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ROHR ALERT!! Powell-O-Mania

1 message

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Dear Subscribers,

What a wild ride into early today on the anticipation and then the reality of Fed Chair Jerome Powell's 'Monetary Policy Framework Review' virtual speech at the important KC Fed Jackson Hole Symposium. That is on the degree to which Powell signaled that the Fed would NOT be paying attention to any near-term inflation elevation. In the context of previous lack of inflation on the strong US economy into early this year and especially the COVID-19 pandemic implosion of global growth, the Fed is happy to let inflation run to assist employment levels.

Powell took the trouble to explain why the Fed (and other global central banks) that had been the bulwarks against inflation in previous decades were forced to shift to targeting higher inflation in recent years. Yet the net effect of the Fed now abandoning the inflation fight is to temporarily strengthen gold and emerging currencies against a US dollar that also slipped against developed currencies.

Yet that is now reversing even as US equities maintain their push into new highs today on the prospect of early phase inflation benefits to stock prices. For more on that, please see our August 3rd 'Liquidity Rally' ALERT!! extended discussion on "...the 'replacement value' of existing plant and equipment." The question is 'how high is high' for the US equities? Now above previously 'adjusted' extended weekly Oscillator thresholds called for a further 'adjustment' and projection of an ultimate long-term chart topping line. There is much more below on all of that.

In the meantime, the intermarket activity relative to the assumed impact on the other asset classes versus the reality is most interesting. After Wednesday's 'Bond Angst into Jackson Hole' ALERT!! review of how anticipation of mostly exactly what Powell discussed, global govies are indeed back under some pressure after initial rallies on the Powell speech. Possibly they had hoped the Fed would announce more bond buying, and are disappointed by the lack of it.

Yet the overall message from the Fed is that the economic conditions are so weak at present it will be very patient on withdrawing any accommodation or especially raising rates until inflation is up into or above its 2.0% target. That doesn't sound like the sort of conditions which should lead to sustained weakness in the global govies (i.e. higher yields) necessary to attract investment. Recall our reminders that global govies trade on an inflation differential 'real yield'. And with current inflation more so on supply disruptions than on the classical full employment 'demand-pull' inflation, it is likely bond yields will not go very much higher.

Reversal of today's earlier emerging currency strength into losses also speaks of the skepticism around whether the Fed saying it will now let any initial resurgent inflation run for a while being a real benefit to the global economy. It is not that this would necessarily be bad for any real growth returning, yet rather that the basis for that strength still appears

highly dubious. Once again, the Fed talking about letting inflation get back to its 2.0% target seems a bit of a canard...

...as in saying that it will allow that is also a form of the 'Normalcy Bias' through which it is attempting to provide confidence to the public. As revisited again on Wednesday (from and early-August ALERT!!), demand-pull inflation necessary to reflect a stronger economy is not happening now under the COVID-19 pandemic pressures. This is very obvious in the severe implosion of "...the 'Velocity' of the US Monetary Base (<https://bit.ly/2XeMQ6W> our marked-up version on StLouisFed.org data with graph by DavidPaulLaipple.)"

"As an aside, note the lack of 'velocity' back into 2015-2016, even as the Yellen Fed was warning of an uptick in inflation based on economic growth." And as further noted at that time, *"The lack of business confidence and investment/hiring meant that no matter how much liquidity the Fed provided the money was not being recirculated (i.e. the actual 'velocity' driver) in a manner that would deliver greater growth."* So unless Chair Powell and other central bankers can conjure up a reason for businesses to invest and hire, there is not much threat of inflation.

That is also the reason why the recent rally in the emerging currencies may be on borrowed time, with late week activity being particularly crucial after their recent sustained rallies. That is also true for the global govies which have come back under pressure, even if not yet into critical lower technical ground outside of the UK Gilt (another sign of skepticism on global growth after Powell's speech.)

As we noted on Wednesday, in the runup to Jackson Hole, *"...there is a real potential into late week that the 'friendly central banker anticipation' will turn into 'central banker disappointment' once again. That said, there can be initial upbeat sentiment on the Powell pronouncements, and the real trend of various asset classes will only become more apparent on Friday."* We shall see.

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 (as is clear on the weekly chart <https://bit.ly/34poXh5> 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.) Ergo, the rally could be sustained.

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. Yet pushing above it in late July opened the door to a retest of the February's 3,397.50 front month future all-time high.

Along the way was a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR was so minor in the face of a major rally back from the February-March debacle, it was hard to imagine it could prevent the front month S&P

500 future from at least taking a look above 3,397.50; and that has now transpired on a push into the upper 3,400 area.

That is also above the extended 'adjusted' weekly Oscillator range in the 3,415-20 area this week, now rising \$10 per week on the MA-41 rise. That was the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. And the rally now calls for another 'adjustment' based on the 2,875 early 2018 high Close and the subsequent 3,381 February high Close prior to the COVID-19 pandemic debacle.

That new 'extended' weekly Oscillator threshold is MA-41 plus 395-400, which is 3,475-80 this week and rises to 3,485-90 next week. That is above the previous adjusted high range of 335-340; an increase of 18% based on the early 2018 weekly high Close and the equivalent level from February 2020. In addition, a longer term topping line can be projected across that February 3,397.50 trading high from the April 2010 first major high after the major cyclical 666 March 2009 trading low. That topping line is at 3,515 this week, rising into 3,525 next week.

That is interestingly in line with the MA-41 weekly rise as well. Which is not much of a surprise based on longer-term trend momentum readings being reflected in similar long-term technical trend indications. Yet that weekly Oscillator change is about as far as classical trend indications can be 'adjusted'. So beyond the 3,525 area on next week's Close would indicate a pure 'runaway bull' market, with any sense of stabilized classic Oscillator readings needing to wait until the market corrected to the downside to establish a new bona fide resistance area.

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