RESEARCH NOTE

Thursday, April 2, 2020

'Good' is Actually Horrible, Quick Take, Calendar

We needed to adjust Wednesday's '...Good is Bad' research note title to the more dire headline above. That is obvious from this morning's US Weekly Initial Jobless Claims 6.648 million new all-time high.

The silver lining is US EQUITIES seem to be taking that in stride, only giving up nice-sized overnight gains and remaining above the key lower support we have heavily highlighted of late (more below.)

How could this be? Well, according to the old axiom that we have repeatedly highlighted again of late, "*The market is a creature of expectations*." And based on announcements from both major corporations and small businesses, there was little doubt that the layoffs and furloughs would be sharply increasing.

Perversely, as noted on Wednesday, that was due to President Trump's extension of COVID-19 social distancing restrictions until April 30th. That is a 'good' move in the fight to dampen the COVID-19 epidemiological impact. Yet it was also the breaking point for many businesses who had previous held onto the unrealistic hope for Mr. Trump's previous guidance on reopening the US economy April 12th.

The extent of near-term employment and economic damage are well-covered in this morning's just-updated Reuters article (https://reut.rs/3bL6ImU.) That reviews both some of the major corporation layoffs due to keeping businesses shuttered for longer, and the likely overall impact.

According to JP Morgan's David Kelly, that could include "...(a rising) *unemployment rate from roughly 3.5% to 12.5%, which would be its highest rate since the Great Depression*." Yet that is no secret, and US EQUITIES seem to assume that might hopefully remain a near-term shock.

The other good/bad news is Trump allies are coming around to US experts' view on much more testing to protect against worst-case results from any reopening. Those include Senators Scott (R-FL) and Cruz (R-TX.) We suspect our prediction Trump will soon claim he was 'always for more testing' will be forthcoming soon. The model for that is UK PM Johnson, previously problematic at best.

As noted in another Reuters article (https://reut.rs/3dLXzMA), he initially took a Trumpian low key approach to the virus. However after much criticism and testing positive himself, he has called for rapidly increasing UK testing, declaring, "*As I have said for weeks and weeks, this is the way through*…"

The problem is that (as opposed to the Continent) the UK is severely lacking in testing capability. In that regard, the UK is similar to the US lack of testing ability it is only addressing now. There are possibly mitigating technical aspects to layoffs explored in Thursday's analysis, which we suggest reviewing for anyone who has not done so already.

The markets 'expectations' continue apace, with US EQUITIES still vulnerable while showing they have already 'discounted' quite a bit of the likely economic weakness. In the GLOBAL GOVVIES the US and UK are keeping the bid while the BUND still seems subject to fiscal worries.

And foreign exchange has seen a return of the US DOLLAR bid despite bad news, with further modest strength against DEVELOPED CURRENCIES and intensified weakness in some EMERGING CURRENCIES.

Market Quick Take

COVID-19 virus spread caused US EQUITIES intermediate-term bull psychology to 'crack'. FRONT MONTH S&P 500 FUTURE was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion (see our previous 'Crunch Time' research note)That was also below support from the push above the multi-year topping line at 3,070 as well and left the late-February 2,970 DOWN Break below the intermediate-term up channel (from the late 2018 low.)

Did this signal reversal into a bear trend? Maybe not, but the subsequent fresh DOWN Break below the FRONT MONTH S&P 500 FUTURE 2,600 area major up channel would seem to indicate it is. That is from early 2016 low (https://bit.ly/2JpuJnl updated as of Friday's Close.) That is now key higher resistance (Tolerance to the 2,675 trading high of the week ending March 20th, and including monthly MA-48.)

That was after US EQUITIES already looked bad on the violation of the interim 2,850 area followed by the more prominent 2,750 area, with that broad 3,000 area above as well. The key lower support remains the 2,400 area with some minor Tolerance it recently traded well-below. And lower supports remain the 2,313 (more historic congestion) extreme low trade of the late 2018 UP CPR along with 2,200 mid-2016 congestion traded below last week. More major lower support is not until major all of 2015 2,125-00 congestion, and hefty 2013-2016 congestion at 2,000-1,970.

Evolutionary Trend View

Moving on now to a very concise critical market assessment in the wake of the US EQUITIES remaining below overall 2,600 trend support from the early-2016 FRONT MONTH S&P 500 FUTURE 1,800 area lows (projected from (from the 2,313 late 2018 low.) After the past month-and-a-half of seeing GLOBAL GOVVIES strength, that has also significantly reversed on the prospect of the major global fiscal stimulus likely weighing on those markets as well.

The MARCH T-NOTE FUTURE surging into a new all-time high three weeks ago above the 134-00/-08 summer 2016 previous high was understandable (weekly chart through last Friday's Close https://bit.ly/2UyBl9j.)

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), which was violated in early March. Sustained activity above that zone pointed to the next Oscillator resistance into the 138-00/-16 area (MA-41 plus 08-00/-16) it was already testing back then into its parabolic extension to the weekly Oscillator resistance in the 139-16/140-00 area (MA-41 plus 09-16/10-00) into mid-March prior to its sharp setback.

