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ROHR-BLOG: Whole of Government Decision, Quick Take, Calendar

1 message

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Dear Subscribers,

Limit Down. Limit Up. Once again, “You can’t say we didn’t warn you” ...based on our recent repetition of that phrase referencing the insights shared in our March 12th “C’mon in and Ride the Whip” research note. Everyone in presumably more staid financial markets has now had their trial by fire, and would likely be qualified to trade the dear-departed Pork Belly futures if the CME ever resurrects them.

As noted there, “The reason that the Bellies (the agricultural term for what is processed into bacon or rashers) were so volatile is that they are basically half a pound of fat.” So just as mentioned for the late 1970s and 1980s US Treasuries market that was afflicted with the initial seemingly unrestrained ballooning of US deficits during the Carter administration, the US EQUITIES have of late been trading more like half a pound of fat.

Between the COVID-19 predations on the global economy and central banks and governmental actions, they’ve been very erratic.

So, given ‘macro’ psychology flows are the key to extreme market activity ever since the 1973 Arab Oil Embargo, what changed between Thursday afternoon and this morning? As noted in Thursday morning’s “An Empty ‘Well of Confidence’” research note, President Trump’s serial misstatements and

outright falsehoods (see that analysis for much more) had left his communication on COVID-19 ineffective.

Anyone doubting that can merely review the market activity out of his Wednesday evening speech into Thursday's activity. Compounding that was disagreements between Congressional Democrats and Republicans over the scope of the fiscal stimulus to counter the COVID-19 impact on the US economy; with the Democrats typically wanting more broad-based spending.

This is a major key for those of us who closely observed the markets into the October 2008 US EQUITIES meltdown. Back then the Dems were opposed to a 'bank bailout' and stalled TARP program legislation in late September.

That led to the early October S&P 500 meltdown below 1,100 to test of 837 one week later. That may sound pretty tame in current market volatility terms... a mere 263 points. Yet it was the acceleration of the bear market that had begun at the October 2007 1,586.75 high, and before it was over in March 2019 the US EQUITIES had shed over 50% of their value since the highs.

And this gets to the importance of the 'Whole of Government Decision', where the US Congress seems to have learned its lesson. The Democrat and Republican disagreements over the scope of the fiscal stimulus to counter the COVID-19 impact seem to have vanished overnight.

That is allowing Speaker Pelosi and Treasury Secretary Mnuchin to announce a major economic stimulus package which also helps those who do not benefit from a payroll tax holiday. This is in addition to further support from the Fed even before next Wednesday's rate decision and press conference (accompanied by a Summary of Economic Projections.)

It is all as the very adept Madame Lagarde noted in Thursday's ECB press conference, "*The shock is 'severe' yet still 'temporary' IF right actions are taken by all players.*" (Our punctuation.) She also noted that any action had to be very timely, saying it could not be a typical slow-motion response over months.

Evidently the US Congress was listening to her... and more likely the US EQUITIES. Of course, this has also brought sharp improvement to the EMERGING CURRENCIES, and the highly predictable pressure back onto the GLOBAL GOVVIES.

Courtesy Repeat of Thursday's 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 after Monday’s drop <http://bit.ly/2TWcpqz>.) 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 recent 2,970 DOWN Break below the overall up channel (from the 2,313 late 2018 low) it finished below again last week.

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 the already noted interim 2,850 area followed by the more prominent 2,750 area loosely held on Monday’s Close yet violated into this morning. However, as also noted previous, this looks like a reversion to a full correction, with every reason to believe the broader up trend support would be tested: that is 2,600 area broadest weekly and monthly channel support (also 48-month MA) with Tolerance to the mid-low 2,500 2018 congestion.

Much below that the next nominal supports are the late 2018 2,413-09 weekly UP Closing Price Reversal (also historic congestion), the extreme low trade of which is the 2,313 level (also more historic congestion; see the chart.)

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/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 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>) were that growth remains below trend and is now threatened by the commercial impact of the rapidly spreading Wuhan Virus. And as we noted on March 9th, they summarily cancelled the next release that morning, which is a very radical step that says the future is very uncertain.

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 two weeks ago above the 134-00/-08 summer 2016 previous high was understandable (see the weekly chart through the sharp surge into Monday's high <http://bit.ly/2wKkVBc> even though it reacted sharply later in the day.)

As we had based our future expectation on its historic weekly Oscillator activity likely extending its rally at least into the 135-16/136-00 area (MA-41 plus 06-00/-16) last week, which had already occurred. Sustained activity above that zone would point to the next Oscillator resistance into the 138-00/-16 area (MA-41 plus 08-00/-16) it was already testing. Next extension of the weekly Oscillator resistance is the 139-16/140-00 area (MA-41 plus 09-16/10-00) this week, which was tested on Monday prior to the current temporary selloff back below the 138-00 area that has generally been the case of late despite the US EQUITIES weakness.

