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ROHR ALERT!! Inevitability Prevails Over Immediacy

1 message

ROHR Alert <rohralert@gmail.com> Fri, Feb 5, 2021 at 10:35 AM
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Dear Subscribers,
There have been more than a few folks who were concerned about the timetable for the Biden ARP $1.9 trillion stimulus/relief proposal… including this analyst. However, in the context of the serial US legislative steps necessary to pass it into law, the tendency noted in Thursday's 'Cross Currents Seem More Constructive for Now' ALERT!! came into full force yesterday afternoon. That was in good measure on the Democratic Party Senate success on the pending legislation.

All of the extensive details beyond the previous headline listings of the ARP contents can be reviewed in a very good Reuters article (https://reut.rs/2N1ZkMY.) That includes the discussion of how multiple weakening Republican amendments were swatted down in over 15 hours of debate, and that the final vote was a 50-50 tie which was broken by the vote of Vice President Harris. This is both according to the expected script, and as important in showing Democratic Party solidarity.

This means that moderate Democrats like Senator Manchin (D-WV) are on board, which in addition to Republican resistance in several areas was a potential point of contention. Harris also cast the deciding vote defeating a range of Republican amendments that were not related to COVID-19 relief, like some items regarding oil drilling and US foreign aid. Welcome to the US lawmaking 'sausage factory'.

Now that the bill has passed the Senate, it will need to go back to be reapproved by the House, even though it had sent the bill to the Senate in the first place. It is also still to be decided what the annual income eligibility will be after the recent Biden administration agreement it may need to be lowered. It was probably left out of the current bill to prevent the bill getting bogged down in more debate over a loosely agreed drop to $50,000 per individual, and $100,000 for married couples.

This is an enlightened step toward Republican and moderate Democrat requests that the relief is targeted to the most needy rather than also sending taxpayer money to folks who might not actually need it… and won't spend it. The lower threshold means the money will actually be a more effective stimulant as well as providing relief, instead of possibly sitting in the bank (see the link out in our January 22nd 'PMI Friday' ALERT to the St. Louis Fed research on this issue.)

Of course, once the additional details have been added in the House, it will need to go back to the Senate for final approval prior to getting to President Biden's desk for signing, and rapid distribution of the relief payments. The reason for our lengthy exploration of that process is to clarify our previous indication that it might be a problem if the ARP package was not passed into law by the time the Senate's 1-2 week Trump impeachment trial begins in earnest next Tuesday.

In retrospect, that was not likely necessary in any event. This was apparent in the market reactions to the Democrats announcement earlier this week that they were targeting early March for final passage of the ARP legislation. The US equities remained mildly 'risk on' as they held up quietly above key resistance (more below), and improved greatly as Wednesday's Senate debate made passage that much more inevitable. Clearly inevitability has indeed prevailed over immediacy.

That is despite this morning's weakish US Employment report, with its limited 49,000 Nonfarm Payrolls gain. Even though that was right around the official estimate, in the context of the recent improvement of other economic data (especially Wednesday's ADP Employment Change) it was well below 'stealth' estimates that were more so up around 100,000. That is in addition to the 169,000 downward revisions for the previous two months. Really weak on balance.

As such, the current market activity across all asset classes is a function of classic anticipation. Once again revisiting the old cliche, "*The market is a creature of expectations*" leaves us looking at how the glass is indeed half full. While conditions remain stressed at present, the reinstatement of the 'risk on' psychology is rooted in the idea that things are going to be better six months into the future. Potential for a COVID-19 pandemic resurgence as restrictions are lifted is offset by the Biden administration's accelerated vaccination efforts. as well as financial support for that in the ARP and other steps (federal masking protocol.)

The current weakness of small retail turnover and other aspects of the 'gathering' economy are countered with the relief checks of the ARP, assistance to stressed industries and support for sales tax revenue deficient states and municipalities. That the Republicans did not want to provide the last bit due to partisan prejudice never made any sense: 'red' states are suffering as well, and what is the point of providing more money for retail while governments are laying off more workers?

As we had already noted, 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 opened the door to a retest of the 3,850-62 area recent all-time highs from the past two weeks, which have now been exceeded. The recently established new all-time weekly Oscillator thresholds (still rising by $25 per week) point to 3,925 and 3,955 levels 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 was back above the 91.00 area Tolerance of 91.23 earlier this week, which would speak of 'risk on' psychology reappearing on a somewhat delayed basis. That is also consistent with EUR/USD clawing its way back into

the low end of its 1.2100-1.2000 support. In the context of the US equities and global govvies, previous US dollar strength seemed a bit odd as more of a 'risk off' tendency. This return of 'risk on' is also reinforced by the resumption of near-term strength in emerging currencies after a brief recent bout of weakness. As such, it seems that more consistent upbeat anticipation is back in force, as inevitability seems to be globally prevailing over immediacy.

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/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 and ultimately above 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 the 3,925 and 3,955 levels next week. Those are more realistic near-term targets now that the March S&P 500 future has recovered back above 3,775 area minor congestion and more prominent 3,800-20 range for the current push above the past couple of week's 3,862 previous all-time high.

Thanks for your interest.

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