such, while the US equities may have been sharply oversold enough to trigger the massive overnight recovery, whether it was going to be sustained in the 'macro' context was problematic.

On current form, the extremely volatile trading this morning has seen a new 3,250 trading low (below Wednesday afternoon's 3,271 level) for the current selloff and a short, sharp

recovery back above 3,280 area. This may have been in the context of the ECB saying it will adjust all of its plans to address the current weakness.

However, that said, it has not been the province of central banks to be able to fully address the damage from any less than effective COVID-19 pandemic spread measures from the political class. In some cases the lack of serious address of the pandemic by the public has been exacerbated by misguided influence from the politicians (most obviously in the US.) Much as we noted "*it's meaningless.*"

That was in the context of the COVID-19 dynamics, as it was after the initial Fed 50 basis point rate cut back on March 3rd. It is much the same for the ECB now, insofar as it cannot reverse the economic rot from COVID-19 in the near term. We suspect US equities will continue to weaken for now without much of a recovery.

Of course, the discussion of the situation in Europe (once again see Wednesday's 'COVID-19 Pressure' ALERT!!) does not even begin to address the also severe deterioration of the situation in the US. And the mixed messages there continue to confuse the issue. Once again, this is not a political statement, as we only want to share the *realpolitik* of the situation, especially with our non-US clients.

President Trump continues to attempt to motivate his base with mass rallies that show little respect for the obvious pandemic suppression protocols. That is his attempt to convince people that "*we are turning the corner*" on the pandemic even as infection readings are now off the charts to the upside, literally setting new daily all-time US highs accompanied by the readings for individual states. Trump attributes the higher infection figures to more extensive testing.

And also as noted on Wednesday, Trump Chief of Staff Meadows said in so many words over the weekend (https://cnn.it/3jBTzA2), "*We are not going to control the pandemic*." However, even areas (like some European countries) that saw more initial conformance with mitigation efforts are experiencing a resurgence, likely due to mitigation fatigue for some time. Yet neither Trump nor Meadows is right.

In an unexpectedly candid moment (which many Trump administration officials outside of Dr. Fauci are hesitant to exhibit for fear of reprisal), Trump COVID-19 testing czar Admiral Bret Giroir refuted their assertions. A very good POLITICO article (https://politi.co/37VR5dx) with a link to his Today show interview quotes him on, "*We do believe and the data show that cases are going up. It's not just a function of testing."* And, *"We can control the virus through mitigation measures including mask-wearing, hand-washing and avoiding crowded indoor spaces*."

How all of that will play out in the markets in the context of the current rampant virus spread just five days before a US election which may bring a major political sea change is nominally anybody's guess. Yet our instincts are that the near-term pressure from the pandemic will continue to feed more of a near-term 'risk off' psychology than we have seen in a while. That likely means the US equities will indeed continue down to at least that next lower more major support for now.

Even Madame Lagarde's supportive tone was tempered by the economic reality in her response to a question about any impact on the official interest rate outlook (any chance of tightening?) from rapid vaccine availability. She was very pointed that the further economic evolution into the fourth quarter was going to remain weak enough to not likely encourage any central bank tightening anytime soon.

So while the US equities rebound is also bringing just a bit of pressure onto the recently buoyant global govvies (although not the Bund), it is not reversing the recent 'haven' bid that has returned to the US dollar. None of those rallies is trend decisive to this point; only a reversal of recent weakness. The bigger intermarket decision will be what happens if that anticipated further US equities weakness takes place; and also how the other markets perform once US equities stabilize.

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/34snlxy 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. Yet for now it has violated the key lower 3,380 Tolerance of the 3,400 area (now including weekly MA-9 & MA-13. While it is now dealing with the 3,280 Tolerance of the interim 3,330-00 range, the far more major support remains the 3,230-00 area heavy congestion and the 3,000 area.

Thanks for your interest.

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