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ROHR ALERT!! The Mnuchin Mugging?

1 message

ROHR Alert <rohralert@gmail.com> Fri, Nov 20, 2020 at 9:53 AM
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Dear Subscribers,
We had allowed for the alternating positive longer-term US equities anticipation of the constructive vaccine influence, there was always going to be the negative near-term COVID-19 pandemic spread counterpoint to that (see last Tuesday's 'On the Yin-Yang' ALERT!!) And as pointedly noted in Thursday's 'Back to the COVID-19 Yin' analysis, the pandemic pressure has weighed on US equities.

However, neither we nor most other analysts nor even the Federal Reserve were expecting Treasury Secretary Mnuchin to cancel some residual Fed lending backstop programs to be cancelled as of December 31st. We will have more on that and other US political factors below. Yet the near-term pressure from the COVID-19 pandemic spread remains the ley source of pressure on US equities.

This is not generally surprising, even if the rate of daily new infections has climbed up toward 200,000 per day. That is a figure that even the most dour pessimists did not imagine into the highly predictable Fall COVID-10 infection rate resurgence. As we noted over the past couple of days, this creates the prospect of the US healthcare system being overwhelmed by the number of people requiring hospitalization.... and the attendant health worker burnout.

There are also a limited number of physician retirements due to threats from folks who are accusing them of backing the COVID-19 science as a conspiracy. This is the ultimate downside of COVID-19 pandemic 'science deniers' negative impact on a system that needs all of the physicians it can get. It highlights the significant negative impact of self-serving propaganda from some government officials. However, even that pales by comparison with the folks who have refused to abide by pandemic suppression steps, leading to its more aggressive spread. See this Reuters article (https://reut.rs/3lO7CUS) for more on specifics and restrictions.

That said, US equities have only seen the most marginal slippage below interim support on this week's selloff. In fact, December S&P 500 future only seemed to be in a 'cleanout' can stabilize below the 3,575-85 congestion (also last week's Close), and is now firming up back into it. While it needs to push back above the 3,600 'big penny' to reflect a stronger trend tone in the near-term, the recovery to this point is impressive in light of the concerns over Mnuchin's recent move.

The evidence from US equities resilience on the vaccine-based intermediate-term outlook reinforces the sustained return of a 'risk on' psychology we have noted since the Pfizer announcement at the beginning of last week. This is reflected in global govvies stalling back up into the high end of congestion ranges violated back then, and sustained bid (with some short-term reactions) in the emerging currencies. As such, the Mnuchin announcement appears a passing influence.

So why would a Treasury Secretary that has been so supportive of major central bank accommodation have decided to confirm cancellation of programs that the Fed has clearly indicated it would prefer to maintain? Well, Mnuchin appeared on CNBC this morning (https://cnb.cx/3lVfyEc) to defend the move, and stated that it is simply as dictated by the law passed last Spring. He also noted the amount of funds used by these programs was minimal, and there is still $750 billion in the government's firing power to intervene if it is necessary. It is also in the power of Congress to quickly reappropriate the funds if the Fed wants them at some point.

Yet, as with all things related to the Trump administration in the current context, there is a suspicion it is another form of crippling the incoming Biden-Harris administration transition effort. That is easy to imagine in the context of Trump's denial of any information on the most critical fronts: national defense and the COVID-19 pandemic. Against the advice of the Defense Department and even prominent political allies, Trump has ordered US troop reductions in both Iraq and Afghanistan on January 15th, just 5 days before the Biden inauguration.

Yet the more immediate concern for the US population is the lack of any key information on COVID-19 pandemic efforts. As explored Thursday's very good Reuters article (https://reut.rs/2IPFPoQ), there is not only no recent activity, but no intention on any future information sharing with the Biden transition team. Democratic Senator Chris Murphy summed up the view of not just the political opposition but also the vaccine development folks, when shortly after the recent confirmation of that information denial he said, "*This is potentially catastrophic*."

Of course, this is all still part of Trump's denial that he lost the election, because (even though there has not been any evidence provided) he claims the voting was so rife with fraud that it should be thrown out. In fact, that general assertion is now the basis for Trump's challenge to the voting results, having abandoned any effort to find definitively corrupted ballots to reverse the totals.

As we have reviewed the most salient moves to reverse votes or throw them out (especially in critical Pennsylvania) in recent analysis, we suggest a reading of those for anyone who has not already done so. Yet as the key individual state certifications are coming up toward their deadlines, we thought it better to focus on those for now. Another very good Reuters article (https://reut.rs/35NnvW0) on Thursday lays out important state vote certification deadlines, and we suggest especially noting Georgia today and other key states into early next week.

Yet broader Team Trump efforts to overturn the popular vote result stems from his desire and active efforts to appeal to the individual state legislatures to declare their elections flawed and throw out the popular vote results. This is unheard of previous through the entire long history of American politics. Yet it is also something which might be possible under laws that give state legislatures and not other officials or courts the ultimate authority over their election process.

And for anyone who actually wants to get into the weeds on this mind-boggling possibility, there was yet another great Reuters article (https://reut.rs/35NDwLZ) this morning on exactly why and how that works in practice. While it still seems a remote possibility due to the popular backlash the state politicians would face under such a scenario, it is still a possibility until various state popular election results are certified over the next week. Of course, the upheaval from any reversal of a US general election popular vote (Biden

currently leads Trump by 6 million votes) might also be a market disruptor. We shall see into early next week.

Another Courtesy Repeat of Wednesday'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/38PO6E1 updated through last week Monday.) 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 was key resistance after the mid-October recovery from lower support.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the early September attempt to stabilize 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 left 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 posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from serial positive vaccine news across the past couple of weeks.

The near-term question is whether it can hold the near-term support around the early-September 3,587 trading high, with a Tolerance to recent 3,575 congestion? If so, it points to a likely extension above the early September's 3,505-10 DOWN Closing Price Reversal to the 3,750-3,800 area before it is 'overextended' again.

Thanks for your interest.

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