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ROHR ALERT!! More 'Bad News is Good News'

1 message

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Dear Subscribers,

As we have been noting since Thursday's 'Better Despite Near-Term Pressure' ALERT!!, *"While it is never good to root for less constructive economic data, in this case it is fine to look for anything that will finally pressure the US Congress to get its act together, and provide some relief to the beleaguered American public."* In that regard, as we noted in Friday's 'Win-Win US Employment Report' ALERT!!

the weaker headline Nonfarm Payrolls was a definitive 'win'. For anyone who has not seen it at this point, the relevant details are in Friday's analysis with the important implications of the true nature of the 'monthly' Employment report data. And the key to the benefit from the 245,000 Nonfarm Payrolls increase (against an already reduced estimate of 481,000) was the degree to which it might provide further impetus to a long-stalled US government COVID-19 stimulus/relief package. That was rejuvenated by a bipartisan group of Senators and Representatives last Tuesday. Hopefully that is the case.

As such, the weaker US Employment report was a classic bit of *'bad news is good news'* market influence. That is classically something applied more extensively to central bank psychology: the worse the economic data into a central bank meeting, the more likely it is the bank will be more accommodative. That would classically take the form of either rate cuts or quantitative easing program initiation or expansion. Yet as the central banks are already in full accommodation mode, there does not seem to be much more they can do.

As we assume many of our readers are well aware, Fed Chair Powell has been a strong advocate of additional fiscal stimulus since his June press conference following the rate decision meeting. That was due to the pending late July \$600 Supplemental Weekly Unemployment Benefits termination, which he said would become a real problem for the economy the Fed could not address.

And he was right, even if it took until the 'November' US Employment report to turn up in the data. (See Friday's ALERT!! for a revisit to the 'little secret' of Employment report data.) However, at this point it is clear to most economic analysts that the current round of fresh COVID-19 suppression restrictions is going to make a bad situation worse. And the urgency to pass a package is intensified by the fact it will not likely help avoid further job losses and economic pressure in December... that is already 'baked in' on fresh COVID-19 restrictions.

That said, there is a desperate need for a permanent address of the COVID-19 pandemic spread. So, how can the news late last week that due to supply chain issues Pfizer will only be delivering 50 million doses of its vaccine (capable of double-dose vaccination of 25 million people) by the end of 2020 (i.e. this month) versus the planned 100 million be 'good' news for the US equities? Yep, it's another '*bad news is good news*' influence hopefully spurring the US Congress.

According to Friday's very good CNBC article (<https://abc13.co/2JYZ8MV>), Senate Majority Leader McConnell and House Speaker Pelosi are talking after months of no communication at all. That is only reasonable now that McConnell has allowed his caucus to consider spending well above his previous \$500 billion limit, and Pelosi has allowed for much less than her previous \$2 trillion(+/-) request. It is also of major interest that the bipartisan draft \$908 billion compromise includes \$160 billion for cities and states, which McConnell previously adamantly opposed.

While Trump had already signaled that he was in favor of a larger stimulus/relief package than the Senate Republicans had proposed, it will be very important for him to not get flaky (as he had been on some past legislation) on signing any bill that reaches his desk this time. That is due to the relief bill being attached to the critical massive omnibus spending bill making its way through Congress to avoid a shutdown. Friday's very good Bloomberg article (<https://bloom.bg/3mUyW4n>) explores the efforts to prevent at least a partial US government shutdown at the end of this week. That also creates more impetus to complete the relief package.

In this overall context of a rampaging virus, weaker US employment with more to follow, and the ultimate address of the virus delayed, it might be reasonable to expect commensurate market reactions. Yet the US equities remained strong, as the December S&P 500 future pushed up from hanging around early November's (initial Pfizer announcement) 3,668 new all-time high. It further firmed late last week above Tuesday's 3,678 new high to set Friday's further 3,700 all-time high.

It briefly exceeded that in overnight trade early Sunday evening prior to setting back today. We still suspect the path of least resistance remains extending the rally up to the 3,750-3,800 range, with near-term support now back as nearby as the 3,668 previous high (Tolerance to the 3,655 congestion), and the 3.635-25 area congestion into which it had stalled on the November 24th post-Biden critical 'battleground' state (MI & PA) certification rally above the key 3,585-75 range.

It is back to a somewhat 'bifurcated' global market psychology on those weaker near-term factors stimulating a global govies bid despite the still improved longer-term (6-9 month outlook) psychology. They have rallied back to some degree on that weaker outlook, with the December T-note future back up into the low end of their previously violated 138-16/-00 congestion, with key weekly MAs slightly above that range. Yet the real story on near-term economic weakness is in Europe on the March Bund future at a 2.40 premium to the December Bund that expires Tuesday. It is therefore above important 177.00-.50 congestion, with the key Tolerance of that range up at the early August 178.01 9-month trading high.

In foreign exchange, outside of the Brexit beleaguered British pound (end-of-year negotiation deadline looming with key issues still unresolved) other developed currencies and emerging currencies are mostly maintaining their overall bid against the greenback. While the US Dollar Index seemingly stabilized against the early 2018 90.50 key congestion support since last Thursday, that was only after a sharp spill two weeks ago below previous 92.50-.24 support (which had held for four months.) However, the rallies from 90.50 so far seem very lackluster.

This is the critical consideration

Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart <https://bit.ly/3m12pZv> updated through Friday. Such a significant rally above the previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

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 previously highlighted as rally resistance into early June. After that held once again, the recent surge 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. Yet instead 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 month.

The near-term question was whether it could hold around near-term support at the early-September 3,587 trading high and 3,582 Close from four weeks ago, with a Tolerance to 3,575 congestion? Even though it slid below them three weeks ago on US election concerns, those issues clearing up early two weeks ago had reinstated the 'risk on' psychology. Recently above that left minor resistance at congestion in the 3,625-35 range resistance. Also above that pointed to the recent 3,668 all-time high that was exceeded last week for a 3,700 new all-time high. However, overall the extension above September's 3,505-10 DOWN Closing Price Reversal points to the 3,750-3,800 area before it is 'overextended'.

Thanks for your interest.

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