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ROHR ALERT!! Cross Currents Seem More Constructive for Now

1 message

ROHR Alert <rohralert@gmail.com> Thu, Feb 4, 2021 at 11:44 AM
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Dear Subscribers,
As noted in Wednesday's 'The Binary Risk Appetite Event Horizon' ALERT!!, the two primary influences on US equities seem to be the latest Biden administration moves to beat the COVID-19 pandemic, and the timing and composition of the final passage of his ARP stimulus/relief program. There is both good and bad news on the pandemic. New variants are spreading rapidly (more below), even if the more aggressive vaccination federal government stance of the Biden folks appears to be accelerating progress. That is also with a federal masking mandate.

On the ARP program there is greater focus on the unified Democratic Party efforts, whether or not there is any Republican approval and any votes. As we (among many others) explored previous, as long as the final bill can satisfy the requirements of the Democratic moderates, they will have the 50 votes in the Senate necessary to use 'reconciliation' as a means to force the bill through.

There is a greater potential for this in the wake of the GOP far lower spending proposal, even though that was roundly dismissed as inadequate by Biden and the Democrats. As we had already suggested quite a while ago (in the wake of the December relief bill passage), that is due to Biden's lately seeming amenable to reduced eligibility for the $1,400 individual stimulus checks. That would reduce it from $150,000 annual income for a couple down to $100,000. For more on this, see the NPR article (http://n.pr/3oJOsjX) citing him saying to a Democratic leaders meeting, "*I think we can better target that number*..." ...and, "*I'm OK with that*."

As noted on Wednesday, we believe US equities would not react too negatively to that more limited, yet immediate distribution. However, as we also stressed on Wednesday, the timing would seem to also be important considering the extreme need on the part of many people that the Democrats have stressed in rejecting the far more limited Republican proposal. Yet instead of the aggressive action we had suspected was necessary prior to the Trump impeachment trial getting into full swing next Tuesday, we are now hearing "early March"... Wait! What??!

On one hand, there is a relevant rationale for that still being an adequate (if not optimal) timetable. The Dems want to make sure the bill is passed ahead of (from the NPR article) "*...before those who are now getting enhanced unemployment assistance lose those benefits in mid-March*." Fair enough. Yet after complaining that the December $600 relief checks were inadequate, might a delay of up to a month from now be a bit late to be effective? It speaks of a lack of urgency, and we wonder how US equities and other markets might react in the meantime.

After all, there are concerns over the continued economic weakness despite some hear-term improvement in the economic data. That was apparent in Wednesday's better than expected recovery of private payrolls shown by the US ADP Employment Change. That has

enhanced expectations for Friday's important US Employment report. That is consistent with the generally somewhat better economic releases out of Europe, and today's US Weekly Jobless Claims data. That is in the face of other indications elsewhere which remain challenging.

In the latest (and last for this cycle) central bank rate decision and follow-on press conference, the Bank of England held steady and pointed out negative rates are not on the table despite downgrading their economic forecast. That is in the context of more general pressure on the economy from various influences, which are readily reviewable in the Inflation Report (http://bit.ly/3tuj3Fx.)

That also points out how the Euro-zone experiment with negative rates is very mixed in the context of the ways in which depressed financial services profits offset some of the ostensible gains from this regime. You can also read a quick CNBC summary article (http://cnb.cx/36GWbsW) for a general perspective.

Of all the developed economies, it is the least surprising that the UK should have headwinds. That is both from Brexit and the impact of the UK variant (as it is known for its prevalence there) of the COVID-19 virus. Yet along with the other mutations of the original virus (Brazilian and South African), it is important for two of its key characteristics which are negative for the pandemic outlook: it is both more infectious and lethal. That dims the 'light at the end of the tunnel'.

While we could not find the actual video clip, Dr. Leana Wen was on CNN this morning updating her previous insight that the UK variant is up to 70% more infectious. While a month ago she had hoped it was less lethal, she now notes it is actually likely 30% more deadly. Even if people do survive it, they are far more likely to end up in hospital, putting additional pressure on those systems after the current more hopeful lower cases and admissions (even if still at high levels.)

