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ROHR-BLOG: COVID-19 Plop, Quick Take, Calendar

1 message

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Dear Subscribers,

You can't say we didn't warn you. Right from our initial January 23rd research note ('ECB versus Coronavirus') on the potential US EQUITIES impact and more pointed January 27th assessment of COVID-19 epidemiology, we noted its 'known unknown' nature creating economic and US EQUITIES risk.

While US EQUITIES still made a new high along with EMERGING CURRENCIES strength, even as GLOBAL GOVVIES were resilient on selloffs, the risk of a greater COVID-19 impact remained. That was due to the atypical 'stealth' nature of its contagion potential during its two-week gestation period.

That is as opposed to typical flu infections that classically present symptoms after no more than several days. Along with our steady drumbeat of analysis of this factor, by early last week there were additional clear indications (on top of their previous views) from very knowledgeable medical and financial professionals.

Among others, those included former US FDA Commissioner Dr. Scott Gottlieb (<https://cnb.cx/2uVAsh4>) warning of the infection spread outside China, and New York City special pathogens specialist Dr. Syra Madad (<https://cnb.cx/2P4e0sZ>) noting that based on current virology the outbreak "...will likely get worse before it gets better", including in the US.

And on the impotence of the central banks' ability to counter the virus there was the comment from the estimable Mohamed El-Erian (<https://cnb.cx/2vGtrAK>.) He returned to his previous theme that historic central bank action has 'deeply conditioned' market participants to react to shocks as being "...containable, temporary and reversible."

Of course, the risk was any aggressive further COVID-19 spread would undermine that sanguine view despite recent central bank accommodation commitments. And it was increasingly obvious later on last week that the virus was indeed more of a threat, which included not just illness but commercial supply chains as well.

For more on that see the snapshot of the Financial Times 'rolling update' (<http://bit.ly/2uTqHA6>) in Thursday's research note that illustrated the extent of the problem we had anticipated early on: COVID-19 is not an individual 'country' issue, yet more so a global (even if more so Asian at that time) major 'ripple' through the global economy.

While US EQUITIES and even EMERGING CURRENCIES had defied that logic for some time (even as GLOBAL GOVVIES remained resilient on all recent selloffs), by last Thursday the early phase of the volatile capitulation was obvious. Hence our Friday morning 'Intermarket Reinforcement' research note, highlighting the suspicious selloff of US EQUITIES into what had been strong economic releases last week.

Market Quick Take

The FRONT MONTH S&P 500 FUTURE early November push above the weekly topping line (broken red line on chart through Monday's Close <http://bit.ly/2SXbZkv>) set the stage for the extended seasonal rally. This reinforced the importance of the overrun 3,065-70 Oscillator resistance into that weekly topping line, which then held on the early November correction. It then pushed above higher resistances like the 3,205-10 area. That set the stage for the rally above the Oscillator range in the 3,295-3,305 area that increased to 3,345-55 this week.

That meant early February was all about whether MARCH S&P 500 FUTURE could overrun the late-January 3,325.00 weekly DOWN Closing Price Reversal (CPR... Tolerance to 3,330.25.) And it did so, even if it slipped back into that area for the weekly Close that week. The next upside area was not until 3,390-95 last week.

This made the response to data and especially central bank psych (a 'Powell Put'?) very important on the recent shift to more major 'macro' factor influence. And it failed miserably on the further COVID-19 fears. Violating support at the Negated 3,325-35 top and 3,300-3,290 congestion has left it testing the 3,205-10 area once again (Tolerance to the early January 3,181 trading low of the year.)

Much below that it would be reasonable to revisit that 3,065-70 overrun weekly topping line level (also near weekly MA-41 at present), or even slip below it to test the major 3,030-00 summer 2019 congestion (and July's previous all-time high.)

Even with US consumer-driven improvement, overall weakness of international data on balance continues despite selective previous partial improvement. Despite some recent strong US data, that has shown up again of late. Note the first global Advance Manufacturing PMIs since COVID-19 became an issue back in January. Outside of some improvement in the previously very weak Europe, they have weakened along with some other soft data. This is as expected in the wake of the COVID-19 supply chain disruptions.

This has been reinforced by central banks' perspective, including especially the ECB, with more telling perspective from Mario Draghi's last press conference (<http://bit.ly/2Nda1ll>) and even Christine Lagarde's warning on the need for further structural reform at her first press conference as ECB President (<http://bit.ly/2LNRSpQ>.)

While the Fed is more balanced, it is also concerned about global weakness despite current US strength, as evidenced by the recent rate cut.

