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ROHR-BLOG: 'Super Joe', COVID Hope, Fed Joke, Quick Take, Calendar

1 message

ROHR-BLOG <ar.rohr.intl=gmail.com@vrmailer3.com> Wed, Mar 4, 2020 at 9:23 AM
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ROHR

Dear Subscribers,

As the title implies, there is an awful lot to unpack. That includes US Democratic Party 'Super Tuesday' results, interesting further projections on the COVID-19 virus and the FOMC emergency 50 basis point rate cut.

To begin, the FOMC rate cut may have been the most practically silly yet psychologically necessary rate cut ever. The brief statement (http://bit.ly/3cuuRPM) reiterated US economic strength, and made only a single mention of coronavirus. Chair Powell admitted at his press conference (http://bit.ly/39z9Ote) that the Fed is NOT the answer.

And the market response was anything but encouraging on the MARCH S&P 500 FUTURE squeezing well above 3,100 on the FOMC cut only to slide all the way back to the 3,000 area by Tuesday's Close… "buy the rumor, sell the fact" indeed.

That was at least in part likely due to continued concerns over the Democratic Party 'Super Tuesday' potential for Socialist Bernie Sanders to develop a commanding lead in the race to be their presidential candidate. Moderates were very scared.

Well, against the odds (or at least the 'received wisdom' from the polls), 'Super Joe' Biden surged to another big victory after his major South Carolina win on

Saturday. While pre-election polling had Biden at risk (http://bit.ly/32QYDcQ with thanks to Statista), he took nine of fourteen states.

That includes major second prize Texas (after California which Sanders won) along with a lead of 385 to 325 delegates in the race for a 1,991 majority. See today’s Reuters article (https://reut.rs/3cnr7PU) for more details.

Yet the important bottom line for US EQUITIES is the blunting of the potential for a Socialist to be the Democratic Party candidate, and possibly President. This has reduced a bit of the ‘Uncertainty Squared’ (Bernie and COVID-19) threat noted in Monday’s research note.

And what of COVID-19? The news on continued ‘community’ (i.e. not related to foreign travel) spread in the US is troubling. This is likely part of the reason for Tuesday's FOMC cut. Yet other indications are maybe hopeful.

We are referring to the extremely troubling COVID-19 spread first in China, and then to the rest of the world (http://bit.ly/2IhwC4K as of Monday.) Of course, the associated major economic disruption spilled over into the markets.

Yet there is now further insight from the Chinese developments (http://bit.ly/2uXOM8U) in the most hard hit country: The recovery rates are impressive despite the tragedy of the deaths among the most vulnerable populations. With over 50% recovered and 40% still in progress, this is looking more so like a particularly bad flu.

And even as far as the strikingly high 3.50% (+/-) mortality rate (based on 2,912 Chinese deaths) is concerned, it is possible that is significantly overstated. A report from Dr. Anthony Fauci and colleagues based on latest Chinese studies notes, “*If one assumes the number of asymptomatic or minimally symptomatic cases is several times as high as the number of reported cases, the case fatality rate may be considerably less than 1%*."

This seems reasonable in light of how many folks likely have the virus, yet have had only minimal (or no) symptoms. If the recovery rates are further confirmed and mortality rates for those outside of ‘at risk’ populations are significantly reduced, it will be possible to step back from the most troubling economic and market expectations.

So despite the likelihood some further bad news might affect US EQUITIES, there is a case for remaining in a bull trend within broad parameters noted previous. That is to say even though the MARCH S&P 500 FUTURE might

weaken back below 3,030-00 again, holding into no worse than 2,600-2,500 still respects long-term technical support (more below.)

Similarly for the now FOMC rate cut-driven GLOBAL GOVVIES, their push up into extended resistance or historic weekly Oscillator thresholds (in the case of the US T-note) might be over soon. It is also of note that EMERGING CURRENCIES were getting a bid back despite the US EQUITIES selloff late Tuesday, and especially now on the US EQUITIES recovery. While some very volatile swings are still possible (in fact likely), we suggest watching the selloffs in US EQUITIES for further indications.

Market Quick Take

The COVID-19 virus spread had caused the US EQUITIES intermediate-term bull psychology to ‘crack’. Yet does this signal a ‘breakdown’ into a bear trend? Not necessarily. As bad as US EQUITIES look on the violation of the key congestion around the mid-2019 highs (highlighted in Thursday’s ‘Crunch Time’ research note), the ‘broad’ trend support based on longer term channel projections and lower historic congestion remains at somewhat nearby (considering volatility) support.

