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ROHR ALERT!! Stimulus Thursday

1 message

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Dear Subscribers,
Wednesday's 'Intermarket Insights' ALERT!! focused on the recent shifts between asset classes in the wake of various political, economic and medical influences. Those are all still very prominent in the critical final phase of this important week, especially as we head into President-Elect Biden's significant stimulus/relief program speech this evening. That gained additional impetus from current data showing Weekly Initial Jobless Claims surprised with a jump to 965,000 versus expectation of a slight rise to 795,000, along with a therefore not very surprising increase in Continuing Claims. This gives the Left more of a negotiating edge.

For more see this morning's Reuters article (https://reut.rs/3bLJXSO) with the details of more support to minority communities, states and municipalities left out of the December's $900 billion package, and money for accelerated COVID-19 vaccination efforts also less than prominent in December. And those highlight the dynamic the markets are dealing with at present: continued COVID-19 pandemic spread (including the more infectious variants) fomenting near term economic pressure from quarantines and lockdowns (especially in the UK), and the hopeful anticipation around successful herd immunity from major vaccination programs.

Those were highlighted not just by far greater than expected current US Jobless Claims that reinforce the labor market weakness apparent in last Friday's US and Canadian Employment reports. There was also Wednesday's balanced Fed Beige Book (https://bit.ly/3qizF0B), which pointed up the clash between current horrors versus the vaccination-driven better outlook for the second half of 2021. For a brief summary, please see Wednesday's Reuters article (https://reut.rs/39uPlaj.)

This was also apparent in this morning's Organization for Economic Cooperation and Development's (OECD) always interesting Composite Leading Indicators (CLIs https://bit.ly/3bMi9Oa for our mildly marked-up version.) As a reminder, this OECD six month forward view is always released two months late to ensure the reliability of the CLI data. As such, it is typically a fairly reliable four month macro outlook for the global economy and individual countries. It is also showing the most likely scenario being continued steady growth, yet with some caveats.

The manufacturing sector of the Chinese economy is still thriving, in no small measure based on China's domination of the global PPE market that remains a necessary component of the whole world's COVID-19 battle. It is no surprise that this morning's Chinese December Trade Balance once again outperformed the expectation of modest slippage with a solid gain ($78.17 billion surplus.) And it shows up in the OECD CLIs as China being the only major economy thriving back above pre-pandemic levels, while the others are only recovering near those.

So there you have it: the economic weight of the continued growing pressure from the pandemic (as the US hits new levels of infections and deaths and more of the attendant restrictions on gatherings) versus the hopeful outlook based on whether the new US administration can accelerate the vaccination program to open the economy back toward pre-pandemic levels later this year, and the near-term prospect of more stimulus/relief. It is quite a radical battle, and there will be further insight on the latter from Biden's speech this evening.

Will it be enough to provide more hope to the economy and US equities despite the current bad news and weak near-term outlook? That may be somewhat a matter of the amount and nature of COVID-19 relief, especially if there is help for some of the most stressed businesses like dining, hospitality and others. Yet it is the case that Democratic moderates like Senator Manchin (D-WV), who is a leader in the bipartisan Problem Solvers Caucus that championed December's deal (and who we have highlighted in recent analysis), seem to have gained standing.

Note the Reuters article on the still very large Biden stimulus/relief proposal likely planning for $1,400 checks per individual, versus the additional $2,000 the Left-Progressive wing of the party demanded after President Trump mentioned that number in his late December criticism of the $900 billion package's $600 payments to individuals. Yet even Trump was only suggesting that the original amount be brought up to that $2,000 figure, and the anticipation is that this is what Biden is likely to propose. That kind of makes sense to us as well, and yet…

...the further criticism from Manchin and some other moderate Democrats (and most of the Republicans) is that this still means large sums going to folks where couples are earning over $100,000 per year. His recent statement was that the next round of stimulus/relief should not be *carte blanche*. We interpreted that to mean it should concentrate more on 'relief' for the folks who really need it (of which there are many), and less on stimulus payments to people who have not suffered any economic impact, and are less likely to spend the money versus banking or investing it. That means the 'stimulus' to the well-off is not actually likely to 'stimulate' the economy as much. That makes much more sense to us.

Market implications are telling for the various asset classes, and will go beyond Biden's speech this evening into Friday's responses from within the Democratic Party and elsewhere. In the first instance US equities that have held in very well this week at the March S&P 500 future 3,775 near-term congestion. Will the net expected stimulus/relief be adequate to further spur US equities that have reacted back down after last week's Democratic dual Senate runoff election victories?

That will depend in part on the communication from Democratic Party moderates, especially regarding the amount and any 'means testing' for the next round of direct payments. If it is viewed as being less than optimal, or even worse once again stalled, the US equities might come back under pressure below 3,800, with the lower 3,740 and 3,720-00 areas as the more significant lower supports.

This will also be important for the global govvies, where the March T-note future selloff had breached the important Area Gap in the 136-24 area from back during the volatile rally and reaction in the March 2020 COVID-19 pandemic-driven surge. Yet after slipping below the 136-16 quarter point Tolerance of that gap earlier this week, it has recovered back above it at present. That will warrant close attention into the weekly Close. Possibly based on the more troubling pandemic course in Europe, March Bund future that had slipped back below its 177.50-.00 congestion (going all the way back to its Summer 2019 all-time high) has

ratcheted above it after early week slippage. This is another key indication into the weekly Close.

The foreign exchange implication is a somewhat better US economy attracting a bit more support for the US dollar. However, as COVID-19 pandemic suppression will foment a broad global economic recovery, the idea that the greenback will experience any secular strength based on US improvement is a bit far-fetched. More likely is the potential for the US dollar to suffer under major US government spending programs of the Democrats. Once again, that is not a political comment, and quite a bit of that spending is likely indeed well-founded based on the repair the US economy will need in the wake of the massive COVID-19 damage.

All the same, there is no reason for an improved US economy to attract inward investment flows any faster than its peers. The US Dollar Index dodged a bullet this week on higher US interest rates squeezing the bears after the extended bear trend slipped below the top of the 89.50-.00 area. Yet it would need to rally above 90.50-91.00 historic congestion (also top of the mid-December rallies) and sustain it on weekly Closes to hint at a reversal of its longer term down trend. It is also the case that after rather sizable recent (since last week's interest rate rise) short-term downside reactions, emerging currencies are getting their bid back.

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/39pEsqa (updated through Friday January 8.) 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 the serial positive vaccine announcements since early November.

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 in early-mid November 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 with a 3,700 new all-time high. While it traded slightly above that into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally' late last week, saw it up near the 3,750-3,800 resistance.

However, based on recent weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 30 points per week, those are up to 3,800 and 3,830 this week. And as is often the case at a new extended all-time high, those are

presently the only quantifiable resistances, and they are rising over $30/week based on the accelerated rise of weekly MA-41.

And following up on our previous observations, last Monday's drop from a new all-time high above the end of December 3,749 weekly Close left a potential for a weekly DOWN Closing Price Reversal. However, last week's recovery from early week jitters negated that potential, with higher resistances more prominent. And this week's straight down drop does not establish any technical top in its own right, with the lower supports more so critical on any further pressure.

At least so far the March S&P 500 future is holding no worse than minor recent congestion in the 3,775 area. However, important psychological and technical support remains down in the 3,740 area. That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate last week Tuesday) likely to hold on a further selloff below 3,800 despite concerns. That was held despite the more prominent lower support being the 3,700-20 area it had been trading below early last week. Those are now key near term supports on any further selloff.

Thanks for your interest.

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