As previously noted for months, this was also consistent with serial downbeat OECD indications on a weaker global outlook. We saw more of the same in the December OECD Composite Leading Indicators (<http://bit.ly/2RA16VO>.) Even after those were reversed to some degree by the January release (<http://bit.ly/2tbMfa0>), the February indications (<http://bit.ly/2OXkpX1>) are that growth remains below trend and is now threatened by the commercial impact of the rapidly spreading Wuhan Virus.

This will foster a more critical focus on their next Economic Outlook after the still weak November update (<http://bit.ly/2D5BvLK>.)

Add to that the last World Bank downgrade of the global growth outlook (see Reuters <https://reut.rs/2tLi0GP>.) It is no surprise that this is still on slow

international trade considerations, even if the Bank says corporate confidence and investment may improve marginally and may be near the bottom.

Yet of note are the lower growth prospects for China despite the US-China Phase I deal. As we have noted previous, the trade 'truce' (i.e. NOT a full peace treaty) avoiding tariff escalation still leaves the earlier economic activity-stifling tariffs in place.

Future economic weakness expectations have also been reinforced in the relatively recent indications outside of the mixed global Manufacturing PMIs. Those include more comprehensive global data, like late-November's OECD G20 International Merchandise Trade Statistics (<http://bit.ly/2rvPCaK>.) While all of that may improve to some degree, informed observers are cautious due to the levels of the tariffs that remain despite recent reductions announcements; and that was also prior to the Wuhan Virus impact.

The SEPTEMBER BUND FUTURE extreme extension above the 176.00 area Oscillator resistance was last seen in mid-2011 (weekly MA-41 11.75), and rallied into the 179.80 area into late August. Yet the subsequent sharp downside reaction to the potential less damaging Brexit situation saw drop back to the 178.00 area. While the commensurate DECEMBER BUND FUTURE drop to the 175.00 area looked bad, that was just the beginning of a failure back below 175.00 area weekly MA-13, and the 174.00-173.50 area key previous recent congestion and Oscillator support.

Also note the major weekly chart (<http://bit.ly/2wNhCt5> updated through Monday's Close) September drop was actually a dislocation on the major December contract discount; and it also left it closer to the aggressive up channel support. That saw a 173.25 DOWN Break into mid-September, also violating July congestion from during the rally. That was then very important as future resistance, with next key support into the 171.50-.00 congestion which held for several weeks prior to being overrun in early November. That was also the previous June UP Acceleration out of the channel from the October 2018 157.33 low.

It is of note that this key FRONT MONTH BUND FUTURE congestion at 171.50-.00 from the pause in the rally on the way up during June and July was violated during the same week the more major trend support into the 170.50-.00 area was violated (see the dashed blue line major up channel support from the 156.22 March 2018 trading low on that weekly chart.)

That left a fresh 170.50 DOWN Break just as weekly MA-41 rose to 170.35 that week. This appeared really weak, as the next support is the longer-term congestion from the Summer 2018 168.86 previous all-time high, yet far more pronounced into the heavy 168.00-167.50 congestion range established after that high was set (see the chart.)

However, the significant mid-November rally put it back above 170.50-.00. And in this case 'significant' is not just in terms of the rally's magnitude, but also in the degree to which the DECEMBER BUND FUTURE seemed to be Negating that recent major 170.50 DOWN Break and recovering back above weekly MA-41 in the same area.

Yet that was once again in play after recent selloffs. As it has Negated that DOWN Break, the overall tendency still seems to favor a return to sustained stronger tendencies. This would also indicate sustained global economic weakness.

Even though the 2.00 March contract premium left the MARCH BUND FUTURE in a stronger technical trend position, the US-China deal announcement left it temporarily back below 171.80-.70 Tolerance of the 172.00 area support on multiple dips.

As noted previous, the next major lower level was again the Negated early November 170.50 major weekly channel DOWN Break apparent on the weekly chart (<http://bit.ly/2wNhCt5> updated through Monday's Close) with a Tolerance to the 170.00 'big penny'. The holiday period weakness left that retested, and it remains critical for the overall trend. And if it needed any reinforcement, note that on the recent 'haven' rally the MARCH BUND FUTURE failed right up near the still important 173.25 area, as it also did back in early December.

That said, after the subsequent sharp selloff it recovered on recent soft inflation data, even back above the top of the 171.50-.00 range. 173.25 area remained the more major resistance it has also now surged above it and higher interim resistance at 174.00. Now also above the major resistance in the 175.00 area and its 175.62 Tolerance (the sharp September selloff minor bounce high) opens the door to a test of the 177.00-.50 congestion and Oscillator resistance.