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/2wKag9P>.) Much above that next resistance was not until 178.50 congestion from back then it hit prior to Friday's expiration, with a DOWN CPR at 179.20 (Tolerance at 179.67 all-time high) above.

Yet there was a twist here on the typical very early expiration of the MARCH CONTRACT Friday with the JUNE BUND FUTURE trading almost 3.00 lower. While there was a chance it would be back into or below the 175.60-.00 area, in the event the strength of the uptrend extension in the MARCH BUND FUTURE to test that mid-179.00 resistance left the JUNE BUND FUTURE trading above 175.60-.00. That implied instead of weakening back below it, it was more likely to trend up into the 177.00-.50 resistance and above.

And while we always expect the second month contract to swing back up to front month values if the BUND maintains its up trend, the JUNE BUND FUTURE had done this in record time: literally between becoming the front

month on Friday into only early afternoon (Central European Time) seeing it push up into the low 179.00 area on Monday. Yet it has sagged back below the 177.50-.00 area since Tuesday, and has been unable to sustain activity back above it. Next lower support remains in the 175.60-.00 range.

As far the MARCH GILT FUTURE is concerned (with a late month expiration leaving it still the key contract for now) also at new all-time highs like the T-NOTE, last week it overran the September 2019 135.26 weekly DOWN Closing Price Reversal (Tolerance to 135.87.) That also overran some historic weekly Oscillator resistance at 137.00-.50 (MA-41 plus 4.00-.50.) This leaves the next weekly Oscillator resistance at 139.00-.50 (MA-41 plus 6.00-.50) it had already tested last week prior setting back a bit this week. Extended levels remain two points higher, with the next support back into the overrun 136.00-135.26 resistance.

In FOREIGN EXCHANGE the DEVELOPED CURRENCIES have also seen a massive shift over the past few weeks. As noted previous, even though the US DOLLAR INDEX had a 'haven' bid as recently as three weeks ago, since then it has been under extensive pressure against the other DEVELOPED CURRENCIES (including the recent atypical depression of the other 'haven' JAPANESE YEN.) While the volatility in this area is also historically extreme, US DOLLAR weakness is not a surprise with COVID-19 is spreading in the previously 'safe' United States.

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 the interim 99.00 area, yet with the more prominent area not until the 99.50-100.00 'big penny' historic congestion at which it failed again on the retest two weeks ago (just like last October.)

After weakening in the end of February it failed back below 98.37-.00 at the top of this week (also important cluster of weekly MAs in the upper 97.00 area) on its way to also cracking the 96.50-.00 well-established congestion range support held at the end of last year. With the previous COVID-19 flight to US safety now reversed, it is testing the longer-term congestion in the 96.00-95.84 area (12-month trading low.) Much below that is the interim congestion into the recently tested 95.00 area it held again this week, with the more major 94.00-93.70 area below. Yet the recent return of concerns elsewhere has seen it surge back up into the 98.37-.00 area.

While EUR/USD was under pressure again early this year due to its still weak economy, the initial response to the COVID-19 spread there took it to 33-month lows below last October's 1.0878 trading low prior to the current sharp recovery. That the EURO is strengthening so much against the US DOLLAR is a sign of 'greenback avoidance'. The US DOLLAR losing its haven bid has seen EUR/USD surge back above 1.0800 and even the more prominent 1.1000 area as well as the heavy 1.1250-00 area. That is now the next lower support, with higher resistance reverting to the prominent 1.1400-50 congestion (also the previous full year trading highs) it exceeded only temporarily on Monday from which it has backed off into the 1.1100 area today.

GBP/USD had already held up much better against the US DOLLAR than other DEVELOPED CURRENCIES in the wake of the Brexit vote finally confirming its exit from the EU. While failing from 1.3500 again in December as well as back below the interim 1.3200 congestion, it only worked its way gradually into the historically important 1.3000-1.2800 range.

Even on the US DOLLAR surge into two weeks ago, GBP/USD only dropped to a Close near the bottom of that range. As such, its current recovery against the greenback is a bit less dramatic than the previously depressed EURO and JAPANESE YEN.

Yet the recent major emergency BoE rate cut to 0.25% along with the highly stimulative first Johnson government budget has dropped it back below the low end of 1.3000-1.2800 to the high end of the 1.2500-1.2450 congestion. Much below that is the interim 1.2200 area and major 1.2000-1.1960 September 2019 three-and-a-half year trading low.

And despite US-China rapprochement on the Phase I trade and tariffs agreement, AUD/USD remains depressed on the heavier East Asian COVID-19 impact. That is only as expected, even as it has finally seen a minor bounce this week on the US DOLLAR weakness. Yet that is still from well below the .7000 area held in mid-May of last year.

Minor squeezes temporarily back above the .7000 area were only a prelude to slipping more definitively below it last July. Next lower major support was the .6825 area early-2016 10-year trading lows it also slipped below around the same time.