In fact, that sharp selloff later that week created a DOWN Closing Price Reversal (CPR) back below the 138-00 area (Tolerance the previous week's 138-16 high.) That is now resistance which is being vigorously tested on a push above it, reinforced by Oscillator resistance up to the 138-24/139-08 area (MA-41 plus 08-00/-16.) 140-08/-24 area is next Oscillator resistance this side of the mid-March 140-24 all-time high (and trading high of that recent DOWN CPR.)

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 through last Friday's Close https://bit.ly/2WXh8vy.) Much above that next resistance was not until 178.50 congestion from back then it hit prior to a week ago 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 that 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 once the BUND maintained its up trend, the JUNE BUND FUTURE had done this in record time: literally between becoming the front month on Friday, March 6th into only early afternoon (Central European Time) the following Monday. Yet even that hypervolatile push up into the low 179.00 area was once again only a retest of the early September DOWN CPR.

And after that it sagged back below the 177.50-.00 area, and had been unable to sustain activity back above it. That even left a fresh DOWN CPR from the previous week's 176.52 Close. As such, despite the strength of the other GLOBAL GOVVIES, that weakness carried it below next lower support in the 175.60-.00 range, then below the next lower 173.25-.00 support, and even back below the previously staunch 170.50-.00 NEGATED early November DOWN Break support that had been tested extensively over the winter.

It is a clear sign of how concerned the BUND is about the necessary fresh fiscal largesse necessary to counter the heavy European COVID-19 impact. Next lower support was not until back in the major 168.58-.00 area from during the summer 2016 previous all-time high congestion that it held on the sharp selloff into mid-March prior to the bounce back above the 170.50-.00 area. The extended weak economic psychology had recently boosted it back up into the important 173.00-.50 range once again, with 175.00-.60 above and 170.50-.00 below.

As far the MARCH GILT FUTURE (expired last Friday) is concerned also at new all-time highs like the T-NOTE saw it overrun 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 left the next weekly Oscillator resistance at 139.00-.50 (MA-41 plus 6.00-.50) it had already tested three weeks ago and overran temporarily two weeks ago. And much like the T-NOTE, last week's selloff left a DOWN CPR from the previous week's 139.00 area Close (Tolerance right there as well due to that Close being at the high of the week.) Not only did the MARCH GILT FUTURE fall back down into the 137.00 area, but the full point discount in the JUNE GILT FUTURE left it back below the 135.26 violated weekly DOWN Closing Price Reversal support.

That also saw the JUNE GILT FUTURE below the 130.00-.50 FRONT MONTH GILT FUTURE support into next historic low-128.00 congestion it hit temporarily two weeks ago Thursday prior to the major rebound above the mid-low 135.00 area. 137.00 area congestion remains higher resistance that is has stalled into once again for now, with 139.00 area above.

In FOREIGN EXCHANGE the DEVELOPED CURRENCIES have also seen massive shifts over the past month. As noted previous, even though the US DOLLAR INDEX had a ‘haven’ bid as into mid-February, it then came 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, previous US DOLLAR weakness was not a surprise with COVID-19 is spreading in the previously ‘safe’ United States. Yet that was reversed on worse impacts elsewhere leading to a wild rally to 103.00 prior to settling back into the 99.00 area at present.

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 in mid-February (just like last October.)

After weakening in the end of February it failed back below 98.37-.00 (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 reversed, it was retesting 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 into mid-March, with the more major 94.00-93.70 area below.

Yet the recent return of more pointed concerns elsewhere has seen it surge back above the 98.37-.00 area, and even above previously tested (February high) 99.50-100.00 and interim 101.30 into the recent retest of the more significant 102.00-.25 (late-2016/early-2017) congestion prior to recently setting temporarily back below 100.00-99.50 prior to recovering back into that range at present from a retest of 98.37-.00 area.

Along with the extreme concerns now affecting the BUND on a fiscal basis, European currencies were under pressure again versus the US DOLLAR. EUR/USD was also under pressure previous 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. The EURO was strengthening so much against the temporarily weak US DOLLAR due to previous ‘greenback avoidance’. The US DOLLAR losing its haven bid had 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 was the next lower support, yet with the greenback surging once again it was readily violated.

It has now failed back below it as well as the interim 1.1100 area and even the more prominent 1.1000-1.0950 area. It is now also back below last October’s 1.0878 trading low once again. It also weakened below the more prominent historic and recent congestion in the 1.0800 area with a buffer to the weekly chart gap higher from a mid-April 2017 1.0722 weekly Close it weakened below prior to recent recovery into the 1.1000 area even if back down to 1.0878 area at present.

Yet that is just part of an entire broader range with interim congestion at 1.0500, a low end into the January 2017 1.0340 more than 17-year trading low (i.e. from the time of the EUR/USD recovery back above 1.0000 after several years of travails following its 1999 inception.)

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 late February US DOLLAR surge, GBP/USD only dropped to a Close near the bottom of that range.

However, the BoE leading the emergency rate cut efforts spooked the POUND bulls, leaving it back below 1.2800. Since then it Closed below 1.2500-1.2450 three weeks ago and even the interim 1.2200 area and major 1.2000-1.1960 September 2019 three-and-a-half year low.