The SEPTEMBER T-NOTE FUTURE was testing the 127-16/128-00 area prior to the July US Employment report-driven downside reaction. Yet it held very well without violating the 127-00 congestion. However, its relative weakness within

the bull trend was highlighted by its inability to overrun that congestion while the BUND and GILT pushed up more aggressively.

Also note the 127-31 early-July weekly DOWN Closing Price Reversal (CPR) as further reinforcement for its near-term resistance back then with a 128-08 Tolerance.

Yet Trump's early-August Chinese tariffs announcement also drove more extensive T-NOTE strength above that resistance. Also obvious are the extended congestion resistances were into 129-16 it pushed above and held during the early August reaction. The higher historic congestion in the 131-00 area was exceeded on the rally prior to slippage back below.

However, much as with the previous expiration of the SEPTEMBER BUND FUTURE, the more recent SEPTEMBER T-NOTE FUTURE expiration was a critical test. The DECEMBER T-NOTE FUTURE was trading at a bit more than a half point premium, and was up into the significant 130-00/129-16 congestion.

Its ability to push back above that area seemed well-calibrated with the significant decision in the BUND. Also note that the less aggressive T-NOTE up channel trend support on the weekly chart (<http://bit.ly/32qNfEm> updated through last Monday's Close) also left broader support into prominent low 128-00 area historic and recent congestion that was not even tested prior to the previous rally resumption. Yet that only saw it rally right into the 130-00/129-16 area in early December prior to coming back under pressure.

Of note, that area was the early November fresh DOWN Break prior to the temporary recovery that retested it. And it was no surprise that the still stronger US economic data had left DECEMBER T-NOTE FUTURE not able to push above that 130-00/129-16 area despite the strength of the EUROPEAN GOVVIES.

However, even the strengthening of US EQUITIES had not left it weakening too much from that area; only barely into the top of the lower 128-00/127-16 support repeatedly since mid-December, also tested in early September and early November. And while the 'haven' test of the 130-00 area failed again earlier this month (also as in early December just like the BUND FUTURE), the COVID-19 impact has seen it surge.

It is now above it the interim 131-00 area and even the 132-00 far more major congestion. That leaves next resistance in the interim 133-00 area, with the more major area into 134-00/-08 (the July 2016 all-time high and congestion just below it.)

Much like more resilient activity in previous weak sister T-NOTE, the FRONT MONTH GILT FUTURE was only a bit back below 132.50-133.00 in October after failing from the 135.00 area. That seemed to point to a retest of the 131.00-.50 area (previously tested and held by the December contract in mid-September.) And while still holding the low end of that area into late October, we had noted that the tendencies in the other GLOBAL GOVVIES should continue to exert pressure.

That indeed dropped it below that area in early November. Yet much like the BUND rallying back above resistance and then dropping again, the GILT was then back into that 131.00-.50 area. While not as critical as the DECEMBER BUND FUTURE overrunning the 170.00-.50 range, next resistance is into 132.50-133.00. Even though there was no sustained weakness below its 131.50-.00 congestion on previous selloffs, it finally slipped below it temporarily on the early December Conservatives election victory prior to recovering

Next lower support was the 130.00 area with the 132.50-133.00 range remaining the key higher resistance that has now been exceeded for a new multi-month high. Next resistance was back up into the interim 134.00 area that has been exceeded on the recent surge for a current test of the more major 135.00-.24 area. Next resistances above that are not until the upper-135.00 area and the 136.80 September 2019 all-time high.

In FOREIGN EXCHANGE conditions were relatively subdued after the firmer US economic data had assisted the US DOLLAR INDEX last summer in finally fully overrunning the mid-upper 97.00 resistance. That inspired the push above the April-May 98.37 area trading highs which occurred in early August prior to lapsing back into near-term weakness.

Next levels were (and remain) the interim 99.00 area, yet with the more prominent area not until the 99.50-100.00 'big penny' historic congestion. In any event, recently strengthening again after a significant selloff saw it above lower support in the interim 96.50-.00 range on the continued weaker global data outside of the US. That set the stage for the continued strength despite the FOMC's previous modest easing. After holding those lower supports, weaker Chinese and European data had it back up into the 98.00 area with 98.37 that remained the key near-term resistance area.

Slippage back below 98.37-.00 on likely UK Brexit success and better global growth prospects was not a surprise. That had opened the door to a retest of the 96.50-.00 range support missed back in October yet tested subsequently

on the better global economic sentiment. Yet the recent better US data and the COVID-19 flight to safety has left it pushing above the 98.37-.00 area once again, with the key higher resistance again not until the historic 99.50-100.00 area at which it has stalled for now.