That lower US EQUITIES support includes the longer-term channel on the weekly chart (updated through last Friday http://bit.ly/39k6X7q.) That said, we cannot dismiss the importance of the MARCH S&P 500 FUTURE violating the support from the 2019 congestion and push above the multi-year topping line at 3,070, the 3,030-00 previous all-time high congestion, and now the 2,970 DOWN Break below the overall up channel from the 2,313 late 2018 trading low.

So in addition to the FRONT MONTH S&P 500 FUTURE being back down in that very significant 2017-2019 trading range, the lower congestion is also not until lower ground. That is initially the interim 2,850 area followed by the more prominent 2,750 area we had already noted. However, as this looks like a reversion to a full trend correction, there is every reason to believe the broader up trend support might be tested: that is 2,600 area into the mid-low 2,500 early 2018 congestion.

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, and is likely to continue.

This has been reinforced by central banks' perspective even prior to them understanding the extent of the COVID-19 impact. That includes especially the ECB, with more telling perspective from Mario Draghi's last press conference (http://bit.ly/2Nda1Il**) 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 its rate cut and current discussion of being prepared to do what is necessary if the COVID-19 impact spreads to the US.

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**.) All of which has been reinforced in a major way by their 'out of normal cycle' (typically not until May) March 2nd Interim Economic Assessment "Coronavirus: The world economy at risk" (http://bit.ly/3cqTKeY.)**

Add to that recent further World Bank downgrades of the global growth outlook. It is no surprise that on top of still slow international trade considerations, the Bank says corporate confidence and investment that may have been near the bottom will now suffer.

Of special note in each case 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 once the COVID-19 threat passes, informed observers were still cautious in any event due to the levels of the tariffs that remain despite recent reductions announcements prior to the COVID-19 impact.**

Evolutionary Trend View

Moving on now to a very concise critical market assessment (with more again after the US Democratic primaries ‘Super Tuesday’ results) in the wake of the US EQUITIES drop below intermediate term support. As pointed out late last week, that likely means more GLOBAL GOVVIES strength, as we are seeing this morning despite the US EQUITIES bounce.

The MARCH T-NOTE FUTURE surging into a new all-time high last week above the 134-00/-08 summer 2016 previous high is thoroughly understandable (see the weekly chart through last Friday http://bit.ly/38ckQU5.) So, what next? Well, based on its historic weekly Oscillator activity we suspect it can extend its rally into the 135-16/136-00 area (MA-41 plus 06-00/-16) this week, which has already occurred. Sustained activity above that zone would point to the next Oscillator resistance into the 137-16/138-00 area (MA-41 plus 08-00/-16)

Similarly, the previous strong sister BUND FUTURE had seen the MARCH CONTRACT rally back to fully test and exceed its 177.00-.50 resistance from last summer (weekly chart http://bit.ly/2TxQJB0.) Much above that next resistance is not until 178.50 congestion from back then it has now neared, with a DOWN CPR at 179.20 (Tolerance at 179.67 all-time high) above.

Yet there is a twist here on the typical very early expiration of the MARCH CONTRACT this Friday. With the JUNE BUND FUTURE trading almost 3.00 lower, it might drop back into or below the 175.60-.00 area (where it is indeed trading at present.) That would mean it will need to ‘reprove’ itself back above that area into next week, or possibly drop to lower supports.

And EMERGING CURRENCIES that had been under pressure are now recovering to some degree. The SA RAND has seen USD/ZAR overrun 15.40-.50 into testing the 15.69 September 2018 high with the 16.00 congestion above. Yet it is now back down below 15.40-.50 with next support back into the 15.20 and 15.00 (now reinforced by a gap higher from last week’s opening) areas.

The RUSSIAN RUBLE had seen USD/RUB push above 66.50-67.00 on weak Crude Oil as well (economic weakness driven) prior to dropping back on short-term EQUITIES and CRUDE OIL recovery. The bigger resistance is still not until 69.00-70.00, and lower support remains 65.00.

Even the previously more resilient MEXICAN PESO has seen USD/MXN surge through 19.50-.60 on its way to testing the interim 19.95 area prior to slipping back, with 20.25 above. Yet here as well it is back below 19.50-.60 with lower support remaining into the already retested 19.20 area and the more prominent 19.00-18.95 below.

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

That said, there are still some very important economic releases in this typically very full beginning of the month week. Even if they will only act as a backdrop for the future COVID-19 impact, they will still be important.

There was the typical strong start on the global Manufacturing PMI’s Monday followed by today’s global Services PMIs, and all culminating in Friday’s US and Canadian employment indications. Yet along the way there were many other important economic releases and salient influences.

Those included the US ‘Super Tuesday’ Democratic Primary polls, a couple of central bank decisions, this afternoon’s Fed Beige Book into Thursday’s opening of an OPEC meeting under very trying circumstances, and quite a bit of important European data as well.

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

The Rohr-Blog Research Team

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