It was recently even below the October 2016 post-Brexit political crisis 1.1711 35-year trading low prior to the current rebound above it near the 1.2500-1.2450. While it sounds like a long way down, due to the nature of the aggressive 1984-1985 selloff and recovery, next support is not until the 1.1000 area.

Yet even that is also relatively minor congestion from that 1984-1985 swing down into and recovery from the 1.0345 February 1985 all-time low. Thankfully it has rebounded back above the 1.2200 area for now, even if only stalling back into the 1.2500-1.2450 area.

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 slipped below along with violating the .6250 area next support. That was the last interim congestion this side of the now also violated .6000 area October 2008 17-year trading low.

The ‘good’ news here it that there is somewhat substantial 1998-2003 congestions at .5720, even if it washed out below that temporarily of late (trading low .5510) prior to the recovery back above the .6000 area it is squeezing back above at present. If it should weaken again, lower supports remain at .5325-15 and near .5000 this side of the major April 2001 .4793 all-time 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 mid-February ‘haven’ bid in the US DOLLAR, 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, at the end of February it ‘crashed’ back below the 110.00 area to Close into 108.00 again. Yet that did not hold since early March 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 was not until the interim 102.50 area that USD/JPY traded below recently prior to and recovering back above the low 105.00 area as well as 108.00 and now even the 110.00 once again. Higher resistances remain in the 112.00-.50 and 114.00-.50 areas even if it is back into the 108.00 again at present.

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 and even the 15.69 September 2018 high prior to pulling back previous. Even though it sagged all the way to 15.20 in early March, it was back above 15.40-.50 and the 15.69 resistance a week later. Then it surged above the 16.00 and 16.30 next higher congestion resistances all the way into violating the 16.95 resistance last week.

The weak economic outlook has caused it to now exceed the major January 2016 17.94 all-time high it had set back a bit from in the wake of the US rescue package last week. Yet it is important to note the next extreme weekly Oscillator thresholds (from 2008 and 2016) into this week are the 18.20 and 18.40 areas, each moving up by 0.10 next week.

Trading above them at present creates a critical situation: Will USD/ZAR cool off, or is the SA RAND going to be subject to the same sort of downside runaway activity the MEXICAN PESO experienced when USD/MXN overran 21.60 in early March? The next discernable resistances are not until the 20.70 return (i.e. topping) line of the broad up channel from the 6.5274 May 2011 major cycle low, and 20.90 area straight topping line across the 2008 and 2016 highs.

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 tested into early March 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 as well as trading above higher resistances above the 80.00 area in mid-March. While recently also weakening a bit prior to pushing back into the 80.00 area, next higher resistance is not until the 85.00 area last seen on the early 2016 surge. Current hope for a Saudi-Russian pumping truce has seen Crude Oil rally back substantially, also weakening USD/RUB from 80.00 for now.

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 its surge above the 20.25 resistance in early March leading to an explosive rally. Here as well PESO weakness continued on the COVID-19 North American impact, with next resistances at 20.50 and 20.65 sharply overrun of late on the way to also violating the 20.96 June 2018 high (also congestion) on the way to surging above the 22.03 January 2017 all-time high as well.

And the return of the economic stresses and weak Crude Oil prices had seen it surge to a new 24.62 all-time high last week, which had been exceeded on the US rescue package worries leading to another new 25.44 all-time high last week prior to setting back around the mid-low 23.00 area. That left a weekly DOWN CPR from 24.40 (Tolerance 24.62) as the hew near-term resistance which has held for now. Much like USD/RUB, hope for a Saudi-Russian pumping truce has seen a Crude Oil rally, also weakening USD/MXN from the mid-24.00s for now.

Of note, the previous recent strength has also been significantly above previous prominent weekly Oscillator resistance (MA-41 plus 2.30) that should have kicked in around 21.60 in early March… time to reassess that once the current surge is over.

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. Compared to the weakness of other EMERGING CURRENCIES this previously left the LIRA a bastion of stability.

Yet recently above the 6.25 area left the door open to a test of the higher September 2018 6.45-6.55 congestion it had exceeded again prior to the temporary subsequent setback into that area. Now that it is rallying once again, the extended higher resistances are 6.72 and 6.83 levels not quite seen as yet on the current rally, and the 7.10 area all-time high that were all 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 into mid-February had highlighted) the highly pernicious impact of the COVID-19 virus. This now extends to the aftermath of the US government rescue package.

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

What we know is that it is a heavy old-month to new-month transition week. Rather than list all of the rest here, it is such a voluminous reporting week even without any central bank decision meetings we can only suggest opening the calendar and taking a look for yourself.

This heavy data flow culminates in the US Employment report on Friday. That said, they are all also suspect 'rear-view mirror' indications in light of what is likely under the extended US and global economic lockdowns.

Also keep in mind that this week Europe and the UK have moved onto Daylight Savings Time, matching the US move from several weeks ago. Australia moves back off of Daylight Savings Time this Sunday (April 5th.)

And due to the vagaries of the COVID-19 volatility, we maintain our recent classic advice: Keep those seat belts firmly fastened.

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