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## ROHR ALERT!! Hot, Hot, Hot… Inflation

1 message

**ROHR Alert** <rohralert@gmail.com> Wed, Aug 12, 2020 at 10:17 AM
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**Dear Subscribers,**
**As both Tuesday's US PPI and this morning's CPI came in well above estimate, it is incumbent on us to throw in a comment on the global govvies that have finally come back under pressure. Yet it would be a big mistake of over-anticipation to assume that the near-term backup in international yields is a problem for US equities (or others.) Much higher inflation will cause the central banks to raise rates at some point. Yet the operative term there is 'at some point', and the fear that will happen sooner than not after sharp economic weakness is misguided.**

**The real impact is on the elevated prices (i.e. very depressed yields) of the global govvies. Since Tuesday morning's US PPI overshoot the various futures have all slipped back below some previously violated key technical resistance. And while sometimes the PPI surge is not reflected in the CPI, today it was. Yet the real question remains whether this is a full trend reversal, or a partial give back of bull trend gains with the further decision to come? We believe it is the latter.**

**In the case of the front month future (September for all govvies at present), the T-note has slipped back below previously violated 139-20/-24 heavy congestion from the previous four months. However, the NEGATED DOWN Closing Price Reversal top from early March was in the 138-16/-00 range. While the key weekly Moving Averages are up in the low 139-00 area where it is currently trading, only a failure back below 138-00 would reinstate any aggressive downside momentum.**

**The same is the case for the weaker German Bund, which has fallen back below the key 177.00-.50 congestion it never managed to post a weekly Close above on its recent rally extension. Yet the lower key area it has been above for almost the full past two months is the low end of the 175.50-.00 range. Of note, weekly MA-13 is also in that range, reinforcing its importance to the broader trend decision.**

**The UK Gilt had pushed back above 138.00 congestion of late, yet stalled again at no better than its March 139.00 area DOWN Closing Price, as was the case back in mid-May. However, here as well the lower key support is not until the 136.00 area (with weekly MA-41 somewhat below it), even if it is below interim support in the 137.00 area. As such, bull trends are vulnerable, yet not fully reversed as yet.**

**Why is all of that important to US equities? Because as we noted in our week ago Monday 'Liquidity Rally' ALERT!!, "...*in the longer run some inflation is good for the nominal value of the stock markets. While that may sound counterintuitive for those who fear inflation, that is the historic tendency*.**

**"*The main reason this occurred in the past is the 'replacement value' of existing plant and equipment. Under an inflation scenario based on central bank monetary bloat (much more currency chasing the same amount of goods and services) not only do consumer prices***

***head higher, so do prices of the equipment and basic building blocks (literally) for any new competitors to enter existing markets*.”**

**US equities and others also like ‘a bit’ of inflation because they feel it speaks of a possible return of some economic strength after downturns. This is the recent communication from Fed Chair Powell’s commitment to pushing inflation back to its 2.0 percent annualized target. As noted in Thursday’s ‘US Equities Win-WIn’ ALERT!!, “*With inflation and economic activity well below targets at present, this is a bit of wishful thinking, and a way to bamboozle the public into thinking central banks can drive economic growth to a level which would foment that sort of inflation. Even if it sounds good, it is simply just not the case*.**

**“*It reminds us of the early-2015 through early-2016 Yellen Fed warnings that it would need to raise rates soon because the previous stimulus was just about to trigger stronger growth. It didn’t happen until the later tax and regulatory changes actually stimulated economic activity the central banks do not control*.”**

**It heavily reminds us of all the serial communications from successive regimes at the BoJ and ECB who were attempting to employ that same tactic… also always to no avail. Yet at present that means any inflation indications can foster a thought on better economic growth encouraged by recent US employment gains.**

**So, despite the late Tuesday temporary selloff, US equities performance seems consistent with psychology explored in yesterday's ‘A Bit of ‘Risk On’ Again’ ALERT!! And that can continue in the near-term based on the inflation implied return to more growth. That is despite at least part of the current higher inflation likely being due to the COVID-19 driven supply chain interruptions rather than strong consumer demand. While there is a big difference between temporary shortage-based inflation and economic ‘demand-pull’ inflation from overheated economic conditions (not likely the case under extremely high unemployment levels), that nicety is likely lost in the current ‘risk on’ US equities psychology.**

**It is also of note that while the emerging currencies have recovered to some degree after their recent economic fear-driven selloff, they have not yet pushed back above recently violated supports. This is another sign that the weaker economic tendencies may still be waiting in the wings despite the current US equities ‘risk on’ psychology. Of course, this will also be a key ‘macro’ factor for the trend decision in the global govvies as well. It’s going to be interesting.**

**This is the critical consideration**
**COVID-19 virus spread caused US equities intermediate-term bull psychology to ‘crack’. Early March already saw front month S&P 500 future back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070 as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.**

**The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low ([https://bit.ly/33LQ85G](https://bit.ly/33LQ85G) updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.)**

**The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the current rally. That is also where It stalled all three days after the early June US Employment surge with no sign it was going to push further after the June 10th negative OECD indications and disappointment with the FOMC.**

**And it remains a very prominent technical area, which it has now pushed above. After churning recently around the 3,100-30 interim congestion in the middle of the 3,030-2,970 and 3,200-30 ranges rallying above 3,230 despite the expanding US COVID-19 concerns was a strong indication. Even though sinking back below 3,230 three weeks ago was a cautionary sign, the subsequent weekly Close above that level seems to reinforce an overall UP Break.**

**However, as it managed to press higher, next resistance was the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again. That is also key congestion as higher resistance, even if the gap begins at the 3,312 high of the following week (established Monday of that collapse week.) Even Tuesday's late selloff back below the 3,340 area did not get close to 3,312. The only nominal resistance above that is February's 3,397.50 front month future all-time high.**

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