While EUR/USD was well back above 1.1400 into early February (and even very temporarily above the 1.1500 area), it had dropped back below the 1.1400 area on the increasingly nervous Brexit implications and generally weak European data. That left it into the top of the 1.1250-00 area 20-month trading lows in mid-February. While it recovered closer to 1.1400 again into mid-March, stalling there had left it under pressure again into the low end of 1.1250-00 area.

GREENBACK weakness had assisted it in swinging well back above 1.1200, and it is no surprise it had extended that rally back up into the 1.1400 area on the previous dovish FOMC influence.

However, subsequent weak European data fomented concerns over ECB accommodation that left it back below 1.1200 once again, and churning around the 1.1100 area trading lows prior to bouncing from near the 1.1000-1.0950 area with 1.0800 below.

While the recovery into early August had it churning in 1.1200 area, it was back below the 1.1100 area and had failed the attempt to hold the 1.1000-1.0950 area prior to rallying back above the high end of it and 1.1100 on the recent more upbeat Brexit developments. That said, 1.1200-50 remains the more major resistance above the market, and it dropped back below the 1.1100 area into the more major 1.1000-1.0950 range prior to the recent push back above into the 1.1250-00 area higher resistance that stopped the rally once again and has left it back down below the 1.1100 area and even the 1.1000-1.0950 area.

That left next support into last September's now violated 1.0878 trading low. Below that is the recently tested low-1.08 historic congestion, and not again until the 1.0600 to mid-1.0500 area and even 1.0500 both last seen in early 2007.

The rapidly evolving UK government situation and a bit of the hopeful global developments had brought a GBP/USD rally back above 1.2150-00 (stronger than the EURO) and the minor 1.2360 area last summer. As noted previous, back above the low end of the 1.2800-1.3000 range opened the door to a test of the high end seen previous; or even higher levels on further Brexit deal

progress. And indeed it surged on the Conservative election success back above 1.3000 and even 1.3200 and the 1.3300 area for a temporary test of low end of the 1.3500-1.3600 range prior to dropping back down on more problematic developments.

Even the previous drop back below the 1.3000 area left it into support (weekly [MA-9](#) & [MA-13](#) as well), and it still seemed to have some upside momentum on the push back up toward 1.3200 even if it has recently slipped back slightly below the 1.3000 area again on weak data and the 'haven' US DOLLAR bid. That leaves the low end of the 1.3000-1.2800 range important once again.

And despite US and Chinese changeability, the previous hints of US-China rapprochement encouraged AUD/USD to squeeze back above its historic .7200-50 area (also weekly [MA-9](#) & [MA-13](#).) However, that same negative early-December Trump 'Tariffs Man' tweet that hit US EQUITIES on the lower chances for US-China trade rapprochement also dropped AUD/USD back from a hopeful early-December test of the .7300-50 area to back below .7200-50. It subsequently dropped below more major .7000 area congestion.

This was not a surprise on previous Chinese economic weakness and still somewhat problematic US-China relations despite the ostensible G20 'breakthrough'. While late-January secular US DOLLAR weakness had it recovering modestly above .7200-50, it subsequently dropped back below it toward the .7000 area in mid-May of last year.

Minor squeezes temporarily pushed it back above the .7000 area prior to slipping more definitively below it in late July. Next lower major support was the .6825 area early-2016 10-year trading lows it also slipped below around the same time. The next temporary squeeze above it into early September also failed.

That is important after it slipped nearer to next interim support at .6690-77 that it has now also violated on weak Chinese economic concerns. The .6500 and .6250 areas are next supports this side of the .6000 area October 2008 16-year trading low.

While EMERGING CURRENCIES are still more country-specific trends, previous US DOLLAR weakness into early this year was assisting them. That was partially on central bank accommodation creating more extensive economic hope, reinforced by the signing of the US-China Phase I agreement. Yet the COVID-19 impact has them under pressure again, even if 'country' factors are also key.

The MEXICAN PESO weakened on the USD/MXN push back above 19.20 and was trading back near its 19.50-.60 congestion in early December prior to slipping back below the 19.20 area. That was likely based on the vagaries of progress in the US House on the USMCA trade deal (already approved by Canada and Mexico and having passed the US Senate), impacted by its impeachment obsession.

And its approval finally coming through has seen USD/MXN weakness back below 19.20 and the 19.00 area on the improved outlook, with the next lower support into April's 18.75 area congestion and 14-month low it slipped below recently prior to COVID-19 concerns pushing it back up into a test of the 19.00 area prior to recent weakness back below the 18.75 area.

