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ROHR ALERT!! Volatility and Technical Issues

1 message

ROHR Alert <rohralert@gmail.com> Mon, Nov 2, 2020 at 11:45 AM
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Dear Subscribers,
We are sorry to say that over this weekend we experienced some technical issues that are just clearing up this morning, and have limited our ability to provide a more robust assessment of the macro-technical picture this morning. That said, we have more thoughts than shared below on the US election we will provide tomorrow for your review prior to the impact of any of the important results.

For our international readers we also remind that US and European time zones are back to their typical alignment after last week's temporary displacement due to a US lag in going back onto Standard Time. US EST is now once again GMT -5.

And in deference to not having much more to say about the 'macro' beyond our recent extensive focus on COVID-19 pandemic resurgence economic pressure, we will revisit a bit of that tomorrow along with our US 'election reflection' views.

So to cut directly to the market chase, it is likely some of the near-term data along with forward expectations are creating another short-term critical trend dynamic in the US equities as well as other asset classes. After it seemed for a while that Friday's 'Parked for Now?' ALERT!! title could have been misguided, US equities pulled off an impressive recovery from the pressure throughout the earlier part of the day right into lunchtime. As with the Wednesday December S&P 500 future sharp failure from the top end of the 3,330-00 range, Friday's upside reversal from 3,230-00 was impressive. That higher congestion remains a key near-term area.

Yet it also leaves the major capital markets trading more like the old fashioned commodity markets, like the dear departed Pork Bellies. Once again we share a story that might be useful into likely continued volatility into this significant US election and central bank decision week (RBA, BoE and FOMC.) The kind of whipsaws seen last week will need to be managed by knowing your technical levels within a meaningful Evolutionary Trend View… the whips are here to stay.

Once the COVID-19 volatility took hold, especially into and after the initial FOMC 50 basis point emergency rate cut, we shared this perception from the good (or bad depending on your view) pit trading 'old days'. This might be useful insight on how to view markets at present, and why participants should wait for their levels to be reached... from our March 5th 'C'mon in and Ride the Whip' ALERT!!:

"*Back in prehistoric times (literally before electronic quote screens) when we were runners on the old-old Chicago Mercantile Exchange trading floor, the place to learn about volatility was the dear departed Pork Belly futures pit. When the 'Bellies' were in very active market phases they were known for extreme intraday and day-to-day price swings. Depending on the news flow at the time, multiple limit up or limit down (1.50¢/lb.) moves were a regular occurrence.*

"*The exchange floor was also populated with no small number of aggressive traders who were also capable of wit and wisdom. During one of those very active phases there were a couple of 'newbie' exchange members observing from the side of the Belly pit as the market raced up and down. One of the more successful and sarcastic CME trading legends stepped out of the pit to update his trading cards (yes… recording trades manually) to turn into the clearing house.*

"*Noticing the awed expressions and somewhat scared look in the eyes of the newbies (who were surely aware of the sizable sums that were rapidly changing hands), he quipped, 'This is fun fellas… C'mon in and ride the whip.'*

"*Rather than just a random reminiscence and history lesson, there are a couple of points for current markets. Early volatile market analysis prior to the existence of any financial futures at all turned out to be extremely useful training, first for the foreign exchange futures and then once the US debt futures began trading.*

"*Consider the US Treasury-bond previously unheard-of volatility from the late 1970s through the 1980s. The reason that the Bellies (the agricultural term for what was processed into bacon or rashers) were so volatile is that they are basically half a pound of fat. During the initial unrestrained ballooning of US deficits during the Carter administration, this was a great metaphor for how the US debt market was viewed by global participants*."

And through most of last Friday the December S&P 500 future looked like it was going to Close the week well below the 3,280 Tolerance of the interim support in the 3,330-00 range, only to recover to Close up near it. That late bear squeeze was a cautionary signal that it might not be quite so bad in the near term. And here we are this morning, with a rally back up near the top of the 3,330-00 range again.

What could have precipitated such a phoenix-like revival at the end of the worst week for US equities in months? Well, to begin with, 'expectations' that near term 'macro' influences would at least temporarily overshadow recent COVID-19 pandemic gloom. Lo and behold, this morning brought even better than previous 'advance' numbers for all global Manufacturing PMIs. In the broader 'macro' view there is also the consideration of the less than dire election expectations.

Previous concerns over the potential future personal and corporate tax increases under a Biden-Harris regime (not to mention if Democrats also get control of the Senate) are being pushed into the background. That is due to rightful expectation that the first order of business would more likely be the sort of massive pandemic stimulus/relief package the Democrats have been requesting since May.

It is also the case that any Left Progressive regulatory and taxation plans will be tempered by the *realpolitik* of how many moderate Democrats won in 2018 to give House control back to the Democrats after eight years in Republicans hands. They will be very hesitant to enact policies which will cause voter backlash into the 2022 election. While there may be some concerns over more aggressive pandemic suppression, that will be addressed by a Brobdingnagian pandemic stimulus/relief package request. Remember that $3.2 trillion request?

Given the ensuing damage, we believe that could rise to as high as $5.0 trillion more or less. Recall all of the areas the Republicans refused to even consider, like help for renters

and property owners (more critical with a looming eviction tsunami pending for right after January 1st), much more small business relief (especially local retail and dining), more spending on support for COVID-19 mitigation for primary and secondary schools, and in one of the surely more enlightened overall spending requests, massive testing and tracing efforts.

Once again, this is not a political comment on our part, merely our next effort to provide the *realpolitik* of the macro conditions affecting the markets. One of the key elements it is now accepted the US and Europe have failed to enforce (versus a much more effective effort in the now better off Pacific Rim) is the use of more extensive 'right kind' (rapid reading) of COVID-19 infection tests, and aggressive contact tracing and individual quarantine to control the broader spread.

As such, the US election is less of a near-term market choice between a weaker economy under a draconian Democratic tax and regulation regime, and more of a win-win. That is because rightful perception is any next Trump administration would maintain his low-tax rate regime. Even though the COVID-19 fear might still weigh on quite a few businesses, the larger companies which comprise a major portion of the US stock indices would be seen as benefiting from that.

Yet the current bout of US equities strength is part of a renewed 'bifurcation' of international market psychology. In the context of their rally since Friday, the global govvies are also rallying nicely, especially Europe. And while the return of a 'risk on' psychology accompanying any US equities rally had contributed to that, it had naturally also seen the US dollar suffer on the greater hopes for both other developed currencies and especially emerging currencies. Yet both of those are under some pressure at present, with the US Dollar Index back up into its key low-94.00 area (Tolerance 94.30) after recently holding a test of 92.50-.25 support.

As such, all of this will be more critical into Tuesday's US election and extended results announcements at least into Wednesday, and possibly even beyond that. In that context, isn't it interesting that the next FOMC rate decision and statement are Thursday afternoon? While there will not be additional projection revisions this time, Fed Chair Powell will be holding his press conference shortly after the announcement and statement. It is going to remain very interesting.

Another Courtesy Repeat of Thursday's critical consideration
[*To be updated after our systems are fully restored later today*]

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/3jOJRKD updated through Friday, October 30.) Yet it also pushed above it 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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