That is important after it slipped below next interim support at .6690-77 in early February on COVID-19 driven weak Chinese economic concerns. The .6500 area was the next support it has now slipped below as it now approaches

the.6250 areas next support this side of the .6000 area October 2008 16-year trading low.

In light of the recent more radical swings we are resurrecting our analysis of the USD/JPY. This was the prima facie example of the extreme 'haven' bid in the US DOLLAR two weeks ago, as the typical fellow 'haven' currency YEN came under heavy pressure on the USD/JPY surge above 110.00 for the first time since May 2019, leading to an immediate rally to the prominent 112.00-.50 area into the end of that week.

Yet here as well, once the US DOLLAR came under pressure on its loss of 'haven' status due to the COVID-19 spread in the previously safe US, it 'crashed' last week back below the 110.00 area to Close into 108.00 again. Yet that did not hold once last week began on weakness that carried below the interim 106.00 area and once again below the very prominent 105.00-104.50 range (39-month trading low with major tests in March 2018, January 2018 and August 2019.) Next lower congestion is not until the interim 102.50 area that it traded below on Monday prior to Closing in that area and now recovering into the low 105.00 area. More major lower congestion is into the summer 2016 100.00-99.07 summer 2016 extensive major range 6-year trading lows.

And EMERGING CURRENCIES that had been under pressure were recovering to some degree, yet are now back under pressure. The SA RAND has seen USD/ZAR overrun 15.40-.50 into testing the 15.69 September 2018 high prior to pulling back. Yet even though it sagged all the way to 15.20 early last week, it was back above 15.40-.50 and challenging the 15.69 resistance late week. It started out this week surging above the 16.00 and 16.30 next higher congestion resistances all the way to the 16.95 resistance (nearer the major January 2016 17.94 all-time high) prior to setting back around 16.00 earlier this week. However, fresh economic concerns have seen it rally back above 16.30 at present.

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. Back out above it last week left the bigger resistance not until 69.00-70.00 it began this week pushing sharply above. And historically there is not much resistance again until the 75.00 area (early 2016 congestion) which it has duly tested early this week prior to pulling back nearer to the interim 71.00 area. Yet here as well the return of economic stresses has seen it rally back up above 75.00 of late (trading high 75.46) prior to trading just below it at present. Higher resistances are the 80.00 and 85.00 areas last ween on the early 2016 surge.

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 temporarily. Yet it recently exceeded that once again along with a temporary surge above the 20.25 resistance prior to dropping back below it at the end of last week. Yet here as well we had noted that PESO weakness might continue on the COVID-19 North American impact, with next resistances not until 20.50 and 20.65 that were sharply overrun on Monday. That also saw it surge above the 20.96 June 2018 high (also congestion) on the way to a retest of the 22.03 January 2017 all-time high prior to setting back around the 20.96 area earlier this week. Yet the return of the economic stresses and weak Crude Oil prices have seen it surge to a new 22.95 all-time high prior to setting back toward the 22.00 area.

Of note, the TURKISH LIRA had been relatively steady through all of the EMERGING CURRENCY turmoil elsewhere. Yet it has been under pressure since USD/TRY held key 5.50-5.45 support and pushed back above 5.65-.60 range along with last July's 5.7871 high from after the central bank governor dismissal. Key resistance at 5.90-5.93 was also exceeded again in January.

USD/TRY has now even strengthened above the 6.00 area that seemed to point to a retest of interim 6.15 area that was also exceeded on the way to a test of the May 2019 crisis 6.25 area 17-month trading high. Yet compared to the weakness of other EMERGING CURRENCIES this leaves the LIRA a bastion of stability... at least for now. Yet now above the 6.25 area leaves the door open to a test of the higher September 2018 6.45-6.55 congestion, or even possibly the extended higher levels seen during the 2018 LIRA crisis.

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. This is glaringly apparent once again this morning on not only COVID-19 but also the radical changes in the Crude Oil market after last week's failure of OPEC to agree on production constraints.

That said, there were still some very important economic releases and central bank influences in this typically very full week. Even if they will only act as a backdrop for the future COVID-19 impact and other 'macro' influences, they are important as context from prior to the virus impact.

There has already been the radical step of Organization for Economic Cooperation and Development (OECD) cancelling Monday morning's next release of their Composite Leading Indicators due to the overriding uncertainty. There is also quite a bit of important Asian and European economic data early this week into Tuesday's next round of important US Democratic Party primary elections that have cleared the way for Joe Biden to be their nominee.

Heavy UK influences Wednesday included the Johnson government's first Budget Statement becoming a COVID-19 countering stimulus (bringing some pressure onto the GILT market) followed by today's also still important ECB rate decision and press conference (see above.)

Friday is a bit of a lighter day on at present somewhat meaningless Euro-zone and US inflation indications. Yet keep in mind that for the next several weeks the US is already on Daylight Savings Time with Europe only moving its clocks forward on Sunday, March 29th.

And due to the vagaries of the COVID-19 volatility on full display again since early last week, we maintain our recent classic advice: Keep those seat belts firmly fastened.

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