Recently slippage below that area has left it testing 18.50-.40 again, right into the August 2018 22-month low. Much below that is the 17.94 April 2018 two-and-a-half year low even if it is back above 19.00 now on COVID-19 concerns.

USD/ZAR saw GREENBACK strength push it back up toward the 15.50 area into early October prior to the drop back below 15.00 to test 14.70 and even sag near 14.50. That had interim support area around 15.20 that was retested on the sharp bounce from near 14.50.

Slipping back once again from 15.00 left next interim support back into the 14.70 area it slipped below again in late November as well as the 14.50-.40 area overrun in mid-December. That led to a rapid selloff to the next lower interim support in the 14.15 area that has also been violated in recent trading. The next major congestion in the 13.90-.80 range (including July's 9-month trading low) was also violated temporarily on the recent selloff prior to the sharp bounce back above 14.20 to the recent retest of the 14.40-.50 area congestion, reinforced as resistance by significant weekly MAs slightly above that range.

Yet the COVID-19 factor has seen it push back above the 14.70 area once again all the way to a rapid test of 15.00. While backing off temporarily below 14.70 again, it is was recently pushing back up above 15.00 with only minor dips along the way. That leaves interim resistance into the 15.20 area it is currently challenging with major resistance not until 15.40-.50 once again.

USD/RUB was a clear outlier on the previous EMERGING CURRENCIES return to weakness, yet has been under pressure again on the COVID-19 implications for possible economic weakness fostering lower CRUDE OIL prices. USD/RUB had reacted back down last summer's test of the 67.00 area, and ultimately failed back below 65.00 as well. Previous Crude Oil weakness had assisted

USD/RUB recover back above 64.00 and 65.00 temporarily prior to slipping back below that range since last Fall.

Lower support in the mid-63.00 area was violated into mid-December. That had seen it weaken into the more major supports in the 62.00 area and especially the 61.00 area on previously higher CRUDE OIL prices and the slightly improved global outlook. Yet the COVID-19 factor along with much weaker Crude Oil prices has it back up above 62.00 and the mid-63.00 area once again along with next resistance into that 65.00 area. Which there is some interim congestion to the 65.50 area, unless it drops back below 65.00 soon the next resistance is not until the 66.50-67.00 area once again.

In the meantime, previous weakness in the TURKISH LIRA had USD/TRY above the 5.50-5.60 area in April. Sustaining activity above the 5.50 and 5.6230 resistances in late April had seen it rally above the 5.90-6.00 range congestion from summer 2018.

This was once again very important, as extended resistance was not until the 6.35-6.40 range last seen during the beginning of the TURKISH LIRA upturn (USD/TRY extended selloff) in September 2018. As such, the late-May USD/TRY drop back below 6.00-5.90 area was a major LIRA improvement.

Next lower supports (LIRA resistance) were 5.65-.60 (January high and weekly MA-41) tested into early June and barely violated into early July prior to Closing near the low end of the range, and the heftier congestion in the 5.50-5.45 area.

Yet it held that key area, and was back above the 5.65-.60 range again last August, and the early July 5.7871 high from after the central bank governor dismissal. Key resistance at 5.90-5.93 has been exceeded again. While recent narrow ranges seemed to speak of government intervention, USD/TRY has now even strengthened above the 6.00 area that seemed to point to a retest of interim 6.15 area it has now seen, or even the May 2019 crisis 6.25 area 16-month trading high.

While still obviously less relevant (as we have been noting for some time and is most glaringly apparent again at present) on the standard report releases in the midst of more major global trade and political cross currents, the Weekly Report & Event Calendar (accessible for Sterling and higher level subscribers) is available via the www.rohr-blog.com sidebar.

As we have been noting for some time in our research notes (delayed a bit on Monday in order to provide this more relevant update after the volatility

receded), regularly scheduled releases are obviously less relevant in the face of 'macro' factors; and especially (as our anticipatory views had highlighted) the highly pernicious spread of the COVID-19 virus.

That said, there are still some very important economic releases in this typically very full end-of-month week. Even if they will only act as a backdrop for the future COVID-19 impact, they will still be important. After a light start to the week that includes this morning's as expected German GDP, even if the US Richmond and Dallas Fed indicators were weaker than expected.

Thursday sees quite a bit of European data into US GDP and Durable Goods Orders. Significant Japanese economic data follows on Friday, all culminating with very important US and Canadian releases. Of course, this will all be followed by next week's important early month releases, like the global PMIs and end of week US and Canadian Employment reports.

And due to the vagaries of the COVID-19 volatility we revert to our recent classic advice: Keep those seat belts firmly fastened... we hope you had them on into the top of this week.

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