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ROHR ALERT!! Obviously Binary 'Risk Appetite'

1 message

ROHR Alert <rohralert@gmail.com> Tue, Dec 15, 2020 at 11:55 AM
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Dear Subscribers,
Well, US equities seem to be back to a "C'mon in and Ride the Whip" psychology (see our reference to that in an AG market historic view in the March 5th ALERT!!) That is on wild variations in prospects for a US government COVID-19 pandemic stimulus/relief package. That's how the front month S&P 500 future went from a Friday morning vigorous test of secondary 3,635-25 congestion (after 3,668-55 was violated) back up to nearly 3,700 Monday morning. 'Ride the whip' indeed.

And it is not surprising that it stalled into that 3,700 area, which remains a key near-term threshold for the overall sustained up trend. While we will have much more detail on the technical trend comments below, for now it is more important to again review the drivers for recent 'risk on'/'risk off' flip flops. Most glaringly apparent was as reviewed in Friday's "'Risk On' At Risk… Sort Of" ALERT!!: the struggle in the US Congress to reach a deal on its COVID-19 relief package.

As noted on Friday, our enthusiasm for the more bipartisan US Congressional approach to providing Americans desperately needed COVID-19 stimulus/relief seems to have been at least partially misguided… in the near-term. That is where 'near-term' hopefully means no more than a few days. We shall see on that for the combined relief package and US government omnibus spending bill one week deadline extension until the end of this week. It is also breathtakingly typical and ultimately troubling the US Congress always needs more time in these matters.

It is the key to Washington DC partisan politics that the acrimony among the leadership on each side tends to block sensible compromise. Our operative question across recent cycles (many years of observation) is, "*Why do really smart people do really dumb stuff?*" In this case it was in part the Republican position on broad liability immunity for businesses from COVID-19 related lawsuits (for much more see Friday's ALERT!!) The other side is the Democratic leaders demand that there be $160 billion for states and municipalities.

There is little doubt that some degree of each is likely advisable. Yet due to the leadership's aggressive stance on each of these issues, there has not been any movement toward a compromise position. As such, in an attempt to get some relief to now longsuffering Americans, the bipartisan group is proposing that those issues be shelved, and a $748 billion relief bill be passed. That would be the originally proposed bipartisan $908 billion minus the Democrats desired $160 billion for states and cities. That would still address immediate needs, like the unemployment benefit extension beyond December 26th and other key issues.

For more on that see Monday's extensive CNN article (http://cnn.it/3r6R65N) that includes much perspective and signs of capitulation on both sides. In addition there is the issue of whether banks will be able to extend their accommodative policies toward borrowers affected by the COVID-19 economic pressures. That especially includes landlords pressed

by eviction moratoria and mortgagees who have fallen behind in their payments. This morning's Reuters article on the subject (https://reut.rs/3oRxroj) illustrates this next level of complexity facing an already seemingly overburdened Congress into looming late week deadlines.

Along the way the fate of the US equities overall 'risk on' psychology seems to hang in the US Congressional balance. We say this because the other factors are seemingly balancing out to a net positive longer-term perspective. The near-term ravages of the COVID-19 pandemic remain the sort of economic drag that allows the global govvies their bifurcated bullish psychology for now. Yet, the shipments and actual vaccinations of the Pfizer/BioNTech drug are very hopeful. That has just been accompanied by this morning's FDA acknowledgement that Moderna's vaccine trials information has not shown any reason to reject its use. Expect to see that additional vaccine EUA (Early Use Authorization) request and very likely approval soon, even if that means broader relief only in another 3-4 months.

As we have highlighted in the wake of the US election concerns abating over the past several weeks, the fate of the 'risk on' psychology now also boils down to the fate of the US COVID-19 relief negotiations. On current form the US equities keep rebounding from below that front month S&P 500 future 3,668-55 support to no worse than the lower interim 3,635-25 area. That said, there is the degree to which recent activity leaves the 3,700 area more than just the higher 'big penny'.

There is much more on that below. There is also the degree to which emerging currencies are maintaining their overall bid against the US dollar despite some slippage back below recently violated key resistances. The US Dollar Index is also slipping back into its critical lower 90.50 support after its recent rebound from that area. That is likely due to the rebound of the other major developed currencies Euro and British pound rallying due to the enlightened Brexit negotiation deadline extension beyond December 31st that had burdened them.

All in all, that leaves the fate of the 'risk on' psychology a binary affair based on whatever the US Congress either accomplishes or fails to deliver by the end of this week. Will they provide some salve for what will be continued wounds over the coming months, thereby avoiding what is broadly acknowledged to be likely permanent damage to the US (and by extension the global) economy? Or will they fail to act? In that case we repeat our recent regular advice: fasten your seatbelts.

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/3oTEqgn 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 previous 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 support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them the following week on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the beginning of December a 3,700 new all-time high. While it traded slightly above that last week, last Wednesday saw a selloff back below that area into the area of that previous 3,668 all-time high.

That left a minor (based on only a very nominal 3,714.75 new all-time high) DOWN Closing Price Reversal. The rule of thumb on 'nominal' DOWN signals in a sustained bull trend is that they tend to be violated after only a brief reaction.

Will that be the case here? We shall see. What we know for now is that there has been very erratic activity on the obvious 'binary risk appetite' regarding the fortunes of the US COVID-19 pandemic relief package. That previous 3,668 all-time high has a Tolerance of the more recent 3,655 congestion, which it has slipped below and then recovered above in recent trading.

Yet at least so far it has held into the additional interim support at interim 3,625-35 range congestion. As long as those hold on the selloffs, the 'risk on' rally extension psychology above September's major 3,505-10 DOWN CPR still points to the 3,750-3,800 area before it is 'overextended' and more likely to react again.

Thanks for your interest.

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