Accentuating this, especially in a US where some people place the importance of their 'personal freedom' over their health, there have been sustained cases of folks ignoring public health protocols. Among the most striking yet not totally isolated instances is a Naples, Florida grocery store, where the owner and also seemingly all of the patrons are of this opinion. As shown in an NBC TODAY Show video (http://on.today.com/39PKMcd) posted just this morning, neither the customers or any of the staff are wearing masks, and are adamant about it.

This is also extremely troubling insofar as this is a very affluent and elderly community, where it might be considered they would be especially concerned about getting the disease due to the mortality levels in that population. Just listen to the opinion from store owner Alfie Oakes for a taste of the complete rejection of the medical evidence on the part of the anti-masker pandemic deniers.

Yet in spite of all this, markets seem more impressed with the recent economic data improvement and better intermediate-term outlook despite the delay in the passage of the Biden ARP package until next month, and the worsening aspects of the pandemic. The latter is possibly offset by another modest improvement in the near-term new cases and hospitalizations as the very heavily predicted post-December holiday surge seems to have peaked after leading to new highs.

Yet if the past is any guide, the current easing of restrictions will likely result in another resurgence of the pandemic over coming weeks. You can revisit our link to what Dr.

Osterholm had to say on CNN last week (https://bit.ly/3j2xyLZ), which is very consistent with Dr. Wen's update on the spread of the UK variant.

That said, the near-term better mood of the US equities has it finally pushing up again on the March S&P 500 future firming from the 3,800-20 area it had actually traded above back on Tuesday. That opens the door to a retest of the 3,850-62 area recent all-time highs from the past two weeks. Much above that the recently established new all-time weekly Oscillator thresholds point to the 3,900-30 range. And those are still rising by $35 per week; so up to 3,925-55 into next week.

The same goes for the global govvies that are obviously negatively impacted by the recent economic data improvement, easing of near-term pandemic indications and possibly the better vaccination outlook in the US and Europe. The March T-note future is now back down to the important 136-24 weekly chart low end of the Area Gap left during the wild March 2020 swings. While it had traded slightly below that area into mid-January prior to recovery, it remains a key trend area.

And the better economic data in Europe along with plans to increase the current already robust COVID-19 stimulus has the March Bund future under additional pressure below the key 137.00-.50 area. Next lower support is the 175.00-.50 area. And the March Gilt future that recently slipped below the 135.00-134.50 area has also failed the 133.50 area, and is beginning a retest of the mid-low 132.00 area.

On the developed currencies the US Dollar Index is back above the 91.00 area Tolerance of 91.23, which leaves EUR/USD also back below the low end of its 1.2100-1.2000 support. Yet in the context of the US equities and global govvies, that seems a bit odd as more of a 'risk off' tendency. This is reinforced by the weakening of emerging currencies after the recent return of their bid. As such, it seems that the better economic data renewed 'risk on' psychology may not be so sound, and that might be on the fears of the future pandemic impact.

Another Courtesy Repeat of Tuesday's critical consideration
[To be updated after Friday's US Employment; see overall comments above]

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/2MeAAkz (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 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' saw it up near the 3,750-3,800 resistance.

However, based on previous 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 25 points per week, those are up to 3,880 and 3,910 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 still rising $25/week based on the accelerated rise of weekly MA-41.

After the March S&P 500 future recovered back above the 3,775 area minor recent congestion, last week left it pushing up to that next new 3,860 all-time high (right into last week's lower weekly Oscillator resistance.) However, the pressure on the 'risk on' psychology we had warned of came home to roost last Wednesday on the market ignoring the classical 'friendly Fed anticipation' even before Powell's press conference. As noted for quite a while, the more important psychological and technical support below the 3,800 area was the interim 3,740 area.

That is the congestion level seen on misplaced fears of a Democratic-controlled Senate in early January. That was held during that selloff despite the more far prominent lower support being into the 3,700-20 area it had been trading below early that week. Even as last Wednesday's sharp selloff led to an immediate test of that area all in one day, and it was retested on Friday after Thursday's major bounce, it held and still remains the significant support this side of 3,600 area and lower levels; including weekly MA-13 up to the low 3,700 area this week.

Thanks for your interest.

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